THE PAYMENT ASSOCIATION'S PROJECT INCLUSION BLOG:

CBDCs and Financial Inclusion

The rise of cryptocurrency and the challenges posed by the COVID-19 pandemic have spurred hundreds of central banks across the world to begin working on their own digital currencies that combine the best of physical currency and digital assets.

While cryptocurrencies are generally used as investment assets, these Central Bank Digital Currencies (CBDCs) are intended to fill the role of cash in parts of the world where credit and debit payments are less common. Although major developed economies like the UK and USA have begun to develop CBDCs, developing countries like Barbados and Nigeria have launched them as early as 2018. The reason for this is simple: CBDCs can be powerful engines of financial inclusion.

Instant Aid

The pandemic showed the need to get financial aid to large numbers of people fast. Digital currencies would allow governments to instantly send aid to citizens during a crisis or to distribute government benefits securely.

Programmability

Theft, corruption and misuse are all stumbling blocks to distributing financial aid, but CBDCs can be programmed to only be used on goods and services as intended and biometrically linked to one person.

Apps Ecosystem

In addition to the un-banked, there are many millions of people who are underbanked, with access to only the most basic features of a bank account. A digital currency would allow people to access saving, investing and many other services through their phone.

Digital Inclusion

Because of these factors, CBDCs can bring more people out of the informal economy and into the financial mainstream, giving them more control over their lives – providing aspects of connectivity, affordability and education can be addressed.

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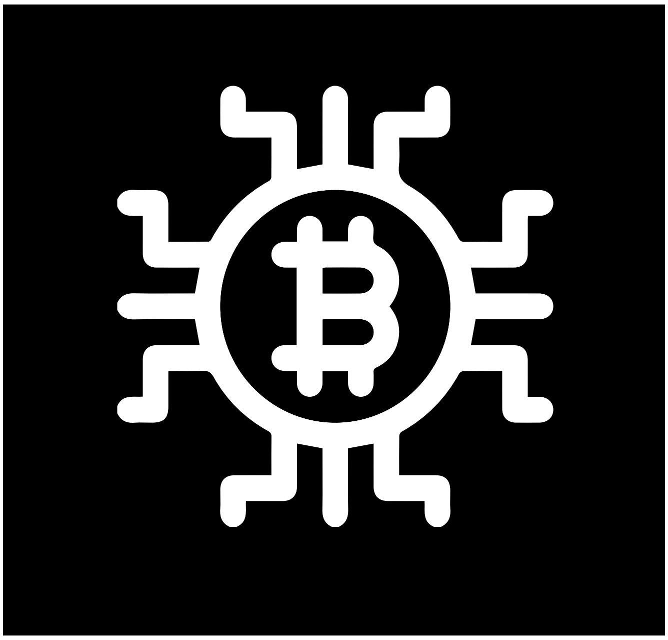
"It's important for us to emphasise financial inclusion when we design this future ecosystem. CBDCs don't just have to be a relationship between technology and legal frameworks – the hearts of minds of our citizens need to come on this journey with us. For a CBDC to work we need the private sector and stakeholder voices at the table. Previously, financial infrastructure was created and then the underbanked and underserved were made to get into the system. We are at a very unique moment in time in which we are creating a new financial infrastructure and the voices of people who have been excluded from finance can be included from the start."

Jennifer Lassiter, Executive Director, Digital Dollar Project

Watch Video Here

Are CBDCs cryptocurrencies?

They can be. Although CBDCs are digital currencies and were clearly created partly in response to cryptocurrencies, what makes crypto crypto is the cryptographically secured blockchains on which they are based. Individual CBDCs may use blockchain technology and distributed ledgers, or they may have digital infrastructure more similar to traditional financial institutions.



Solutions for countries in crisis?

In recent years, countries that are facing economic or military crises are increasingly turning to cryptocurrency – but this comes with serious drawbacks when compared to CBDCs. As independent industry advisor Robert Courtneidge notes: "If you look at the El Salvador position, the desire to use a highly volatile 'currency' like Bitcoin as national currency was spurred by a crisis. Ukraine has accepted over $100 million in donations in cryptocurrencies and they've opened up to accepting bitcoin and other currencies in their market. If you were in a situation where CBDCs had been issued, you would be much more likely to see those being used as the solution rather than a highly volatile digital asset like bitcoin."

To watch the interview series in full, or to find out more about The Payment Association's Project Inclusion

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