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Digitalisation's mixed development record

Does digitalisation drive future-proof development for the Global South? A closer look fuels doubt about too much optimism

In the current corona crisis, societies worldwide face huge economic and health challenges. Governments need to protect the health of their citizens while ensuring that, despite a shutdown, the country's essential services do not grind to a halt. To help vulnerable citizens, over a dozen countries, including the United States, have announced that they will provide some form of social assistance. While many of these efforts are one-off measures to mitigate the direct effects of the corona crisis, some may turn out to be more long-term, depending on how widespread the economic and human costs of the pandemic are.

Some observers see various countries in the Global South, such as India and Kenya, as better prepared to make social transfer payments than certain industrialised countries, in particular the United States. The reason: by working with actors in development cooperation, governments in the South have been promoting digital inclusion programmes for over ten years – for example, the World Bank 'ID for Development' project (ID4D).

Aadhaar, the Indian centralised biometric database, and M-Pesa, the mobile phone-based money transfer service (which is now much more than just a payment system), are considered showcase projects. Moreover, according to the World Bank digital technologies offer enormous opportunities to implement the United Nations Global Sustainable Development Goals (SDGs).

Sometimes, development policy experts even give the impression that digitalisation enables a completely new quality of business and, therefore, a unique opportunity for societies in the Global South to achieve future-proof development. A more detailed analysis of digital business models, their dominant players and their social and human rights consequences, however, fuels doubts about overly optimistic expectations.

Aadhaar – India's centralised database

India, like no other developing or emerging country, built an internet-based economy very early on. In the 1990s, Bangalore was already considered the Silicon Valley of the Global South. For over ten years now, the government in New Delhi has purposefully digitised governmental areas of responsibility. For example, the Aadhaar database now records (almost) the entire Indian population.

In the corona crisis, the Indian government is using Aadhaar's almost complete coverage to electronically transfer the equivalent of USD 350bn to 800 million people in need, via their bank accounts or mobile phones. In contrast, the US government faces a much greater logistical challenge to pay its citizens relief payments, some of which are made by check, to alleviate the economic consequences of coronavirus.

UIDAI, the Unique Identification Authority of India, manages the system installed in 2009, and assigns each person registered a twelve-digit number under which it stores personal information (such as name, gender, date of birth, address) and biometric data (fingerprints, iris scans and photos). Since UIDAI does not have the capacity to manage the data itself, it outsourced this work to so-called registrars, which include public authorities as well as private companies, primarily banks and insurance companies. These, in turn, are allowed to commission subcontractors to register citizens in the Aadhaar system. This presents a problematic approach from a data protection perspective.

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Numerous scandals have already revealed the security flaws in the Aadhaar system. Press reports have shown that, because of data leaks, for the equivalent of less than ten euros, personal data on Aadhaar can be bought online. Millions of Aadhaar numbers and personal information have also appeared on over 200 government websites. Amnesty International also sees fundamental rights threatened because UIDAI can deactivate Aadhaar identification numbers for a variety of reasons. When this happens, those affected lose their access to government services.

M-Pesa: a success story with dark sides

The second digital showcase projects in the Global South are mobile payment services such as M-Pesa, which is widely used in Kenya in

particular. In the initial phase, M-Pesa was used to give people who did not have a bank account the opportunity to send money to their relatives or friends living elsewhere. Instead of instructing money carriers to transport the cash door-to-door money, the transfer involved just a few clicks. For many people, this greatly simplified matters.

Since then, M-Pesa enables customers to pay for numerous goods and services using mobile phone credit and text messages – for example, petrol purchases, routine shopping and electricity bills. A mobile payment service is particularly attractive for people who live outside the cities and for anyone who does not have a traditional bank account. But the mobile payment system is now very popular even in modern metropolises such as Nairobi and Mombasa. In Kenya, digital banking has now reached the mass market. With around 27 million customers, M-Pesa, the top dog among the providers, reaches over half of the Kenyan population.

Its success seems to justify the project. But who benefits from the wide range of practical applications? M-Pesa was launched in 2007 by the Kenyan telephone company Safaricom, the former subsidiary of Telkom Kenya. In addition to Safaricom, foreign investors are now also making a substantial contribution to M-Pesa, which has spread from Kenya to nine other African countries. In 2000, British Vodafone acquired a 40 per cent stake in Safaricom.

This investment has turned out to be quite lucrative for Vodafone, as Safaricom is one of the most profitable companies in Africa. The high fees that M-Pesa users have to pay are particularly profitable. These fees are especially high when funds are transferred to accounts that were not opened through Safaricom. This holds true for the small amounts of money transferred by poorer people. In 2019, a transfer to another M-Pesa account cost up to 11 per cent of the amount transferred, and a transfer to a non-M-Pesa account cost even up to 45 per cent. Such a fee structure discriminates against those who use competing payment services.

Earning from school fees

From the point of view of fighting poverty, so-called digital finance services may also appear to be dubious: while they allegedly react to social injustices, they do not do away with them but instead preserve them. Such grievances include the fees charged for attending school, whether public or private, in many countries in the South. According to Human Rights Watch, right now 264 million children in the countries of the Global South do not attend primary or secondary schools, and many

more drop out of school early. One of the main reasons for this lack of education is the school fees that are unaffordable for many families, along with additional indirect costs for uniforms, books and transportation.

With the adoption of the Sustainable Development Goals (SDGs), the United Nations has set for itself the goal of providing free access to primary and secondary education worldwide by 2030. Accordingly, the CGAP (Consultative Group to Assist the Poor), a network of financial institutions, development agencies and corporate foundations coordinated by the World Bank, is also dealing with the issue of with school fees. However, instead of presenting suggestions on how to encourage free school attendance, it is giving examples of how mobile operators can earn money from the fees.

In the Côte d'Ivoire, for example, several mobile providers have set up the option of paying school fees via mobile phone. The Ivorian Ministry of Education pays the processing fees for the money transfers to the mobile phone companies. These include the French company Orange, the Etisalat group from the United Arab Emirates and the South African mobile operator MTN. A prerequisite for the continued existence of this business model is that the governments continue to charge school fees so that, in the end, the the structural question whether access to education should be free or not remains unchanged.

Digital microloans can lead to debt traps

Several companies have further developed the school fees business and now also offer digital loans for education. One of these is Fenix International, a subsidiary of the French energy group Engie, which is expanding its business activities in the African education sector. The market for digital loans is no longer limited to the educational sector, but encompasses a wide range of consumer loans. Their distribution via mobile phones and smartphones, which is taking place in countries in the South, is mostly beyond any form of regulation, such as financial market legislation.

Poor consumer protection creates additional poverty risks, as many of the borrowers fall into a debt trap. This is illustrated by a study by the CGAP on digital loans in East Africa. It showed that one third of the mobile phone owners surveyed in Kenya and one fifth in Tanzania took out loans on their mobile phones. However, over half of these people fell behind in repaying the loan, while others needed to stop paying the instalments altogether. 31 per cent of customers in Tanzania and 12 per cent in Kenya were unable to repay their loans. Many of the debtors cut back on food in order to make the instalment payments. A significant

proportion stated that they had neither realised what the costs would be, nor understood the terms of the loans they had taken out through their mobile phones.

The guiding criterion for digital development cooperation projects should not be the business models of transnational companies, but rather the 2030 Agenda for Sustainable Development and international human rights agreements.

Borrowers' debts are not surprising, given the sometimes exorbitant interest rates charged on microloans. One example is M-Shwari, which was launched in 2012 jointly by Safaricom and the Commercial Bank of Africa (CBA). Instead of applying for the loan from the bank, payment and repayment are made via the M-Pesa account. M-Pesa does not charge any interest on the loan, but it does charge a set-up fee of 7.5 per cent of the loan. The catch is that the loan must be paid back in 30 days. An extension of the repayment period by another 30 days is possible, but again costs a fee of 7.5 per cent. Extrapolated, this corresponds to an annual interest rate of 138 per cent!

Development-oriented, poverty-oriented digitalisation

In various areas, digital technologies offer opportunities to respond better to crises. However, the impression often given in development policy circles, that digital technologies and policies such as mobile payment systems and databases offer societies in the Global South a unique, broad-based opportunity for development, does not hold up to a closer analysis.

Not only are these schemes questionable from a data protection perspective, but, as in the case of digital microloans, they can even exacerbate poverty by driving already disadvantaged people into a (new) debt trap. The business models behind the mobile payment systems and the basic services therefore do not allow an inclusive and poverty-sensitive development model. Rather, these models support private sector actors whose interest lies in the continuation of fee-based and profit-oriented services such as education.

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First of all, the central challenge is, in development policy debates and

policies, to focus more strongly on the risks of this process.

Secondly, in its project funding, state development cooperation should pay greater attention to the social, economic and political environment in which the projects are taking place. Without effective consumer and data protection and thoroughly monitoring competition, support for digital projects in the South poses considerable development risks.

Third, cooperation between UN organisations and development agencies with digital and FinTech corporations must be subject to rigorous scrutiny. Groups like the above-mentioned CGAP appear to be particularly dubious. Competition from transnational companies funded with development money can hinder the development of a local digital economy in countries of the South.

Fourth, the opportunities for increased surveillance, behavioural control, and sanctions through biometric databases require a strengthening of civil society in Southern countries vis-à-vis their governments. Because of considerable security flaws and possibilities of abuse, the promotion of biometric databases by development banks should also be critically examined.

Any digital policy, and especially for countries and regions in the Global South, must be designed with two goals in mind: It must harness the potential of digitalisation for the benefit of disadvantaged groups and, at the same time, minimise existing risks and create added value first and foremost for the societies.



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