Development Finance Working Paper Series[1]

Financial Innovation and Economic Growth in Africa

Kirsten Amsterdam
Abdul Latif Alhassan

No. DEFWPS180003

July 2018

[1] **Note:** The findings from this working paper does not in any way reflect the views of the Development Finance Centre (DEFIC). The views are only representative of the authors.

Published by:
The Development Finance Centre (DEFIC),
Graduation School of Business, University of Cape Town,
9 Portswood Rd, V & A Waterfront, Cape Town, 8002
Centre webpage: http://www.gsb.uct.ac.za/s.asp?p=791

Financial Innovation and Economic Growth in Africa

Kirsten Amsterdam & Abdul Latif Alhassan

Abstract

This study investigated the relationship between financial innovation and economic growth in twenty-five countries in Africa. Three proxies for financial innovation the growth in bank credit to the private sector, the ratio of broad money to narrow money and mobile penetration and data for four financial innovations automated teller machines, mobile money accounts and mobile money agents and mobile transactions are used in the estimations.

The results indicate that measures which have a significant effect on growth and non-mobile related proxy measures, are generally negative. The mobile financial innovations generally have a positive effect, particularly in countries with low levels of financial development. This study firstly concludes that mobile linked financial innovation has a positive effect on growth in Africa, therefore policy and regulation should be geared towards encouraging further positive impact. Secondly, this study concludes that the level of financial development in African countries impacts the extent and the way financial innovation impacts growth.

It is recommended that the focus on improving financial inclusion, utilising financial innovation, particularly mobile financial innovation should be continued, in order to improve financial depth and efficient allocation of resources and financial intermediation. Further research is also required into the effects of financial innovation specific to individual countries, and the nuances between them, as well as the role of regulation and financial development on financial innovations effect on growth.

Keywords: Financial Innovation | Financial Development | Economic Growth | Africa |