Women's World Banking

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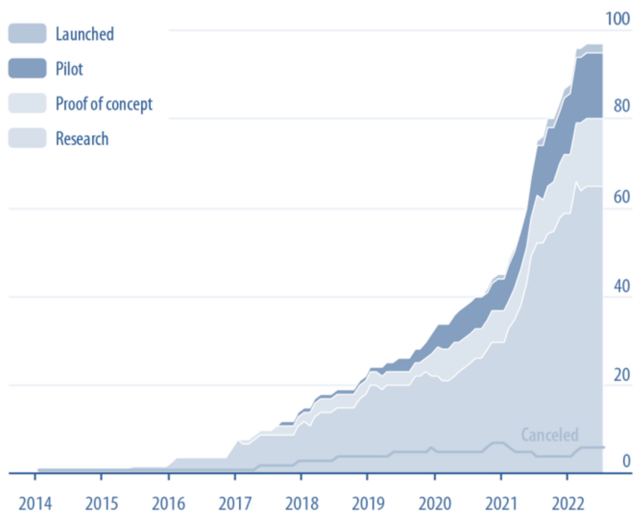
CBDCs: A Catalyst for Women's Financial Inclusion?

Central bank digital currencies (CBDCs) are becoming increasingly popular. Currently, 94 percent of all central banks worldwide are exploring the implementation of a CBDC, and financial inclusion is cited as a top reason as to why.[1] But do CBDCs serve as a catalyst for women's financial inclusion, and can women trust them?

Introduction

Number of CBDCs under research and development



Source: CBDC Tracker (cbdctracker.org). The chart shows the status of CBDCs worldwide by month. Proof of concept = advanced research stage. Updated July 2022. [2]

While there is potential for digital currencies to facilitate easier access to financial services, Women's World Banking strongly believes that significant efforts are still needed to ensure CBDCs are designed, deployed, and assessed with women in mind.

CBDCs, a digital form of a country's fiat currency, are issued and regulated by a national central bank. Unlike cryptocurrencies such as Bitcoin, which operate on decentralized networks, CBDCs are centralized and maintain the full backing of the government. They aim to combine the convenience and security of digital payments with the regulated, secure monetary framework of traditional banking. As reported by the International Monetary Fund (IMF), CBDCs can provide a tool for financial inclusion, enhance payment system efficiency, and support financial stability.[3] Furthermore, according to the Bank for International Settlements (BIS), CBDCs have the potential to offer more resilient, inclusive, and innovative payment services.[4]

Depending on their design, CBDCs can be categorized as wholesale or retail CBDCs. Wholesale CBDC refers to the settlement of interbank transfers and related wholesale transactions in central bank reserves, while retail CBDCs are intended for public use, making them a digital version of cash available to individuals and businesses.[5] In other words, wholesale CBDCs deployed to consumers via their financial services providers, and retail CBDCs deployed directly to consumers.

Regardless of their specific purpose, for CBDCs to fulfil their potential for women's financial inclusion, several key elements must be in place. These include a supportive ecosystem, enhanced financial literacy and capability among women consumers, and a critical mass of both merchants and consumers who have sufficient trust in the currency to use it as seamlessly as cash.

Benefits and barriers

CBDCs offer a range of potential benefits and challenges that warrant careful consideration as countries explore their implementation. Some of the potential benefits include:

- **Accessibility:** CBDCs can be used without a bank account, allowing individuals who are unbanked to participate in the financial system and build a credit history.
- **Trust:** As a direct liability of the central bank, CDBCs often inspire greater confidence than products provided by commercial banks.
- **Privacy:** Some CBDCs offer anonymity as a key feature, addressing privacy concerns that many users may have regarding their financial transactions.
- **Low barriers to entry:** Many CBDCs carry low or no fees and minimal Know-Your-Customer (KYC) requirements.

While these features sound promising, widespread adoption of CBDCs among low-income individuals, especially low-income women, remains limited. The environment into which CBDCs are deployed matters tremendously, and barriers of access could further hinder their financial inclusion:

- **Low financial capability:** To successfully use CBDCs, users must have a sufficient level of digital financial capability. We know, however, that women are less confident than men in using financial services and are less knowledgeable about financial products. In emerging markets, for example, women are 25 percent less likely than men to say they could open a bank account without help.[6] This gap in financial capability is largely driven by social barriers to financial confidence.[78]

- **Lack of access to technology:** Women must have access to personal technology devices and digital ID access to even consider adopting a CBDC in the first place. In low-income countries, 35 percent of women do not have an ID in 2021, compared with 27 percent of men, a gap of 8 percentage points.[9] Furthermore, globally, women are 15 percent less likely than men to access mobile internet.[10] They are also less likely to own a mobile phone and if they do, this phone is less likely to be a smartphone.

- **Concerns around privacy and anonymity:** Even when they have high financial capability and access to personal technology, women also may not trust CBDCs in the same way they trust cash. Most wholesale CBDC models rely on issuing currency to banks (the same way central banks issue cash to banks), but consumer trust in the financial services industry is declining.[11] If CBDC relies on the same financial services institutions that consumers do not trust, CBDCs will create the same trust barriers to inclusion. Research in India, Indonesia, Nigeria and Mexico highlights that systems of consent are key and can impact both adoption and confidence.[12]

- **Lack of awareness:** There is often a lack of awareness about the existence of CBDCs and their potential benefits. Educational initiatives are crucial to informing the public about these digital currencies and how they can improve financial participation.

Ensuring that CBDCs truly enhance financial inclusion requires a multifaceted approach that considers not just the technology itself, but also the socioeconomic barriers that may prevent people from taking advantage of these innovations.

CBDCs and women's financial inclusion

Women's World Banking is not alone in its concerns about CBDCs as a proven on-ramp to financial inclusion. According to the IMF, "A CBDC by itself is not a silver bullet to financial inclusion, as it can face barriers common for digital products such as gaps in digital and financial literacy, and access to electricity and digital networks."[13]

Even if delivered in an ideal environment, with a sufficient level of personal technology access and financial capability among prospective users, women are not guaranteed to use CBDCs. However, the lack of gender-sensitive design means CBDCs have not yet met these needs.

"CBDCs Explained – The Rise, Risks & Future in Financial Inclusion"

Listen to our podcast episode with Sara Elinson, Partner at EY-Parthenon.

If CBDCs were designed with women's financial inclusion in mind, their potential use cases could include:

- **E-commerce and market transactions:** Using CBDCs to purchase goods and services on local marketplaces and online platforms, could enable small women entrepreneurs and customers to transact digitally without the need for traditional bank accounts or high transaction fees.
- **Remittances:** Low-income women could benefit significantly from using CBDCs for remittances, both as recipients and senders. According to the BIS, CBDCs have the potential to streamline cross-border transactions by eliminating the need for money transfer operators, making remittance transfers more affordable, secure and accessible.[14]
- **Money management**: Central Bank Digital Currencies (CBDCs) could provide women with safer, more diversified ways to store and manage their money, enhancing financial security and overall financial health. According to a report by MSC, 22 percent of savings each year are lost through informal savings mechanisms.[15]

Real-World Solutions and Success Stories

As CBDCs continue to evolve, their potential to enhance financial inclusion remains a work in progress. In this context, we explore three real-world examples of CBDCs designed to promote financial inclusion, examining both their aspirations and the challenges they faced in design and deployment.

Central Bank of the Bahamas: Bahamian Sand Dollar

In 2020, The Bahamas launched the world's first nationwide CBDC, the Bahamian Sand Dollar. This digital version of the Bahamian dollar holds the same value as traditional banknotes and coins, making it accessible through mobile wallet platforms (operated by authorized financial institutions) without any fees or transaction costs. To facilitate use, the Sand Dollar operates under a Tier 1 KYC framework, allowing for limited holdings and monthly transactions without requiring full KYC documentation.

Given the remote nature of the islands and the limited daily access to financial services in the Bahamas, the Sand Dollar aims to improve accessibility for unbanked Bahamians. The Central Bank of the Bahamas estimates that about 18 percent of the population is unbanked, and the Sand Dollar's goal is to reduce this figure by half through high adoption rates.[16]

Despite its potential, the Sand Dollar currently represents less than one percent of the Bahamian currency in circulation. One of the reasons for its current low adoption is a lack of awareness and low financial literacy, which remain a priority of the Central Bank.

Although the Central Bank of the Bahamas' "Project Sand Dollar" report does not explicitly address gender as a central focus in the design of the digital currency, findings were disaggregated by gender in the Exuma pilot phase and the 2019 survey.[17]

Central Bank of Nigeria: eNaira

The eNaira, introduced by the Central Bank of Nigeria in 2021, was Africa's first CBDC, and offers both retail and wholesale functions. Launched under the slogan 'Same Naira, More Possibilities', the eNaira was designed primarily to enhance the efficiency of payments within the country, allowing customers to hold their existing funds in a digital wallet provided by the central bank. Its secondary goal is to promote financial inclusion, targeting unbanked and underbanked populations. Key features intended to facilitate this include simplified account opening processes, zero transaction fees, and the capability for offline transactions. It is also hoped that eNaira will facilitate the flow and reduce the cost of remittances, which are the highest in Africa and the sixth highest in the world.[18]

To enable Nigerians without smartphone or internet access to use the eNaira, the CBN launched the Unstructured Supplementary Service Data (USSD) code for eNaira. This allows users to perform transactions without needing an internet connection or a smartphone. By dialing a specific USSD code on any mobile phone, users can access their eNaira wallets and carry out transactions.[19]

Despite its strong objectives, eNaira's adoption has been slow, and less than 0.5 percent of Nigerians are using it.[20] In response to these challenges, the Central Bank of Nigeria is collaborating with a New York-based technology firm to redesign and relaunch the eNaira.[21] This effort aims to revitalize interest in eNaira, making it a more appealing option for Nigerians, and positioning it as a competitive alternative to both traditional banking methods and emerging cryptocurrencies.

Bank of Ghana: eCedi

The Bank of Ghana CBDC, eCedi, was launched in 2021 to contribute to the government's objectives of digitizing Ghanaian society and promoting financial inclusion.[22] According to the World Bank Global Findex Report, financial inclusion in Ghana increased from 58 percent in 2017 to 68 percent in 2021, though only 63 percent of women had accounts compared with 74 percent of men.[23] Against this backdrop, the government developed and prioritized a reform agenda aimed at increasing access to formal financial services to 85 percent by 2023, which they surpassed, as of 2024, 96 percent of Ghanaians have access to formal financial services.[24]

The eCedi is designed to function seamlessly in both online and offline environments, ensuring that the lack of mobile data networks in rural areas of Ghana does not hinder digital currency accessibility. To further address financial inclusion challenges, the Bank of Ghana launched the eCedi Hackathon, bringing together developers, innovators, and blockchain enthusiasts to explore the potential of CBDC technology.[25] Gender-disaggregated adoption rates on the currency are currently not available through public source documents. While the commitment to continuous innovation of CBDC design is promising, the integration of gender goals and an articulation of the benefit to low-income women remains to be seen.

These examples, while showing promise, underscore that gender inequality in the underlying infrastructure, financial capability landscape, and trust levels will influence success. If the 94 percent of central banks which are working toward functioning CBDCs design, deploy, and assess these digital currencies with women in mind, CBDCs have the potential to increase financial inclusion.

Recommendations

To turn these use cases into reality and boost the adoption of CBDCs, Women's World Banking recommends that central banks consider the following:

- **Prioritize women-centered design:** Ensure that the design and development of CBDCs consider women's unique needs and preferences, integrating a gender-sensitive approach at every stage. Women's World Banking's practical guide to our Women-Centered Design approach and policy resources offer strong principles to build on.
- **Leverage existing digital public infrastructure:** Deploying a CBDC alongside strong digital ID systems, financial access channels, and data infrastructure where possible will increase the likelihood of adoption.
- **Drive engagement through awareness:** Focus on reaching a critical mass of users by accelerating awareness and engagement efforts, ensuring that women are fully informed about the benefits and uses of CBDCs.
- **Expand offline access:** Prioritize the development of services available offline, ensuring that women in rural or underserved areas can participate in the digital economy without facing technological barriers.

Conclusion

CBDCs present a significant opportunity for women consumers by providing a secure and dependable means to store value and a straightforward mechanism for facilitating payments. However, the ultimate effectiveness of CBDCs in promoting financial inclusion for women hinges on their design and implementation. The potential of CBDCs to advance women's financial inclusion remains to be seen, and it will require more than ambitious central bank plans to realize this goal.

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122 East 42nd Street, 42nd Floor • New York, NY 10168 • Phone +1.212.768.8513 • www.womensworldbanking.org