THE POSITIVE SIDE OF COVID-19 PANDEMIC - BOOSTING FINANCIAL INCLUSION BY SPURRING THE REMITTANCE FLOWS AND DIGITAL PAYMENTS

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ABSTRACT

COVID-19 pandemic is a human tragedy that constitutes the most severe blow to the global economy since World War II. It has swiftly overwhelmed the health systems of all nations developed and developing producing social and economic impacts that will be unprecedented in scale. On the positive side, the COVID-19 crisis spurred unprecedented change, especially in industries with a large digital component. This pandemic has catalyzed increases in access to and use of financial services in developing economies.

Keywords: COVID 19 Pandemic, Financial Inclusion, Digital Payments.

JEL Classifications: I1, G01, H5, H84

INTRODUCTION

The whole world is suffering from the corona Virus that has heavily impacted the entire world and affected the poor segment of the world population. They have been affected because its effect becomes more than their instant health needs and it has stopped them from covering their most essential needs and led them to situations with a more acute form of economic and social vulnerability (Beinker & Shorey, 2020; Benni, 2021). Despite good news has been difficult to find lately in the global economy, yet there's reason for optimism in a major area of social and economic development: strong progress has been steadily occurring in financial inclusion, as measured by increased access to financial services for the world's poor (Klapper et al., 2022). Ironically, the COVID-19 crisis spurred unprecedented change, especially in industries with a large digital component. This pandemic has catalyzed increases in access to and use of financial services in developing economies, transforming how people make and receive payments, borrow, and save (Malpass, 2022). The present study aims to investigate the Impacts of COVID-19 on Financial Inclusion and how this pandemic has catalyzed increases in access to and use of financial services in developing economies. It will also attempt to provide a slew of recommendations for Countries, governments and policymakers in general.

Impact of COVID-19 on Remittance Flows

Global remittances were projected to decline sharply by about 20 percent in 2020 due to the economic crisis induced by the COVID-19 pandemic and shutdown. The projected fall, which would be the sharpest decline in recent history, is largely due to a fall in the wages and employment of migrant workers, who tend to be more vulnerable to loss of employment and wages during an economic crisis in a host country. Remittances to low and middle-income

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countries were projected to fall by 19.7 percent to $445 billion, representing a loss of a crucial financing lifeline for many vulnerable households (Word Bank, 2021).

Despite COVID-19, remittance flows remained resilient in 2020, registering a smaller decline than previously projected. Officially recorded remittance flows to low- and middle-income countries reached $540 billion in 2020, just 1.6 % below the 2019 total of $548 billion, according to the latest Migration and Development Brief (Word Bank, 2021). The decline in recorded remittance flows in 2020 was smaller than the one during the 2009 global financial crisis (4.8 percent). It was also far lower than the fall in foreign direct investment flows to low- and middle-income countries. As a result, remittance flows to low- and middle-income countries surpassed the sum of FDI ($259 billion) and overseas development assistance ($179 billion) in 2020 (Word Bank, 2021).

Impact of COVID-19 on Digital Payments

The pandemic has led to an increased use of digital payments, and The prolonged pandemic-related lockdowns prompted millions of men and women to change how they paid for groceries or paid a utility bill from in-person, cash-based payments-which in the pandemic context were viewed as unsafe and unsanitary-to digital payments made directly from an account (whether making a direct transfer, using a credit or debit card, or paying with a mobile money account) (Klapper et al., 2022). In low and middle-income economies (excluding China), over 40% of adults who made merchant in-store or online payments using a card, phone, or the internet did so for the first time since the start of the pandemic. The same was true for more than a third of adults in all low- and middle-income economies who paid a utility bill directly from a formal account. In India, more than 80 million adults made their first digital merchant payment after the start of the pandemic, while in China over 100 million adults did (Word Bank, 2022).

Two-thirds of adults worldwide now make or receive a digital payment, with the share in developing economies grew from 35% in 2014 to 57% in 2021 (Word Bank, 2022), And more than one-third of people in low- and middle-income countries who paid a utility bill from an account did so for the first time after the start of the COVID-19 pandemic (Malpass, 2022; Machasio, 2020; Soutter et al., 2019).

Impact of COVID-19 on Formal Financials Accounts

These changes are strikingly evident in the latest edition of the Global Findex database, covering use of financial services throughout 2021[1]. The survey found that 71% of adults in developing economies now have a formal financial account-whether with a bank, another regulated institution such as a credit union or microfinance lender, or a mobile money service provider-compared to 42% when the first edition of the database was published a decade ago (Malpass, 2022; Ozili, 2020). Importantly, growth in account ownership was evenly distributed across many more countries. While in previous Findex surveys over the last decade much of the growth was concentrated in India and China, this year's survey found that the percentage of account ownership increased by double digits in 34 countries since 2017 (Word Bank, 2022).

Impact of COVID-19 on the Gender Gap in Accounts Ownership

For the first time since the Global Findex database was started in 2011, the survey found that the gender gap in account ownership has narrowed, helping women have more privacy,

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security, and control over their money. The gap narrowed from 7 to 4 percentage points globally and from 9 to 6 percentage points in low- and middle-income countries, since the last survey round in 2017 (Word Bank, 2022).

Impact of COVID-19 on Digitizing Government Payments

The restricted economic activity during the COVID-19 crisis created the need to support vast numbers of people, including urban informal populations, who generally were not receiving any existing social assistance program. But the Expanding support systems posed two challenges: identifying who needed support, and making the payments efficiently and safely in the context of a pandemic. Once beneficiaries were registered and their eligibility verified, governments faced the second challenge: delivering payments quickly and safely. Many countries used digital payment methods, in several cases for the first time. Sometimes this took the form of transfers into mobile money or traditional accounts. In other cases, individuals received payments through mobile vouchers or tokens they could then use to cash out (Qiang et al., 2022; Aneja & Islam, 2020).

DISCUSSION

The Corona pandemic has catalyzed increases in the access and use of financial services across the world, transforming ways in which people make and receive payments, borrow, save and drove a huge increase in financial inclusion. The true size of remittances, which includes formal and informal flows, is believed to be larger than officially reported data, though the extent of the impact of COVID-19 on informal flows is unclear (Word Bank, 2021). The main drivers for the steady flow included a shift in flows from cash to digital and from informal to formal channels (Word Bank, 2021). The prolonged pandemic-related lockdowns prompted millions of men and women to change how they paid for groceries or paid a utility bill from in-person, cash-based payments-which in the pandemic context were viewed as unsafe and unsanitary—to digital payments made directly from an account (Klapper et al., 2022).

The fact that many countries delivered their payments digitally meant that millions of people opened an account for the first time, significantly accelerating financial inclusion (Qiang et al., 2022). And the data suggests that receiving a payment into an account instead of cash can kickstart people's use of the formal financial system (Word Bank, 2022). The lack of verifiable identity is one of the main reasons why some adults remain excluded from financial services. We know from the experiences of countries such as India and the Philippines that government identification programs and financial-inclusion programs can work in tandem to equip hard-to-reach populations with official identification documents and financial accounts (Malpass, 2022). This is also suggesting an opportunity for investing in accessible and trusted identification systems. On average, Countries which couldn't use existing digital databases or ID systems to cross-check or verify individuals registering remotely reached only 16 percent of their population with COVID-response support. In contrast, countries with existing digital databases and trusted data-sharing reached an average of 51 percent of their population (Qiang et al., 2022). Importantly, the digital revolution also serves as a powerful anti-corruption tool, because it helps to increase transparency as money flows from a government's budget to public agencies to citizens. Government social programs can now reduce delays and leakage by channeling transfers directly to their beneficiaries' mobile phones. Millions of people in developing countries received payments in this way during the pandemic, helping to cushion the impact of

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COVID-19 on livelihoods (Malpass, 2022). While many countries leveraged digital payments during the pandemic, not all leveraged accounts which can accelerate financial inclusion and contribute to women's economic empowerment. For example, some sent the payment into a limited account or used a token that could only be used to withdraw cash, instead of also allowing beneficiaries to make digital payments, save, or transfer money. Neither does the fact that digital systems were used for COVID-response programs mean they will be scaled up — many of these programs were temporary (Qiang et al., 2022).

Recommendations

To deal with the problems discussed above, first, establishing digital-identification systems is essential, because lack of verifiable identity is one of the main reasons why some adults remain excluded from financial services. In contrast, Increasing account ownership and usage will require trust in financial service providers, confidence to use financial products, tailored product design, and a strong and enforced consumer protection framework.

Ensuring digital public infrastructure is developed to support the digitization of government payment schemes across countries and programs will require decisive action by stakeholders across the public and private sectors. It will also require learning from the successes and pitfalls from the COVID-response experiences to ensure programs can support long-term development goals, including the need to increase financial access points and improving financial products and services. Also, Broadening acceptance of digital payments by merchants and utility providers could also help expand the easy, everyday use of accounts among adults who already have them, yet who hesitate to use them.

Finally, policymakers will need to make additional efforts to include underserved groups. Women, along with the poor, are more likely to lack a form of personal identification or a mobile phone, to live far from a bank branch, and to need support to open and use a financial account. Financial-education programs, especially those that involve peer-to-peer learning (such as through women's self-help groups) are essential as well.

CONCLUSION

The COVID-19 pandemic has spurred financial inclusion-driving a large increase in digital payments amid the global expansion of formal financial services. This expansion created new economic opportunities, narrowing the gender gap in account ownership. Despite the growth in adoption of digital payments catalyzed by the pandemic, hundreds of millions of adults still receive payments in cash-for wages, government transfers, the sale of agricultural goods. Shifting such cash payments to financial-institution or mobile-money accounts is a proven way to increase financial inclusion among the unbanked. The COVID-19 crisis highlighted how digital public infrastructure (DPI) can play a critical role for governments to deliver social assistance quickly and safely. DPI not only allowed governments to reach an unprecedented number of new beneficiaries. This brought millions of people into the social protection and financial system for the first time. By investing in digital public infrastructure and technologies for payment and ID systems and updating regulations to foster innovation and protect consumers, and expand access to financial services for all who need them.

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ENDNOTES

1 The Global Findex database, which surveyed how people in 123 economies use financial services throughout 2021, is produced by the World Bank every three years in collaboration with Gallup, Inc.

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