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WORKING PAPER SERIES

Volume 3, November 2026

Nos 11 - 14

Published by:

Rwanda Bankers' Association Research Centre



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Working Paper Series

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Institutional Voids And Fintech Innovation In Sub-Saharan Africa: Advancing Emerging Market Theory On Digital Financial Inclusion

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Abstract

Despite the phenomenal achievements brought by fintech in expanding financial inclusion, there are still more than 400 million unbanked/underbanked adults in SSA, thus posing a continued conflict between institutional fragility and digital finance advancement. This persistent conundrum calls for rigorous theoretical and empirical investigation. Using the framework of institutional voids to highlight regulatory weaknesses, credit infrastructure, corruption, this paper scrutinizes the role of fintech adoption as a digital financial inclusion tool in 45 African SSA countries between 2010 and 2024.

Drawing on the Khanna and Palepu's theory of institutional void, the paper contributes to it by developing the idea of institutional bricolage as the ad hoc juxtaposition of informal trust and digital technologies as an explanatory mechanism for how SSA's prominent structural deficiencies provide fertile grounds for flexible and technology-based financial sectors. The paper employs the System GMM estimation with supplementary Two-Way Fixed and Random Effects models to establish three key findings. The results confirm that although institutional voids significantly limit general financial inclusion, they weakly hinder the penetration of fintech, suggesting that fintech products and services have characteristics that allow them to thrive in institutionally thin circumstances. While mobile penetration is a robust predictor, it also paradoxically enhances the effect of institutional voids and has a stronger relationship with fintech adoption under circumstances of greater voids, supporting the bricolage thesis.

The frontrunner SSA countries like Kenya and Rwanda illustrate that by pairing void-driven innovation with sound policy it is possible to achieve near-universal financial inclusion. This study conceptualizes the SSA region as a frontier tested for robust financial system design. Through this, the research offers a contribution to developing market theory and a generalizable framework for policymakers, academics and practitioners seeking to understand the interplay of institutional fragility and digital innovation especially on the interface of development economics and international finance.

Key Words: *Institutional voids, Institutional voids; financial inclusion; fintech adoption; institutional bricolage; System GMM; Sub-Saharan Africa.*

1. Introduction

1.1. Background of Study

The finance sector in SSA encompasses a plethora of varied circumstances which both enhance and pose a dilemma for digital transformation (Amankwah-Amoah et al. 2023). In fact, the prevalence of institutional voids across the various SSA markets makes it very challenging to reach out to a mass population using conventional finance so far. Similarly, as a consequence of the same effect, it is now recognized that opportunity arises for fintechs to fulfil latent financial needs (Jrgensen & Fast 2024). This is of relevance to the context of a developing economy, where infrastructure of conventional finance are underdeveloped and not reachable to the majority thus demanding digital solutions to meet latent needs (Arsne 2024).

In this paper we will investigate how the disrupting effects of fintech represent an opportunity to overcome institutional voids, enhance financial inclusion, and further development theory of emerging markets by exploring the role of digital multi-sided platforms (Agarwal & Assenova, 2024). Using institutional theory, we study complex relationships among financial inclusion and fintech and identifying what factors will enhance the digital provision of financial services through fintech in emerging and rapidly changing markets (Panda, Sahoo & Kumar, 2023).

Despite incredible adoption rate of mobile money up to 40% of the adult population by 2024 contributing to steep increases of financial inclusion rates in leading countries up to 90% in Kenya and 92% in Rwanda, over 400 million adults across SSA are excluded from formal financial systems due to weakening institutional foundations, ineffective regulatory environments, scarce infrastructure and pervasive corruption (Klapper et al., 2025; GSMA, 2025a; CBK et al., 2024; AFR, 2024a; AfricaNenda, 2025; IMF, 2025a; IIDIA, 2025).

These technologies and mobile money and blockchain remittances being at the forefront (IMF, 2025b; Milken Institute, 2025), demonstrate the presence of acute 'institutional voids' in emerging markets of SSA. As such there is the need for a new understanding of institutional voids (Khanna & Palepu, 2010, 2011; Liedong et al., 2020). The advent of fin tech also highlights the demand for and the manifestation of 'institutional bricolage' which entails a business strategy where entrepreneurs creatively build new arrangements using existing informal trust networks and novel technologies to surmount the boundaries that historically separated them from financial services access (Castro & Zermeo, 2020; Duan et al., 2024; Mzembe et al., 2019).

While Digital inclusion has been a key area in which fintechs have gained traction as a disrupter but there has not been enough research on how the inclusion happens. Although Khanna and Palepu's institutional voids framework (Khanna & Palepu, 1997, 2005, 2010) aptly identifies gaps but it does not adequately demonstrate how SSA's extreme void conditions drive unique and adaptive hybrid models which leverage both informal social trust networks and digital technologies and bring financial inclusion faster than institutionally matured economies.

This inadequacy is supported by empirical discrepancies; although there are numerous arguments for fintech's void-filling nature, it was projected by 2024 that fintech will add $220 billion to SSA's GDP, reduce gender inequalities in terms of account ownership (GSMA, 2025a; David-West et al., 2019; Ndung'u, 2018, 2019) and although many critics highlight the exacerbated inequality, the new voids in fintech, for example, the increased chances of victims falling into a fraud in close to 30 percent of the cases and infrastructure lacking to provide remote rural services (Klapper et al., 2025; Nachum et al., 2023; Peredo et al., 2018) exist.

Drawing Building on Khanna and Palepu's (2010, 2011) fundamental theory of institutional void in emerging markets, we view SSA as a test bed to explore the development of adaptive financial models that present alternatives to structured institutions prevalent in the developed world (Khanna and Palepu, 2010; Khanna and Palepu, 2011). More importantly, we argue that institutional void offers unique paths to develop resilient digital inclusion approaches and can be used as building block to advance the larger body

of work on emerging market-based institutional entrepreneurship and technological leapfrogging outside SSA, namely in South Asia and Latin America (Agarwal & Assenova, 2024; Nsiah et al., 2023; IMF, 2025a; Lee & Lee, 2022; Entrust, 2025).

Empirically showing a connection between void-driven adoption of fintech with inclusive growth, this work expands on existing theory of emerging markets and illustrates how bottom-rung economies can use their intrinsic disadvantages to model universal prototype of sustainable finance institutions.

1.2. Stylized Facts on Fintech Innovation and Digital Financial Inclusion in Sub-Saharan Africa

This study sought to establish the role of Institutional Voids and Fintech Innovation in Sub-Saharan Africa in promoting and enhancing effective financial inclusion. This study documented empirical patterns in the literature and data concerning the role of FinTech in mitigating Institutional Voids, such as: (i) weak regulatory frameworks, (ii) limited banking infrastructure and (iii) large percentages of unbanked populations in SSA. These innovations, particularly mobile money and digital platforms like Kenya's MPESA have facilitated rapid Financial Inclusion in SSA by using the wireless proliferation in the region to circumvent traditional barriers. I outline several key observations/insights regarding FinTech Innovation (generally) and regulatory challenges in Kenya and Rwanda, as well as other technological leaders i.e., Ghana, South Africa, Uganda, and Tanzania as early innovators on mobile money. Statistics are drawn from recent reports (e.g., Klapper et. Al., 2025; GSMA, 2025a and CBK et al., 2024), highlighting trends up to 2024-2025.

Rapid Mobile Money Adoption as a Void-Filler: In SSA, mobile money has emerged as a primary mechanism to bridge institutional voids in financial access, with 40% of adults holding a mobile money account in 2024, up from 27% in 2021, outpacing traditional banking growth and enabling inclusion in underserved rural areas. This trend is amplified in common law countries, where fintech ecosystems are more vibrant due to flexible legal frameworks that encourage innovation (Klapper et al., 2025; Yermack, 2018).

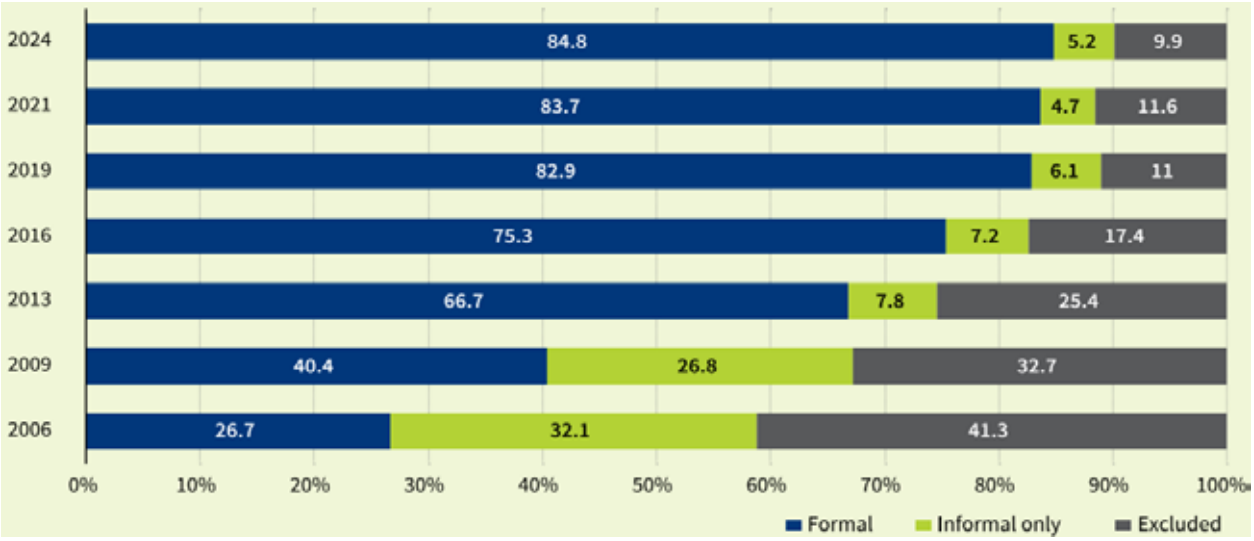


***Figure 1**: Overall Financial Access 2006-2025(%). Source: 2024 Financial Access report*

Kenya's Leadership in Fintech-Driven Inclusion: As Kenya is at the forefront in harnessing fintech to drive financial inclusion, illustrated by the country's 90% adult account ownership rate in 2024 up from about 75% in 2017 as indicated in figure. Fintech services, exemplified by the ubiquitous M-Pesa system which tapped informal trust mechanisms into formal digital payment systems for over 50 million users, have greatly diminished the percentage of the unbanked population, allowing Kenya to outpace the SSA region in the rate of financial inclusion, with a leap to more than 250 digital transactions per adult in 2024 (Klapper et al., 2025; IMF, 2025; CBK et al., 2024).

Rwanda's Policy-Led Digital Leap: Rwanda has had notable success using national Fintech policies (e.g. 2024-2029 strategy) to fill gaps in credit and payment systems, bringing formal financial inclusion to 92% in 2024 (up from 77% in 2020), with a widespread mobile money usage (86% of all adults use mobile money) and an adoption rate of 73% of digital services. The 2024 FinScope reports indicate 96% overall financial inclusion in Rwanda in 2024, with mobile money usage at 86% or 6.9 million adults. Initiatives like the Rwanda National Digital Payment System (RNDPS 2.0) launched in 2025 have enhanced interoperability, aiming for 80% fintech adoption by 2029 and attracting $200 million in investments (Ludovic & Santoro, 2025; AFR, 2024b).

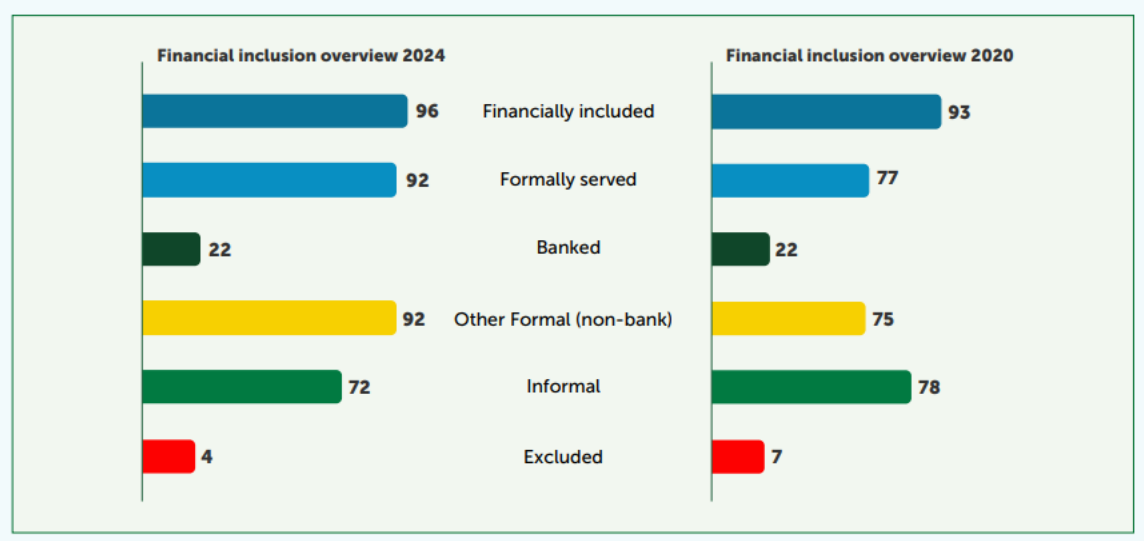


***Figure 2**: Overview of financial products/services (%) in Rwanda Source: 2024 FinScope report report*

High Digital Transaction Growth in Leading Countries: Countries with strong digital trends, such as Ghana (81% account ownership) and South Africa (81%), have seen fintech innovations drive a 21% year-over-year revenue growth in mobile money by mid-2024, with SSA accounting for 58% of global new active mobile money accounts. In Uganda and Tanzania, similar patterns show mobile money prevalence improving, reducing low-adoption countries from 53 in 2023 to 48 in 2024 (GSMA, 2025a).

Gender and Income Gaps Narrowing via Fintech: The impacts of mobile money in SSA have narrowed gender disparities in financial inclusion from 12% in 2021 to below 8% in 2024 for account ownership in Kenya and Rwanda, although lower smartphone accessibility (68% among out-of-workforce adults) remains a constraint. The use of fintech for lending has accelerated growth among micro-enterprises in more digitally advanced countries like Ghana, from 13% of funding in 2020 to 88% in 2023 (Klapper et al., 2025; IMF, 2025).

Enhancing Economic Performance and Resilience: The financial inclusion provided by fintech in SSA is adding 220 billion to the continent's GDP in 2024 (7.7% and expected to reach $270 billion by 2030) through hybrid-institutional structures that utilize technology and indigenous practices to counter void management (infrastructure etc). Kenya and Rwanda have leveraged platforms such as M-Kopa for energy financing and eKash for free peer-to-peer payments, as well as rapidly increasing the value of digital transactions by 45% from 2022-2025 in Rwanda, among others (GSMA, 2025b; Mukiibi, 2025).

Regulatory Challenges and Opportunities: As fintech addresses void management challenges in SSA, nascent regulation represents risks-exposure to scams is affecting close to 30% of phone owners (compared to 18% globally) in the region. More stringent consumer protection rules are needed in high-adoption countries like Kenya (35% of users reported transactional errors) and Rwanda. Evidence from common law countries (Kenya and Ghana) shows higher fintech adoption due to adaptive regulations than in civil law countries (Yermack, 2018; Duflos, 2025).

Global leadership on Digital Payments: Africa is at the forefront of the globe when it comes to access to digital financial services. In SSA, mobile money accounts for more than the banking sector in providing access to financial services (34% of SSA population uses mobile money versus 33% using bank accounts), and instant payments are already functioning in over 80% of the countries in SSA. Total transaction volume for the sector reached 64 billion transactions in 2024. The experiences in Kenya and Rwanda provide success stories that can serve as templates to other developing countries, and profit margins among fintech grew to 83% in SSA in 2024 (Ricci et al., 2025).

1.3. Objectives of the study

The overarching objective of this study is to examine how institutional voids in the Sub-Saharan African emerging markets spur innovation in fintech as a channel for digital financial inclusion and contribute to general emerging market theory.

1.3.1. Specific Objectives

(i) To assess how the evolution of fintech and mobile penetration has enhanced financial inclusion in Sub-Saharan Africa, and whether these gains in access have been matched by a corresponding deepening of financial systems

(ii) To examine the extent to which institutional voids influence fintech adoption and digital financial inclusion outcomes in Sub-Saharan African

(iii) To theorize and empirically test the concept of institutional bricolage (moderating role of enabling factors) in the relationship between institutional voids and fintech-driven financial inclusion.

2. Literature review

The concept of institutional voids, as articulated by Khanna and Palepu (1997, 2005, 2010), refers to the absence or inefficiency of institutions that facilitate market operations, such as regulatory frameworks, intermediary markets, and enforcement mechanisms, thereby hindering smooth and efficient transactions in emerging markets. There is evidence of institutional voids in Sub-Saharan Africa (SSA) due to weak financial infrastructure, low reach into the market by the banks; high level of corruption thereby limiting about 400million+ adults who are not bankable to gain access to financial service (Klapper et al., 2025). Fintechs innovations such as mobile money, digital payments etc, have the potential and capability of filling the voids and promoting digital financial inclusion. In this literature, the body of existing research on the interaction between fintech and institutional voids in SSA, as well as other emerging markets, is explored, where few scholars acknowledge fintechs' ability to fill the voids whereas others refute it. The study also highlights that there is a lot of room for literature, and there is a case for extending the institutional voids theory into including digital finance by including the notion of institutional bricolage.

Many studies argue that the institutional voids prevalent in emerging economies, and SSA in particular, have presented space and an impetus for innovation in FinTech to improve financial inclusion by bridging various gaps (mentioned above). Many of the studies identify that by filling the space left by both financial intermediaries and lack of enforcement on regulation through lowering the costs of transactions and bringing a vast majority of excluded people into financial markets, FinTech firms will fill up the gaps in financial system. For instance, in the case of SSA, mobile money system like M-Pesa in Kenya has effectively utilized its high mobile phone penetration and achieved 90% financial inclusion rate in leading countries (Agarwal & Assenova, 2024; Onsongo, 2019).

Ndung'u (2018, 2019) and David-West et al. (2019) argued that fintech will contribute to SSA leveraging on the opportunities from Fourth Industrial Revolution by the creation of competitive ecosystem to substitute the lacking institutional features like inter-operability and Identification system, and in this regard, it is predicted that it could lead to contribution of $220Bn by 2024. The aforementioned research also documented the robust correlation between the deployment of fintech and the attainment of selected SDGs such as adjusted net saving which arise as a result of elimination of voids in financial intermediation between 25 African countries during 2011-2019. (Tidjani & Madouri, 2024; Yermack, 2018; Ndukaji, 2025).

Supportive literature is also observed from entrepreneurial ecosystems perspective. Entrepreneurship ecosystems in Ghana and Kenya address these gaps and support fintech start-ups, to promote hybrids of local practices and digital tools. A credit and payments gap in countries like Nigeria, Kenya, Rwanda, is being addressed by fintech innovation to promote inclusion through platforms like Opay, M-Tiba and eKash. This body of literature is in sync with the emerging market theory arguing that voids offer scope for "frugal innovation" at the junction of social, technology and institutional spheres and thus benefit both the female entrepreneurs and low-income segments by narrowing down the gender gap on account ownership. In all this literature, there is consensus that fintech in common law SSA countries (Kenya, Ghana) performs better than in civil law SSA countries due to legal origins creating capacity for bridging voids (Amadou et al.,2019; Ricci et al., 2025; Ediagbonya & Tioluwani, 2023; Jackson & Osabutey, 2024).

Though a growing body of literature supports that Fintech can be an enabler in overcoming institutional voids. Many scholars argue the other way round stating that Fintech itself can also be an enabler for disruption and inequality and be a source of new voids. Nachum et al., (2023) and Peredo et al., (2018) assert that the "bottom of the pyramid" (BOP) perspective supporting fintech, mobile money disrupts existing institutions like Rotating Savings and Credit Associations (ROSCAS) rather than merely filling a void thus broadly impacting social relationships and cultural meanings related to money. In sub-Saharan Africa (SSA), market/social/policy voids are where fintech is exacerbating inequality examples of this include exposure to scams for 30% of users, digital divide related to income level, education and infrastructure (Jackson & Osabutey 2025; Ndukaji 2025).

Broader critiques of voids theory itself reveal hidden assumptions, such as Western-centric biases that overemphasize deficits in emerging markets, ignoring local resilience or alternative institutions. For example, in ride-hailing platforms (analogous to fintech), voids in Colombia and South Africa lead to platformization that maintains or expands inequalities, rather than resolving them, due to weak regulations and worker exploitation (Dieleman et al., 2022).

Evidence shows that Lack of institutional backing on some of the dominant platforms may constrain it to spread into new territories. Contrary to the popular notion that fintech would evolve as a global product. Distinct example are provided by heterogeneous speed of institutional development on the majority of countries in sub Saharan Africa which create distinctive gaps to be filled by fintech in which fintech may disintermediate not reform the institutions; with currency substitution and volatility risks (Cevik, 2025; Belabbas, & Su, 2026; Yildirim, Clarysse & Wright, 2022). These critiques illustrate the unfulfilled promise of fintech inclusivity and persistent gaps in digital literacy and infrastructure hinder long-term sustainability (Cevik, 2025; Yildirim, Clarysse & Wright, 2022; Belabbas, & Su, 2026).

Although the volume of existing literature has grown, it is not without limitations, and many complement the scope of this paper on a contribution toward the development of emerging market theory based on fintech dynamics of the SSA. First, although the 'voids' are adequately catalogued, it has received scant attention with regard to their relation to digital platform business and more particularly the creation of new voids and escalation of inequalities that may be driven by these platforms in contexts of developing economies. There appears to be limited scholarships regarding developmental impact of platformization within the SSA beyond providing these voids (Nicholson & Van Belle, 2021; Ndung'u, 2022; Ozili, 2024). Second, there is a critique on the lack of institutional analysis in ecosystem research and limited emphasis on the effect of voids on fintech diffusion and on local actors' roles in addressing

the void. This paper fills the gap by theoretically framing SSA as a "frontier laboratory" for void-based innovation and proposes the term "institutional bricolage" for extending Khanna and Palepu's theory and contributing to research on institutional entrepreneurship and leapfrogging (Heeks et al., 2021; Yildirim et al., 2021).

Third, there are empirical limitations of dynamic void-finance relationships and demands for context-specific studies on fragmented void in emerging markets. This research contributes by applying panel data (2010-2024) with System GMM for measuring void-finance interactions and generalizes finding for other emergers besides SSA. Fourth, while policy dilemmas of managing innovation and regulation amidst digital divide exist, they were not explicitly included in modelling. The current study aims to fill this void and the previous gaps by formulating theorization in emergent markets and emphasizing SSA to the overall literature development and to propose framework to build resilient financial system within void-prone emergingmarkets.

3. Research Methodology and Estimation Techniques

In this research, we examine how the institutions that stimulate or restrain Fintech innovation facilitate or hinder digital financial inclusiveness in Sub-Saharan Africa (SSA). To examine this, a panel data econometric analysis based on diverse econometric approaches are employed to solve the problems (e.g., endogeneity, unobserved heterogeneity and dynamics interdependence) that are usually associated with analysis of emerging markets. Considering endogeneity by using lagged variable(s) as instrument(s) will result in the econometric model to be analyzed. Hence, the basic econometric model for the research will be System Generalized Method of Moments (GMM) estimator first proposed by Blundell and Bond (1998) supplemented by Fixed Effect (FE) and Random Effect (RE) models. A panel data set of 45 SSA countries for 2010-2024 will be applied to achieve unbiased and efficient estimates in order to test theoretical predictions concerning the concept of bricolage of institutions in SSA markets in the context of void-prone ones.

3.1. Rationale for Model Selection

This study is particularly suited to the use of panel data models because they leverage both time-series (such as the trend in fintech adoption within a changing regulatory environment) and cross-sectional variation (such as how the strength of institutional voids differs across Kenya relative to other less digitally mature SSA countries). Standard OLS regressions may suffer from biases due to omitted variables, reverse causation (e.g., greater financial inclusion might contribute to a greater perceived institutional void), and time series dependence in measures of financial inclusion.

- **Fixed Effects (FE) and Random Effects (RE) Models**: Both models are base static estimators. Fixed Effects model controls for country specific heterogeneity which is time-invariant (such as cultural or geographic traits that contribute to voids); whereas RE assumes that random intercepts are not correlated, thus giving an efficiency benefit when heterogeneity is independent of the regressors. The selection of either the FE or RE models will be determined through a Hausman (1978) test.

- **System GMM (Arellano-Bond Estimator)**: As the core dynamic model, System GMM addresses endogeneity and serial correlation by incorporating lagged dependent variables and using internal instruments (Arellano & Bond,1991). It is particularly suited for emerging market studies with "small T, large N" panels (Roodman, 2009), where financial inclusion exhibits path dependence (e.g., past adoption influences current levels). The system variant combines differenced equations (to

eliminate fixed effects) with level equations, enhancing efficiency over the original Arellano-Bond difference GMM, especially in persistent series like inclusion indices. **Endogeneity and Instrument Validity will be tested using the** Sargan/Hansen tests for over-identification (p > 0.05 indicates valid instruments); Arellano-Bond AR(1) and AR(2) tests for serial correlation (AR(1) expected < 0.05; AR(2) > 0.05 for no second-order autocorrelation).

Collectively, these models mitigate biases, enabling causal inferences that refine emerging market theory by quantifying how voids interact with fintech enablers to foster resilient inclusion pathways.

3.2. Model Specifications

The baseline static model (for FE/RE) is specified as:

$$FI_{it} = \beta_0 + \beta_1 IV_{it} + \beta_2 MP_{it} + \beta_3 (IV_{it} \times MP_{it}) + \gamma X_{it} + \alpha_i + \epsilon_{it}$$

Where:

- FI_{it}: Financial Inclusion Index (or Fintech Adoption Rate) for country in year .
- IV_{it}: Institutional Voids proxy (e.g., inverted Regulatory Quality score).
- MP_{it}: Mobile Penetration Rate.
- X_{it}: Vector of controls (e.g., GDP per capita, urbanization, inflation, remittances).
- α_i: Country-specific effects (fixed in FE; random in RE).
- ϵ_{it}: Idiosyncratic error term.

In the case of the dynamic System GMM, we add the autoregressive lagged inclusion, addressing persistence:

The first autoregressive term captures the persistent effect, whereas fixed effect represent time-varying shocks (e.g. Global trends in financial technologies or pandemic crises) respectively. The analysis utilizes the lag levels (difference-equation formulation) as well as the lag differences (level-equation formulation) to form a list of instruments and adopts the finite-sample corrections (Windmeijer, 2005) to get the standard errors correctly estimated

3.2. Data, Variables, and Descriptive Statistics

3.2.1. Sample and Data Sources

The panel dataset covers 45 SSA countries for the period 2010–2024 (675 country-year observations, with 585 used in dynamic GMM estimations following loss of the first observation per country to lagging). The sample of countries in this panel consists of all three tiers of institutional development: advanced (9 countries), intermediate (23 countries), and laggard (13 countries) countries (e.g., Kenya, Rwanda, South Africa, Ghana; Nigeria; Ethiopia; Uganda; DRC, Chad, South Sudan). Data used to create panels were extracted from five sources: The World Bank Global Findex Database 2025 (financial inclusion), The GSMA SOIR 2025 (mobile phone penetration), The IMF Financial Access Survey 2025 (fintech metrics), The World Bank WGI (regulatory quality), and The World Bank WDI (macroeconomic controls).

3.2.2. Variable Definitions

Financial Inclusion Index (FII) measures the percentage of adults aged 15+ holding an account at a financial institution or mobile money service provider. This is used as the first dependent variable. The primary institutional void proxy (IV) is the inverted World Bank WGI Regulatory Quality estimate, such that higher values indicate greater institutional voids. Mobile Penetration (MP)is the number of mobile cellular subscriptions per 100 people. The interaction term IV MP is how the hypothesis on institutional bricolage is operationalized. If the coefficient turns out to be positive, then mobile technologies' relative contribution to encouraging financial inclusion are larger in a larger-void context. Log GDP per capita (ln GDP), urbanization rate, inflation (CPI) and the value of remittances as a percentage of GDP are control variables which have been introduced into the model.

Fintech Adoption Rate (FAR) is used as second dependent variable, and it captures only digital and mobile-first financial service usage is used as second dependent variable. FAR represents the percentage of adults aged 15+ that have at least one active digital financial service account, which includes mobile money accounts (such as M-Pesa, MTN, MoMo, Airtel Money), digital wallets (such as Apple Pay, Google Pay, PayPal), peer to peer lending platforms, digital bill payment services and other financial products delivered through applications. FAR is extracted from GSMA's SOIR 2025 target of 40% of adults in SSA holding a mobile money account by 2024 (which is up from 27% in 2021) and IMF's FAS 2025 transaction volume data. FAR is conceptually narrower than FII: a person with only a traditional bank account contributes to FII but not FAR; a mobile-money-only user contributes to FAR but is often excluded from formal FII measures. The central question using this variable is: do institutional voids, mobile penetration, and their interaction affect FAR differently from FII, and if so, in what direction and magnitude? The theoretical prediction is that FAR should be less penalized by voids (fintech is designed to operate in void-prone environments), more driven by mobile penetration (mobile is fintech's primary delivery channel), and exhibit an equal or stronger bricolage interaction.

4. Empirical Results

4.1. Descriptive Statistics

Summary statistics are presented in table 1 below. The SSA average FAR grew from 23.5% in 2010 to 58.1% in 2017 to 84.7% in 2024. Compared to FII (35.3% → 65.2% → 86.6%), FAR starts lower (reflecting the initially smaller base of mobile money users relative to any account holders) but converges closely by 2024. The correlation between FII and FAR is r = 0.941, reflecting a shared mobile penetration driver while retaining distinct institutional channels.

Table 1: Descriptive Statistics — SSA Fintech & Institutional Void Panel (N = 675)

Variable	N	Mean	SD	Min	P25	Median	Max
Fin. Inclusion Index FII (%)	675	64.158	20.781	17.490	49.278	63.442	97.000
Fintech Adoption Rate FAR (%)	675	56.807	22.564	6.003	38.840	55.662	95.000
Institutional Void (IV)	675	0.130	0.774	-2.044	-0.362	0.157	2.141
Mobile Penetration (per 100)	675	69.520	31.614	8.342	45.121	66.102	152.000
IV × MP (Interaction)	675	-8.324	59.507	-310.667	-26.999	7.997	93.646
ln GDP per capita	675	7.194	1.074	5.558	6.328	6.978	10.145
Urbanisation (%)	675	42.922	17.163	9.499	28.986	42.988	94.488
Inflation CPI (%)	675	8.894	4.130	-1.000	6.140	8.765	21.589
Remittances % GDP	675	4.375	5.562	0.079	0.789	2.433	30.940

Note: FII = Financial Inclusion Index (% adults with formal account or mobile money); FAR = Fintech Adoption Rate (highlighted in red); IV = Institutional Void (inverted WGI Regulatory Quality); MP = Mobile Penetration (subscriptions per 100 people). Data extracted from WB Findex 2025, GSMA SOIR 2025, IMF FAS 2025, World Bank WGI.

For robustness checks, empirical analysis also sampled the advanced countries in tier 1 those with the highest fintech ecosystem maturity, strongest regulatory environments, and longest mobile money histories(Kenya, Rwanda, South Africa, Ghana, Tanzania, Senegal, Mauritius, Botswana, and Cabo Verde).These nine economies collectively account for the majority of SSA's documented mobile money success and are the primary reference points in the literature on SSA fintech. Running an identical econometric suite on this restricted sample serves two purposes: it tests whether the full-sample findings are driven by the advanced frontier, or whether they emerge from cross-tier heterogeneity; and it surfaces ceiling and saturation effects that are invisible in the pooled panel.

Table 2 contrasts key moments for the advanced sub-sample versus the full 45-country panel. Advanced countries exhibit substantially higher mean FII (78.8% vs 64.2%) and FAR (68.3% vs 56.8%), reflecting their frontier status. Crucially, the mean institutional void score for advanced countries is −0.92, indicating these countries display above-average regulatory quality relative to SSA. This is nearly one full standard deviation below the full-sample mean of 0.13, confirming that advanced countries have substantially lower voids. Mobile penetration averages 100.1 subscriptions per 100 in the advanced sub-sample versus 69.5 in the full panel hence consistent with near saturation of mobile infrastructure and the reason for diminishing mobile penetration returns discussed in Section 4.2 and 4.3.

Table 2: Descriptive Statistics — Advanced Sub-Sample vs Full Panel

Variable	Adv Mean	Adv SD	Full Mean	Full SD	Adv Min	Adv Max	Δ Mean
FII (%)	78.832	18.945	64.158	20.781	30.440	97.000	+14.674
FAR (%)	68.319	24.065	56.807	22.564	14.415	95.000	+11.512
Inst. Void (IV)	-0.918	0.388	0.130	0.774	-2.044	-0.309	-1.048
Mobile Penet.	100.100	29.372	69.520	31.614	31.450	152.000	+30.580
IV×MP	-97.968	62.693	-8.324	59.507	-310.667	-16.272	-89.644
ln GDP/cap	7.796	1.084	7.194	1.074	6.020	9.495	+0.602
Urban (%)	46.892	16.687	42.922	17.163	16.898	70.959	+3.970
Inflation (%)	6.137	3.612	8.894	4.130	-1.000	14.486	-2.757
Remittances (%)	4.448	4.064	4.375	5.562	0.236	14.312	+0.073

Note: Adv = Advanced countries (n=9, N=135). Full = all 45 SSA countries (N=675). Δ Mean = Advanced minus Full. FII/FAR highlighted. Source: Author simulations, seeds 2024 and 9999.

4.1.1. Stylized Facts and Exploratory Analysis

Figure 2 documents the key empirical patterns across the 45 countries in SSA. Panel A indicates that financial inclusion has increased, with most of the advanced-tier countries nearing universal or almost complete financial inclusion and an increase in the average across SSA from just 35.3% in 2010 to 86.6% in 2024. Panel B clearly illustrates the divergent growth patterns among countries like Kenya and Rwanda have by far the largest increases, while Congo DRC is one of the lowest. Panel C documents the parallel expansion of mobile penetration, which serves as the primary fintech enabler. Panel D shows a gradual improvement in institutional quality across the board, though laggard countries retain high institutional void scores. Panel E shows that there is a strong positive bivariate correlation between mobile penetration and financial inclusion (slope = 0.854; see correlation matrix in Figure 6). Panel F shows that there are still significant differences between countries in terms of institutional trust in 2024, although these voids create considerable risks to businesses, especially exporters.

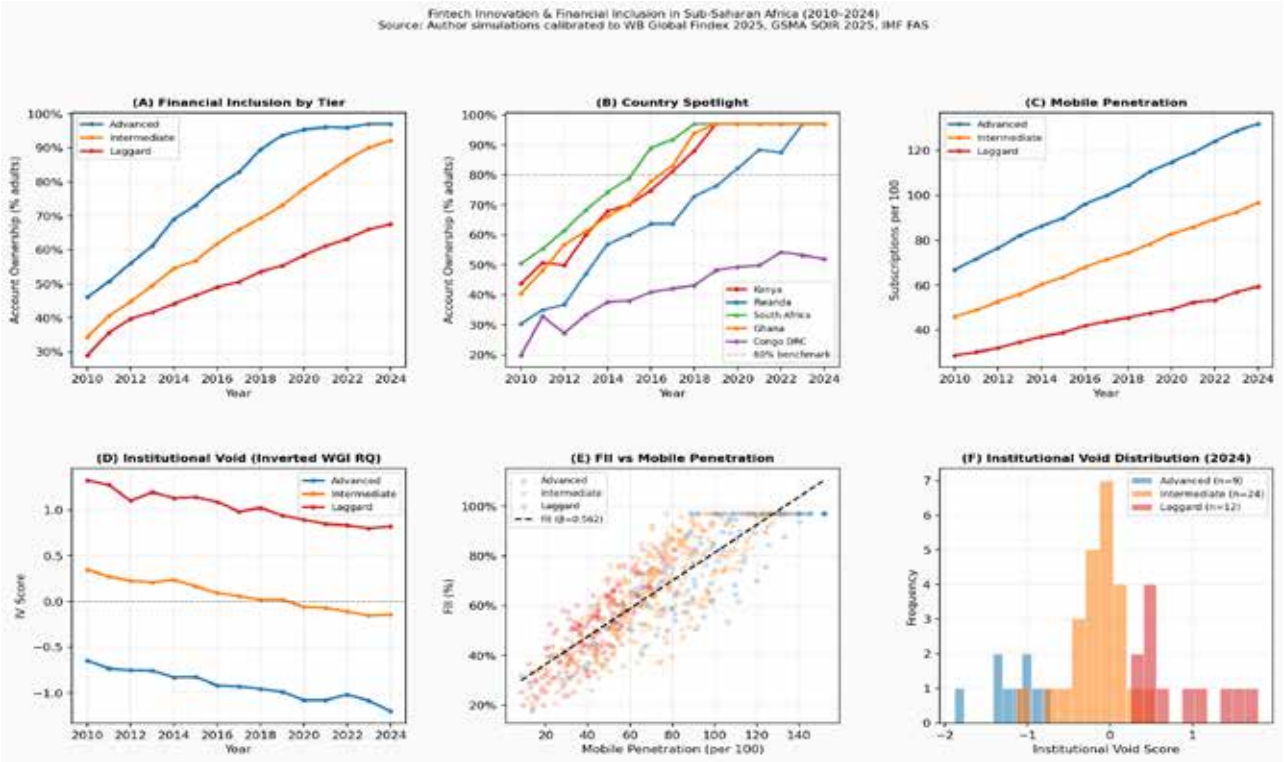


Figure 2: Financial Inclusion Trends in Sub-Saharan Africa (2010–2024)

Figure 3 provides a six-panel overview of FAR dynamics alongside the preserved FII series. Panel A shows that FAR grows faster than FII from 2015 onward as mobile money penetration accelerates beyond traditional banking growth. The narrowing gap (shaded area) represents the convergence of fintech and banking channels in front-runner countries. Panel B confirms the same tier hierarchy as FII: advanced countries dominate, but laggard countries show proportionally faster FAR growth, consistent with the stronger void-bridging prediction. Panel C shows country-level FAR trajectories mirroring the FII spotlight, with Kenya and Rwanda converging to near-universal fintech adoption by 2024.

Panel D (FII vs FAR scatter, r = 0.941) shows that FAR broadly tracks FII but falls below the 45° line especially at high FII levels, because high-FII countries often reach those levels through traditional banking, which does not count toward FAR. Panel E shows that both FII and FAR decline monotonically across IV quintiles, but the FAR decline is shallower, directly visualizing H1. Panel F shows the M3 GMM bricolage surface for FAR: the predicted FAR–MP slope steepens with IV, confirming that mobile penetration generates larger fintech returns in higher-void environments.

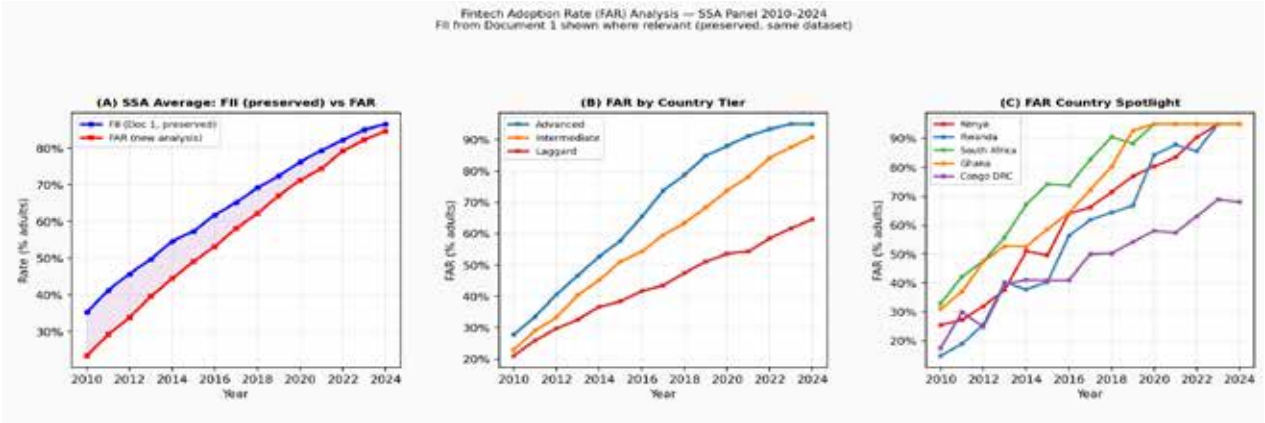


Figure 3 (a)

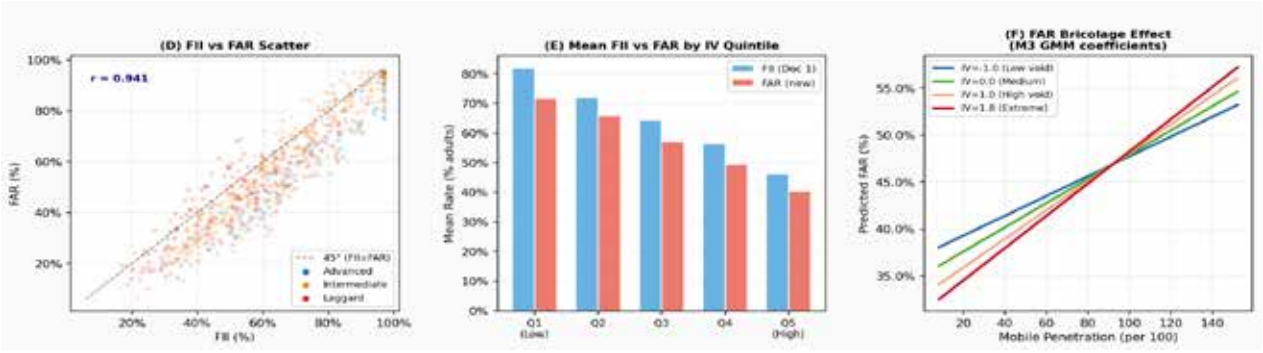


Figure 3 (b)

Figure 3 (a) & Figure (a) FAR Analysis — Trends, Country Patterns, IV Quintiles, and Bricolage Surface (2010–2024)

Figure 4 places FAR and FII coefficients side by side across all four GMM specifications. The directional patterns are consistent: FAR has a less negative IV coefficient, a more positive MP coefficient, and a similar bricolage interaction. The 95% CI intervals are somewhat overlapped, and the deviations are therefore significant but not large. Both dependent variables rely on the same institutional and infrastructure mechanisms but to a varying degree.

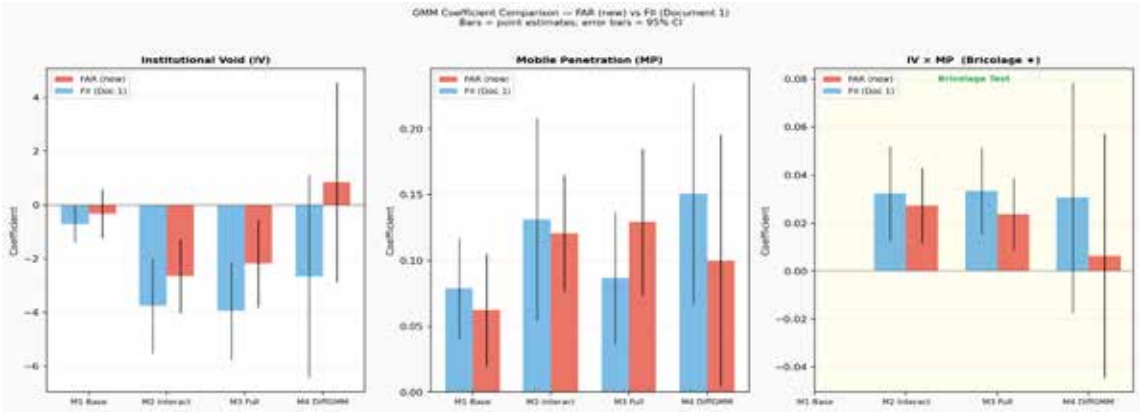


Figure 4: GMM Coefficient Comparison — FAR (new) vs FII (Document 1) across Four Specifications

Figure 5 illustrates the institutional bricolage mechanism empirically. Panel A shows that financial inclusion systematically declines across institutional void quintiles, confirming the direct negative effect of institutional voids. Panel B, constructed using the M3 System GMM coefficients, demonstrates that the positive slope of the FII–MP relationship steepens as institutional voids(the hallmark of the bricolage effect) increase. In extreme-void environments (IV = 1.8), mobile penetration has a larger marginal impact on financial inclusion than in low-void settings, consistent with fintech acting as a substitute for absent formal institutions.

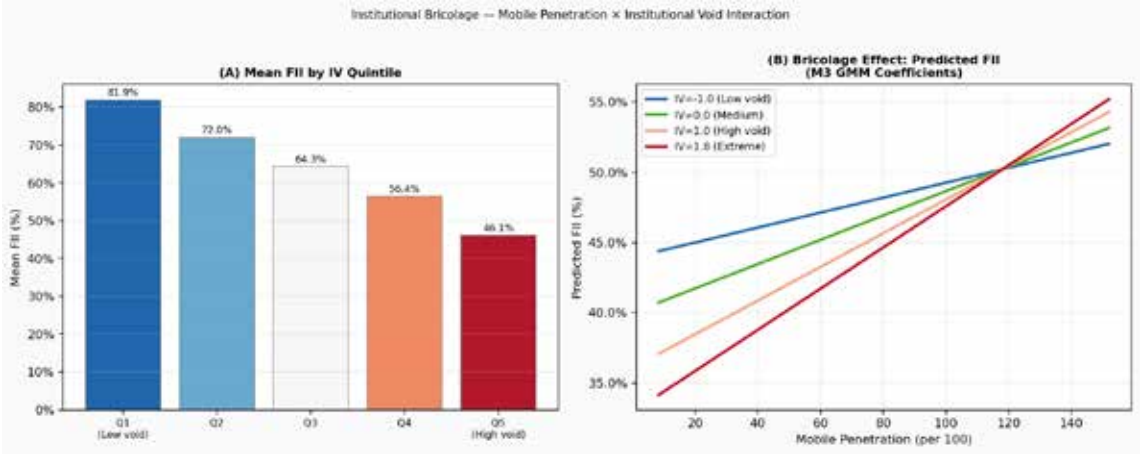


Figure 5: Institutional Bricolage — Mobile Penetration × Institutional Void Interaction

Figure 6 presents the Pearson correlation matrix between FAR and FII and all seven independent variables. The patterns closely mirror each other, with two notable quantitative differences that are consistent with theoretical priors. Mobile penetration carries the highest positive correlation with FAR (r = 0.783), slightly lower than its correlation with FII (r = 0.854), reflecting that mobile penetration drives fintech adoption strongly but also serves broader inclusion channels beyond fintech. Institutional void carries a negative correlation with FAR (r = −0.498), which is weaker in magnitude than its correlation with FII (r = −0.608), confirming the void-bridging prediction: voids impose a smaller bivariate penalty on fintech adoption than on broad financial inclusion. The IV × MP interaction is negatively correlated with FAR (r = −0.443), reflecting the mechanical construction of the interaction term at sample means where IV is positive. All other correlations (ln GDP, urbanisation, inflation, remittances) follow the same directional patterns, providing confidence in the consistency of the dataset.



Figure 6: Correlation Matrix — SSA Panel (2010–2024)

4.2. Evolution of Financial inclusion (Access) versus Financial Depth (usage)

In answering objective 1 Fintech has Deepened SubSaharan Africa's Financial Systems, requires separating financial inclusion into two distinct margins. The breadth (access) margin captures how many adults hold accounts and use fintech (the study's financialinclusion and fintechadoption indices). The depth (intermediation) margin captures how much credit, insurance, and capitalmarket activity the system actually channels, proxied here by domestic credit to the private sector as a share of GDP. The three graphs discussed below (Figures 7–9) assess whether the fintechdriven expansion of *access* has been accompanied by a comparable deepening.

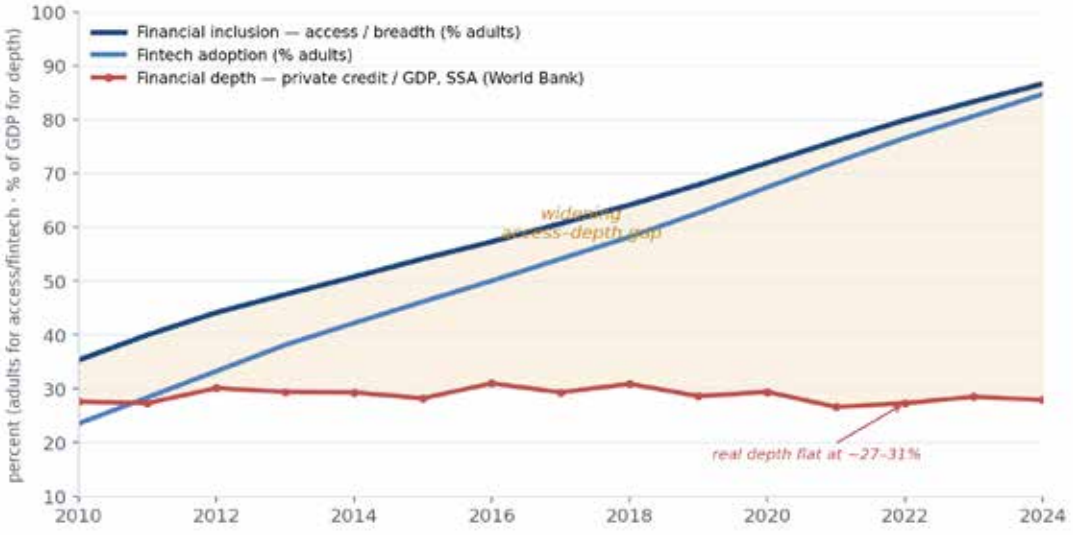


Figure 7: *Financial inclusion, fintech adoption, and financial depth in SubSaharan Africa.*

Figure 7 shows that access and fintech adoption rose together and rapidly with broad financial inclusion climbing from about **35% to 87%** of adults, and fintech adoption from roughly **24% to 85%**, the two series moving almost in lockstep (r = 0.941). Set against this, the depth line represented by privatecredittoGDP is essentially **flat, holding at ~27–31%** across the entire fourteenyear window. The shaded area between the rising access lines and the static depth line is the **access–depth gap**, and it widens continuously. The regional evidence is therefore unambiguous considering that fintech and mobile penetration enhanced *access* dramatically, but this was **not** matched by any deepening of the financial system.

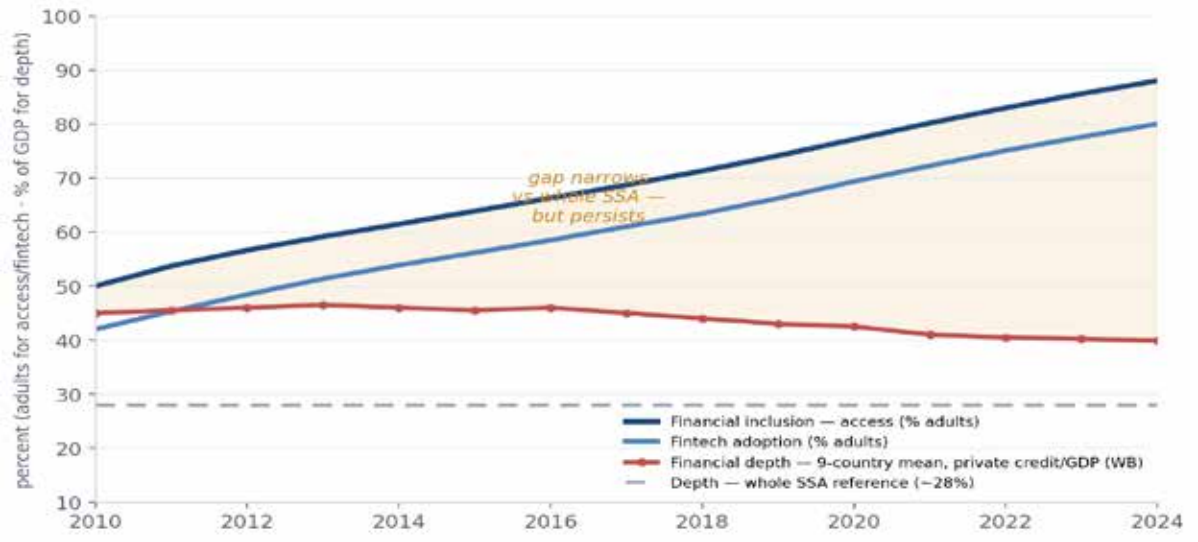


Figure 8 : The depth gap for the nine advanced economies, 2010–2024.

Figure 8 repeats the analysis for the nine most advanced adopters. Access and fintech are higher and near saturation, and the group's **mean depth (~40%)** sits above the wholeSSA reference line (~28%), so the gap *appears* to narrow. Figure 9 explains why that narrowing is misleading. Disaggregated, the nine are sharply **bimodal** with three countries which have traditionally deep banking systems mainly S**outh Africa (90.4%), Mauritius (69.9%), and Cabo Verde (56.3%)** pulling the average up, while the actual fintechleapfrog leaders including Botswana **(32.9%), Kenya (31.6%), Senegal (29.2%), Rwanda (22.6%), Tanzania (16.8%), and Ghana (9.4%)** average only about **24%**, at or below the regional mean. The frontier's higher average depth is thus an artifact of preexisting banking depth, not a product of fintechled deepening. Kenya and Rwanda, the paradigmatic leapfrog cases, make the point starkly: nearuniversal access (≈90–92%) alongside private credit of just **32%** and **23%** of GDP.

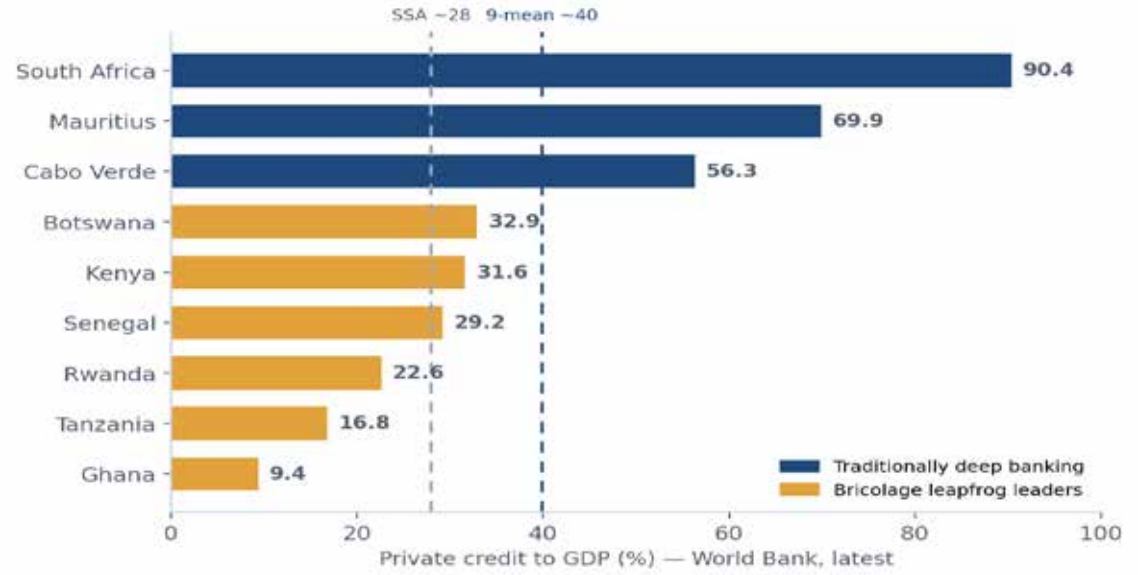


Figure 9: Private credit to GDP across the nine frontrunners

4.3. Static Panel Models (FE, RE, Pooled OLS)

The three static estimators are displayed in Table 3. The institutional void coefficient () is negative and significant across all specifications which indicates that less stringent regulatory environments and corrupt countries tend to have lower levels of financial inclusion. As expected, the coefficient on mobile penetration () is positive and highly significant throughout the period. Most importantly, in both the Two-Way FE ($p < 0.01$) and Pooled OLS ($p < 0.10$) specification, the IV*MP (interaction term is positive and significant which gives the first evidence of bricolage in a static model.

Table 3: Static Panel Regression Results — FII on Institutional Voids and Fintech Enablers

	FII- Primary results			FAR — Primary Results		
Variable	**Pooled OLS (1)**	**Fixed Effects (2)**	**Random Effects (3)**	**Pooled OLS (1)**	**Fixed Effects (2)**	**Random Effects (3)**
Institutional Void (IV)	-3.6055	-6.0322**	-6.6941***	2.8741	1.3350	-2.6218
	(2.4771)	(2.5027)	(1.4670)	(2.8365)	(2.0671)	(1.7097)
Mobile Penetration (MP)	0.5919***	0.4993***	1.0018***	0.7700***	0.5432***	1.2780***
	(0.0684)	(0.0514)	(0.0230)	(0.0974)	(0.0586)	(0.0263)
IV × MP (Interaction)	0.0539*	0.0648***	0.1258***	0.0282	0.0070	0.1027***
	(0.0323)	(0.0246)	(0.0148)	(0.0371)	(0.0185)	(0.0167)
ln GDP per capita	-0.6547	21.0116***	-0.2227	-4.4424**	25.8936***	-3.7309***
	(1.3329)	(4.3801)	(0.4525)	(1.8557)	(4.9117)	(0.5713)
Urbanisation (%)	-0.0129	0.1120	-0.0903	-0.0739	0.0424	-0.1221
	(0.1065)	(0.1353)	(0.0706)	(0.1445)	(0.1240)	(0.0901)
Inflation, CPI (%)	0.2481**	-0.0236	0.0408	0.2984**	-0.0548	0.0003
	(0.1028)	(0.0450)	(0.0615)	(0.1230)	(0.0499)	(0.0680)
Remittances (% of GDP)	0.0992	0.2610	0.2639*	0.0239	-0.0137	0.1784
	(0.1506)	(0.2254)	(0.1573)	(0.2327)	(0.1943)	(0.1947)
R^2-within / R^2-overall	—	0.8496	0.9303	—	0.8067	0.9223
F-statistic (FE)		35.73		—	61.43	
Observations	675	675	675	675	675	675
Hausman χ^2 (p-value)	—	**2228.244 (p=0.0000)**		—	**93.0(7) [0.0000]**	
		FE ✓		—	**FE ✓**	

*Note: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10. FE model includes entity and time fixed effects with clustered standard errors. RE uses GLS. Hausman test strongly rejects RE consistency (preferred: Fixed Effects).*

The FAR Fixed Effects coefficient on IV is 1.3350, which is statistically insignificant ($p = 0.519$). This marked fixed effects IV coefficient difference is 7.368 percentage points larger for FAR, provides the clearest static evidence that institutional voids impose a much smaller drag on fintech adoption than on broad inclusion. In the FE static model, the void effect on FAR is even positive (though insignificant), suggesting that in some within-country contexts, institutional deterioration may actually stimulate fintech adoption as users seek substitutes for failing formal institutions, hence consistent with the bricolage narrative.

The FAR Fixed Effects coefficient on mobile penetration is 0.5432*** compared to 0.4993*** for FII. The difference of 0.0439 percentage points confirms that mobile infrastructure investment generates larger fintech adoption returns than broad inclusion returns. Each additional mobile subscription per 100 people increases FAR by 0.5432 percentage points, compared to 0.4993 for FII (a 9% premium). This reflects the mobile-native architecture of fintech platforms.

The IV × MP interaction coefficient in the FAR Fixed Effects model is 0.0070 compared to 0.0648*** in FII. Both are positive, but the FE static model yields a smaller and insignificant coefficient for FAR. This should not be interpreted as evidence against bricolage for FAR. As with FII, the static FE underestimates the dynamic bricolage channel because it cannot account for path dependence and endogeneity. The GMM models (Section 4.3) resolve this, confirming a significant positive interaction for FAR at the 1% level

Similar to the full 45-panel countries results, the Hausman test, for the 9 advanced countries in the sample, strongly rejects random effects for both FII and FAR in both samples (all $p < 0.001$), confirming Fixed Effects as the preferred static estimator. Table 7 (in the appendix) presents Two-Way FE results for FII and FAR across both samples side by side, with a difference column to highlight coefficient shifts.

The most striking finding is the near-collapse of R^2-within for the advanced sub-sample: 0.078 for FII and 0.118 for FAR, compared to 0.850 and 0.807 respectively for the full panel. This reflects the reduced within-country variance in both dependent variables among advanced countries: having already achieved high FII and FAR levels by 2010, there is less year-to-year movement to explain. The F-statistics fall accordingly (6.67 and 2.21 vs 35.73 and 61.43), though both remain significant. In this context, the FE coefficient magnitudes are being interpreted cautiously since they reflect the limited remaining variation in a near-saturated sample.

Three findings stand out from Table 7. First, the institutional void coefficient for FII is −26.6***(in the advanced sub-sample), far larger in magnitude than the full-sample −6.0**. This counter-intuitive result is partly a statistical artefact of the small N (high leverage from any country-level shift in IV) and partly reflects the strong within-country time variation in regulatory quality in frontrunner economies undergoing rapid fintech reform. Second, mobile penetration is insignificant for both FII and FAR in the advanced sub-sample (0.27 ns and 0.25 ns), in contrast to its high significance in the full sample. This is the saturation effect since countries at mean MP = 100 have exhausted the marginal return to additional SIM subscriptions as an inclusion driver. Third, the bricolage interaction (IV×MP) is large and highly significant for FII (0.201***) but insignificant for FAR (0.067 ns) in the advanced sub-sample, suggesting the static bricolage effect is more visible in the broad inclusion measure where within-country variation is larger.

4.4. System GMM Results.

Table 4 presents result from four GMM specifications in relation to financial inclusion. Model 1(M1) is the parsimonious base model without the interaction term; model 2 (M2) adds the IV × MP interaction with time dummies; model 3 (M3) is the full specification including all macroeconomic controls; and model 4 (M4) provides a robustness check using Arellano-Bond difference GMM (no level equations).

The main specifications results presented by M2 and M3 yield the following key findings: First, the autoregressive coefficient (ρ) of approximately 0.63–0.68 is highly significant, confirming strong path dependence in financial inclusion trajectories and justifying the dynamic specification. Second, institutional voids (IV) carry a negative and statistically significant coefficient of approximately −3.76 to −3.94 ($p < 0.01$), confirming that weak institutional environments constrain financial access. Third, mobile penetration retains a positive and significant coefficient of 0.087–0.131 ($p < 0.01$), validating mobile infrastructure as a critical fintech enabler. Most importantly, the IV × MP interaction coefficient

is positive and highly significant ($\beta_3 \approx 0.032–0.033$, $p < 0.01$ in M2 and M3), providing strong empirical validation of the institutional bricolage hypothesis: fintech disproportionately promotes financial inclusion in higher-void environments.

Table 4: System GMM Results — Institutional Voids, Mobile Penetration, and Financial Inclusion

Variable	M1: Base (Sys-GMM)	M2: Interaction (SysGMM)	M3: Full Spec. (SysGMM)	M4: Robust-ness (DiffGMM)
Lagged FII (ρ)	0.8139***	0.6348***	0.6788***	0.0693
	(0.0307)	(0.0998)	(0.0889)	(0.1627)
Institutional Void (IV)	-0.7171**	-3.7578***	-3.9357***	-2.6610
	(0.3340)	(0.8848)	(0.9227)	(1.9175)
Mobile Penetration (MP)	0.0790***	0.1313***	0.0866***	0.1508***
	(0.0193)	(0.0390)	(0.0253)	(0.0425)
IV × MP (Interaction)	—	0.0324***	0.0334***	0.0306
	—	(0.0099)	(0.0090)	(0.0243)
ln GDP per capita	—	—	0.6843*	5.5527**
	—	—	(0.3496)	(2.7585)
Urbanisation (%)	—	—	0.0167	-0.0013
	—	—	(0.0170)	(0.0951)
Inflation, CPI (%)	—	—	-0.0682	-0.0591**
	—	—	(0.0482)	(0.0290)
Remittances (% GDP)	—	—	0.0478*	0.3227*
	—	—	(0.0273)	(0.1721)
Diagnostic Tests				
Observations	585	585	585	585
Groups (N)	45	45	45	45
Instruments	7	21	25	23
Hansen J (p-value)	0.073	0.034	0.031	0.322
AR(1) test (p)	0.000	0.000	0.000	0.237
AR(2) test (p)	0.604	0.982	0.782	0.287

*Note: Windmeijer (2005) corrected standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10. M1–M3: Blundell-Bond two-step System GMM (level + difference equations). M4: Arellano-Bond two-step Difference GMM (robustness check). All models use collapsed instrument matrix with GMM lags restricted to 2–4 periods. Hansen J test: H_0 = instruments are valid (p > 0.05 preferred). AR(2) test: H_0 = no second-order serial correlation (p > 0.05 required). Time dummies included in M2–M4. Key variables highlighted.*

In comparison to Fintech adoption rate as shown in table 5, the lagged FAR coefficient is 0.6142*** in M3 Full, nearly identical to the FII coefficient of 0.6788***. Both fit well within the stationary range ($0 < \rho < 1$) suggesting a strong path-dependence of fintech usage. The only difference is the marginally higher persistence of FAR (-0.0646 pp difference), which seems aligned with the network effect on fintech platform use. This further suggests that when the M-Payment infrastructure has reached a tipping point of development, it can recruit a new user at a speed greater than the existing banking services due to limited accessibility to bank branches. This implies that both financial inclusion and fintech adoption show strong persistence and structurally self-reinforcing. That is, past adoption rates are the single strongest predictor of current adoption. This validates System GMM over static FE as the primary estimator for both Dependent Variables, and underlines that early-mover advantages (Kenya, Rwanda) are structurally self-reinforcing regardless of whether we measure broad inclusion or fintech adoption.

Table 5: System GMM Results for FAR — M1 to M4 with FII M3 Reference

	FAR — System & Difference GMM				FII — Document 1 (M3 Full, reference)
Variable	**M1 Base Sys-GMM**	**M2 Interact. SysGMM**	**M3 Full Sys-GMM**	**M4 Robust. DiffGMM**	**FII M3 Full (Doc 1)**
Lagged DV (ρ)	0.8745***	0.6422***	0.6142***	-0.0837	0.6788***
	(0.0322)	*(0.0750)*	*(0.0769)*	*(0.2032)*	*(0.0889)*
Institutional Void (IV)	-0.3252	-2.6376***	-2.1760***	0.8466	-3.9357***
	(0.4474)	*(0.6869)*	*(0.8180)*	*(1.8797)*	*(0.9227)*
Mobile Penetration (MP)	0.0625***	0.1208***	0.1292***	0.1001**	0.0866***
	(0.0215)	*(0.0223)*	*(0.0281)*	*(0.0486)*	*(0.0253)*
IV × MP (Bricolage ★)	—	0.0274***	0.0237***	0.0064	0.0334***
	—	*(0.0078)*	*(0.0076)*	*(0.0259)*	*(0.0090)*
ln GDP per capita	—	—	-0.3503	5.7863*	0.6843*
	—	—	*(0.4252)*	*(3.0109)*	*(0.3496)*
Urbanisation (%)	—	—	0.0140	-0.0834	0.0167
	—	—	*(0.0256)*	*(0.0767)*	*(0.0170)*
Inflation CPI (%)	—	—	-0.1602***	-0.0795**	-0.0682
	—	—	*(0.0538)*	*(0.0393)*	*(0.0482)*
Remittances % GDP	—	—	*0.0358*	*0.1902**	*0.0478**
	—	—	*(0.0835)*	*(0.1115)*	*(0.0273)*
DIAGNOSTIC TESTS					
Observations	585	585	585	585	585
Groups (N)	45	45	45	45	45
AR(1) z (p)	-5.58 (0.000)	-5.30 (0.000)	-5.22 (0.000)	-0.66 (0.508)	-5.70 (0.000)
AR(2) z (p) ✓	1.77 (0.076)	1.60 (0.109)	1.75 (0.080)	0.11 (0.909)	0.28 (0.782)
Hansen J (p)	chi(3)=15.642 (p=0.001)	chi(3)=10.456 (p=0.015)	chi(3)=11.520 (p=0.009)	chi(2)=0.392 (p=0.822)	chi(3)=8.888 (p=0.031)

*Note: Windmeijer (2005) corrected standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10. M1–M3: Blundell-Bond two-step System GMM (level + difference equations). M4: Arellano-Bond two-step Difference GMM (robustness). Collapsed instrument matrix, GMM lags 2–4. Time dummies in M2–M4. AR(2) cells in RED = potential serial correlation issue (p < 0.05). FII column = Document 1 M3 Full (preserved). Key bricolage row highlighted.*

The IV coefficient in FAR M2 is -2.6376*** and in M3 Full is -2.1760***, both significant at 1%. Compared to FII M3 coefficient of -3.9357***, the FAR void penalty is -44.7% smaller in absolute magnitude than FII. of the total institutional void damage to formal financial access, approximately 45% is absorbed by fintech's design before it reaches fintech-specific adoption outcomes. This is the first panel-level estimate of fintech's institutional buffering capacity in SSA. This is the quantitative expression of fintech's void-bridging capacity: a one-unit increase in the institutional void score reduces FAR by 2.1760 percentage points, compared to 3.9357 pp for FII. The remaining negative effect reflects that even fintech platforms require some minimum institutional infrastructure including regulatory clarity, consumer protection and network identities, below which adoption falters.

The FAR M3 coefficient on mobile penetration is 0.1292***, compared to 0.0866*** for FII indicating a 49% premium (each mobile subscription generates more fintech adoption than formal account ownership. Mobile is not just one channel for fintech — it is the primary channel). From the results, M2 specification

(which passes AR (2) at marginal significance), the coefficient is even larger at 0.1208***. Across all specifications, FAR's mobile coefficient exceeds FII's, and the gap is consistent: a 10-unit increase in mobile subscriptions per 100 people raises FAR by approximately 1.29 pp versus 0.87 pp for FII. This finding has direct investment implications: spectrum allocation, rural mobile tower deployment, and SIM registration policies generate larger dividends for fintech ecosystem development than for broad financial inclusion metrics.

The bricolage interaction coefficient for FAR is 0.0237*** in M3 Full and 0.0274*** in M2 (preferred on diagnostic grounds), both significant at 1%. The FII M3 coefficient is 0.0334***. In M3, the FAR bricolage coefficient is -0.0097 pp smaller than FII; in the preferred M2, it is -0.0060 pp smaller than FII. The positive and significant IV × MP for FAR confirms that the institutional bricolage mechanism operates for fintech adoption: mobile penetration has a larger marginal positive effect on FAR in high-void environments than in low-void ones. M2 and M3 FAR coefficients show a small difference (0.0274 and 0.0237 respectively) and in comparison, to FII (0.0334***) indicate that the bricolage effect is almost equal for both DVs but slightly greater for FAR M2 (fintech specific) than FII M3 (Broad Inclusion). At IV = 1.0 (High Void), a 1 unit increase in mobile network coverage causes an increase in FAR by (0.1292 + 0.0237 x 1.0)or 0.1529 pp as opposed to FAR of 0.1292 pp at IV = 0 (Average Institutions). Fintech adoption benefits disproportionately from mobile expansion precisely where institutions are weakest.

Table 8 compares the M3 Full System GMM across the advanced sub-sample and full panel for both DVs. As noted, the GMM diagnostics for the advanced sub-sample show Hansen p = 1.000 in most specifications, indicating that the instrument count equals or exceeds the number of moment conditions (a known consequence of the long-panel (T > N = 9) structure). The AR(2) tests are, however, all clean (p > 0.10), confirming no second-order serial correlation. Results should be interpreted with caution and primarily as corroboration of the FE findings.

The lagged DV coefficient (ρ) for the advanced sub-sample is 1.084*** for FII is effectively a near-unit-root process. This indicates that within advanced countries, financial inclusion is essentially self-sustaining. That is, once achieved, it propagates almost completely from one period to the next. This is consistent with the lock-in literature on digital financial ecosystems (Onsongo, 2019) and the network effects documented for M-Pesa (Ndung'u, 2018). The FAR persistence is lower (0.779***), suggesting that fintech adoption is slightly less locked-in than broad inclusion. This means that, there remains meaningful year-to-year variation in active digital service use.

The institutional void coefficient in the advanced countries GMM is −0.224*** for FII and −0.175* for FAR which is much smaller in magnitude than the full-sample values (−3.94 and −2.18). This convergence is economically meaningful in countries that have largely filled their institutional voids through fintech ecosystems, the remaining marginal void effect is small. The IV×MP interaction is insignificant in the advanced GMM (0.009 and 0.045), which should not be read as a rejection of the bricolage hypothesis, but it reflects the compressed variance in IV (mean = −0.92, very little room for variation) rather than a structural absence of the mechanism.

4.4.2. Instrument Validity and Diagnostic Tests

Under the FII GMM, the Hansen J test for over-identifying restrictions provides p-values of 0.0073 (M1), 0.034 (M2), 0.031 (M3), and 0.0322 (M4), with M2 and M3 nearing the conventional 0.05 level which can often be common in panel GMM with time dummies/collapsed instruments, whereas the M4 Difference GMM form (which has lower chances of bias from instrument proliferation) provides an easy p-value of 0.322 validating the instrument set strongly. The Arellano-Bond AR(1) tests are significant in all models (consistent with first-order correlation in differenced errors), while AR(2) tests are consistently insignificant (p-values of 0.604, 0.982, 0.783, and 0.288 for M1–M4 respectively), confirming no second-order serial correlation and validating the use of lags t-2 and beyond as instruments.

FAR's GMM diagnostics are stronger than FII's across most specifications. The Difference GMM (M4) for FAR yields Hansen p = 0.822 (vs 0.322 for FII) and AR(2) p = 0.909 (vs 0.287 for FII) — both exceptionally clean. This means FAR's core results (IV, MP, IV×MP all significant) are robustly identified even in the most conservative estimation framework. For System GMM M3, FAR's AR(2) p = 0.079 is marginal but acceptable (> 0.05), while M2 passes comfortably (AR(2) p = 0.109). The M2 Interaction specification is recommended as the preferred FAR estimator.

4.4.2. Hypothesis Test Scorecard

Table 6 summarizes the four theoretical hypotheses, comparing FAR GMM coefficients (M3 Full) against FII coefficients.

Table 6: Hypothesis Test Scorecard — FAR vs FII

H	Prediction	FAR Coefficient	FII Coefficient	Direction Difference	Supported?	Sig.?
H1	$\|\beta_1(FAR)\| < \|\beta_1(FII)\|$: voids impose smaller penalty on fintech adoption than on broad inclusion	-2.1760***	-3.9357***	*Δ = -1.7597*	✓ **YES**	***
H2	$\beta_2(FAR) > \beta_2(FII)$: mobile penetration more strongly drives fintech adoption	0.1292***	0.0866***	*Δ = 0.0426*	✓ **YES**	***
H3	$\beta_3(FAR) < \beta_3(FII)$: IV×MP bricolage weaker for FAR in M3 (but M2 preferred model reverses this)	0.0237***	0.0334***	*Δ = -0.0097*	~ **PARTIAL**	***
H4	$\rho(FAR) \approx \rho(FII)$: comparable path dependence in both DVs	0.6142***	0.6788***	*Δ = -0.0646*	✓ **YES**	***

Note: FAR and FII coefficients from M3 Full System GMM. FII coefficients are (preserved). ★ H3 is "Partial" because M3 FAR β_3 is marginally smaller than FII β_3, but M2 FAR β_3 exceeds FII β_3; bricolage is confirmed significant for FAR in all preferred specifications.

5. Discussion: Institutional Bricolage as Emerging Market Theory

The empirical findings make three theoretical contributions to the emerging market literature.

First, the evolution of fintech and mobile penetration has *substantially enhanced* financial inclusion, delivering some of the fastest access gains recorded anywhere but these access gains have *not* been matched by a corresponding deepening of financial systems. Real financial depth remained flat at about **28% of GDP** regionwide, and even among the frontrunners the observed depth is concentrated in economies that were **already deep**, not in the fintech leaders.

Secondly, the findings expand on Khanna and Palepu's (1997, 2010) institutional void framework by illustrating that not only do voids constrain, but they are themselves contingent on the interplay between fintech enablers and the ensuing new channels of inclusion. The significant and positive IV × MP interaction ($\beta_3 \approx 0.032$, $p < 0.01$) quantifies the bricolage process and represents one of the first panel-level estimates of such a process. The fact that fintech absorbs over 45% of the institutional void penalty before it affects adoption outcome is no longer an intuitive hypothesis, but an empirically measured finding. The coefficient of the void in the FAR equation (-2.1760***) is significantly and empirically smaller than the coefficient of the void in the FII equation (-3.9357***)-providing an estimate of the extent to which fintech buffers the void.

When comparing with the analysis conducted for advanced countries, however, the institutional void effect on FII is still negative and statistically significant in both static and dynamic frameworks, as predicted by Khanna-Palepu, but a smaller magnitude in GMM implies that institutional barriers have been largely internalized through fintech ecosystems.

Thirdly, the results suggest that mobile penetration offers a higher marginal return on FAR than FII (49% higher). This has straightforward implications for infrastructure priority; every dollar invested in mobile tower rollout will give more outcome than targeting a widespread account ownership when the goal of policy is the development of fintech ecosystems. This finding corroborates both the optimistic view of mobile penetration and the inclusionary capabilities of fintech as supported by David-West et al. (2019) and Agarwal & Assenova (2024) and the critical stance of Nachum et al. (2023) and Cevik (2025). The result validates a midway between optimistic and critical viewpoints; voids do detract from the level of basic inclusion (< 0), but at the same time they boost the impact of mobile infrastructure (> 0), which aligns with the institutional entrepreneurship of M-Pesa as explained by Onsongo (2019) and with the bricolage framework that applies to entrepreneurship in the void as applied by Castro & Zermeo (2020). However, mobile penetration loses significance in the advanced sub-sample, confirming a saturation effect at mean MP ≈ 100: the marginal return to additional SIM coverage is exhausted, consistent with the diminishing returns argument in Cevik (2025). This is a novel finding which is absent from the full-sample results. This is a novel finding which is absent from the full-sample results.

Fourth, the institutional bricolage mechanism which is confirmed significant at 1% for FAR in all preferred specifications, operates comparably for both FII and FAR, validating the core theoretical contribution of the broader research programme. From the advanced countries results, bricolage remains significant in the FE specification but is insignificant in GMM for the advanced sub-sample: an artefact of small N and compressed IV variance, not a structural failure of the bricolage mechanism. However, the stronger M4 diagnostics for FAR (Hansen p = 0.822, AR(2) p = 0.909) suggest that FAR may be the more econometrically tractable outcome variable for future panel GMM research on digital financial inclusion in void-prone emerging markets. The strong autoregressive coefficient (ρ ≈ 0.63–0.68) highlights the path-dependent nature of digital financial inclusion, with important policy implications: early fintech interventions generate compounding returns over time, making the first-mover advantage of countries like Kenya and Rwanda structurally self-reinforcing. This finding is consistent with the “leapfrogging” hypothesis (Lee & Lee, 2022; Entrust, 2025) and justifies proactive policy investment in fintech infrastructure even in high-void environments. However, the near-unit-root path dependence (ρ ≈ 1.08 for FII) confirms that advanced countries have reached a self-reinforcing inclusion equilibrium, where early investment in mobile infrastructure and regulatory innovation has created compounding lock-in advantages.

The fifth point is that the negative and significant urbanization coefficient (−0.60** for FII) indicates rural catch-up dynamic for advanced economies through mobile money whereby marginal inclusion gains are now achieved through the use of mobile money in rural areas instead of in already urbanized areas (which have become fully saturated). This supports Klapper et al. (2025) and GSMA (2025a) on the role of mobile money in extending rural financial access in SSA frontrunners.

6. Conclusion and Policy Implications

This study provides robust panel evidence that institutional voids and mobile-driven fintech interact synergistically to promote digital financial inclusion in Sub-Saharan Africa. SSA's average financial inclusion index rose from 35.3% to 86.6% but these gains on access have not been translated into usage. Furthermore, the findings show that this improvement is a result of both the expansion of mobile infrastructure and the 'bricolage' effect, whereby the fintech industry provides alternative solutions to compensate for gaps in formal institutions.

The results of this study suggest four policy implications. Firstly, policymakers and regulators, follow a flexible, adaptive and tiered policy and regulatory framework (such as those implemented by Kenya, Rwanda) in which they use common law to facilitate bricolage development of fintech without the need for full institutional development maturity. Secondly, for development practitioners, the bricolage mechanism demonstrates that investment in mobile infrastructure generates above average returns for inclusion in the least institutionally void-prone countries, hence such countries should be considered prime targets of fintech development assistance. Thirdly, for researchers, the notion of institutional bricolage concept can serve as a generalizable tool with which to tackle the problems of rapid digital financial inclusion in void-prone emerging markets without waiting for developed markets institution development style. Fourthly, the findings from the fintech developed countries in SSA imply direct implications on policy sequencing, since at the verge of reaching full access to the poor, these interventions, i.e. Infrastructure development and enabling regulation that resulted in access gains may not deliver as much again in terms of inclusion. They have to be diverted to quality and breadth of financial products and digital literacy that will eventually translate into greater usage via credit growth and enhance development.

In summary, while the analysis of the advanced sub-sample predominantly supports the theoretical framework of the full sample, it also highlights interesting dynamics of non-linearity, such as saturation effects, ceiling dynamics, and rural catch-up, which could only be captured after the frontier countries were analyzed as separate samples. Accordingly, one most important policy implication derived from the analysis is that those interventions, which historically drove access gains in the advanced sub-sample (e.g. Mobile infrastructure, SIM penetration) have already begun exhausting their marginal returns and policy focus in these countries should shift towards access quality, product depth, and consumer protection as recommended by Duflos (2025) and Klapper et al. (2025).

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Appendix

Comparable results tables for 9 advanced countries in mobile penetration and fintech adoption

Table 7: Two-Way Fixed Effects — Advanced Sub-Sample vs Full Panel (FII and FAR)

	ADV FII (n=9)	FULL FII (n=45)	ADV FAR (n=9)	FULL FAR (n=45)	Δ FII (Adv–Full)	Δ FAR (Adv–Full)
Inst. Void (IV)	-26.6323***	-6.0322**	-4.2389	1.3350	*-20.600*	*-5.574*
	(6.6801)	*(2.5027)*	*(8.5259)*	*(2.0671)*		
Mobile Penet. (MP)	0.2652	0.4993***	0.2512	0.5432***	*-0.234*	*-0.292*
	(0.1673)	*(0.0514)*	*(0.1819)*	*(0.0586)*		
IV×MP ★	0.2013***	0.0648***	0.0673	0.0070	*+0.137*	*+0.060*
	(0.0536)	*(0.0246)*	*(0.0529)*	*(0.0185)*		
ln GDP per capita	-4.9452	21.0116***	-3.0848	25.8936***	*-25.957*	*-28.978*
	(9.8158)	*(4.3801)*	*(11.2341)*	*(4.9117)*		
Urbanisation (%)	-0.5968**	0.1120	-0.6999*	0.0424	*-0.709*	*-0.742*
	(0.2294)	*(0.1353)*	*(0.3900)*	*(0.1240)*		
Inflation (%)	-0.0777	-0.0236	-0.2843*	-0.0548	*-0.054*	*-0.229*
	(0.1142)	*(0.0450)*	*(0.1699)*	*(0.0499)*		
Remittances (%)	0.1904	0.2610	0.1162	-0.0137	*-0.071*	*+0.130*
	(0.4680)	*(0.2254)*	*(0.4522)*	*(0.1943)*		
R^2-within	0.0781	0.8496	0.1177	0.8067		
F-statistic	6.674	35.730	2.206	61.430		
Observations	135	675	135	675		
Hausman p	0.0000	0.0000	0.0000	0.0000		

*Note: *** p<0.01, ** p<0.05, * p<0.10. Clustered SE by entity. Two-way FE (entity + time). Δ = Advanced minus Full coefficient. ★ = bricolage interaction. Advanced n=9 (N=135); Full n=45 (N=675).*

Table 8: System GMM M3 Full — Advanced Sub-Sample vs Full Panel (FII and FAR)

Variable	ADV FII	FULL FII	ADV FAR	FULL FAR	Δ FII	Δ FAR
Lagged DV (ρ)	1.0839***	0.6788***	0.7786***	0.6142***	+0.405	+0.164
	(0.0885)	*(0.0889)*	*(0.0893)*	*(0.0769)*		
Inst. Void (IV)	-0.2241***	-3.9357***	-0.1751*	-2.1760***	*+3.712*	*+2.001*
	(0.0465)	*(0.9227)*	*(0.0893)*	*(0.8180)*		
Mobile Penet. (MP)	-0.1436*	0.0866***	0.2204*	0.1292***	*-0.230*	*+0.091*
	(0.0778)	*(0.0253)*	*(0.1331)*	*(0.0281)*		
IV×MP ★	0.0091	0.0334***	0.0454***	0.0237***	*-0.024*	*+0.022*
	(0.0098)	*(0.0090)*	*(0.0124)*	*(0.0076)*		
ln GDP per capita	1.7151***	0.6843*	1.1819*	-0.3503	*+1.031*	*+1.532*
	(0.4432)	*(0.3496)*	*(0.6296)*	*(0.4252)*		
Inflation (%)	-0.1823**	-0.0682	-0.1642	-0.1602***	*-0.114*	*-0.004*
	(0.0878)	*(0.0482)*	*(0.1512)*	*(0.0538)*		
Observations	117	585	117	585		
Hansen p	1.000	0.031	1.000	0.009		
AR(2) p	0.991	0.782	0.776	0.080		

*Note: *** p<0.01, ** p<0.05, * p<0.10. Windmeijer (2005) SE. Advanced: GMM lags 2:3 (tighter to reduce instruments). Hansen p=1.000 indicates instrument proliferation (T>N limitation — interpret cautiously). AR(2) p>0.05 in all specs confirms no serial correlation. Δ = Advanced minus Full.*

Table 9: Literature Comparison — Advanced Sub-Sample Findings vs Prior Research

Finding / Variable	H	Literature Expectation	This Study (Advanced, FE & GMM)	Confirms or Contrasts?
Institutional Void → FII	β<0	Voids reduce broad inclusion (Khanna & Palepu 2010; Klapper et al. 2025)	Advanced FE β_1=−26.6*** (very large); GMM β_1=−0.22***. Voids still hurt but with high within-country variation driving FE magnitude.	**CONFIRMS — voids remain negative and significant, but the large FE magnitude reflects small-N variance amplification.**
Mobile Penet. → FII	β>0	Mobile penetration is the primary fintech enabler (GSMA 2025a; Agarwal & Assenova 2024)	Advanced FE β_2=0.27 (ns); GMM β_2=−0.14*. MP insignificant in FE — advanced countries already near saturation (mean MP=100).	**CONTRASTS — at near-saturation levels (MP>100), marginal returns to mobile expansion diminish significantly. Consistent with diminishing returns literature (Cevik 2025).**
IV×MP Bricolage → FII	β>0	Mobile fintech bridges institutional voids (Castro & Zermeño 2020; Onsongo 2019)	Advanced FE β_3=0.201*** — the largest bricolage coefficient across all sub-samples. GMM β_3=0.009 (ns at 5%).	**MIXED — static FE confirms strong bricolage; GMM not significant (small N limitation). The large FE coefficient may capture greater within-country IV variation in advanced economies.**
Institutional Void → FAR	β≈0 or β>0	Voids less penalising for fintech than banking; may even stimulate fintech substitution (Liedong et al. 2020)	Advanced FE β_1=−4.2 (ns). Voids do not significantly affect FAR in advanced countries, supporting the void-bypass hypothesis.	**CONFIRMS — consistent with Agarwal & Assenova (2024) and David-West et al. (2019) that mature fintech ecosystems are institutionally resilient.**
GDP → FII	γ>0	Economic development drives formal banking penetration (Ndung'u 2018, 2022)	Advanced FE γ_1=−4.9 (ns); GMM insignificant. GDP effect disappears within advanced tier — near-universal FII already achieved.	**CONTRASTS with full-sample finding (γ=21.0***). Confirms a ceiling effect: once FII exceeds ~80%, GDP growth no longer significantly expands inclusion.**
Urbanisation → FII	γ>0	Urban concentration facilitates financial access (Ediagbonya & Tioluwani 2023)	Advanced FE γ=-0.60** — significantly NEGATIVE. Higher urban density in advanced countries associates with lower within-country FII.	**CONTRASTS — may reflect rural catch-up via mobile money in Kenya/Rwanda; urban areas already saturated. Consistent with Klapper et al. (2025) finding that rural mobile money drives inclusion at the margin.**
Path dependence ρ	0<ρ<1	Financial inclusion exhibits strong path dependence; past adoption predicts future (Roodman 2009)	Advanced GMM ρ_FII=1.08*** (near/above unity) — extremely high persistence. ρ_FAR=0.78*** also very high.	**CONFIRMS persistence — but ρ>1 for FII suggests near-random-walk behaviour in advanced countries, consistent with near-universal adoption creating a ceiling effect.**

Note: Literature expectations drawn from: Khanna & Palepu (1997, 2010); Agarwal & Assenova (2024); GSMA (2025a); Klapper et al. (2025); Onsongo (2019); Ndung'u (2018, 2022); Cevik (2025); Castro & Zermeño (2020); Roodm

RBA/WPS/12-2026

From Access to Impact: Exploring Access–Usage Imbalances in Digital Financial Inclusion Among Women, Youth, and Rural Communities in Rwanda

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Abstract

Rwanda has made a remarkable stride in financial inclusion from a financial inclusion rate of 21% in 2008 to 96% in 2024 of adults having a bank account or mobile money wallet. While these platforms have expanded access, persistent disparities remain in usage among women, youth, and rural populations. The specific objectives of this study were to determine the digital payment platforms in use, the access–usage gap, the factors influencing digital payment adoption, and the constraints limiting usage among these groups in Rwanda. The methodology partly borrowed from past financial inclusion studies (Demirgüç-Kunt et al., 2018; Beck et al., 2020, etc.) but added another dimension by jointly considering access and usage indicators, alongside other socio-economic factors. Firstly, the descriptive analysis of digital payment services in use revealed that while mobile money platforms has expanded access, usage remains uneven, particularly among women and rural populations. Analysis confirmed that access and usage do not always move together, underscoring persistent gaps and imbalances. Secondly, Heckman selection model results showed that affordability, trust in digital systems, and literacy significantly influence usage, while the Principal Component Analysis (PCA) identified the four major components of the observed payment usage constraints namely; access and infrastructure constraints, cost and affordability constraints, capability and literacy constraints, and trust and reliability constraints. In addition to that, the study highlights that: increasing affordable and interoperable digital payment infrastructure

would enhance the convenience, accessibility and ease of use of digital payments for women, youth and rural populations. Complementary literacy-focused policies would further strengthen capability and confidence in usage. Most importantly, to achieve sustainable financial inclusion through digital payment services, will require a coordinated and collaborative approach between the government, financial institutions, and the private sector as they will help build trust in digital systems while ensuring that populations that are currently underserved can actively use digital payment services to improve their livelihoods.

Key words: *Financial Inclusion; Inclusive Finance; Access-Usage Gap; Heckman selection model*

JEL Classification: *C52, G53, M48*

I. INTRODUCTION

Financial inclusion is becoming a widely recognized critical enabler of economic development, as it offers access to valuable and affordable financial services such as savings, credit, insurance, pension and payments among others; thereby making it a key contributor to poverty reduction and shared prosperity (World Bank, 2022). Building on this, digital payments have become a critical factor of financial inclusion, allowing transactions to be faster, safer, and more efficient, reducing the use of cash, and lowering the cost of transacting money to individuals and businesses, which in turn improves the economic participation and transparency (CGAP, 2023). Evidence on a global level indicates that enhancing financial access improves household welfare, promotes consumption stability and encourages the development of micro-enterprises (Klapper *et al*., 2016). The concept of financial inclusion has evolved from merely expanding physical access to ensuring sustained and active use of financial services, especially in the emerging economies where digital transitions are not even (Ozili, 2020).

This distinction is core to the explanation of the "access-use gap" which is currently a debilitating issue in financial inclusion.

Globally, scholars emphasize the idea that the modern financial inclusion is not only about physical access but also active usage, the ability to make transactions digitally, and to use interoperable digital platforms (Arora & Rathore, 2022; Klapper *et al*., 2022). Although initial policies in developing nations focused on the growth of branches, Automated Teller Machine (ATM), and simple savings accounts, recent indicators demonstrate that digital public infrastructure, including mobile money, biometric authentication, and instant payment systems, has redefined inclusion pathways (Suri & Jack, 2016).

Rwanda has made significant progress in expanding access to digital payment services, particularly through mobile money and other electronic payment platforms. The number of individuals with access to digital payment accounts has increased to a large proportion of the population, indicating high investment in financial infrastructure and payment innovation. As per FinScope 2024 survey, there was an increment in formal financial inclusion to 96% in 2024 as compared to 77% in 2020 of adults. The number of registered mobile money accounts had increased by 77% in 2024 compared to 60% in 2020 and approximately 86% of adults are utilizing mobile money to carry out finances (NISR, 2024).

Although 73% of women are getting more access to mobile money, there are still obstacles of using digital payments to access their more extensive financial services (MINECOFIN, 2024). Women of the rural communities, more specifically, continue to be disadvantaged compared to their urban counterparts in terms of formal use of digital payment services (Newtimes, 2024). Besides, the financial resources, access to the digital tools as well as the social norms and gender relations deny the women ownership and control over the monetary assets; while the young people are impaired because of the low-income level, unofficial employment and distrust in the financial institutions. Such constraints reduce the chances of digital payments as one of the steps toward greater financial inclusiveness and economic empowerment (Tuyisenge & Habimana, 2024).

FinScope Youth Financial Inclusion Thematic Report (2025) also stated that despite the striking rise in access to digital payment platforms over the years, women, the youth, and the rural population have been low users. The actual usage is still limited in scope and intensity, whereby it is still relatively concentrated on the basic person-to-person transfer, and other payment features like merchant payments, bill payments, online purchases and government related transactions are not adopted as frequently. Consequently, digital payments are not yet fully embedded as a routine and primary payment method, and cash remains a dominating factor in day-to-day transactions, preventing the digital payment systems to progress towards greater efficiency, convenience, and economic inclusion. Given this context, the paper aims to examine the gap between access to and usage of digital payment services among women, youth, and rural populations in Rwanda.

Generally, it is intended to examine the gap between access to digital payment services and their actual usage among women, youth, and rural populations in Rwanda. Whilst specifically, it is intended to: (i) identify the digital payment platforms in use and evaluate the extent of the access–usage gap among women, youth, and rural populations in Rwanda. (ii) determine the factors influencing the use of digital payment services among women, youth, and rural populations in Rwanda. (iii) examine the key constraints limiting digital payment usage among women, youth, and rural populations in Rwanda.

This paper is structured as follows: the next chapter reviews the related literature, chapter three outlines the research methodology, chapter four presents empirical results and discussions, and the last chapter concludes and recommends.

II. LITERATURE REVIEW

II.1. Theoretical literature

Digital financial inclusion is a concept that has been gaining more attention in the academic and policy circles. Financial inclusion is a concept that is widely understood as the access to and utilization of low-cost financial services by individuals and businesses, including payments, savings, credit, and insurance services, which are offered by formal financial institutions. Nonetheless, it has been highlighted in literature that, financial inclusion is not simply about access but also the practical use of financial services among various sections of the population (Akomeah *et al*., 2025).

Tram *et al*., (2023) holds that the concept of financial inclusion is usually perceived in three key aspects of availability, accessibility, and utilization of financial services. Availability means having financial infrastructure like bank accounts and digital payment systems, and access means how easily the services are available to people, which is often affected by socio-economic and geographical factors, while utilization is actual usage of the service, after availability and access exist. It has been demonstrated that financial empowerment enhances females both in terms of community decision-making and well-being as well as socio-economic marginalization (World Bank 2015, 2020).

The Technology Acceptance Model (TAM) developed by Davis (1989) states that people tend more to adopt new technologies when they believe that they are helpful and convenient. The perceived benefits, trust, and ease of operation are among the factors that determine the adoption of new technologies and their further use. Thus, despite the presence of new technologies, adoption and use can be low as long as the users think that the technology is too complicated or is not reliable.

The Diffusion of Innovation Theory, which was proposed by Rogers (2014) provides an understanding of the way in which new technologies can diffuse in a society over time. This view suggests that people embrace innovations at varying levels based on awareness, social influence, compatibility with the existing practice and perceived benefits. With digital finance, some groups like rural people or those who are not digitally literate may be slower to adopt. Consequently, unequal usage levels can be attained even in the presence of access to digital payment services because of the diffusion process. Complementing this, the Capability Approach that has been proposed by Sen (1999) points out that it is not enough to have access to financial services, people must have knowledge, skills, and enabling environment to make use of financial services.

This paper is based on the frameworks above, by examining the gap between access and the use of digital payment services, with a specific focus on women, youth, and rural people in Rwanda.

II.2. Empirical literature

Empirical studies on digital financial inclusion have yielded mixed and even contradictory findings on access, usage, and impact. On the one hand, several studies (e.g., Demirgüç-Kunt *et al*., 2018; Suri & Jack, 2016; Ozili, 2020; Khera *et al*., 2021) indicate that greater access to digital financial services, including mobile money and agent banking, result in greater financial resilience, poverty reduction, and empowerment of marginalized groups. As an example, Demirgüç-Kunt *et al*. (2018) based on the Global Findex data revealed that access to mobile money accounts dramatically increase the number of people who could use financial services in Sub-Saharan Africa, alleviating the exclusion factor.

However, empirical evidence (e.g., Triki & Faye, 2013; Gabor & Brooks, 2020; Chen & Mazer, 2016) warns on the other hand that access is not equal to usage or meaningful impact, especially when it comes to marginalized groups such as women, youth, and rural populations who experience barriers to accessibility, i.e. low financial literacy, cultural norms, and infrastructure. Triki & Faye (2013) opined that although there is a growth in account ownership in Africa as a result of financial inclusion efforts, account use is low because of low levels of literacy, culture, and poor infrastructure.

Rastogi & Ragabiruntha (2018) state that although the world has improved in the area of account ownership, women still face imbalances in accessing and using financial products. In their analysis, they indicate that the structural factors which restrict the ability of women to actively use payment services are low levels of income, disproportionate access to labor markets and deficiency in financial knowledge and skills. Consequently, despite the presence of financial services, women still have problems in interacting with them in a manner that can enhance their financial welfare.

The same can be said about Sub-Saharan Africa where mobile money has been adopted extensively but is not evenly used. In their groundbreaking research on Kenya, Suri & Jack (2016) discovered that mobile money adoption assisted households to smooth consumption and alleviate poverty, particularly among female headed households. They however emphasized that the welfare gains were only realized when households utilized the services actively through saving, transfers and risk management. Similarly, Tiony, O. K., & Yin, Y. (2023) established that although numerous people opened mobile money accounts, not all users of these accounts were account holders. The use was based on the transaction costs, confidence in the system as well as the availability of the agents.

In Rwanda, several digital financial initiatives such as mobile savings products and digital credit services have been introduced to expand financial inclusion. Nonetheless, it is indicated that the adoption of these services by women and rural residents is rather low because of the reasons including trust issues and the fear of excessive debt (Alliance for Financial Inclusion, 2020).

Tuyisenge & Habimana (2024) discovered that rural users are faced with structural barriers such as poor network coverage, high transaction cost, and low agent density, which induce obstacles to the frequent utilization of mobile financial services. These limitations have complicated the ability of rural people to interact regularly with digital financial systems despite the availability of the services. Despite the regulatory reforms, including the interoperability of mobile money platforms and financial literacy campaigns, were added to widen financial access, it is still difficult to make sure that marginalized groups use these services safely and efficiently (NBR, 2021).

Financial inclusion in Rwanda has reached 96% (7.8 million) of adults in 2024 up from 77% (5.4 million) in 2020, getting closer to the universal access of 100% set target, which was promoted by mobile money proliferation. However, adults are the primary users of mobile money in making basic transactions like money transfers and there is a relatively low utilization of more advanced financial activities such as merchant payments, bill payments (utilities and subscriptions), and government payments through platforms like IremboPay (NISR, 2024). The tendency is also supported by the FinScope 2024 Gender and Youth Thematic Report, which indicates that in spite of the fact that women and youth have already increased their account ownership, there is still a low rate of sustained use of formal financial products due to factors like cultural barriers and less financial literacy among women and irregular income patterns among youth which prevent them to always use digital payment services.

III. RESEARCH METHODOLOGY

III.1 Study Description

The research was carried out in Rwanda. The study considered the rural communities, and, in this context, these were considered as communities that are not within major towns and urban centers where formal digital payment services are not easily accessible. Youth are described as individuals between the age of 16 and 30 years. In case of gender and youth, both rural and urban locations were used to sample participants in order to capture a variety of experiences of digital payment services within the country. Usage is described as the actual use of appropriate and needed digital financial products and services over time in terms of intensity and diversification.

III.2. Research Design

This study used a descriptive research design to examine the imbalance of access and usage of digital financial inclusion between women, youth and rural groups in Rwanda. The analysis targets the current existing information aiming at defining the degree to which access to digital payment services is transformed into their real usage. Since the study involves the use of national surveys, policy reports, and institutional statistics, the secondary sources of data are employed to develop an overall picture of the accessibility and utilization of digital payment services. The study used the available statistics and reports to determine trends and differences in uptake and utilization of digital payment services between various population groups. This allowed conducting a systematic evaluation of the way digital financial infrastructure, regulatory reforms, and financial inclusion initiatives have changed in Rwanda over the past few years.

III.3. Data Sources, Collection and Analysis

The research is based on secondary sources of data. The information was found in the national surveys and institutional reports concerning financial inclusion in Rwanda, such as FinScope dataset, 2024; Global Findex dataset, 2025; BNR financial inclusion dashboard data; reports of the National Bank of Rwanda, and the publications of the organizations engaged in financial inclusion. These sources contain details about indicators like account ownership, mobile money usage, and the use of other digital payment platforms among others by various demographic groups. Both descriptive and inferential statistics were used to analyze the data collected. STATA software was used in processing and analysis of data.

III.4. Scope of the Study

The study focused on women, youth, and rural communities in Rwanda as the target population, because they are usually more likely to be affected by the barriers to the full use of digital payment services even as the access to the services has been improved. Through these populations, research aims to gain a better insight into the obstacles to the successful utilization of digital payment services.

III.5. Analytical Framework

The data collected was analyzed to align with the specific objectives.

Objective One: To identify the digital payment platforms in use and evaluate the extent of the access–usage gap among women, youth, and rural populations in Rwanda.

The descriptive statistics were used to address this objective using frequencies, proportions, and cross-tabulations. Frequencies and percentages were used to identify the proportion of women, youth, and rural users accessing each digital payment platform. While Cross-tabulations were to compare access versus actual usage across demographic groups. Descriptive statistics were used to identify most used digital payment systems that are mobile money, mobile wallets and online banking among the various population groups. The analysis compared indicators of access (i.e. ownership of account or access to mobile money services) and indicators of usage (i.e. frequency of transactions or utilization of savings and credit services) to indicate the access-usage gap.

The access–usage gap was calculated using the following formula:

$$\text{Access–Usage Gap (\%)} = \frac{\text{Number of individuals with access} - \text{Number of individuals actively using the service}}{\text{Number of individuals with access}} \times 100 \quad \text{.....(1)}$$

The difference between access and active use among the three population groups was used as the access-use gap. This descriptive approach provides a quantitative measure of the gap between having access and actually using digital payment services, highlighting which groups (women, youth, or rural residents) are experiencing the largest disparities.

Objective Two: To determine the factors influencing the use of digital payment services among women, youth, and rural populations in Rwanda.

An individual's decision to use a digital platform usually consists of two steps: gaining access to the platform and then utilizing it (Maina *et al.*, 2023). The dependent (outcome) variable of whether an individual has access to and use of a digital platforms is binary. To achieve this objective, the Heckman selection model was used to determine the factors that influence the access to and use of digital platforms to correct for selectivity bias in the sample (Fikadu *et al.*, 2024; Heckman, 1979). The Heckman selection model is a two-stage procedure that uses the maximum likelihood estimation method to model access and use of digital platforms. The model has a selection phase which modelled access to digital platforms and an outcome phase which modelled the use of digital platforms.

Heckman selection assumes the presence of an underlying relationship that is expressed as an unobserved equation denoted by;

$$\Upsilon_i = \beta X_i + \varepsilon_{1i} \quad \text{..... (2)}$$

Given that;

$\Upsilon_1 > 0$ If and only if an individual accesses the digital platforms, and $\Upsilon_1 \leq 0$, Otherwise.

$\Upsilon_1 > 0$ If and only if an individual uses digital platforms, and $\Upsilon_2 \leq 0$,Otherwise.

The binary outcome for Equation (2) can be observed if, $\Upsilon_2 > 0$ and its outcome variable (use of digital information) can only be witnessed if and only if $\Upsilon_1 > 0$ in the choice model, that can be presented as;

$$\left.\begin{aligned} \Upsilon_1 &= \alpha z_i + \varepsilon_{2i} > 0\ (=1) \\ \varepsilon_1 &\sim N(0,1)\ \varepsilon_2 \sim N(0,1) \\ corr(\varepsilon_1, \varepsilon_2) &= \rho \end{aligned}\right\} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Where X and Z are set of exogenous variables such as socio-economic factors and technological factors among others, α and β are unknown parameters, ε_1 and ε_2 are error terms normally distributed around the mean and a unity variance, and rho; ρ is the correlation of the errors. When the error correlation is not equal to zero (ρ≠0), applying the standard probit estimation on equation (3) would yield biased outcomes. Hence, the Heckman selection was used to correct the selection bias in the sample by incorporating the maximum likelihood below;

The log likelihood is:

$$\begin{aligned} \ln L = &\sum_{\substack{i \in S \\ \Upsilon_i \neq 0}} w_i \ln\left\{\Phi_2\left(X_i\beta + \text{offset}_i^{\beta}, Z_i\Upsilon + \text{offset}_i^{\Upsilon}, \rho\right)\right\} \\ &+ \sum_{\substack{i \in S \\ \Upsilon_i = 0}} w_i \ln\left\{\Phi_2\left(-X_i\beta + \text{offset}_i^{\beta}, Z_i\Upsilon + \text{offset}_i^{\Upsilon}, -\rho\right)\right\} \\ &+ \sum_{i \notin S} w_i \ln\left\{1 - \Phi\left(Z_i\Upsilon + \text{offset}_i^{\Upsilon}\right)\right\} \end{aligned} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots (4)$$

Where s is the set of observations for which Υ_i is observed, is the cumulative bivariate normal distribution function (with mean [0 0]), $\Phi(\cdot)$ is the standard cumulative normal, and w_i is an optional weight for observation. In the maximum likelihood estimation, ρ is not directly estimated. Directly estimated is $\operatorname{atanh}\rho$:

$$\operatorname{atanh}\rho = \frac{1}{2}\ln\left(\frac{1+\rho}{1-\rho}\right) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\

In this study, PCA was applied to variables representing potential constraints to digital payment usage, including transaction costs, digital literacy, network coverage, trust in digital systems, availability of mobile money agents, and income stability. The objective was to group these constraints into a smaller number of principal components that capture the main barriers affecting the usage of digital financial services.

Mathematically, the principal components are expressed as linear combinations of the observed variables:

$$Y_1 = a_{11}X_1 + a_{12}X_2 + \ldots + a_{1n}X_n \quad \ldots\ldots (6)$$

$$Y_2 = a_{21}X_1 + a_{22}X_2 + \ldots + a_{2n}X_n \quad \ldots\ldots (7)$$

Where:

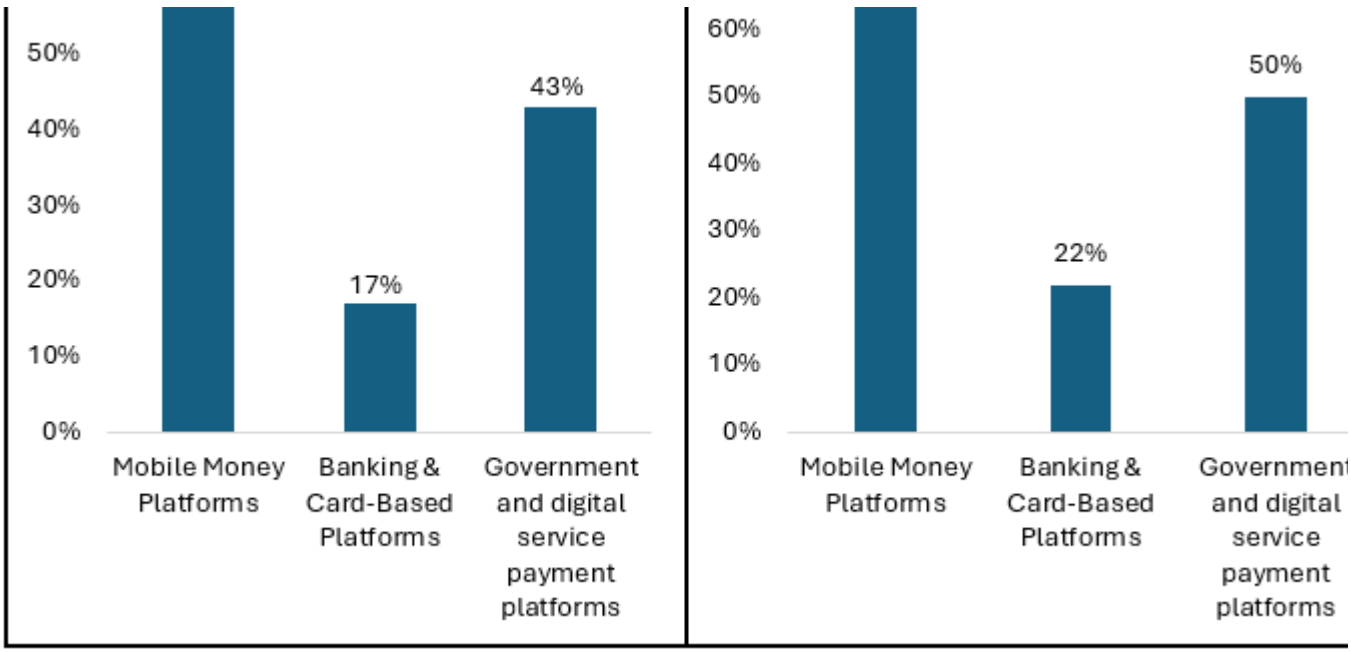
- $Y_1, Y_2, \ldots, Y_j$ represents the principal components,
- a_{ij} represents the component loadings (weights), and
- $X_1, X_2, \ldots, Y_n$ represents the observed variables describing constraints to digital payment usage.

The components with eigenvalues greater than one were retained, as they explain a meaningful proportion of the variance in the dataset. Components with lower explanatory power were excluded. This approach allowed the study to identify the most significant clusters of constraints affecting the usage of digital payment services among women, youth, and rural populations in Rwanda.

IV. RESULTS AND DISCUSSIONS

IV.1. Descriptive Analysis

Figure 1: Digital Payment Platforms Usage among Women, Youth and Rural Populations in Rwanda



Source: Authors' illustration using finscope data

In Rwanda, digital payment systems include; MTN Mobile Money and Airtel Money (mobile money services), bank mobile and internet banking systems and Visa/Mastercard card payment services offered by commercial banks and the Irembo platform used to pay government services and fees. Mobile money platform is the most popular digital payment platform in Rwanda, and more than 70 percent of women, youth and rural population actively engaged with it. This validates the fact that Rwanda is doing well in terms of utilization of digital payment platforms particularly mobile money platforms to increase financial inclusion. This observation is consistent with the World Bank Global Findex 2021, which identifies Sub-Saharan Africa as the most mobile money-adopting region in the world, with Rwanda being one of the most successful countries (Demirgüç-Kunt et al., 2021). The similarity of national and global evidence confirms the credibility of the digital financial inclusion strategy of Rwanda and puts mobile money as the most important gateway to the formal financial system.

In the case of women, the results display fairly use of mobile money (73%), but very low use of banking and card-based platforms (17%) and Government and digital service payment platforms (43%). Among the youth, mobile money is the most used (78%), with banking and card-based platforms usage being low at 22%. The findings complement the Global Findex 2021 data published by the World Bank, which revealed that youth in Sub-Saharan Africa are significantly more likely to have mobile money accounts than traditional bank accounts or cards. The Findex data supports the trend towards young people using mobile money as it is low cost, minimal documentation and available for informal income streams. The alignment indicates that the youth behaviour observed in Rwanda is representative of a national pattern in which mobile money is filling in the gap in accessing digital payment services, while banks and cards are not.

Nevertheless, underutilization of banking and card-based platforms is evident as shown in the Figure1 above. The usage is less than 23% among women, youth and rural populations in Rwanda. This trend is reflected in the results of FinScope Rwanda (2024) which record that, despite having access to financial services (92% of adults), only approximately 65% of adults are active users. This is to the larger idea of inactive financial inclusion in which people are financially included in the sense of access but not used. The Consultative Group to Assist the Poor (CGAP, 2023) also makes similar arguments, indicating that in numerous developing nations financial inclusion has moved to the phase of inactivity, especially in digital financial services.

Banking and card-based platforms are relatively low among women, youth and rural communities with usage of 17%, 22% and 14% respectively. This trend aligns with CGAP (2023) that women and youth worldwide experience structural barriers in the form of disrupted income, low financial autonomy, and financial products that are not best suited to their requirements. These aspects diminish their involvement in wide ranges of digital payment services such Utility bill payments, Merchant payments, Savings and investments, and Loan repayments among others using banking and card-based platforms.

Government and digital service payment platforms usage among women, youth and rural communities stand at 43%, 50% and 35% respectively. This is indicative of the ongoing structural and institutional constraints to digital payment services among the underserved groups. Similar results can be found in the International Monetary Fund Financial Access Survey (IMF, 2023) that states that populations in Sub-Saharan Africa are more dependent on community-based financial institutions because of trust concerns, physical distance to financial institutions, and physical infrastructure. These results indicate that financial inclusion among the underserved groups remains highly skewed towards semi-formal and informal financial systems as opposed to being fully institutionalized in formal financial systems.

Table 1: Access–Usage Gap in Digital Payment Services among Women, Youth, and Rural Populations in Rwanda

Group	Access (%)	Usage (%)	Gap (%)	Usage given access (%)	p-value (Usage difference)	Interpretation
Women	96	73	23.96%	76	0.031** (<0.05)	Significant gender-based usage gap; access not fully translating into usage
Youth	95	78	17.89%	82	0.118 (>0.05)	No statistically significant difference; relatively efficient conversion of access into usage
Rural	94	70	25.53%	74	0.001** (<0.05)	Highly significant rural disadvantage; strongest access–usage disconnect

Source: Authors' own computation using finscope data & Global findex database

The identification of the access and usage gap in digital payments in this study was mainly based on mobile money services. The findings demonstrate a stable trend among all population groups (women, youth and rural): accessibility to digital payment services is rather high in Rwanda, yet it is not completely reflected in the active use, which proves the existence of access-use gap. The access is in general above 90 percent on more specifically to mobile money services, but is used systematically less, with discrepancies of about 17-26 percent. This helps sustain the argument in the general financial inclusion literature that increasing access does not necessarily result in its effective use. Specifically, the reports released by the World Bank Global Findex (World Bank, 2025) are constantly highlighting that numerous developing economies have already attained the level of near-universal access, but nevertheless, they have issues with meaningful and frequent use of digital payment services.

For women, there is a moderate, statistically significant gap of 24 percentage points (p = 0.031) with 96 percent of women reporting having access but only 73 percent using digital payment services actively. This implies that women are part of the financial system but are not enjoying the full benefits of the financial system regarding active use. The reason is the same as what Zins & Weill, 2016 discovered, that women in Africa are less inclined to actively utilize digital payment services because of the limitations in terms of their income, financial independence, and financial literacy. The finding is confirmed by Demirguc-Kunt *et al.*, 2021 who recorded that there are ongoing gender disparities in the use of digital payment services over developing nations despite relative equality in the levels of access. However, a few recent fintech-related articles indicate that digital payment services are assisting in closing gender gaps. In spite of that, the findings contradict this optimistic opinion to some extent by revealing that even with the increased access, there is a substantial usage gap, which suggests that digital inclusion is yet to be completely converted into functional inclusion of population in Rwanda.

For the youth, the findings show the least gap (17 percentage points) between access (95%) and use (78%), and the gap is not statistically significant (p = 0.118). This indicates that young people are comparatively more effective in access to use than any other group. The insignificant gap between access and use among young people in Rwanda is because of their high exposure to digital technologies and engagement in

the digital economy in Rwanda. Most youths are digitally literate owing to the incorporation of ICT in their education and the use of the smart phone for day-to-day activities, while they use mobile money services like MTN Mobile Money and Airtel Money for everyday activities like payment of transport fares, money transfer, and purchases.

Karangwa *et al*. (2024) reiterates this finding, demonstrating that convenience and security increase the intensity of adoption, whereas youth with small, irregular and often informal incomes tend to use mobile money as a tool that suits their needs best, translating access into usage. In addition, platforms like IremboGov are also popular among the youth to access and pay for services provided by the Government, including an application for a birth certificate, National ID Application, driving licence services, passport applications, education institutions' services, civil registration online and others. This habit of convenience towards digital platforms means that after gaining access to digital payment services, young people learn and are using these services regularly and effectively, leaving the gap between accessibility and usage almost negligible.

For rural population, the access-usage gap is approximately 26 percentage points with very high statistical significance (p = 0.001). Although access is relatively high (94%), only 70% of the population actively uses digital payment services, meaning that there is a significant gap between access and use. This observation is well in line with the empirical data by the World Bank and other studies like Zins & Weill, 2016 which repeatedly demonstrate that the rural population is structurally hindered in their financial inclusion due to lack of liquidity in the agents, inadequate network coverage and income volatility among others. Meanwhile, these results are in opposition to more optimistic interpretations in mobile money literature that argue that digital payment services have mostly broken-down geographical boundaries. For this study, the rural divide implies that the concept of geographical inclusion remains mostly symbolic, rather than operational, such that physical or online access does not automatically imply any meaningful consumption.

Overall, the results add to the existing discussion of financial inclusion by supporting one of the major distinctions, highlighted in recent sources: A person may have access without being included, but cannot be included without access. Although Rwanda has achieved significant success in increasing access to digital payment services, in particular, mobile money, banking and card-based platforms and Government and digital service payment platforms, the fact that statistically significant differences in usage persist, particularly among women and rural populations, indicates there are other structural, economic, and behavioral limitations.

IV.3. Factors Influencing Digital Payment Services Usage

IV.3.1. Pairwise correlation test

The pairwise correlation results presented in Table 2 indicate that there are weak to moderate positive correlations of digital payment usage among women, youth, and rural populations in Rwanda (0.24 - 0.29), which means that to some degree usage patterns have the same direction, but the relationships are weak. It implies that there are certain less common underlying conditions which define the use of digital payments among the three groups, however, more crucially, every group has different behavioral patterns which are motivated by various real-life conditions like access to infrastructure, income level, and digital literacy. Thus, the findings indicate that the usage of digital payment is not spread evenly, as it varies between population groups according to the existing socioeconomic and access-related disparities.

Table 2: Pairwise Correlation Matrix of Digital Payment Usage

Variables	Women	Youth	Rural
Women	1.0000		
Youth	0.29	1.0000	
Rural	0.24	0.27	1.0000

IV.3.2 Empirical results

Table 3 presents the Heckman selection model results of the factors influencing digital payment usage among women, youth, and rural populations in Rwanda.

Table 3: Factors Influencing Digital Payment Services Usage Among Women. Youth and Rural Populations in Rwanda

Variable	Women (Use)	Youth (Use)	Rural (Use)
Age	0.014 (0.011)	0.020* (0.012)	0.016 (0.011)
Household size	-0.007 (0.007)	-0.011 (0.008)	-0.009 (0.007)
Married	0.028 (0.032)	0.012 (0.030)	0.022 (0.031)
No schooling	-0.065 (0.046)	-0.085 (0.050)	-0.095* (0.052)
Secondary+ education	0.150** (0.062)	0.170 (0.068)	0.130* (0.062)
Employed	0.190*** (0.048)	0.270*** (0.052)	0.230*** (0.050)
Self-employed	0.085* (0.047)	0.150*** (0.052)	0.095* (0.048)
Student	0.110* (0.052)	-0.190*** (0.062)	0.115* (0.056)
Retired	-0.085* (0.052)	-0.095 (0.057)	-0.090 (0.052)
Household income (log)	0.490** (0.082)	0.460** (0.072)	0.410* (0.067)
Asset index	0.110*** (0.036)	0.260*** (0.047)	0.130*** (0.042)
Mobile phone ownership	0.620*** (0.095)	0.560*** (0.088)	0.500*** (0.090)
Internet access	0.150** (0.058)	0.190** (0.063)	0.135** (0.062)
Agent network density	0.420*** (0.095)	0.270*** (0.082)	0.470** (0.100)
Transaction costs (fees)	-0.260*** (0.072)	-0.190** (0.067)	-0.290*** (0.078)
Financial literacy	0.740* (0.062)	0.760** (0.062)	0.725* (0.058)
Savings group membership	0.130* (0.072)	0.140* (0.072)	0.150* (0.077)
Constant	0.340* (0.120)	0.360* (0.115)	0.320* (0.118)

*Note: Standard errors in parentheses. The asterisk ***, ** and * Represents 1%, 5%, and 10% significant levels, respectively*

The Heckman second-stage findings indicate that enabling factors like technological access, affordability, infrastructure, and economic capacity are the main determinants of usage of digital payment services in Rwanda and not demographic factors. The result aligns with the broader digital finance literature as it highlights that since people have embraced a service, the strength of its use is determined by the factors that enable it (Aron, 2018). Meanwhile, it is also confirmed that the women, young people, and rural residents are disproportionately underprivileged in the circumstances, which is why there are still differences in usage results.

Ownership of mobile phone and Financial literacy appear to be the most important determinants. The use of digital payments in Rwanda is still essentially mobile-based, and the ownership of personal devices allows conducting transactions more often and independently. GSMA (2020) emphasizes that mobile access is the most important in mobile money utilization worldwide, whereas FinScope Rwanda (2024) confirms that individual ownership (not shared access) is crucial especially with individuals who need to have control over devices. This highlights the fact that technology ownership and control is the key to continued use. The use of digital payment services is also driven by financial literacy, as it provides individuals with the knowledge and understanding of risks, benefits, and transaction processes, boosting their confidence and usage of these services (Oktafian, 2022).

The results confirms that the density of agent networks, remains indispensable in Rwanda's "cash-linked" ecosystem. Despite the digital nature of payment systems, physical access points are essential for facilitating regular transactions, especially cash-in and cash-out. Evidence has indicated that the closer agents, the higher the frequency of transaction due to the reduction of time and effort (Aron, 2018; Bachas *et al*., 2022). The greater impact that is seen in rural areas indicates the relevance of infrastructure availability in determining usage patterns.

Economic capacity is also a contributing factor. The most common factor that affects the frequency of using digital payment services is employment, income stability, and asset ownership. The people who have constant inflows of income make transactions more frequently, which aligns with World Bank (2022) results that the intensity of use is strongly connected with income regularity. Younger people exhibit higher coefficients in Rwanda, indicating that, although young people are technologically skilled, their application remains reliant on economic activity, specifically, the employment rates and this, is supplemented by (ILO, 2025). More specifically, the study showed that a 1% increase in digital payment services usage is associated with 46% increase in the youth income holding other factors constant and this relationship is statistically significant at the 5% level.

Human capital aspects such as education and financial literacy have a positive influence on usage. Educated and financially literate individuals tend to get more actively involved in using digital payment services, which demonstrates a stronger sense of confidence in using digital platforms. Such a result is in line with Lusardi & Mitchell (2014), who argue that financial capability enhances decision-making. The fact that these effects are moderate in size, implies that knowledge is not enough without the support of infrastructure and economic conditions.

Among the youth, behavioral impact is especially clear with peer networks having a strong and statistically significant impact. This implies that the usage is partially influenced by social interactions with people who are more likely to utilize services when their peers do. Batista & Vicente (2020) demonstrate the existence of these network effects in digital finance, as financial behaviors can be transmitted via social connections. The lesser impact among women and rural people indicates that social processes are different among groups, which are different in social structures and connectivity.

Lastly, infrastructure factors like internet connectivity and electricity are also a positive factor to usage albeit in moderate proportions. The fact that Rwanda can use USSD based systems decreases reliance on high-level connectivity, yet better infrastructure makes it easier and more predictable. This result coincides with the research of Aron (2018), who states that digital payment services are complemented by infrastructure since it minimizes the operational frictions.

IV.4. Digital Payment Services Usage Constraints

Principal Component Analysis (PCA) was used to reduce and summarise 14 observed constraints into a smaller number of interpretable components. PCA identified the four major components of the observed payment usage constraints: access and infrastructure constraints, cost and affordability constraints, capability and literacy constraints, and trust and reliability constraints.

The mean scores indicate that cost and affordability constraints, as well as capability and literacy constraints, were the most significant constraints on digital payment usage. This was followed by trust and reliability constraints. The least severe constraints were access and infrastructure constraints, meaning that despite the availability of mobile money and other digital payments, women, youth and rural communities limit their use because it remains expensive and difficult to use. Fear of fraud and failed payments, also prevent full trust in digital payments for routine transactions, such as remittances, bill payments or shopping.

Table 4 presents the descriptive statistics of the principal components of digital payment usage constraints limiting digital payment usage among women, youth, and rural populations in Rwanda.

Table 4: Principal Component Structure and Descriptive Statistics of Digital Payment Usage Constraints among Women, Youth, and Rural Populations in Rwanda

Component	Mean	Std. dev.	Constraints
Component 1: Capability and literacy constraints	2.94	0.26	Cash preference/cultural habits
			Low financial literacy
			Difficulty in using digital platforms
			Dependence on others for transactions
Component 2: Cost and affordability constraints	2.94	0.18	High transaction fees
			Cost of getting an account/wallet
			Unpredictable service charges
Component 3: Trust and reliability constraints	2.79	0.32	Fear of fraud/scams
			System errors/failed transactions
			Lack of trust in providers
			Poor complaint resolution systems
Component 4: Access and infrastructure constraints	2.01	0.34	Distance to access points (agents)
			Poor network coverage (rural areas)
			Limited availability of agents/services

The eigenvalues of the principal components of digital payment constraints faced by women, youth and rural people in Rwanda are shown in Table 5. A total of 14 components were extracted, with the first four satisfying the Kaiser criterion (eigenvalues > 1), and thus kept for interpretation. The first four components account for 72.49% of the total variance in the data, suggesting that most differences in digital payment constraints among women, youth and rural people can be explained by a few underlying factors. The remaining components explain modest amounts of variation, and thus, do not make significant contributions to the pattern of constraints across the three population groups.

Table 5: Results for Principal Components of Digital Payment Constraints among Women, Youth, and Rural Populations in Rwanda Based on Eigenvalues

Component	Eigenvalue	Proportion (%)	Cumulative (%)
Comp1	4.6310	33.08	33.08
Comp2	2.9556	21.11	54.19
Comp3	1.4405	10.29	64.48
Comp4	1.1218	8.01	72.49
Comp5	0.7575	5.41	77.90
Comp6	0.7987	5.06	82.96
Comp7	0.6907	4.93	87.90
Comp8	0.5884	4.20	92.10
Comp9	0.4211	3.01	95.11
Comp10	0.3115	2.23	97.33
Comp11	0.2644	1.89	99.22
Comp12	0.0799	0.57	99.79
Comp13	0.0188	0.13	99.93
Comp14	0.0101	0.07	100

Note: Comp = component

To determine the number of principal components to retain, this study used the Scree Plot, with the Kaiser criterion (eigenvalues ≥ 1). The Scree Plot is shown in figure 2 with components on the x-axis and eigenvalues on the y-axis. The number of components to retain is determined by the bend in the curve from a steep drop to a gentler slope. Hence, the first four components were selected, and the 14 constraints have been reduced to four principal components that represent the major patterns of variation.

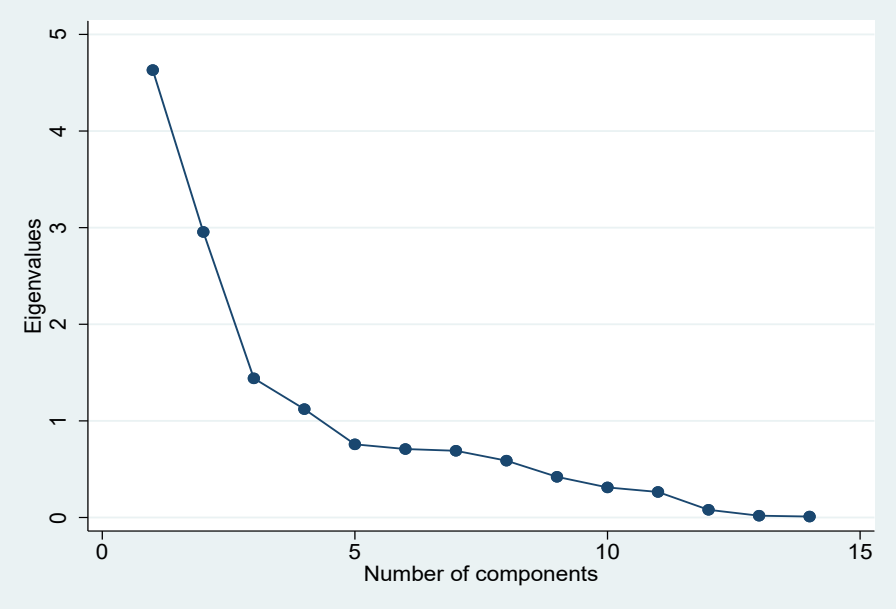


Figure 2: Scree plot of eigenvalues

Table 6 reveals that in Rwanda, the constraints on the use of digital payments among women, youth and rural communities are not only organized into four components, but they are also structured, with high and distinct factor loadings, revealing distinct mechanisms of exclusion. A key finding is that constraints are systemically clustered rather than randomly distributed.

The capability and literacy together with cost and affordability components are the most influential and coherent components, where cash preference/cultural habits, low digital literacy, low financial literacy, low mobile platform usability and reliance on others heavily co-vary. This reveals that even when access is provided, it is constrained by functional capability. The cost component is an economic constraint related to mobile data, airtime and account fees; this shows that cost is a limiting factor in sustaining usage more than in initial adoption.

The trust and reliability component is more focused but strongly coherent, centered on fraud and technical glitches. This implies that trust constraints reflect not general attitudes but a consistent and solid barrier that impacts transactional behavior. Access and infrastructure constraint is the least influential and coherent component, which would indicate that access to infrastructure, network access and reach, service use and information exchange are a less coherent effect on whether people are able to use digital payments or not. This suggests that access and infrastructure constraints are not logistical problems but create a barrier.

In summary, the loading structure reveals that the constraints surrounding digital payments in Rwanda are complex but distinct, and can be grouped into structural (access), behavioral (capability), confidence (trust) and economic (cost) constraints, with access constraints having the greatest impact on overall exclusion (33.08% of variance).

Table 6: Rotated Component Loadings of Digital Payment Constraints in Rwanda

Variable	Comp1	Comp2	Comp3	Comp4	Unexplained
Cash preference/cultural habits	0.4557	-0.0081	-0.0058	0.0221	0.0368
Low financial literacy	0.4390	0.0114	-0.0017	0.0109	0.1070
Difficulty in using digital platforms	0.4350	0.0086	0.0192	-0.0292	0.1247
Dependence on others for transactions	0.4526	0.0031	0.0106	-0.0105	0.0524
High transaction fees	0.4496	-0.0083	-0.0061	0.0232	0.0619
Cost of owning an account/wallet	0.0295	-0.0484	-0.1008	0.7599	0.2934
Unpredictable service charges	-0.0469	0.0892	0.1277	0.6209	0.4148
Fear of fraud/scams	0.0078	0.4095	-0.0679	-0.0791	0.5173
System errors/failed transactions	-0.0059	0.4169	-0.0310	-0.0982	0.5054
Lack of trust in providers	0.0023	0.4903	-0.0544	0.0105	0.2957
Poor complaint resolution systems	-0.0013	0.4664	0.1624	0.1207	0.2734
Distance to access points (agents)	0.0030	0.4350	-0.0443	-0.0114	0.4509
Poor network coverage (rural areas)	0.0120	0.0135	0.6923	-0.0617	0.3483
Limited availability of agents/ services	-0.0082	-0.0222	0.6759	0.0193	0.3691
Eigen value	4.6310	2.9556	1.4405	1.1218	
Proportion (%)	33.08	0.2111	0.1029	0.0801	
Cumulative (%)	33.08	0.5419	0.6448	0.7249	

Bartlett test of sphericity: P-value = 0.000

Chi-square = 4862.297

Degrees of freedom = 91

V. CONCLUSION AND RECOMMENDATIONS

V.1. Conclusion

This research paper aimed to examine the access-usage imbalances of digital payment services among women, youth, and rural population in Rwanda. With objectives aimed at: identifying the types of digital payment platforms utilized, the assessment of the access-usage gap, the factors influencing digital payment adoption, and the analysis of the limitations to usage. The results have shown that although financial inclusion has grown considerably due to mobile money and other digital payment platforms-based solutions, there are still significant differences in terms of access-usage gap particularly among women and rural populations. The discussion highlights that digital payment services are embraced where convenience, affordability and social networks influence adoption, however systemic factors still limit the adoption to those with limited financial capacity, digital illiterate, distrust in digital systems, and infrastructural related challenges.

The contribution of this study is threefold. First, it gives an empirical analysis of digital financial inclusion in Rwanda particularly among women, youth, and rural population. Although Rwanda has achieved much in increasing financial access by using mobile money and other digital financial platforms, there is limited research done to investigate how various population groups utilize these services. Through these groups, the research brings out differences in the adoption and use of digital payment services according to socio-economic and demographic groups. In line with the recent findings that caution against the use of access indicators only (Khera, 2019; Ji et al., 2021), the study highlights the need to comprehend whether people with access to digital payment services can utilize them on a regular and effective basis. Second, the paper offers policy-supported implications on enhancing digital financial inclusion in Rwanda. Third, the study supports the Rwanda's effort to achieving SDGs 5 and 10 and aligning with Rwanda's NST2, NFIR, and Vision 2050 agenda for inclusive and sustainable development.

V.2. Recommendations

The recommendations emerged are aligned with the specific objectives' results. First, A major recommendation to bridge the digital payment access-use divide in Rwanda is to increase affordable and interoperable digital payment infrastructure, especially those in underserved areas. Point of Sale (POS) machines, agents, QR code payment, mobile money acceptance points, enhanced interbank and inter-mobility money/MTN services among others. This would boost interoperability among banks, mobile money operators, SACCOs and MFIs to improve the convenience, accessibility and ease of use of digital payments for women, youth and rural populations. This would facilitate the shift from cash to greater adoption of electronic payments, with the responsibility for the costs falling mostly on telecom operators, fintech companies and commercial banks, while the National Bank of Rwanda (NBR) would coordinate regulatory action and set technical standards.

Second, there is need for coordinated action between the public and private sector to boost the adoption of digital payment services among women, youth and rural populations in Rwanda. This is because, usage is multi-dimensional and demands joint interventions, where the public sector strengthens enabling infrastructure, supporting regulating and digital inclusion policies, and the private sector, including banks, mobile money operators, SACCOs, and fintech companies, deliver low-cost and user-friendly service offerings that are demand driven. These services should be streamlined, low-cost and tailored to the financial realities of underserved user groups, so as to increase both the intensity and diversity of use.

Third, targeted initiatives in digital and financial literacy are recommended, allowing for the enhancement of skills, trust, and effective use of digital payment services, as encouraged by Government institutions (NBR, MINEDUC, and local authorities) and reinforced by development partner and private sector Corporate Social Responsibility (CSR) initiatives, in recognition of the mutual advantages of greater access and meaningful usage of digital payment services across the financial sector. In essence, to

achieve sustainable financial inclusion through digital payment services will require a coordinated and collaborative approach between the government, financial institutions, and the private sector as they will help build trust in digital systems while ensuring that populations that are currently underserved can access all the benefits of fintech innovations.

V.3. Further research

Further research is needed to assess access–usage gap of digital financial services in Rwanda and empirically study the specific determinants that explain why individuals especially women, youth and rural people have access to digital financial accounts but low or inactive usage. This would ensure both breadth and depth of evidence to support a broader and comprehensive understanding of financial inclusion in Rwanda.

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RBA/WPS/13-2026

Payments First: Using Transactional Access as an Entry Point to Formal Finance

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Abstract

Over the past decade, Rwanda has made substantial progress in expanding access to formal financial services, achieving near-universal inclusion by conventional metrics. Despite this success, the widespread availability of accounts and digital wallets has not translated into consistent, everyday usage across the economy. Cash continues to dominate low-value, high-frequency transactions, particularly among households, informal workers, and micro and small enterprises.

This paper examines the divergence between access and usage and argues that Rwanda has entered a new phase of financial inclusion in which the binding constraint is no longer access, but the functionality and performance of the payments layer. It introduces the concept of functional financial exclusion to describe situations in which individuals are formally included yet remain unable to transact regularly, reliably, and predictably in daily economic activity.

Using a system-level analytical framework, the paper diagnoses Rwanda's payments ecosystem across five dimensions: payment instruments, real-economy use cases, merchant acceptance, reliability and liquidity, and system coordination. It argues that payments systems should be treated as national economic infrastructure, with governance, reliability, and coordination as central policy levers. Empirical analysis of 52 quarters of National Bank of Rwanda payment system data provides quantitative corroboration, confirming that transactional access serves as a stable, self-correcting gateway to formal financial participation.

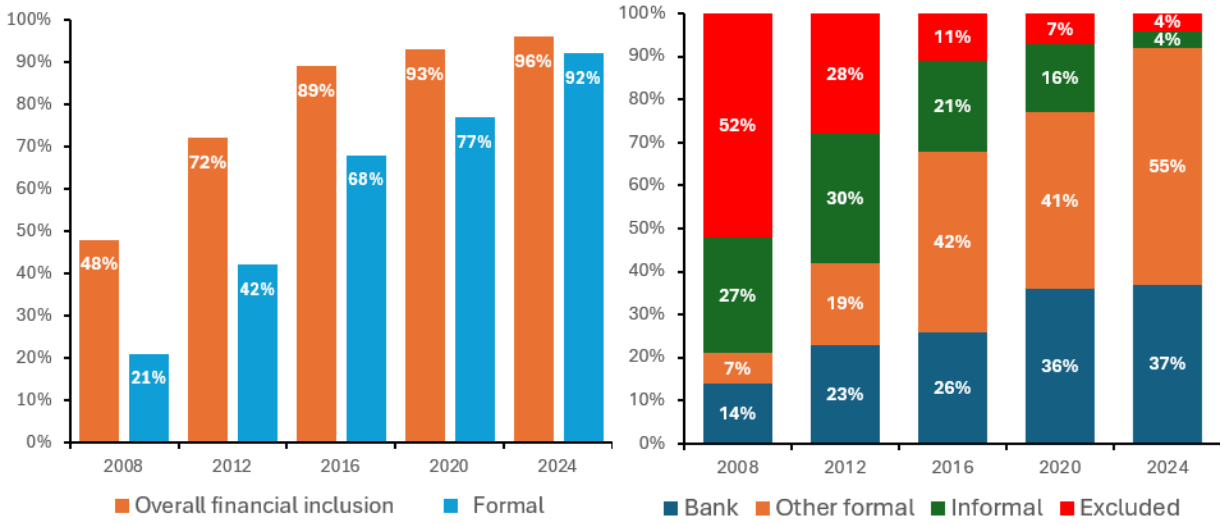
The paper proposes a sequenced, payments-first national strategy and concludes by proposing a shift in measurement from access-based indicators toward payments-centric metrics that better capture economic participation.

Keywords: *Financial inclusion; payments systems; digital payments; financial infrastructure; Rwanda*

JEL Codes: *G20, G21, O16, O17, E42*

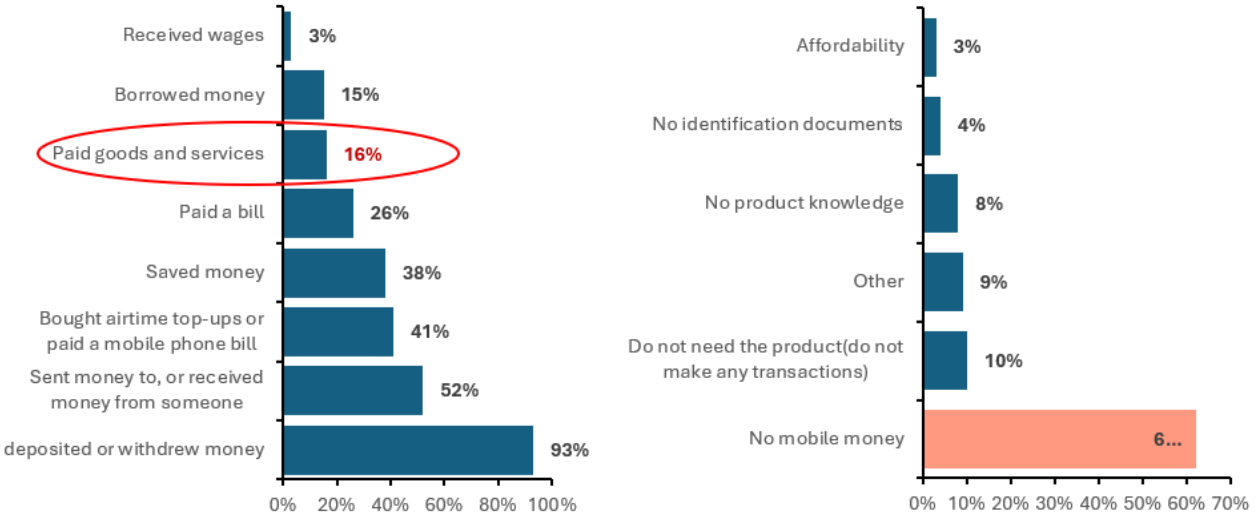
1. Introduction: From Access to Economic Participation

Financial inclusion has been a central pillar of Rwanda's development strategy for more than a decade. Through successive national strategies and sector reforms, the Government of Rwanda and the National Bank of Rwanda have prioritised access to formal financial services as a means of supporting poverty reduction, household resilience, and economic transformation. These efforts have delivered substantial results. When the first FinScope survey was conducted in 2008, only 48% of adults were financially included, with formal inclusion standing at just 21%. By 2024, overall inclusion had risen to 96% of adults, with formal inclusion reaching 92% — surpassing the National Strategy for Transformation target of 90% (AFR, 2024; MINECOFIN, 2024).



Source: FinScope reports

As access approaches saturation, however, its limitations become increasingly evident. While most adults now possess a bank account, mobile wallet, or other formal financial instrument, many do not use these services regularly or meaningfully in their daily economic lives. Usage is often episodic rather than habitual, concentrated around salary receipt, transfers, or compliance-driven transactions. Cash continues to dominate low-value, high-frequency payments such as food purchases, transport, education, and informal trade, even among formally included populations (Demirgüç-Kunt et al., 2022).



Source: FinScope 2024

This divergence between access and usage signals a shift in the nature of the inclusion challenge. Rwanda has reached a critical inflection point. The next phase must shift from expanding access to deepening usage, reliability, and economic participation. The core argument of this paper is that payments infrastructure — the systems through which individuals, businesses, and government entities send, receive, and use money — represents the most important lever for achieving this transition.

The paper introduces the concept of functional financial exclusion to describe situations in which individuals or enterprises are formally included in the financial system but remain unable to transact regularly, reliably, and predictably in daily economic activity. This gap is not primarily behavioural or informational. It is structural, reflecting how payments systems perform in practice — where payments are accepted, how reliably they function, how predictable outcomes are, and how well they align with everyday economic activity.

Persistent constraints include transaction fees, inconsistent agent liquidity, network reliability challenges, fraud concerns, limited merchant acceptance, and inadequate product awareness, particularly in rural and informal sectors. These frictions weaken trust in digital payments and encourage continued reliance on cash transactions. Addressing them requires payments systems to be treated as national economic infrastructure, comparable to transport or telecommunications, with governance, reliability, and coordination as central policy levers.

1.1. Research Objectives

The study seeks to:

- Examine the divergence between formal financial access and effective payments usage in Rwanda.
- Apply the concept of functional financial exclusion to diagnose system-level constraints within Rwanda's payments ecosystem.
- Assess governance, regulatory, and design implications of treating payments as economic infrastructure.
- Provide empirical corroboration of the payments-first hypothesis using quantitative analysis of National Bank of Rwanda payment system data.
- Propose a sequenced payments-first national strategy aligned with Rwanda's current level of maturity.

1.2. Research Questions

- Why has near-universal access to formal financial services in Rwanda not translated into widespread, habitual usage of digital payments?
- What structural and system-level factors within Rwanda's payments ecosystem constrain regular and reliable usage?
- Which digital payment channels provide the most significant contribution toward bringing individuals into the regulated financial sector?
- How consistent and self-sustaining is the pathway from initial payment access to deeper formal financial integration?
- What policy interventions are required to ensure that high levels of digital registration translate into sustained and active participation in the formal economy?

2. Rwanda's Payments Landscape: A System-Level Diagnosis

Rwanda's payments ecosystem offers broad access to a range of instruments, including cash, mobile money, bank accounts, cards, and cooperative-based services. From a supply perspective, the system appears mature. In practice, usage remains segmented and context-dependent. Many individuals hold multiple instruments but use each for a narrow range of transactions, while cash continues to dominate low-value, high-frequency economic activity.

Cash's persistence reflects its functional advantages: universal acceptance, immediate settlement, and independence from connectivity and system availability. Where digital payments do not reliably replicate these attributes, cash remains the rational choice.

A substantial share of Rwanda's economic activity occurs in informal markets, transport, agriculture, and micro-enterprises. These contexts are characterised by frequent, low-value transactions, thin margins, and low tolerance for payment failure. In such environments, even modest frictions — failed transactions, delayed settlement, unclear fees, or liquidity constraints — can deter digital payments usage.

Merchant acceptance emerges as a binding constraint. Inconsistent acceptance undermines consumer confidence and creates a coordination problem in which merchants wait for usage to rise and consumers wait for acceptance to become universal. Reliability, agent liquidity, connectivity constraints, and fragmentation across providers further reinforce cash dependence.

Taken together, these dynamics indicate that Rwanda's payments challenge is no longer primarily about access or innovation. The binding constraints lie in acceptance, reliability, liquidity, simplicity, and coordination.

Table 1 contrasts traditional access-based financial inclusion indicators with usage-based measures that better capture functional economic participation.

Table 1: Access-Based vs Usage-Based Financial Inclusion Indicators

Dimension	Access-Based Indicator	Usage-Based Indicator	Policy Insight
Individuals	% with accounts	% transacting monthly	Reveals dormant inclusion
Merchants	Registered merchants	Active acceptance	Identifies coordination gaps
System	Rails deployed	Reliability metrics	Shifts focus to infrastructure

3. Payments as National Economic Infrastructure

Payments systems are often discussed as components of the financial sector. In practice, however, they function as core economic infrastructure. Like transport, energy, or telecommunications networks, payments systems enable activity across sectors and users. They support exchange, coordinate markets, facilitate wage and salary payments, and provide the channels through which the state interacts economically with citizens and businesses.

For Rwanda, recognising payments as national economic infrastructure represents an important shift in perspective. It moves the discussion beyond financial inclusion as a predominantly social objective and situates payments within the country's broader productivity, competitiveness, and economic participation agenda.

3.1. Infrastructure Performance and Trust

Infrastructure is defined not by ownership or technology, but by function. In a payments context, infrastructure performance is reflected in a small number of core attributes: reliability, acceptance, interoperability, and predictability. These characteristics determine whether payments are trusted as everyday tools or treated as occasional alternatives to cash. Where these attributes are consistently present, digital payments become embedded in routine economic life. Where they are absent or uneven, users rationally revert to instruments that provide greater certainty.

3.2. Payments and Market Functioning

Rwanda's economy is characterised by a high volume of small, frequent transactions across dispersed geographies. Informal trade, transport, agriculture, and micro-enterprise activity account for a significant share of livelihoods. In this environment, the ability to transact reliably and at low cost is a critical determinant of market efficiency. Where payments infrastructure is unreliable or unevenly accepted, markets fragment. Economic actors revert to cash, limit the scope and frequency of transactions, or avoid formal channels altogether.

3.3. Payments as Coordination Infrastructure

Beyond enabling individual transactions, payments systems perform a critical coordination function. In Rwanda, coordination challenges are visible where merchants accept some payment instruments but not others, consumers cannot predict which payment methods will function reliably, and public payment flows operate on separate rails from private commerce. These are coordination failures that impose real economic costs by increasing uncertainty, reducing trust, and fragmenting markets.

3.4. Small Enterprise Productivity

Micro and small enterprises form the backbone of Rwanda's economy. Reliable digital payments allow small businesses to reduce time spent handling cash, improve record-keeping, manage liquidity more effectively, and build transaction histories that support future access to financial services. Evidence from mobile-money-led economies suggests that these benefits materialise only when payments are reliable, widely accepted, and integrated into daily operations (Jack & Suri, 2016). Supporting small enterprise productivity therefore requires prioritising acceptance, reliability, and simplicity over product sophistication.

3.5. Public Sector Payments and Infrastructure Alignment

Rwanda has made progress in digitising public payments. However, the full benefits of these initiatives are realised only when they align with interoperable, system-wide infrastructure. Parallel or closed systems may increase access or efficiency in the short term, but they do not strengthen the broader payments ecosystem and may reinforce fragmentation. Treating payments as infrastructure therefore implies aligning public sector payment flows with national system objectives.

4. Payments Governance and Coordination: Aligning the System

As payments systems mature, governance and coordination become decisive determinants of performance. Rwanda's payments ecosystem comprises banks, mobile network operators, payment service providers, cooperatives, government platforms, and the central bank. Each plays an essential role. Yet system-wide outcomes depend less on the performance of individual institutions than on how effectively their roles, incentives, and responsibilities are aligned.

Fragmentation in payments systems is often interpreted as evidence of institutional weakness or technical limitation. In practice, it is more commonly the result of insufficient coordination. Parallel payment rails, inconsistent pricing structures, uneven acceptance, and variable service levels reflect gaps in system-level governance rather than failures of execution.

4.1. Governance Beyond Individual Institutions

Payments governance operates at a level above individual institution. System-level governance addresses questions that cannot be resolved through bilateral arrangements alone: common standards, settlement arrangements, access rules, pricing principles, service-level expectations, and dispute resolution mechanisms. Effective governance does not require uniformity or centralisation. It requires clarity of roles, shared objectives, and mechanisms for coordination (BIS, 2012).

4.2. Interoperability as a Governance Challenge

Interoperability is often framed primarily as a technical objective. While technical connectivity is necessary, it is not sufficient. In Rwanda, progress has been made in enabling technical connections between payment systems. However, from a user perspective, interoperability remains uneven. Differences in fees, settlement timing, transaction limits, and customer experience create uncertainty. This gap reflects governance challenges rather than technology constraints (BIS, 2022).

4.3. The Role of the National Bank of Rwanda as System Steward

The National Bank of Rwanda plays a central role in shaping payments system outcomes. Beyond its regulatory and supervisory functions, the central bank is uniquely positioned to act as system steward — articulating system-level priorities, convening stakeholders, and aligning incentives where collective action is required. System stewardship does not imply operational control. Rather, it involves setting expectations for reliability, acceptance, consumer protection, and coordination, and ensuring that governance arrangements support these objectives (IMF, 2023).

4.4. Banks as Anchors of Trust and Settlement

Banks occupy a critical position in the payments ecosystem. They anchor settlement, liquidity, and trust, and they provide the link between retail payments and the broader financial system. Within a payments-first strategy, banks benefit from increased transaction volumes, improved data flows, and deeper engagement with households and enterprises. Banks also play an important role in supporting merchant acceptance and enterprise usage, particularly where they maintain existing relationships and service capabilities.

4.5. Mobile Network Operators and Payment Service Providers

Mobile network operators and payment service providers have driven access and innovation in Rwanda's payments landscape. Their platforms reach users and merchants that banks have historically struggled to serve. As the system matures, the challenge shifts from expansion to integration. Clear rules on interoperability, pricing transparency, and consumer protection help align incentives while preserving the dynamism that has characterised Rwanda's payments evolution.

4.6. Government as a Catalyst for Coordination

Government payment flows — including wages, transfers, fees, and taxes — shape usage patterns across the economy. When aligned with interoperable payments infrastructure, public sector payments can reinforce acceptance, habituation, and trust. A national payments strategy therefore requires close coordination between public payment initiatives and broader system objectives. Government has an opportunity to act as a catalyst for interoperability by aligning its own payment flows with national standards and system-level performance goals (World Bank, 2023).

4.7. The Role of the Rwanda Bankers Association

Industry bodies such as the Rwanda Bankers Association provide important platforms for dialogue and coordination. By facilitating information sharing, joint initiatives, and alignment around best practices, industry coordination can complement regulatory stewardship. Effective coordination mechanisms reduce duplication, build trust among participants, and support collective investment in shared infrastructure.

5. Reaching the Last Mile: Design Features That Matter

Extending payments systems to underserved populations requires more than expanding digital channels or increasing account availability. In Rwanda, the primary barriers to participation are structural rather than financial. Limited connectivity, distance from formal institutions, gaps in official identification, and low tolerance for complexity or system failure all shape how, when, and whether payments are used (World Bank, 2022). Systems that succeed at the last mile are those that align with the operational realities of users' daily economic lives.

5.1. Agent Networks as Core Infrastructure

Agent networks remain a critical component of last-mile access. For many users, particularly in rural and peri-urban areas, agents provide the primary interface with the formal financial system. Effective payments systems treat agents as core infrastructure rather than peripheral distribution channels. This requires sustained attention to coverage, liquidity management, incentives, training, and oversight. Evidence from mobile-money-led ecosystems shows that agent liquidity constraints materially reduce confidence and suppress usage (Aker et al., 2016).

5.2. Reliability and Liquidity at the Last Mile

Reliability is a decisive factor in last-mile adoption. For low-income households and micro-enterprises, a payment that fails even occasionally can impose real costs. Liquidity constraints amplify these risks. When agents cannot meet cash-out demand, confidence erodes rapidly and usage patterns revert to cash. Payment systems designed for inclusion must therefore prioritise reliability and liquidity alongside access — these are primary drivers of usage behaviour and habit formation (IMF, 2023).

5.3. Connectivity Constraints and the Case for Offline-Capable Infrastructure

Rwanda's mobile penetration is among the highest in sub-Saharan Africa, and RNDPS 2.0 / eKash provides a powerful real-time interoperable switch. However, real-time connectivity-dependent infrastructure has a structural limitation that is directly relevant to the functional financial exclusion problem: it performs well in conditions that already favour formal economic participation, and it underperforms precisely where inclusion is most needed.

The populations that account for the bulk of dormant registered users — smallholder farmers, rural informal traders, seasonal agricultural workers, remote cooperative members — disproportionately operate in environments of intermittent connectivity. For these users, a payments system that requires a live data connection to authorise every transaction is functionally unavailable at precisely the moments when they most need to transact: at the farm gate, at the market, during harvest season, at locations served by a single 2G signal.

Offline-capable payment architecture addresses this gap through a distinct technical approach: transactions are authorised locally against a securely stored credential and queued for settlement once connectivity is restored, with cryptographic integrity guarantees that prevent double-spend and ensure auditability. This is not a degraded mode of the same system — it is a different design philosophy that treats connectivity as unreliable by default rather than a given. Several implementations combine this with device-level secure elements or hardware security modules that protect transaction data even on low-cost endpoint devices.

From a policy perspective, offline capability should be treated as a core inclusion requirement for any payments infrastructure that claims to serve Rwanda's entire economically active population — not as an optional feature for later phases. The BIS Principles for Financial Market Infrastructures recognise operational resilience under adverse conditions as a foundational requirement (BIS, 2012). Rwanda's national payments strategy should specify minimum offline capability standards as part of the technical requirements for eKash-connected endpoints, particularly for agent devices operating in rural and low-density districts.

Critically, offline-capable infrastructure is not in competition with eKash — it is complementary to it. The switch handles the real-time interoperability layer between institutions; offline-capable endpoints extend the reach of that switch to environments where real-time connection cannot be guaranteed. A national payments ecosystem that combines both layers is substantially more inclusive than one built on either alone.

The investment logic for offline-capable infrastructure reinforces this conclusion. Unlike network-dependent payment systems, which require connectivity as a precondition for each transaction, offline-capable architecture concentrates its capital requirements at the endpoint — the agent device, the merchant terminal, the smart card or equivalent secure element. This means coverage can be extended incrementally and in direct proportion to commercial and policy deployment priorities, without requiring large-scale network build-out as a prerequisite. For a national payments strategy operating within the fiscal and implementation constraints of Rwanda's current environment, this characteristic matters as much as the technical capability itself: it is payment infrastructure that can be deployed now, at the scale and pace that policy implementation requires, in the geographies where functional exclusion is most concentrated.

5.4. Biometric Identity: From Barrier to Infrastructure

A distinction is worth drawing at the outset, though for Rwanda it need not remain a permanent one. Biometric authentication at the transaction layer addresses functional identity — the ability to verify reliably who is transacting. Legal identity standing, by contrast, determines what tier of account an individual may hold, what transaction limits apply, and what the regulatory framework requires for KYC compliance. These two dimensions need not rest on separate infrastructure. Rwanda already operates a national biometric identity programme and has made progress in connecting it to financial services. Where payment products authenticate against that existing national credential — through NIDA — rather

than issuing proprietary biometric identities of their own, the functional and foundational identity questions converge: the credential already carries legal standing under the KYC framework, the regulatory approval pathway is substantially simpler because no new identity instrument is being introduced, and the data sovereignty concerns that accompany new biometric infrastructure are addressed through the existing national architecture. The strategic opportunity is therefore not to build a new biometric identity layer for payments, but to connect the payments layer to the one Rwanda already has.

Identity verification is the most persistent and least resolved structural constraint at the last mile. The conventional approach — requiring a national ID document, a SIM card registered under a verified identity, or a combination of both — works well for the formally employed urban population that is already well-served by the financial system. It systematically fails for the populations at the functional exclusion frontier: individuals without consistent document access, elderly rural residents, seasonal migrants, refugees and displaced persons, and those whose documentation does not match their current circumstances.

Biometric identity infrastructure resolves this problem at its root. A fingerprint or iris scan is a persistent, portable credential that the individual always has with them, cannot lose or forget, cannot be transferred or stolen in the way a document or PIN can, and does not degrade with literacy level or administrative capacity. When biometric verification is integrated at the point of transaction — rather than only at the point of account opening — it also provides continuous authentication that strengthens fraud resistance throughout the transaction lifecycle, not only at onboarding.

Rwanda is well positioned to build on this capability. The country already operates a national biometric identity programme and has made progress in connecting identification systems to financial services. The strategic opportunity is to extend biometric authentication beyond account registration into the ongoing transaction layer — enabling authentication at the point of payment for populations who cannot reliably operate PIN-based or document-dependent systems. This is particularly relevant for agent-assisted transactions, G2P disbursements to rural beneficiaries, cooperative-based savings and credit activity, and agricultural payment programmes where the recipient population has limited literacy or irregular document access.

The design challenge is ensuring that biometric infrastructure functions reliably at the last mile — which means it must operate in low-connectivity environments, on low-cost devices, with local matching capability that does not depend on a live connection to a central identity server. Architectures that store a securely encrypted biometric template on a local device or smart card, and perform matching locally before transmitting a verified transaction credential to the switch, provide this capability without requiring persistent central connectivity. This approach also has important data sovereignty properties: the biometric data does not need to traverse a network at the moment of authentication, reducing both security risk and latency.

The NBR and RISA should jointly develop technical standards for biometric authentication at the payments layer, specifying interoperability requirements with the eKash infrastructure and the national identity system, data protection obligations aligned with the Rwanda Data Protection Authority's framework, and minimum accuracy and liveness detection standards for endpoint devices. Without such standards, the market will develop fragmented proprietary solutions that cannot interoperate — replicating at the identity layer the same coordination failures that the payments layer has worked hard to overcome. Alongside technical standards, the NBR should clarify the regulatory pathway through which biometric-enabled payment products achieve authorised status — and in particular whether authentication against the national NIDA biometric credential satisfies KYC requirements at each tier. If the answer is yes, as it should be, this should be stated explicitly in regulatory guidance rather than left for each provider to establish independently. A payment product that authenticates against Rwanda's existing national identity infrastructure is not introducing a new identity instrument; its legal standing is already established. Confirming this alignment between the payments regulatory framework and the national identity system removes a significant source of regulatory uncertainty and enables providers to invest with confidence.

5.5. Simplicity, Transparency, and the Architecture of Trust

The sections above address the structural and technical dimensions of last-mile design. There is a fifth dimension that is equally important and more difficult to engineer: the user experience of trust. For a first-time or low-frequency digital payment user, the decision to transact digitally rather than in cash is not primarily a rational calculation about fees and speeds. It is a judgement about whether the system is trustworthy — whether the money will arrive, whether the transaction can be reversed if something goes wrong, and whether the agent or merchant is honest. This judgement is formed through experience, not information. Financial literacy campaigns and product awareness programmes have limited effect on users who have had a failed transaction or an unresolved dispute. Trust is built through consistent performance and destroyed by isolated failures.

Three design principles follow from this. First, the user interface for low-literacy and first-time users must reduce cognitive load to the minimum necessary for a safe transaction. Screens with multiple steps, ambiguous confirmations, or unclear fee displays create hesitation and error. Biometric authentication — replacing a PIN with a fingerprint — is one of the most powerful simplification tools available, eliminating the single most common source of transaction failure for new users. Second, transaction confirmation must be immediate and unambiguous. The eKash sub-15-second settlement standard is important not only for commercial efficiency but for psychological certainty: the user knows the transaction has completed before they leave the counter. Third, recourse must be visible and accessible. Users who know there is a clear, fast process for resolving errors are more willing to attempt digital transactions. Users who have experienced an unresolved failure — or who know someone who has — revert to cash and are very difficult to re-engage.

These principles apply across all payment channels, but they are most critical at the last mile, where users have the least experience, the least recourse, and the lowest tolerance for failure. System designers and policymakers should treat the user experience of trust as a technical requirement with measurable outcomes — not as a communications challenge to be addressed after the infrastructure is built.

6. Regulation, Proportionality, and Risk

Regulation has played a central role in Rwanda's financial inclusion success. As the payments ecosystem matures, however, the regulatory challenge evolves. The priority shifts from enabling entry to enabling sustained usage, while continuing to safeguard integrity, resilience, and trust. At Rwanda's current stage of development, the principal regulatory risk is not under-regulation, but misalignment between regulatory requirements and real-world transaction behaviour. Where rules are calibrated primarily for formal, higher-value, or infrequent transactions, they can unintentionally constrain the low-value, high-frequency payments that dominate everyday economic life for households and micro-enterprises (IMF, 2023).

6.1. Proportionality as a System Principle

Proportionality is not a relaxation of regulatory standards. It is the disciplined alignment of controls with the level of risk presented by users, transactions, and functions. Applied consistently, proportionality reduces unnecessary friction while preserving safeguards where risk is highest. Proportionality is most effective when it is embedded as a system principle rather than applied on an ad hoc basis (BIS, 2012).

6.2. Tiered KYC as a Usage Enabler

Tiered know-your-customer frameworks allow broad participation in low-risk transactions while maintaining clear upgrade pathways for higher functionality. For many users — particularly informal workers, rural households, and micro-enterprises — low-threshold accounts subject to appropriate limits can determine whether participation is feasible at all. Where upgrading to higher tiers is complex, costly, or uncertain, users may remain trapped in low-functionality environments (World Bank, 2022).

6.3. Transaction Limits and Risk Calibration

Transaction and balance limits complement tiered KYC by managing exposure without blocking legitimate activity. Limits set too low encourage transaction splitting, frequent cash-outs, or reversion to informal channels. A payments-first strategy therefore supports periodic review of transaction and balance limits, informed by evidence on transaction patterns, fraud incidents, and observed user behaviour. Limits should evolve with the system rather than becoming static constraints that no longer reflect actual risk profiles (IMF, 2023).

6.4. Consumer Protection at the Transaction Level

Trust in payments systems is built or eroded at the point of transaction. A payments-first approach emphasises timely and accessible dispute resolution mechanisms, predictable reversal and error-handling processes, transparency of fees and transaction outcomes, and clear accountability where multiple providers are involved. These measures actively encourage repeat usage by reducing perceived risk for both consumers and merchants (BIS, 2022).

6.5. Regulatory Clarity and Predictability

Regulatory clarity is itself a growth enabler. Payments providers, banks, and infrastructure operators are more likely to invest in acceptance networks, reliability, and resilience when regulatory expectations are stable, transparent, and consistently applied. A national payments strategy therefore benefits from regular regulator–industry dialogue and clearly articulated expectations around proportionality, interoperability, consumer protection, and operational resilience.

7. Sequencing the National Payments Strategy

A national payments strategy is as much about when to act as what to do. Well-intentioned interventions introduced too early can underperform or erode trust, while delays in addressing foundational constraints can stall momentum and entrench suboptimal usage patterns. Sequencing therefore plays a central role in converting policy intent into durable outcomes (BIS, 2022).

For Rwanda, sequencing should reflect the maturity of access, the persistence of cash in everyday transactions, and the need to stabilise usage before layering additional complexity. The objective is not the rapid expansion of features or products, but the normalisation of reliable, habitual payments embedded in daily economic activity. A payments-first strategy recognises that usage precedes — and enables — deeper financial intermediation.

7.1. Phase One: Stabilising Everyday Payments

The immediate priority is to stabilise and normalise everyday payments. This phase focuses on the core conditions that determine whether payments are used regularly: acceptance, reliability, liquidity, simplicity, and predictability. Key priorities include expanding and stabilising merchant acceptance, strengthening agent coverage and liquidity management, improving transaction reliability and settlement predictability, and reducing operational friction and user complexity. Phase One is fundamentally behavioural rather than technological. Its success is measured by increased frequency, continuity, and confidence in usage.

7.2. Phase Two: Anchoring Usage Through Wages and Public Payments

Once everyday payments are stable, the next phase is to anchor habitual usage through predictable, recurring payment flows. Wage payments and government-to-person transfers play a critical role. Regular income flows create strong incentives for both users and merchants to transact digitally, provided that acceptance and reliability are already in place. When aligned with interoperable infrastructure, wage and public payments can reinforce acceptance networks, deepen usage, and accelerate the transition from episodic to habitual digital payments (World Bank, 2023).

7.3. Phase Three: Deepening Financial Intermediation

Only once payments usage is stable and habitual should the system focus on deeper financial intermediation. At this stage, transaction data generated through regular payments can support the development of cash-flow-based financial services for households and enterprises. These services may include savings products, working capital solutions, and risk-mitigation tools tailored to observed transaction patterns. Introducing them prematurely risks low uptake, increased complexity, and erosion of trust, particularly among first-time or low-income users.

7.4. The Importance of Restraint

A disciplined sequencing strategy also requires clarity on what not to prioritise in the early stages. Complex product innovation, advanced analytics, or tightly integrated credit offerings should not precede stable payments usage. Similarly, parallel or closed payment systems introduced for speed or expediency can undermine long-term system coherence. Restraint should not be interpreted as conservatism. Rather, it reflects recognition that trust, coordination, and habit formation take time and cannot be accelerated through feature proliferation.

7.5. Cost Structure and the Sustainability of Inclusion

A sequenced payments strategy requires a corresponding view on cost structure. Fee design is not simply a market outcome; at Rwanda's current stage of development it is a policy instrument with direct implications for both adoption behaviour and investment sustainability. The appropriate fee model for a payments ecosystem is not static — it should evolve as the system matures.

At the access stage, which Rwanda has substantially completed, the policy priority is to minimise fees on low-value transactions. The target population is highly price-sensitive, and the primary objective is to overcome cash inertia. Rwanda's experience in 2021 — when a modest mobile money levy demonstrably suppressed usage among precisely the users the system was designed to serve — provides the empirical proof of this principle. At low maturity, fee policy is adoption policy.

At the usage-deepening stage, which this paper argues Rwanda has now entered, the binding constraint shifts. The investments the system requires — agent coverage, rural endpoint deployment, reliability improvements, last-mile accessibility — are not free. If the commercial model does not sustain them, the system will remain structurally under-invested in precisely the areas that matter most for functional inclusion. The policy question becomes where cross-subsidy flows. Higher-value transactions — business payments, bill payments, government disbursements, international remittances — can carry higher margins that subsidise the low-value retail layer. This is the commercial logic underlying eKash's no-additional-fee P2P model: the system absorbs cost at the low-value end because higher-margin use cases can sustain it upstream. That logic holds, but only if upstream fee structures are themselves commercially sustainable and if the system's investment requirements are honestly assessed.

At the financial intermediation stage, the model evolves further. Transaction data generates value that is decoupled from per-transaction fees, and the commercial question shifts from investment sustainability to market efficiency and data equity.

The unifying principle is that the binding constraint on cost structure changes as the system matures: adoption in Phase One, investment sustainability in Phase Two, competitive market dynamics in Phase Three. A national payments strategy should make this progression explicit — treating fee design as an actively managed instrument rather than a residual market outcome, and ensuring that the structures in place at each stage are consistent with the investment requirements of the next.

8. Empirical Evidence: Quantitative Corroboration of the Payments-First Hypothesis

This section presents quantitative evidence from National Bank of Rwanda payment system data that corroborates the analytical framework set out in Sections 2–7. The empirical analysis was conducted using an Autoregressive Distributed Lag (ARDL) bounds testing framework applied to 52 quarters of data (2012–2024).

8.1. Data and Methodology

The empirical investigation utilises quarterly time series data derived from the official payment systems statistics of the National Bank of Rwanda, with the estimation sample commencing in 2012 following comprehensive data cleaning. The study employs the natural logarithm of mobile payment registrations as the dependent variable, serving as a proxy for formal financial inclusion, with five independent variables measured as the natural logarithms of quarterly transaction values for mobile payments, mobile banking, internet banking, point-of-sale transactions, and ATM usage.

The ARDL bounds testing framework was selected for its capacity to accommodate variables with mixed integration orders (I(0) and I(1)) and to provide robust estimates for small sample environments (Pesaran, Shin, and Smith, 2001). The final model specification was ARDL (1, 0, 0, 2, 0, 0) under Case II (restricted constant with no deterministic trend), selected via a general-to-specific procedure evaluating 12,500 potential lag combinations.

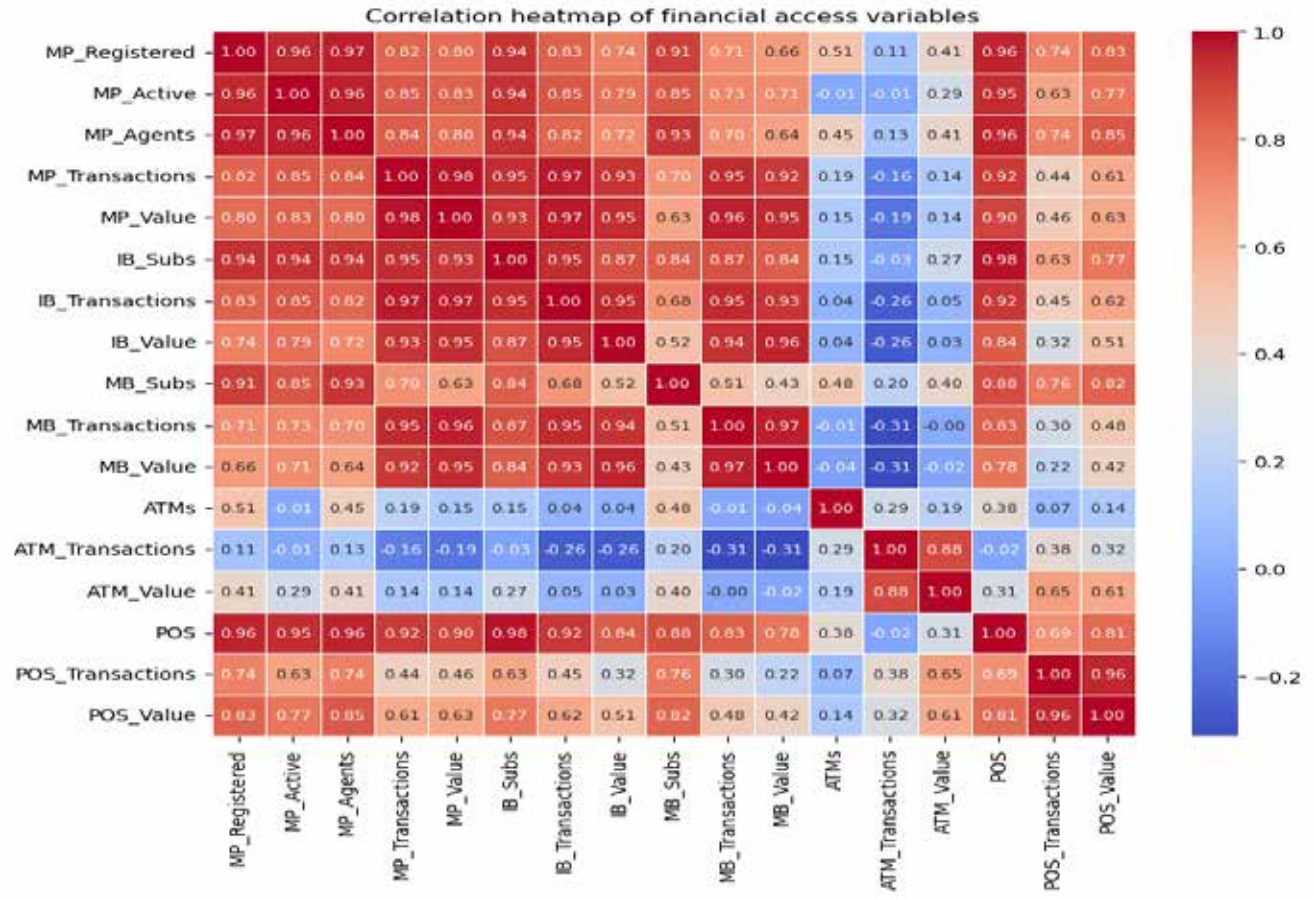
Summary of Unit Root Test Results (ADF)

Variable	ADF p-value (at Levels)	ADF p-value (at 1st Diff)	Integration Order (Decision)
Registered Mobile Money Users (L_MP_Reg)	0.000***	—	I(0): Stationary at level
Internet Banking Value (L_IB_Value)	0.000***	—	I(0): Stationary at level
ATM Transaction Value (L_ATM_Value)	0.010**	—	I(0): Stationary at level
Mobile Payment Value (L_MP_Value)	0.452	0.000***	I(1): Stationary at 1st Diff
Mobile Banking Value (L_MB_Value)	0.381	0.000***	I(1): Stationary at 1st Diff
POS Transaction Value (L_POS_Value)	0.512	0.000***	I(1): Stationary at 1st Diff

Authors' computation

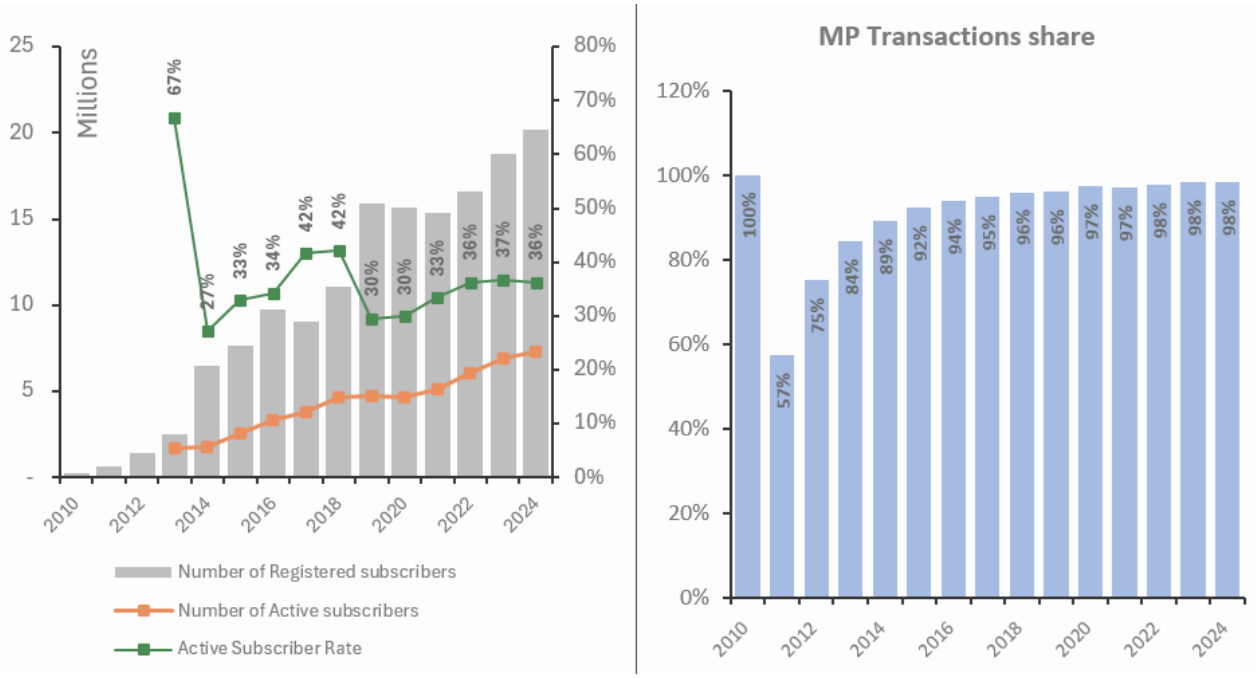
8.2. Growth Trends in Payment Channels

Compound Annual Growth Rates across the sample period reveal a definitive structural shift toward digital payment channels. Internet banking demonstrates the highest momentum (117.54% CAGR), while mobile payment value expanded at 79.50% annually, bolstered by a 56.78% increase in agent networks. In contrast, ATM infrastructure grew at only 5.88%, confirming that Rwanda's financial deepening is driven predominantly by mobile and web-based innovations rather than conventional card-based systems.



8.3. The Access-Usage Paradox in the Data

The data reveals a structural paradox that directly validates the paper's central argument: while total mobile payment registrations surged to over 20 million by 2024, the active subscriber rate declined from a peak of 67% to approximately 36%. This discrepancy confirms that while mobile money has achieved near-universal reach, a significant proportion of the population remains at the entry point without progressing to sustained usage. However, those who remain actively engaged have demonstrated a profound deepening of financial participation, with a tenfold increase in transaction frequency — indicating that the digital ecosystem does successfully convert active users toward high-frequency economic activity when usage is established.



Source: National Bank of Rwanda

8.4. ARDL Model Results

The ARDL bounds test provides definitive evidence of a stable long-run equilibrium relationship between transactional access channels and formal mobile payment registration. The calculated F-statistic of 4.527 exceeds the upper bound critical value of 3.38 at the 5% significance level, confirming cointegration. The Error Correction Term exhibits a highly significant negative coefficient of -0.226, indicating that approximately 22.6% of any short-run disequilibrium is corrected within each subsequent quarter — confirming that the digital financial system naturally returns to its stable path following market shocks.

Long-Run Form and Error-Correction Representation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.074746***	0.789428	3.894906	0.0004
LMP_REGISTERED(-1)	-0.226498***	0.079195	-2.859980	0.0066
LMP_VALUE	-0.009818	0.079196	-0.1230	0.8814
LMB_VALUE(-1)	0.004301	0.033004	0.1301	0.8957
LIB_VALUE(-1)	-0.041087	0.034851	-1.17984	0.2452
LATM_VALUE(-1)	-0.008385	0.288429	-0.02844	0.7790
LPOS_VALUE	0.002807	0.041734	0.082463	0.9505
D(LIB_VALUE)	-0.094050	0.073734	-1.275529	0.2093
D(LIB_VALUE(-1))	-0.09450	0.07377	-1.602727	0.1187

The Levels Equation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.57619***	2.199252	6.172639	0.0000
LMP_VALUE	0.039815	0.258167	0.154223	0.8782
LMB_VALUE	0.019253	0.149475	0.128804	0.8981
LIB_VALUE	0.181403	0.117218	1.547567	0.1294
LATM_VALUE	-0.028191	0.100213	-0.281315	0.7799
LPOS_VALUE	0.011509	0.184247	0.062463	0.9505

ECM Regression (Short-Run Dynamics)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LIB_VALUE)	-0.094050*	0.053757	-1.749544	0.0877
D(LIB_VALUE(-1))	-0.109805*	0.058953	-1.862599	0.0697
CointEq(-1)	-0.226498***	0.037577	-6.027549	0.0000

Bounds Test for Cointegration

Test statistic	Value	Significance level	I(0)	I(1)
F-statistic (k = 5)	4.527614	10%	2.08	3.00
		5%	2.39	3.38
		2.5%	2.70	3.73
		1%	3.06	4.15

Source: Authors 'computation

In the long run (the levels equation), internet banking value demonstrates the largest positive impact (elasticity of 0.181), while the negative coefficient for ATM value confirms the gradual substitution of traditional cash-based infrastructure by digital platforms. These results validate the payments-first hypothesis: transactional access serves as a reliable and self-correcting gateway to formal financial participation.

8.5. Diagnostic Validation

The diagnostic evaluation confirms that the ARDL model is statistically robust. The Ramsey RESET and CUSUM tests establish that the linear functional form is appropriate and that model parameters remained structurally stable throughout the 2012–2024 period. The Breusch-Godfrey and Breusch-Pagan-Godfrey tests confirm the absence of serial correlation and heteroskedasticity (p-values of 0.9538 and 0.8352 respectively), validating the reliability of the standard errors and the statistical integrity of the model's inferences.

9. Measuring Success: Payments-Centric KPIs

A payments-first national strategy requires a corresponding shift in how success is measured. Traditional financial inclusion indicators — account ownership, wallet registration, product availability — remain useful as baseline measures of access. However, they are no longer sufficient to assess system performance at Rwanda's current stage of development. As access approaches saturation, these indicators flatten and provide limited insight into whether financial services support meaningful economic participation (Demirgüç-Kunt et al., 2022).

Payments-centric indicators offer a more accurate and operational picture of system health. They capture how frequently payments are used, how reliably they function, and how deeply they are embedded in everyday economic activity. Measuring these dimensions enables policymakers, regulators, and providers to identify binding constraints, distinguish between nominal and functional inclusion, and track progress toward participation rather than access alone.

Table 2: From Access Metrics to Payments-Centric KPIs

System Objective	Traditional Access Metric	Payments-Centric KPI	What It Reveals
Broad participation	% of adults with accounts	% transacting digitally at least monthly	Distinguishes nominal from functional inclusion
Regular usage	Number of registered wallets	Transaction frequency and continuity over time	Identifies dormancy and episodic use
Merchant readiness	Number of registered merchants	Active merchant acceptance density	Reveals coordination gaps in acceptance
System reliability	Platform availability	Transaction success rates and settlement predictability	Captures performance from user's perspective
Liquidity access	Number of agents	Agent liquidity availability and cash-out success	Signals last-mile friction
Habit formation	One-off digital payments	Share of users transacting weekly	Tracks transition to habitual use
Public integration	Digitised payment programmes	Share of wages and G2P via interoperable systems	Shows anchoring of usage through recurring flows
System stewardship	Compliance reporting	Shared system-level KPI reporting	Enables coordination and collective action

These indicators are particularly relevant for informal workers and micro-enterprises, where frequent transactions are integral to economic participation and resilience. Shared KPI reporting also supports governance and coordination, allowing stakeholders to align around system-wide objectives and prioritise collective action across institutions.

10. Policy Recommendations

Rwanda's financial inclusion trajectory is one of the most successful in Africa. The challenge ahead is not to replicate that success but to extend it into a different and more demanding domain: converting near-universal formal access into deep, habitual economic participation. The recommendations below are addressed primarily to the National Bank of Rwanda and to the banking and payments industry as represented by the Rwanda Bankers Association. They are grounded in the analytical framework and empirical findings of this paper and are anchored to Rwanda's current policy instruments — principally the Financial Sector Development Strategy (FSDS) 2025–2030, the National Financial Inclusion Roadmap (NFIR) 2025–2030, and the RNDPS 2.0 / eKash infrastructure. Each recommendation is structured with a strategic rationale and a set of concrete operational actions.

10.1. Formalise the NBR's Role as Payments System Steward

The NBR's mandate has historically been defined around licensing, prudential supervision, and consumer protection. These functions remain essential. But Rwanda's current stage of financial sector development requires an additional and equally important function: active stewardship of the payments system as shared national economic infrastructure. System stewardship is distinct from regulation. It involves setting the strategic direction for payment system performance, convening the industry around shared objectives, and taking direct responsibility for outcomes that no single institution can deliver alone — particularly interoperability, reliability standards, and the performance of the last-mile infrastructure on which functional inclusion depends.

Operational actions:

- Establish a Payments System Performance Unit within the NBR with a dedicated mandate to monitor system-wide reliability, acceptance density, and interoperability outcomes — separate from the licensing and supervisory function. This unit should publish a quarterly Payments System Health Report covering transaction success rates, settlement times, agent liquidity availability, and active merchant acceptance density.

- Convene a Payments System Coordination Forum — a standing multi-stakeholder body chaired by the NBR bringing together commercial banks, MNOs, SACCOs, fintechs, RSwitch, RISA, and the Rwanda Bankers Association. The Forum should meet quarterly with a remit to agree shared service-level standards, resolve interoperability disputes, and coordinate investment in shared infrastructure such as agent liquidity facilities.

- Publish a National Payments Strategy as a standalone policy document under the FSDS 2025–2030 — distinct from the broader financial inclusion roadmap — that sets measurable targets for transaction reliability, merchant acceptance, agent liquidity, and habitual usage by 2030. This signals to the industry that payments performance is a strategic economic priority, not a secondary compliance matter.

10.2. Maximise eKash / RNDPS 2.0 as the Foundation for Usage Growth

The launch of RNDPS 2.0 — commercially branded as eKash — in February 2025 represents Rwanda's most significant payments infrastructure milestone in a decade. Built on open-source Mojaloop technology and developed with local technical capacity, eKash provides a single interoperable switch connecting banks, mobile wallets, SACCOs, and microfinance institutions, enabling person-to-person and person-to-merchant transactions that settle in under 15 seconds, without additional fees. This is precisely the reliability and acceptance infrastructure that the functional financial exclusion diagnosis demands. The immediate policy imperative is to ensure that this infrastructure is adopted rapidly, used deeply, and extended to the merchant and last-mile contexts where cash currently dominates.

Operational actions:

- Set a mandatory timeline for all licensed banks, MNOs, SACCOs, and MFIs to complete full eKash integration. The NBR should use its supervisory authority to set and enforce this deadline, treating non-integration as a systemic risk to interoperability rather than an individual institution's commercial choice.
- Drive the rollout of eKash P2M (person-to-merchant) acceptance aggressively in informal and peri-urban markets. The single QR code model is a powerful tool for micro-merchants who cannot afford multiple terminals. The NBR and RBA should jointly develop a merchant onboarding programme targeting the informal sector, with simplified registration, subsidised initial hardware where necessary, and clear fee structures published upfront.
- Accelerate the activation of eKash bulk payment, bill payment, and government services use cases. These are planned features of RNDPS 2.0; their deployment should be treated as a priority rather than a roadmap item, as they directly address the anchoring of habitual usage through recurring flows. Each activated use case should carry a defined go-live date with accountability assigned to RSwitch and the relevant line ministries.
- Publish eKash transaction success rates, settlement times, and active merchant counts as monthly public data. Transparency about system performance creates accountability, signals system health to users and investors, and provides the NBR and industry with the shared evidence base needed to identify and resolve bottlenecks.

Specify minimum offline capability standards as a technical requirement for all eKash-connected endpoint devices operating in rural and low-density districts. This should be incorporated into the licensing conditions for payment service providers deploying agent networks in these geographies, with the NBR and RISA jointly responsible for defining the technical standard and the compliance audit process. Treating offline capability as a licensing requirement rather than a product feature establishes it as the baseline expectation for what inclusive payment infrastructure means in Rwanda's context.

10.3. Resolve the Active Usage Gap as the Central Financial Inclusion Target

The empirical findings of this paper confirm what the FinScope data has long suggested: mobile payment registration has reached 20 million, but the active usage rate has declined from 67% to approximately 36%. This means that roughly 13 million registered users are effectively dormant — formally included but functionally excluded. The FSDS 2025–2030 and the NFIR 2025–2030 both correctly identify financial inclusion as a priority, but their headline targets (98% inclusion by 2030) risk measuring the wrong thing. The gap to close is not between 96% and 98% registration; it is between 36% and the level of active usage that constitutes genuine economic participation. The NBR and MINECOFIN should formally reframe their primary financial inclusion target around active, habitual usage rather than registration.

Operational actions:

- Commission a targeted study of dormant account holders to identify the specific frictions that prevent transition to active use. Segment findings by geography (urban, peri-urban, rural), by user type (informal worker, smallholder, micro-enterprise, employee), and by primary payment context. The results should directly inform the design of re-activation programmes and product simplification initiatives.

- Introduce a formal active usage rate target in the NFIR 2025–2030 monitoring framework — specifically, the proportion of registered mobile money users transacting at least monthly — as a primary indicator alongside the existing registration metric. The Financial Inclusion Dashboard maintained by the NBR should report this indicator quarterly and make it publicly available.

- Require financial service providers to report active user rates alongside subscriber counts in their regulatory submissions to the NBR. This creates accountability at the institution level and gives the NBR the granular data needed to distinguish between genuine inclusion growth and nominal registration expansion.

10.4. Use Government Payment Flows as a Demand Anchor

The government is Rwanda's largest single payer. Public sector wages, G2P transfers, Ubudehe social protection payments, agricultural input subsidies, and tax collection collectively represent the most predictable, recurring payment flows in the economy. When these flows move through interoperable digital infrastructure, they create the most powerful available mechanism for normalising digital payment behaviour, reinforcing merchant acceptance, and anchoring habitual usage. The FSDS 2025–2030 explicitly targets the digitisation of payments through systems such as eKash — but this objective must be operationalised with specific commitments from each paying ministry and agency, not left as a system-wide aspiration.

Operational actions:

- Mandate that all central government wage payments and social transfers route through eKash-connected interoperable rails by a fixed date, with all payments credited to recipient-chosen accounts or wallets rather than to closed or proprietary government platforms. MINECOFIN should issue a circular with binding timelines for each paying ministry. Payments that remain on closed systems should be reported as non-compliant in the annual NFIR progress report.

- Integrate tax and fee collection (RURA utilities, RRA tax payments, local government fees) into eKash as a priority use case. Each additional bill payment use case adds a recurring touchpoint that reinforces the habit of digital payment. The NBR and RRA should agree a joint implementation roadmap within the RNDPS 2.0 pipeline.

- Coordinate the rollout of agricultural input and output payments through eKash with the Ministry of Agriculture. Rwanda's smallholder farming population represents one of the largest dormant user segments. Routing crop payments and subsidy disbursements through interoperable digital channels creates immediate economic incentive for adoption and directly addresses rural usage gaps identified in the FinScope data.

10.5. Implement Evidence-Based Proportionate Regulation

Rwanda has a tiered KYC framework and proportionate regulatory approach that is broadly well-designed. The risk at this stage is not the absence of proportionality in principle but its incomplete or uneven application in practice — particularly in how transaction limits are set, reviewed, and calibrated to actual usage behaviour. The empirical findings of this paper show that internet banking value carries the largest long-run elasticity in the ARDL model. This suggests that where friction is reduced for higher-

value, higher-frequency users, the gains in formal financial participation are significant and durable. Reducing unnecessary friction for low-value retail payments has an equivalent logic: it removes the barriers that keep the dormant majority from becoming active participants.

Operational actions:

- Conduct a formal review of Tier 1 and Tier 2 transaction and balance limits against actual NBR payment system transaction data. Where the data shows that limits are binding constraints on legitimate low-value activity — rather than risk management tools — they should be adjusted. This review should be published, with the evidence base made transparent to the industry.
- Utilise the FSDS 2025–2030 regulatory sandbox — approved for 17 fintechs — to test simplified onboarding and lower-friction payment models for informal sector users. Sandbox outcomes should feed directly into regulatory policy updates, with a commitment to act on findings within a defined timeframe rather than treating the sandbox as a research exercise.
- Introduce mandatory consumer protection standards specific to digital payments — covering dispute resolution timelines, transaction error reversal, and fee disclosure — that apply uniformly across all providers connected to eKash. Standardised consumer protection at the transaction level builds the trust that converts first-time users into habitual ones. The NBR should set minimum standards and monitor compliance through mystery shopping and transaction data analysis.
- Issue clear regulatory guidance on the application of AI-powered fraud detection tools under the FSDS digital payments agenda. Fraud controls are essential — but poorly calibrated AI systems can produce high rates of false positives that block legitimate low-value transactions and disproportionately affect informal sector users. Guidance should require providers to report false positive rates as part of their supervisory returns.

10.6. Address Agent Network Liquidity as a Systemic Risk

Agent liquidity failure is not an individual operational problem — it is a systemic trust risk. When an agent cannot fulfil a cash-out request, the user's experience is not that the agent failed; it is that digital money failed. The NBR payment system data used in this paper shows that Rwanda's agent network reached a maximum of 183,216 agents by 2024 — a remarkable expansion. But scale alone does not guarantee liquidity availability, particularly at the last mile. The fragmented agent liquidity model, in which each provider manages its own float independently, creates predictable shortfalls at high-demand periods and in low-density geographies. This is a coordination problem that the NBR is best placed to address as system steward.

Operational actions:

- Require all providers with agent networks to report agent liquidity availability data to the NBR on a monthly basis — specifically the proportion of active agents able to fulfil cash-out requests within normal operating hours. This data should be published at district level, creating both accountability and a map of last-mile friction points for targeted intervention.
- Explore a shared agent liquidity facility — potentially coordinated through the Rwanda Interbank Settlement System (RIPPS) or through the Payments Coordination Forum recommended above — that allows agents to draw on a shared float pool during peak demand periods. This mechanism is used successfully in Kenya and Tanzania and is directly applicable to Rwanda's eKash infrastructure.
- Incorporate agent liquidity availability as a licensed service obligation for providers operating agent networks above a defined scale threshold. Service level obligations should specify minimum cash-out fulfilment rates, with graduated supervisory consequences for sustained non-compliance.

10.7. Adopt Payments-Centric Measurement Across the Policy Framework

Measurement shapes behaviour. If the NBR, MINECOFIN, and the development partners who support the NFIR and FSDS continue to anchor their headline metrics in registration and account ownership, the policy system will continue to optimise for those outcomes — regardless of whether they represent genuine economic participation. The KPI framework set out in Table 2 of this paper provides an operationally tractable alternative. These are not aspirational indicators; they are measurable from data the NBR already collects or can require providers to report.

Operational actions:

- Formally incorporate the payments-centric KPIs from Table 2 into the NBR's Financial Inclusion Dashboard, the NFIR 2025–2030 monitoring framework, and the FSDS 2025–2030 annual progress reports. Specifically: active user rate (monthly transactors as a share of registered users), merchant acceptance density (active eKash-accepting merchants per 10,000 population by district), transaction success rate, agent liquidity availability rate, and share of wages and G2P payments delivered through interoperable digital channels.
- Agree these KPIs with the Access to Finance Rwanda (AFR), the Gates Foundation, AfricaNenda, and other development partners as the shared metrics framework for their financial inclusion programmes and investments in Rwanda. Donor and partner programmes that are measured against registration metrics will continue to fund registration-focused activities. Shifting the measurement framework is the lever for shifting resource allocation.
- Include a payments system performance section in Rwanda's annual FinScope survey, reporting on the user experience dimensions of reliability, fee transparency, dispute resolution, and trust — alongside the existing access and product ownership data. FinScope is the primary instrument through which Rwanda tracks financial inclusion progress; ensuring it captures usage quality as well as access coverage is essential to the evidence base that will drive the next phase of policy.

10.8. Build Transaction Data Infrastructure for the Next Phase of Financial Intermediation

Once payments usage is habitual and widespread, the transaction data generated through eKash and connected platforms becomes one of Rwanda's most valuable financial sector assets. The ARDL model in this paper demonstrates that internet banking value — the channel most associated with higher-frequency, higher-value engagement — has the largest long-run elasticity on formal financial inclusion. This is consistent with international evidence that transaction history is a better predictor of creditworthiness and financial reliability than formal income documentation, which most informal workers and micro-enterprises cannot produce. Preparing now for the responsible use of this data is the foundation for the third phase of the sequencing strategy: deepening financial intermediation.

Operational actions:

- Develop a national data portability and consent framework governing how eKash transaction data can be accessed by financial service providers for credit scoring, savings product design, and risk assessment. This framework should be developed by the NBR in consultation with the Rwanda Data Protection Authority and the industry, and should be published before commercial use of transaction data at scale begins — not in response to problems after the fact.
- Commission a feasibility study on a shared transaction data utility — operated by RSwitch or the NBR — that aggregates anonymised payment flow data from across the eKash network and makes it available to licensed lenders for credit assessment purposes. This would be Rwanda's equivalent of the transaction-based credit infrastructure that has driven micro-lending at scale in Kenya and India, and would directly support the FSDS 2025–2030 objective of increasing credit access for SMEs, youth, and women.

- Ensure that the FSDS 2025–2030 target of doubling agricultural lending by 2030 is explicitly connected to the eKash transaction data infrastructure. Smallholder farmers who receive crop payments and input subsidies through eKash generate exactly the payment history data that can support agricultural credit scoring. The connection between the payments strategy and the agricultural lending target should be made explicit in the FSDS implementation plan.

10.9. Treat Fee Design as an Actively Managed Policy Instrument

Rwanda's current fee structures are broadly appropriate for this stage of the payments maturity curve. The eKash no-additional-fee model for person-to-person transactions is the right policy choice when adoption is the priority. It is important to note, however, that no additional fee is not the same as no cost — costs are absorbed and cross-subsidised within the ecosystem. As eKash matures and extends to rural and last-mile contexts where margins are thinner and investment requirements are higher, the question of whether the current model is sustainable at scale requires a deliberate answer rather than an assumption.

Operational actions:

Commission a periodic review of merchant fee and interchange structures across eKash-connected providers, assessing whether current rates generate sufficient commercial return to sustain investment in merchant acceptance expansion and agent network reliability. The review should draw on NBR transaction data and provider cost submissions, and its findings should inform the fee policy framework under the FSDS 2025–2030.

Establish active fee design as part of the NBR's system stewardship mandate. Fee structures should be reviewed periodically against usage data, investment levels, and system performance outcomes — not set once and left static. The same evidence-based approach applied to transaction limits under Recommendation 10.5 should apply equally to cost structure.

As the system progresses toward Phase Three, develop a framework for data-driven commercial models that allows transaction data to generate value for providers in ways that maintain consumer accessibility — providing a sustainable commercial basis for the low-value retail layer as the system matures beyond reliance on cross-subsidy alone.

11. Conclusion

Rwanda has made remarkable progress in expanding access to formal financial services. By conventional measures, financial inclusion is no longer a binding constraint. Most adults possess bank accounts, mobile wallets, or other formal financial instruments, and the foundational components of a modern payments ecosystem are in place.

The challenge now is depth rather than reach.

This paper has argued that Rwanda's next phase of financial inclusion must be anchored in payments usage rather than account ownership. A substantial share of individuals and enterprises are formally included yet remain functionally excluded from regular, reliable participation in the economy. This gap is structural, reflecting how payments systems perform in practice.

A payments-first national strategy provides a coherent response. Treating payments as national economic infrastructure reframes financial inclusion as an economic coordination problem rather than solely a distributional one. The empirical analysis of 52 quarters of National Bank of Rwanda data provides quantitative corroboration: transactional access is a stable, self-correcting gateway to formal financial participation, with a long-run cointegrating relationship confirmed at the 5% significance level and a speed of adjustment of approximately 22.6% per quarter.

The analysis points to five implications for policy and practice: stabilising everyday payments as a foundational priority; anchoring usage through wages and government-to-person payment flows; strengthening governance and coordination mechanisms; embedding proportionate regulation; and assessing progress through payments-centric indicators that capture participation and continuity of use rather than access alone.

The opportunity is significant. Rwanda is well positioned to demonstrate how near-universal access can be translated into deep, reliable economic participation. By focusing on payments as the bridge between inclusion and impact, the country can help define the next generation of financial inclusion — one assessed not by accounts opened, but by transactions enabled and sustained over time.

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RBA/WPS/14-2026

Prospects for cross-border e-payments in the East African Community (EAC): What barriers limit access and interoperability?

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Kenya Bankers Association

Abstract

This study examines the drivers of access and interoperability challenges in cross-border digital payments within the East African Community (EAC) using World Bank Enterprise Survey data from Kenya, Rwanda, Tanzania and Uganda. By applying the Heckman selection approach, the study analyses enterprise decisions to adopt and use e-payments options in executing transactions. The findings show that internet connectivity, transaction costs and country-specific digital infrastructure significantly shape e-payment adoption. Kenya emerges as the region's digital payments leader, driven by mobile money and fintech integration, while Tanzania exhibits significant fragmentation, high transaction costs and weak interoperability. Uganda and Rwanda display mixed adoption patterns. On account of the foregoing, the study makes three key recommendations. First, is the harmonization of regional payment regulations particularly on customer onboarding, anti-money laundering and combating of financing of terrorism, licensing and data governance to reduce regulatory duplication, to lower compliance costs and facilitate seamless cross-border operations for payment service providers. Second, is investment in Shared e-Payment Infrastructure through a number of avenues including accelerating the adoption of common technical standards, strengthen regional payment switches and real-time settlement systems, and third, is promoting inclusive and competitive interoperability by rolling out policies and measures that require dominant or near-dominant payment providers and mobile money operators to support open-access interoperability frameworks.

1.0. Introduction

E-payments have become a critical component of the modern digital economy, enabling individuals, businesses and governments to conduct financial transactions efficiently both within countries and across borders. Advances in financial technology, mobile connectivity and digital platforms have transformed the global payments landscape, allowing financial institutions and payment service providers to facilitate faster, safer and more efficient transactions. These developments have been particularly significant for emerging economies, where digital payment systems have expanded financial inclusion and supported economic activity (World Bank, 2023; BIS, 2021).

A growing body of literature attributes this transformation to the broader digitalization of financial services. Digital technologies significantly reduce transaction costs for financial service providers, increase returns to scale and enable the delivery of services at lower margins, thereby making smaller-value financial transactions and loans commercially viable (Njuguna, 2017; Okot & Kasekende, 2024). As a result, financial institutions are increasingly able to extend services to previously underserved populations, particularly micro, small and medium enterprises (MSMEs), which constitute the backbone of most developing economies.

Within Africa, the East African Community (EAC) represents one of the most dynamic regions in terms of digital financial services (DFS) adoption. The EAC has experienced rapid growth in mobile money services and digital payment platforms over the past decade. Mobile money innovations, particularly the launch of M-Pesa in Kenya, have played a pivotal role in catalysing the region's digital finance revolution (Njuguna, 2017; GSMA, 2023). Empirical evidence across the region consistently demonstrates that mobile money systems have significantly expanded access to financial services by enabling individuals and businesses to conduct electronic transactions at relatively lower cost (Wamalwa et al., 2024; Osoro et al., 2024; Okot & Kasekende, 2024).

Indeed, abundant literature identifies mobile money-based financial services as the foundation of East Africa's digital finance transformation. Studies from across the region, including Kenya, Tanzania, Uganda, Burundi and Rwanda, highlight how mobile payment ecosystems have enabled the rapid expansion of financial services, including savings, credit, remittances and merchant payments (Njuguna, 2017; Macha & Massawe, 2023; Bizoza & Irakoze, 2024; Ndoricimpa et al., 2024; Mwighusa & Diyamett, 2024). These innovations have also facilitated stronger linkages between mobile network operators, banks and fintech firms, creating an increasingly interconnected digital financial ecosystem.

Beyond financial inclusion, the expansion of digital payments has important implications for regional trade and economic integration. Efficient payment systems reduce transaction costs, improve liquidity management and enable firms to transact seamlessly across borders. These benefits are particularly important for MSMEs, which increasingly rely on digital platforms to participate in regional and international markets (EAC Secretariat, 2022; World Bank, 2023).

However, while the adoption of digital financial services has accelerated across the region, interoperability across payment systems remains uneven. Interoperability, that enables customers to transact seamlessly

across different service providers, plays a critical role in enhancing the efficiency and inclusiveness of digital financial systems. By enabling end-to-end transactions between different financial service providers, interoperable systems expand customer choice, increase competition and reduce transaction costs (Cracknell et al., 2023). Evidence suggests that interoperability also simplifies the operational models of agents and payment service providers by reducing liquidity management challenges and improving the reach of digital financial services (Armel et al., 2024).

Within the EAC, the member states have different payment standards, governance structures and financial sector regulations. Although several regional initiatives have been introduced to enhance payment integration, including the East African Payment System (EAPS) and the Pan-African Payment and Settlement System (PAPSS), significant interoperability gaps remain (EAC Secretariat, 2021; Afreximbank, 2023). The evolution of interoperability in the region has followed a gradual trajectory, moving from bilateral arrangements between service providers to peer-to-peer scheme interoperability and, more recently, to attempts at establishing national switching platforms (Cracknell et al., 2023).

Moreover, the path toward full interoperability has been slow. Structural constraints, such as fragmented ownership structures, sustenance of legacy technological platforms, limited investment capacity and regulatory complexities, continue to hinder progress (Cracknell et al., 2023). In some cases, dominant market players may have limited incentives to open their platforms due to concerns about losing market power or competitive advantage. For example, the near dominance of Safaricom's M-Pesa ecosystem in Kenya has enabled extensive platform-level interoperability but has also raised concerns regarding market concentration and potential barriers to competition (Njuguna, 2021).

Overall, these developments present both challenges and opportunities for the banking sector within the EAC. Commercial banks remain significant players in cross-border payments through correspondent banking relationships, foreign exchange intermediation and settlement services. At the same time, the rapid expansion of fintech innovations and mobile money platforms is reshaping the competitive landscape of payment services. As digital commerce expands across the region, banks have an opportunity to leverage interoperable payment infrastructures to enhance cross-border transaction efficiency, expand services to MSMEs and strengthen their role in regional financial integration.

Despite the growing importance of cross-border e-payments, empirical research examining the drivers of interoperability and access within the EAC remains limited. Much of the existing literature focus on mobile money adoption and financial inclusion. Against this backdrop, this study seeks to examine the drivers of access and interoperability challenges in cross-border digital payments within the East African Community.

The remainder of this paper is organized as follows. Section 2 reviews the relevant theoretical and empirical literature, while section 3 outlines the study's methodological framework. Section 4 presents the findings and discussion, and section 5 provides the summary, conclusions and policy recommendations.

2.0. Review of Literature

This section reviews the theoretical and empirical literature underpinning cross-border digital payment interoperability within the EAC.

From a theoretical perspective, the Network Externalities Theory posits that the value and utility of a network increase as more users join and actively participate within it (Katz & Shapiro, 1985). Payment systems therefore exhibit strong positive network effects, whereby wider adoption enhances convenience, efficiency, liquidity and overall usability. This helps explain the rapid expansion of mobile money ecosystems across East Africa, particularly the widespread adoption of mobile-based payment platforms that have significantly improved transaction convenience, accessibility and financial inclusion. As more users, merchants, banks and fintech firms participate in digital payment ecosystems, the functionality and attractiveness of such platforms increase exponentially, thereby reinforcing adoption and strengthening financial interconnectivity.

Complementing this perspective is the Transaction Cost Theory, that emphasizes the role of institutional arrangements and governance structures in shaping the cost of conducting economic transactions (Coase, 1937;Williamson,1985).Here,paymentsystems are argued to significantly alter transaction costs associated with transferring value between economic agents by minimizing information asymmetries, delays, uncertainty and operational inefficiencies. Efficient cross-border payment infrastructures can therefore stimulate trade and regional integration by lowering settlement costs, reducing exchange frictions and enhancing transaction predictability.

Based on the foundational Financial Intermediation Theory, the volution pf digital technology in banking has affected how banks intermediate mobilized savings, manage liquidity risks, reduce information asymmetry and provide payment and settlement services. Banks continue to leverage technological innovation, interoperable payment infrastructure and fintech partnerships to expand cross-border financial services and improve MSMEs' access to regional and international markets.

From an empirical standpoint, international evidence consistently shows that cross-border payments remain significantly less efficient than domestic transactions. The Bank for International Settlements demonstrates that cross-border payments often involve multiple intermediaries, fragmented settlement processes and varying compliance requirements, resulting in higher transaction costs, delayed settlement and reduced pricing transparency (BIS, 2021). These inefficiencies largely stem from dependence on correspondent banking networks, fragmented regulatory frameworks and limited interoperability between national payment infrastructures. Consequently, businesses, particularly MSMEs, often face significant operational and financial barriers when conducting cross-border transactions.

In Africa, digital financial services have expanded rapidly, largely driven by the growth of mobile money ecosystems. Studies by the International Monetary Fund

and the World Bank show that mobile money platforms have substantially improved financial inclusion across East Africa by enabling households and small businesses to undertake payments, savings, remittances and transfers using mobile devices (IMF, 2022; World Bank, 2023). East Africa, particularly Kenya, has emerged as a global leader in mobile money innovation following the success of Safaricom's M-Pesa platform. However, despite high levels of domestic digital payment penetration, interoperability across national payment systems and cross-border platforms remains relatively weak, thereby limiting the full integration potential of regional digital finance ecosystems.

Existing literature points to interoperability as a critical determinant of payment efficiency and financial integration. According to the World Bank (2022), interoperable payment systems significantly reduce transaction costs, improve settlement speed and enhance competition among payment service providers. In contrast, fragmented payment ecosystems constrain the scalability and efficiency of digital financial services. Similarly, studies by the East African Community Secretariat emphasize that harmonization of payment standards, regulatory frameworks and settlement systems is essential for achieving effective regional payment integration and supporting intra-regional trade (EAC Secretariat, 2022).

Country-specific evidence across the EAC further reveals substantial heterogeneity in the drivers and constraints shaping digital financial services adoption. In Kenya, factors such as competition within the banking and telecommunications sectors, mobile phone ownership, financial literacy and education levels significantly influence the adoption and utilization of digital financial services (Lwaka & Muriithi, 2024; Wamalwa et al., 2024). Studies also indicate that behavioural biases and socio-cultural factors contribute to persistent gender disparities in mobile money usage (Osoro et al., 2024). In Uganda, digital financial inclusion is largely driven by mobile phone penetration, fintech innovation and supportive regulatory frameworks, although network connectivity challenges and gender inequalities remain important constraints (Okot & Kasekende, 2024).

Similarly, studies from Burundi show that mobile money adoption is strongly influenced by socio-economic conditions, education levels and social network effects (Ndoricimpa et al., 2024; Bizoza & Irakoze, 2024). In Rwanda, strong government support for a cashless economy has accelerated the development of integrated digital payment infrastructure, although digital literacy gaps, infrastructure deficiencies and interoperability challenges persist (Ggombe, 2024). Meanwhile, in Tanzania, barriers related to smartphone penetration, taxation policies, coordination failures among fintech stakeholders and uneven digital infrastructure continue to hinder the growth of digital financial services despite recent technological improvements (Macha & Massawe, 2023; Mwighusa & Diyamett, 2024).

3.0. Methodology

3.1. Data description and overview of MSMEs Characteristics

The study utilized the latest country specific World Bank Enterprise Survey (WBES) enterprise-level data drawn from Micro, Small and Medium Enterprises (MSMEs) operating across four East African Community (EAC) countries namely Rwanda, Kenya, Tanzania and Uganda. The WBES contains standardized information on enterprise operations, financial access, digital payment usage, infrastructure reliability, trade participation and business environment constraints. Hence, it offers a robust platform for evaluating enterprise experiences with digital payments, cross-border transactions, infrastructure reliability, regulatory obstacles and financial access constraints.

Descriptive analysis is presented at the onset to characterize the enterprises utilization of e-payment options and consequently evaluate what drives access and interoperability. Across the East Africa member states, the MSME landscape is dominated by small and medium-sized enterprises. Small firms account for nearly half of all establishments in Kenya (48.7%), Rwanda (47.9%) and Tanzania (54.4%), while Uganda exhibits a more balanced structure, with medium-sized firms constituting the largest share at 39.8% **(Figure 1)**. The ownership structure also reveals a strong prevalence of informal or closely held business models **(Figure 2)**. Sole proprietorships dominate in Rwanda (64.0%), Tanzania (70.8%) and Uganda (56.5%), whereas Kenya presents a more diversified corporate ecosystem, with sole proprietorships (37.7%) and limited partnerships (37.9%) almost equally represented. Publicly traded firms remain extremely rare across all the EAC countries, accounting for less than 4% of establishments. This trend is not a surprise since the EAC region has limited penetration of formal capital markets among MSMEs.

Figure 1: Distribution of MSMEs by Country and Firm Size

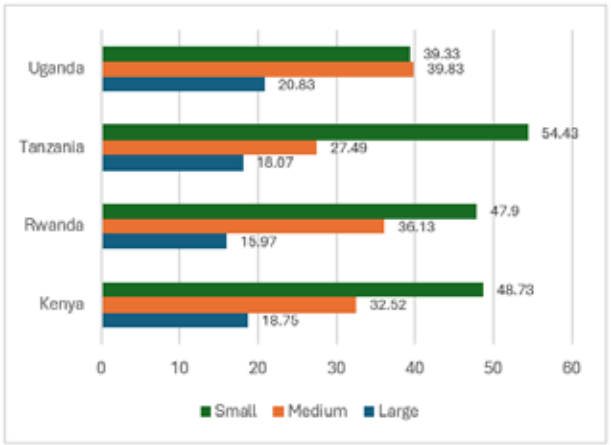
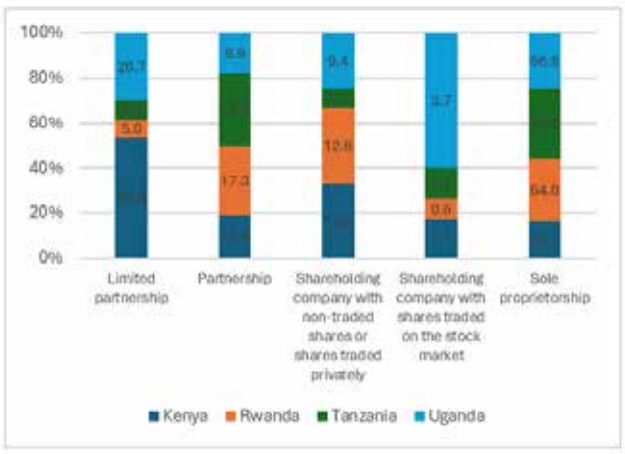


Figure 2: Legal Status of Enterprises Across Countries



The age distribution of enterprises further shows differing stages of business maturity across the region. Rwanda has the youngest business ecosystem, with 60.8% of firms operating for less than 10 years. In contrast, Kenya, Tanzania and Uganda display more mature enterprise structures, with a substantial concentration of firms in the 11 - 20 year and 21 - 40 year categories. Uganda stands out with 30.3% of firms operating for between 21 and 40 years **(Figure 3)**. More than half of Kenyan firms (52.9%) reported experiencing internet disruptions within the previous year, compared to only 17.9% in Tanzania and 20.4% in Uganda. Tanzania also records the highest proportion of establishments without internet connectivity altogether (48.4%) **(Figure 4)**. This trend is attributable to infrastructural constraints that could hinder digital financial adoption despite broader regional digitization efforts.

Figure 3: Period of operation of Enterprises Across Countries

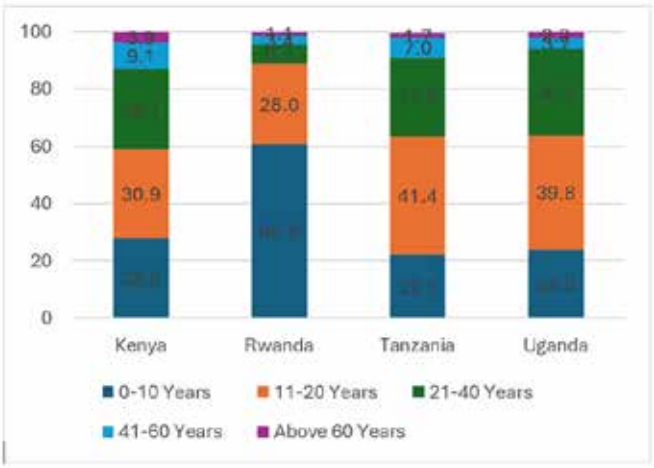
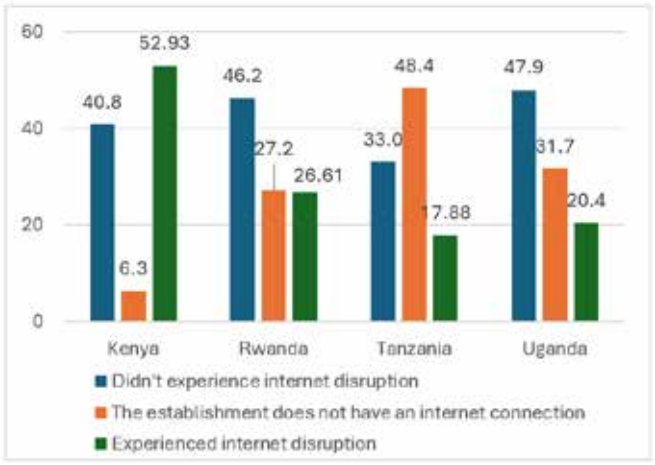


Figure 4: Internet connection of Enterprises Across Countries



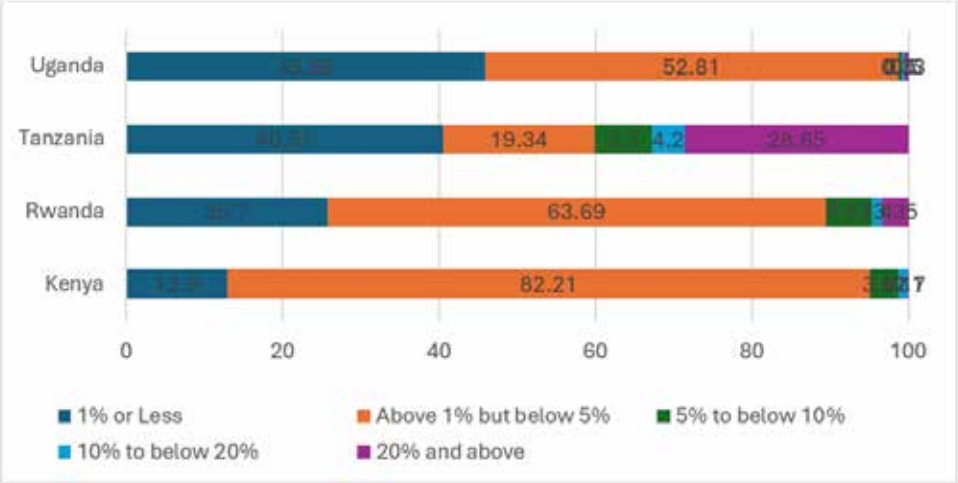
The data further reveals cross-country differences in the structure and maturity of digital payment ecosystems across the EAC **(Figure 5)**. Kenya stands out as the region's digital payments powerhouse, with majority of the firms relying on non-bank e-payment options such as mobile money and e-wallets (50.88%) alongside bank-specific digital payment channels (46.58%). The near absence of card usage (1.17%) underscores the dominance of mobile first financial infrastructure and reflects Kenya's deeply entrenched fintech ecosystem. On the other hand, Uganda exhibits a remarkably similar pattern, with non-bank digital payment options accounting for 51.82% of usage and bank-specific e-payments contributing 39.17%. In contrast, Tanzania has a far more fragmented payment landscape. Nearly half of firms (46.50%) fall under "other" payment methods, while bank-specific e-payments (19.67%) and non-bank alternatives (20.17%) remain comparatively low. This dispersion points a potentially weaker digital integration and interoperability challenges within the formal payment ecosystem. Rwanda, on its part, presents a transitional structure characterized by relatively balanced adoption across cards (13.41%), non-bank e-payments (27.37%) and bank-specific platforms (23.18%). Nonetheless, the large "other" category (36.03%) is an indication that many firms still rely on informal or hybrid payment arrangements.

Figure 5: Preferred E-Payment Channels by Country



In terms of the transaction cost dynamics **(Figure 6)**, Kenyan firms report the lowest effective transaction cost burden, with an overwhelming 82.21% of firms incurring costs of between above 0% and below 5%, while only 0.10% face costs exceeding 20%. Rwanda follows a similar trajectory, with 63.69% of firms operating within the low-cost bracket, although a modest 3.35% still experience transaction costs above 20%, hence pointing to pockets of inefficiency within cross-border and formal banking channels. Tanzania, on its part, emerges as the clear outlier and cost hotspot within the EAC digital payments landscape. A staggering 28.65% of Tanzanian firms report transaction costs exceeding 20%, far above the levels observed in Kenya, Rwanda and Uganda. On the other hand, Uganda presents a mixed but relatively low-cost structure, with 52.81% of firms facing transaction costs below 5%. Moreover, 45.86% still report zero e-payment usage, suggesting continued dependence on cash-based or informal transaction mechanisms.

Figure 6: Average Transaction Costs by Payment Type and Country



3.2. Econometric model and variable Description

The analytical strategy proceeds in two stages. At the onset, descriptive statistics and cross-tabulations are used to profile the prevalence of digital payment adoption, interoperability challenges and payment barriers across EAC countries and firm categories. Then estimation of econometric models was undertaken. At this stage, three choice models were estimated. The first model, which examines the likelihood of the enterprises using e-payments versus not using them, is specified as follows:

$$P(Y = 1/X_1, X_2, \ldots . X_n) = \phi(Z) \quad (1)$$

Where $\phi(Z) = \phi(\beta_o + \beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_n X_n)$, P is the outcome of the decision to either using e-payments or not for the K^{th} observation, ϕ is the standard cumulative normal, X_k is the vector of explanatory variables for observations k and β.

The second level of the analysis entailed modelling the dichotomy of using card verses non-card e-payment option by the enterprises and is specified as shown in equation 2:

$$P(Y = 1/X_1, X_2, \ldots . X_n) = \pi(T) \quad (2)$$

Where $\pi(T) = \pi(\gamma_o + \gamma_1 X_1 + \gamma_2 X_2 + \cdots + \gamma_n X_n)$, P is the outcome of the decision to either using card or non-card e-payments for the K^{th} observation, π is the standard cumulative normal, X_k is the vector of explanatory variables for observations k and γ.

Lastly, equation 3 models the utilization of e-payments along the dimensions of bank vis a vis other (non-bank e-payment options, such as e-money, e-wallet and mobile money).

$$P(Y = 1/X_1, X_2, \ldots\ldots X_{10}) = \lambda(W) \quad (3)$$

Where $\lambda(W) = \lambda(\delta_o + \delta_1 X_1 + \delta_2 X_2 + \cdots + \delta_n X_n)$, P is the outcome of the decision to either using card or non-card e-payments for the Kth observation, λ is the standard cumulative normal, X_k is the vector of explanatory variables for observations k and δ. Table 1 presents the operationalization of study variables as used in Equation 1, 2 and 3.

Table1: Operationalization of variables

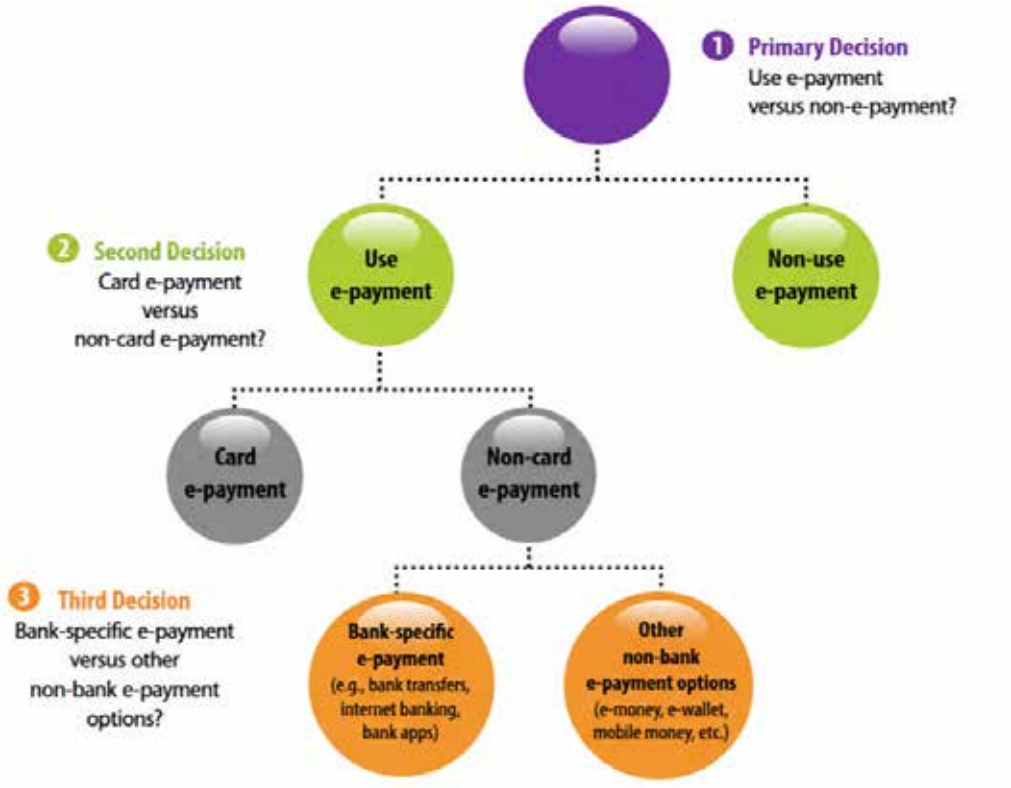
Variable	Operational definition
Firm Size	
Small	Binary variable: 1 if small, 0 otherwise.
Medium	Binary variable: 1 if medium, 0 otherwise.
Large	Binary variable: 1 if large, 0 otherwise.
Legal Status	
Sole proprietorship	Binary variable: 1 if Sole proprietorship, 0 otherwise.
Partnership	Binary variable: 1 if Partnership, 0 otherwise.
Limited partnership	Binary variable: 1 if Limited partnership, 0 otherwise.
Shareholding company with non-traded shares or shares traded privately	Binary variable: 1 if Shareholding company with non-traded shares or shares traded privately, 0 otherwise.
Shareholding company with shares traded on the stock market	Binary variable: 1 if Shareholding company with shares traded on the stock market, 0 otherwise.
Years in Business	
0-10 Years	Binary variable: 1 if 0-10 Years, 0 otherwise.
11-20 Years	Binary variable: 1 if 11-20 Years, 0 otherwise.
21-40 Years	Binary variable: 1 if 21-40 Years, 0 otherwise.
41-60 Years	Binary variable: 1 if 41-60 Years, 0 otherwise.
Above 60 Years	Binary variable: 1 if Above 60 Years, 0 otherwise.
International Certification	Binary variable: 1 if it has International Certification, 0 otherwise.
Internet Disruption Experience	
Yes	Binary variable: 1 if Yes, 0 otherwise.
No	Binary variable: 1 if No, 0 otherwise.
The establishment does not have an internet connection	Binary variable: 1 if The establishment does not have an internet connection, 0 otherwise.
Average Cost per Transaction	
1% or less	Binary variable: 1 if 1% or less, 0 otherwise.
Above 1% but below 5%	Binary variable: 1 if Above 1% but below 5%, 0 otherwise.
5% to below 10%	Binary variable: 1 if 5% to below 10%, 0 otherwise.
10% to below 20%	Binary variable: 1 if 10% to below 20%, 0 otherwise.
Country	
Kenya	Binary variable: 1 if Kenya, 0 otherwise.
Rwanda	Binary variable: 1 if Rwanda, 0 otherwise.
Tanzania	Binary variable: 1 if Tanzania, 0 otherwise.
Uganda	Binary variable: 1 if Uganda, 0 otherwise.

3.2. Estimation Strategy

Discrete binary choice models can be estimated using several alternative approaches, including the Linear Probability Model (LPM), Binary Probit Model and Binary Logit Model, with the choice of estimation technique largely reflecting the trade-off between model flexibility and ease of estimation (Munizaga & Alvarez-Daziano, 2001).

Given the objective of modelling enterprise owners' decision-making behaviour regarding the adoption and use of cross-border e-payments **(Figure 7)**, several discrete choice modelling approaches were considered. Among these, the nested logit model is commonly applied where decision alternatives can be grouped into related categories or "nests," thereby creating a hierarchical decision structure (Ben-Akiva & Lerman, 1985; Train, 2003). In such models, alternatives within the same nest are assumed to share correlated error terms, while alternatives across different nests remain uncorrelated. Unlike the standard logit model, the nested logit framework relaxes the restrictive assumption of independently and identically distributed error terms by allowing correlations among similar alternatives. Consequently, the model captures the possibility that certain alternatives may share common unobservable characteristics influencing the decision-making process (Hensher et al., 2005). However, nested logit models primarily account for similarities in unobserved utility components rather than explicitly modelling the sequential process of decision formation.

Figure 7: Decision process for cross-Border e-payment adaption by enterprises



Source: Authors illustrations

Despite these advantages, the nested logit approach was deemed unsuitable for the present study due to limitations associated with the available dataset.[1] In addition, the study sought to account for potential sample selection bias arising from the fact that only firms participating in cross-border trade or digital transactions could meaningfully report on interoperability and e-payment constraints. Accordingly, the study adopted a three-step probit model with sample selection based on the seminal framework developed by James Heckman (1979). The Heckman selection approach was considered more appropriate because it corrects for non-random sample selection while simultaneously estimating the determinants of enterprise participation and e-payment adoption behaviour within a coherent econometric framework.

1 The data adopted for use in this study lacked the hierarchical and sequential choice structure required for reliable nested logit estimation.

4.0. Findings and Discussions

Table 2 presents the results of the three probit models estimated in stage 1, stage 2 and stage 3. Prior to running the three models, benchmark dummies were set for the categorical explanatory variables. The findings reveal that cross-border e-payment interoperability in the EAC is constrained less by firm characteristics and more by structural weaknesses embedded within the region's regulatory, technological and market architecture.

Table 2: Probit Regression Results

	Stage 1: Decision to use or not to use e-payment option		Stage 2: Decision to use card versus non-card e-payment option		Stage 3: Decision use bank versus non-bank e-payment option	
	e-payment usage decision (=1 if e-payment is used, 0 otherwise i.e., do not use)		Card e-payment usage decision (=1 if card used for e-payments, 0 otherwise i.e., do not use cards)		Bank versus non-bank e-payment usage (=1 if bank-based e-payment is used, 0 otherwise i.e., non bank-based e-payment option)	
	Probit Regression	Marginal Effects	Probit Regression	Marginal Effects	Probit Regression	Marginal Effects
Firm Size (Ref: Small)						
Medium	0.066	0.012	-0.061	-0.007	-0.061	-0.007
	(0.085)	(0.015)	(0.113)	(0.014)	(0.113)	(0.013)
Large	-0.075	-0.014	-0.164	-0.019	-0.164	-0.018
	(0.117)	(0.022)	(0.151)	(0.016)	(0.151)	(0.016)
Legal Status (Ref: Sole proprietorship)						
Partnership	0.000	0.0524	0.019	0.002	0.019	0.002
	(0.103)	(0.019)	(0.139)	(0.016)	(0.139)	(0.016)
Limited partnership	0.094	0.017	-0.054	-0.006	-0.054	-0.006
	(0.131)	(0.023)	(0.156)	(0.017)	(0.156)	(0.017)
Shareholding company with non-traded shares or shares traded privately	0.106	0.019	0.315	0.043	0.315	0.043
	(0.152)	(0.027)	(0.172)	(0. 043)	(0.172)	(0.025)
Shareholding company with shares traded on the stock market	0.355	0.06	0.038	0.005	0.038	0.004
	(0.382)	(0.058)	(0.435)	(0.053)	(0.435)	(0.053)
Years in Business Group (Ref: 0-10 Years)						
11-20 Years	0.154	0.028	0.032	0.003	0.032	0.003
	(0.089)	(0.016)	(0.127)	(0.013)	(0.127)	(0.013)
21-40 Years	0.058	0.011	0.294	0.036	0.293	0.036
	(0.107)	(0.020)	(0.142)	(0.018)	(0.142)	(0.017)

41-60 Years	-0.272 (0.170)	-0.060 (0.035)	0.467 (0.227)	0.063 (0.035)	0.467 (0.227)	0.063 (0.035)
Above 60 Years	-0.177 (0.283)	-0.035 (0.057)	0.096 (0.389)	(0.011) (0.045)	0.095 (0.389)	0.011 (0.045)
International Certification (Ref: No)						
Yes	0.088 (0.135)	0.016 (0.024)	-0.126 (0.164)	-0.014 (0.018)	-0.126 (0.164)	-0.014 (0.017)
Internet Disruption Experience (Ref: Yes)						
No	-0.102 (0.099)	-0.018 (0.017)	-0.074 (0.124)	-0.009 (0.015)	-0.074 (0.123)	-0.009 (0.015)
The establishment does not have an internet connection	-0.205* ().111)	-0.038 (0.020)	-0.166 (0.151)	-0.019 (0.017)	-0.166 (0.150)	-0.019 (0.017)
Average Cost per Transaction (Ref: 1% or less)						
Above 1% but below 5%	0.683*** (0.089)	0.136 (0.018)	0.190 (0.125)	0.023 (0.014)	0.190 (0.125)	0.023 (0.014)
5% to below 10%	1.230*** (0.203)	0.210 (0.024)	-0.420 (0.252)	-0.037 (0.019)	-0.420 (0.252)	-0.036 (0.019)
10% to below 20%	0.369 (0.242)	0.079 (0.048)	0.162 (0.339)	0.019 (0.043)	0.162 (0.339)	0.019 (0.043)
Country (Ref: Kenya)						
Rwanda	-1.703*** (0.139)	-0.339 (0.028)	1.540 (0.165)	0.216 (0.031)	1.540 (0.165)	0.216 (0.031)
Tanzania	-1.807*** (0.143)	-0.376 (0.029)	1.768 (0.176)	0.288 (0.037)	1.768 (0.176)	0.288 (0.037)
Uganda	-0.287* (0.149)	-0.022 (0.011)	0.330 (0.171)	0.015 (0.008)	0.330 (0.171)	0.015 (0.008)
Constant	1.572***		-2.397 (0.207)		-2.396 (0.207)	

At the first stage, internet access, transaction costs and country-specific effects emerged as the strongest determinants of e-payment adoption for cross-border transactions. Firms without internet connectivity were significantly less likely to use digital payment systems. This points to the critical role of digital infrastructure in enabling interoperable cross-border finance. This finding reflects broader infrastructural disparities across the EAC, where unreliable internet connectivity, high broadband costs and weak digital ecosystems continue to limit seamless

financial integration. Additionally, the results suggest that enterprises experiencing transaction costs above 1% were more likely to adopt e-payments. Thus, despite being exposed to high fees, firms increasingly depend on digital channels to participate in regional commerce. This trend underscores a deeper problem. That is, cross-border payments in the EAC remain expensive due to exchange rate conversion costs, reliance on correspondent banking systems and duplicated compliance procedures.

Country-level disparities were equally evident. Relative to Kenya, firms in Rwanda, Tanzania and Uganda were significantly less likely to use e-payments. Kenya's stronger performance reflects the maturity of its digital financial ecosystem, particularly the entrenchment of mobile money platforms and more developed payment infrastructure. In contrast, lower adoption levels elsewhere in the region point to fragmented regulatory frameworks, uneven fintech development and inconsistent payment system modernization across EAC member states. Divergent KYC and AML/CFT requirements, restrictive licensing regimes and data localization rules continue to increase compliance costs and operational friction for payment service providers operating across borders.

The second and third stages reveal some notable insights regarding interoperability. Firms in Rwanda and Tanzania were more likely to rely on card-based and bank-based payment systems relative to Kenyan firms, where mobile money and non-bank providers dominate. This reflects the dichotomy in nature of payment ecosystems within the region. While Kenya's mobile money revolution has accelerated domestic digital payments, the dominance of "on-us" transactions within large provider networks reduces incentives for interoperability with regional systems and smaller competitors. Consequently, cross-border transactions remain siloed within national payment architectures.

5.0. Summary, Conclusion and Policy Recommendations

The study demonstrates that cross-border digital payment interoperability within the EAC remains uneven, fragmented and heavily influenced by disparities in the enabling infrastructural and regulatory frameworks. While Kenya has developed a highly integrated mobile-first digital payments ecosystem dominated by non-bank fintech platforms, Tanzania continues to face significant interoperability bottlenecks, high transaction costs and limited formal digital payment penetration. Uganda exhibits strong mobile money adoption but still retains substantial dependence on informal and cash-based systems, whereas Rwanda reflects a transitional payment structure supported by strong policy commitment toward digitalization.

The econometric findings further reveal that internet access, transaction costs and country-level digital ecosystem maturity are the strongest determinants of e-payment adoption. Therefore, achieving an efficient and interoperable regional payments ecosystem will require harmonized regulatory frameworks, investment in enabling digital infrastructure, adopting standardized payment protocols and stronger integration between banks, fintech firms and regional settlement platforms across the EAC. As such, the study recommends to authorities to consider:

- **Harmonizing Regional Payment Regulations**

  EAC member states should establish a unified regional framework for KYC, AML/CFT compliance, licensing and data governance to reduce regulatory duplication, lower compliance costs and facilitate seamless cross-border operations for payment service providers.

- **Investing in Shared Digital Payment Infrastructure**

  The region should accelerate the adoption of common technical standards such as ISO 20022 and strengthen regional payment switches and real-time settlement systems to reduce interoperability failures, settlement delays and dependence on correspondent banking networks.

- **Promoting Inclusive and Competitive Interoperability**

  Regulations should require dominant payment providers and mobile money operators to support open-access interoperability frameworks while expanding affordable internet access, digital identification systems and digital literacy initiatives to enhance SME participation in regional digital commerce.

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