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Digital Transformation, Financial Inclusion and Inclusive Development in Sub-Saharan Africa: Institutional Quality Role

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Abstract

The study explores the linkages between digital transformation, financial inclusion, institutional quality and inclusive development in 34 Sub-Saharan African countries during 2004–2022. The study combines digital transformation and financial inclusion in a single empirical framework and tests the moderating effect of institutional quality separately. Principal Component Analysis (PCA) was used to compute composite indices for digital transformation, financial inclusion and institutional quality. After running a series of diagnostic tests, the Common Correlated Effects Mean Group (CCEMG) estimator was used as the preferred estimation method since it allows to capture the cross-sectional dependence and slope heterogeneity, while CCEP and Mean Group estimators were estimated for robustness comparison. The results show that, once the common shocks and country-specific heterogeneity are accounted for, there are no statistically significant direct relationships between inclusive development and digital transformation or financial inclusion, and no statistically significant moderating relationships between inclusive development and institutional quality. The difference between CCEMG and conventional estimators illustrates that ignoring cross sectional dependence and country effects may result in wrong policy conclusions. The results indicates that digital technologies and financial inclusion are not enough to drive inclusive development without investments in institutional capacity, human capital, and productive infrastructure. The study adds to the extant literature by providing a more robust econometric evaluation of the digital transformation–inclusive development nexus and evidence that inclusive development in Sub-Saharan Africa is not solely dependent on digital technologies and financial expansion.

Keywords: Digital Transformation, Financial Inclusion, Inclusive Development, Institutional Quality, Sub-Saharan Africa