

FINANCIAL INCLUSION ROLE IN THE TIMES OF COVID-19 PANDEMICS

ROLUL INCLUZIUNII FINANCIARE ÎN CONTEXTUL PANDEMIEI DE COVID-19

Victoria IORDACHI¹

Stela CIOBU²

Abstract:

Governments, development institutions, and economists are promoting a broad agenda of inclusion in economic and social life, including universal access to education, health care, social security, clean water, and sanitation. Financial inclusion has come to be seen as an important part of this agenda. This reflects the view that individuals, households, and firms cannot take full advantage of available opportunities for economic and social development if they lack adequate and appropriate access to financial products and services. Financial inclusion contributes to improved household welfare, increased business productivity and fostered economic growth. The measures taken to fight COVID-19 have given the financial inclusion a significant boost thanks to a wider range of financial services that being used remotely are helping to improve decision-making. Thus, the COVID-19 crisis is driving a massive shift toward using technology and innovations. Handled responsibly, the digitalization of finance, for both individuals and private sector, can help countries rebuild better after the pandemics. The world economy is now facing an urgency to address all the existent vulnerabilities with minimum costs and maximum time-saving, while financial inclusion has an important role to play in the process of adapting to new realities.

Keywords: financial inclusion, digitalization, financial institutions, Covid-19, financial crisis, financial literacy.

JEL : 016, I22, I25

1. Introduction

Financial inclusion, financial services, and microfinance are explicitly mentioned in the targets of seven of the 17 Sustainable Development Goals, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. Their presence implies that financial services are means to improve quality of life and suggests that creating financial stability should not be the only goal of financial inclusion.

In the Republic of Moldova, financial inclusion as an object is not sufficiently developed. Currently, there are no direct indicators provided by the National Bank that could quickly determine, in accordance with international standards, the financial inclusion of the population. Financial literacy is closely interconnected with financial inclusion of the population. Moreover, it is increasingly recognized that consumers of financial products and services need adequate financial literacy in order to make informed decisions about important financial matters. The better is the financial literacy of the population, the better is its well-being. The main reasons for the low level of financial inclusion in Moldova should be attributed, first of all, to the low-income level of the population and lack of financial literacy

¹ Associated researcher, Ph.D., National Institute for Economic Research, timush_v@yahoo.co.uk

² Associated professor, Ph.D., Academy of Economic Studies of Moldova. stela.ciobu@gmail.com

on the one hand, and the rapid development of financial products on the other. Besides that, many rural areas in Moldova still have relatively low rates of financial access. Financial inclusion is therefore necessary to ensure that economic growth performance is inclusive and sustained. Financial inclusion has come to refer to not just any form of financial access, but access to financial products and services that are convenient, affordable (taking into account relevant costs and risks), appropriate for the user's circumstances, and accompanied by legal and supervisory safeguards, including consumer protection, deposit insurance, and regulatory and supervisory frameworks. This is very important because, due to pressures on fiscal resources and the aging of a large number of populations, the responsibility for long-term financial planning is shifting increasingly from governments to households. Financial inclusion contributes to improved household welfare, increased business productivity and fostered economic growth. The measures taken to fight COVID-19 have given the financial inclusion a significant boost thanks to a wider range of financial services that being used remotely are helping to improve decision-making. Thus, the COVID-19 crisis is driving a massive shift toward using technology and innovations. Handled responsibly, the digitalization of finance, for both individuals and private sector, can help countries rebuild better after the pandemics. The world economy is now facing an urgency to address all the existent vulnerabilities with minimum costs and maximum time-saving, while financial inclusion has an important role to play in the process of adapting to new realities.

2. Theoretical aspects of financial inclusion measurement

Definitions and measurements of financial inclusion have evolved from classifying individuals and enterprises according to a dichotomous division as either included or not, to viewing financial inclusion as multi-dimensional. With the aim of defining indicators of financial inclusion, the Financial Inclusion Data Working Group of the Alliance for Financial Inclusion³ agreed on three main dimensions of financial inclusion that provide the underpinning for data collection: *access, usage and quality* (Table 1).

Table 1. Dimension of Financial Inclusion

Access	Availability of formal, regulated financial services: physical proximity, affordability
Usage	Actual usage of financial services and products: regularity, frequency, duration of time used
Quality	Products are well tailored to client needs, appropriate segmentation to develop products for all income levels

Source: elaborated by authors on the basis of (TRIKI, T., FAYE, I., 2013)

A more complete understanding of financial inclusion should speak to how frequently clients use products, if the products are effectively meeting their needs, and if they are better off as a result. Therefore, defining and measuring usage and quality in addition to simple access would be very useful for analytical purposes. These three dimensions of financial

³ Alliance for Financial Inclusion is an organization which members are central banks and other financial regulatory institutions from more than 80 emerging and developing countries, where the majority of the world's unbanked reside.

inclusion are broad categories into which indicators can be grouped, without being restrictive. They simply provide a framework to guide policymakers in developing a sufficiently robust measurement strategy that reflects the multi-dimensional nature of financial inclusion. Within this framework, policymakers will still need to design a set of indicators appropriate to their needs and level of resources.

Table 2. Core Set of Indicators used by G-20 Global Partnership for Financial Inclusion

Dimension	Category	indicator	Existing global data source
Usage	Formally banked adults	% of adults with an account at a formal financial institution	Global Findex
		Number of depositors per 1.000 adults or number of deposit accounts per 1.000 adults	IMF Financial Access Survey
Usage	Adults with credit from regulated institutions	% of adults with at least one loan outstanding from a regulated financial institution	Global Findex
		Number of borrowers per 1.000 adults or number of outstanding loans per 1.000 adults	IMF Financial Access Survey
Usage	Formally banked enterprises	% of Small and Medium Enterprises with an account at a formal financial institution	World Bank Enterprise Surveys
		Number of Small and Medium Enterprises with deposit accounts or number of Small and Medium Enterprises depositors/number of depositors	IMF Financial Access Survey
Usage	Enterprises with outstanding loan or line of credit	% of Small and Medium Enterprises with an outstanding loan or line of credit	World Bank Enterprise Surveys
		Number of Small and Medium Enterprises with an outstanding loan/ number of outstanding loan or number of outstanding loans to Small and Medium Enterprises depositors/number of outstanding loans	IMF Financial Access Survey
Access	Points of service	Number of branches per 100.000 adults	IMF Financial Access Survey

Source: elaborated by authors on the basis of (TRIKI, T., FAYE, I., 2013)

Although efforts to promote financial inclusion should strive to improve all three dimensions simultaneously, when setting priorities for measurement, a number of countries are now gathering information sequentially, assessing access first, usage second, and examining quality third. This is often because in most countries, data on the level of service provision is more easily obtained than usage and quality data. Republic of Moldova is now at the level of collecting mostly access and some usage data. However, in countries where the FinScope Surveys are carried out, usage and quality data may be more easily available than access data because of the surveys' focus on these dimensions. The G-20 Global Partnership for Financial Inclusion adapted a set of indicators of financial inclusion which covers 2 dimensions of financial inclusion: access and usage. These indicators, presented in the Table 2 are available for most countries.

In order to measure financial inclusion in RM and worldwide are used following indicators, which are reflecting usage of financial products:

1) Ratio of account ownership represents the percentage of respondents who report having an account (by themselves or together with someone else) at a bank or another type of

financial institution or report personally using a mobile money account service in the past 12 months.

2) Ratio of payments using financial institution account represents the percentage of respondents who report making or receiving payments using financial institution account or mobile account.

3) Ratio of account usage represents the percentage of respondents who report making or receiving at least one digital payment using financial institution account or mobile account during the last 12 months.

4) Ratio of inactive accounts is the percentage of respondents who report neither a deposit into nor a withdrawal from their financial institution account in the past 12 months.

5) Ratio of borrowing / savings using the financial institution account is the percentage of respondents who report borrowing or saving any money using financial institution account.

3. Impact of financial inclusion on the global economic development

On 25 September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development, along with a new set of development goals that are collectively called the Sustainable Development Goals. The United Nations Sustainable Development Goals represent the shared aspirations of countries and development actors and go well beyond poverty alleviation. They incorporate the need to promote prosperity and people's well-being, reduce inequality and protect the environment. While the Sustainable Development Goals do not identify financial inclusion as an independent objective, they acknowledge that it is central to achieving many of them. In fact, financial inclusion is explicitly mentioned in seven of the 17 Sustainable Development Goals, and there are four financial inclusion indicators to track the progress (WB, 2018). First, it can contribute to poverty reduction – that is, bring people out of poverty on a sustained basis when they can use financial services that help them to grow their businesses and invest in literacy. Thus, financial inclusion can contribute to poverty alleviation by bringing financial products and services within reach of people living in poverty. For example, households without access to other forms of a social safety net may obtain credit, insurance, use a savings account or receive money from relatives via payment services, which help them better manage financial shortfalls and emergencies, thereby building resilience (SURI, T., WILLIAM, J., 2016).

Second, it may contribute to economic activity and eventually economic growth, although this link is less well established and requires further scientific research in the world. The benefits of financial inclusion extend beyond individuals and households. Shifting cash payments to digital delivery whether it is social welfare transfers made by governments to citizens; or people paying their taxes, fees and bills to governments; or payments made between people - can improve their efficiency and reduce the amount of money lost to corruption.

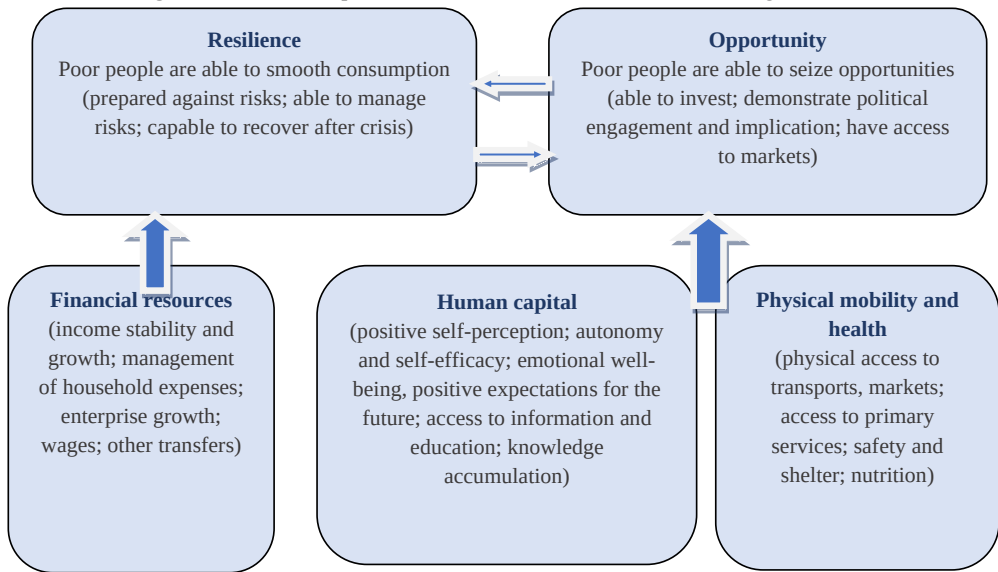
Researchers are continuing their work to identify the ways that financial inclusion affects the lives of poor people, including the potential for negative impacts such as abusive lending from lack of transparency and overly burdensome debt loads, and ways to limit and manage those risks. Within the financial inclusion community, there are growing efforts to review our understanding of what makes financial services valuable for poor people and the longer-term outcomes that the use of financial services can help them achieve. The world experience consistently shows that poor people use financial services to help them achieve

two intermediate outcomes on the way to improved well-being: **building resilience** and **capturing opportunities**.

Building resilience refers to how financial services allow people to prepare for shocks, deal with them when they occur and recuperate afterwards. Resilience gives people the confidence to take on riskier but more rewarding investment opportunities.

Capturing opportunity refers to the ways financial services help people to take advantage of opportunities in a broad sense, whether investing in a business, getting a literacy, migrating or receiving medical treatment.

Figure 3. Relationship between financial inclusion and well-being



Source: elaborated by authors on the basis of (MORGAN, L., CHURCHILL, C., 2016)

This dynamic framework implicit in the literature suggests more tangible outcomes from the use of financial services at any resilience level (see fig. 3). People can use financial services to capture a new set of opportunities that seem mainly related to three future outcomes:

1) Greater financial resources. People use financial services to build assets and manage their liabilities. For example, financial services can help households smooth and increase income, manage expenses, invest for enterprise growth or better employment, or transfer money used to cope with shocks or invest.

2) Better human capabilities. People also use financial services to build useful skills and acquire knowledge. For example, digital financial services have been shown to simplify the process of paying for literacy and training. The use of financial services can improve people's perceptions of their own capacities, their autonomy and their expectations for the future. The use of financial services can also imply socialization with other people that can help build social networks, encourage positive self-perceptions and access to information and knowledge.

3) Better physical capabilities. In addition, people use financial services to improve their

health and physical mobility. Evidence shows that digital financial services make it easier to pay for basic services; build water, sanitation and hygiene infrastructure; and use health care services. Financial services can also enable access to better food and nutrition, transport services, electricity and better housing or shelter.

4) This dynamic framework implicit in the literature suggests more tangible outcomes from the use of financial services at any resilience level:

These outcomes reinforce each other in a virtuous cycle: more of one lead to more of the other. Taken together, they give the financial inclusion community a wider lens through which to examine the impact pathways of financial services. By acknowledging that these outcomes have pre-conditions related to financial resources, human capital, physical capability and country context, the impact of financial services changes when some of those pre-conditions are lacking for any individual will be insignificant.

Besides advantages financial inclusion is connected with drawbacks. For households the disadvantages of financial inclusion are high level of indebtedness, unwise investments. For financial institutions the negative impact is reflected in additional expenditures for maintaining inactive accounts and high-level credit risk. Five main topics financial institutions identified as key challenges when serving customers at the base of the economic pyramid in low and middle low-income countries: partnering with fintech companies, building the financial capability of customers, using data analytics, improving agent banking models and digitizing the customer journey.

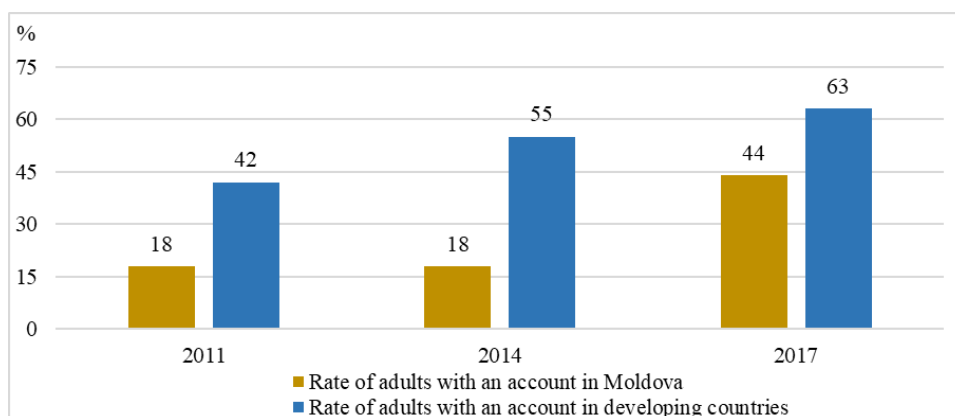
5. Financial inclusion in the era of COVID-19

The twin global crises of a health pandemic and economic isolation are severely affecting the livelihoods of low-income people all around the world. Also, a big part of the financial inclusion ecosystem designed to help them is also in danger. Thus, microfinance institutions and other financial organizations are doing hard to overcome this economic storm. Investors and donors are looking for ways to offer support, even at their own loss. Small companies and individual enterprises must have sufficient liquidities to support their basic businesses and pay wages.

In face of these multiple challenges induced by Covid-19, the general focus is to work on four areas that play a vital role in furthering financial inclusion: the private sector (especially SMEs and micro companies); government-to-person payments' distribution; understanding the impact on customers; and guidance for funders and investors.

While the pandemic supposes to increase the use of digital financial services, it has also posed ***challenges for smaller players and highlighted unequal access to digital infrastructure and lack of knowledge***. It is to mention that unbanked adults tend to have low literacy attainment. Globally, 62 % of the unbanked have a primary literacy or less, compared with about half of adults overall in developing economies. Worldwide, only 38 % of the unbanked have completed high school or postsecondary literacy (WB, 2018).

In the Rep. Moldova the share of adults with an account in financial institution rose from 18% in 2011 and 2014 to 44% in 2017. Even compared to developing countries (63% in 2017) the rate of adults (age 15+) with account is considered very low. However, we should notice a significant growth rate, as the share of adults with an account increased by 2.4 times between 2011 and 2017, which is represented in fig. 4..

Figure 1. Rate of adults holding accounts in Moldova and developing countries

Source: elaborated by authors on the basis of information presented by WB (Global Findex, 2018)

The most commonly cited barriers to account ownership are: lack of enough money to open bank accounts; high costs of opening bank accounts; documentation requirements to open accounts; distrust in the financial system due to political instability or high level of bank frauds; religious reasons in some economies, as well as other reasons.

The pandemic and the economic crisis that preceded it had a significant impact on the financial and fintech markets⁴, respectively. The direction towards digital financial services was already helping companies promote financial inclusion before the pandemic started, in which many low-income households and small firms typically have little access to traditional financial institutions. First of all, the global quarantine has collapsed venture investments in the technological development of the financial market. At the end of the first quarter of 2020, the overall level of investment fell to the 2017 level. The Asian market dropped significantly: even in China, which is considered the most important market for fintech, investment fell to an all-time low of 2015. What will happen with these indicators further, only time will show, however, it is not worth hoping for a quick reverse jump due to the abolition of preventive measures for the spread of COVID-19.

During the COVID-19 lockdowns, digital financial services are enabling governments to provide quick and secure financial support to “hard-to-reach” people and businesses. Thus, lockdowns and social distancing are accelerating the use of digital financial services. Many countries (for example, Liberia, Ghana, Kenya, Kuwait, Myanmar, Paraguay and Portugal) are supporting this trend with measures such as lowering fees and increasing limits on mobile money transactions.

The pandemic shows that the trend towards greater digitalization of financial services is here to stay. To tap the high potential of digital financial services in the post-COVID era,

⁴ Financial technology (fintech), or the fusion of finance and technology, has become a new model for financial innovation. Fintech encompasses a collection of complementary technologies - including mobile networking, big data, cloud computing, distributed ledger technologies, artificial intelligence, and data analytics - that together shape a wide range of transactions in the financial industry.

many factors need to fall into place. ***Equal access to digital infrastructure (access to electricity, mobile and internet coverage, and digital ID); greater financial and digital literacy; and the avoidance of data biases are necessary for a more inclusive recovery.*** But the poor suffer disproportionately more during such shocks. Their difficulties are compounded by their lack of access to financial services and they often do not have online bank accounts. Also, the COVID-19 crisis poses challenges for smaller fintech companies: tightening of funding, rising non-performing loans, decline in transactions and credit demand. Some halted new lending since the onset of lockdowns. Even in advanced economies, providing financial assistance to the unemployed and small businesses has become a major concern during the pandemic. Widespread consolidation and retrenchment of start-ups would lead to greater concentration in the sector and could set back inclusion. In the public's interest, this points to accelerating the creation of governance frameworks for big fintech companies.

The COVID-19 crisis creates opportunities to further expand the role of fintechs in financial inclusion in developing countries. By providing financial services to vulnerable groups, fintech contributes not only to inclusive growth, but also to the economic resilience of the poor and SMEs during times of economic turmoil. ***Developing countries can use fintech technology to keep the poor and SMEs connected to the financial system, even in times of crisis. In particular, fintech can effectively open up new sources of finance for vulnerable groups that are underserved by banks and other traditional financial institutions.***

Contrary to the popular narrative, financial institutions view fintechs as partners in innovation, not threats to their core business. By offering better, less expensive, and more innovative products, financial institutions can assert their continued relevance as customer-facing institutions with help from fintech partnerships.

To reach low-income consumers in emerging markets, mainstream financial institutions are increasingly partnering with fintechs and other third-party providers. In this new paradigm, legacy financial institutions can build upon their strengths, protect their market share, and stay relevant in a rapidly evolving ecosystem while fintechs can scale their technology and access the capital they need to grow.

In developing countries in Asia, fintech companies are offering innovative financing solutions for small and medium-sized enterprises trying to stay afloat amid COVID-19. They provide new platforms for turnkey lending and underwriting so that banks and lenders can finance small businesses. These platforms include risk assessment and insurance opportunities. Fintech also offers innovative financial solutions that are valuable for low-income groups during pandemics. For example, Indonesian startup Gojek offers a platform for depositing and dispensing cash financial services. India's Eko, a financial transaction platform, is trying to create "human ATMs" from anyone with a mobile phone and some cash.

6. Conclusions

Financial inclusion refers to all initiatives that make formal financial services available, accessible and affordable to all segments of the population. Therefore, it is necessary to ensure that economic growth performance is inclusive and sustained. This requires particular attention to specific portions of the population that have been historically excluded from the formal financial sector either because of their income level and volatility,

gender, location, type of activity, or level of financial literacy. In so doing, there is a need to harness the untapped potential of those individuals and businesses currently excluded from the formal financial sector or underserved, and enable them to develop their capacity, strengthen their human and physical capital, engage in income-generating activities, and manage risks associated with their livelihoods. Financial inclusion goes beyond improved access to credit to encompass enhanced access to savings and risk mitigation products, a well-functioning financial infrastructure that allows individuals and companies to engage more actively in the economy, while protecting users' rights.

The impact of financial inclusion is to contribute to poverty reduction – that is, bring people out of poverty on a sustained basis when they can use financial services that help them to grow their businesses and invest in literacy. It also contributes to economic activity and eventually economic growth. The benefits of financial inclusion extend beyond individuals and households. Shifting cash payments to digital delivery - whether it is social welfare transfers made by governments to citizens; or people paying their taxes, fees and bills to governments; or payments made between people - can improve their efficiency and reduce the amount of money lost to corruption.

Quite unexpectedly, the pandemic has become a driver for the development of digital technologies. They also became more active in the financial market. In the future, fintech will follow the path of developing new tools and modernizing existing solutions. And in order for the trend for active implementation not to pass as suddenly as it began, ***managers need to work on educating customers and partners, telling how it works and what privileges it can bring to work.***

While financial innovation fosters financial inclusion, it also raises regulatory concerns such as cybersecurity, other aspects of technical vulnerability, data governance, and privacy protection. With the accelerated pace of innovation and technology in the financial sector, which is likely to gain even greater speed in a world that is becoming more digital after COVID-19, ***regulatory capacity needs to be strengthened to keep pace with change.*** At a broader level, regulators must find the right balance between introducing innovative technologies that benefit the poor and SMEs, and monitoring and managing the risks associated with innovation. At the same time, ***regulators must create an enabling environment for financial inclusion.*** Developing countries must invest in digital infrastructure to improve the interaction between the digital and non-digital economies for the poor. To do this, there should be developed policies and regulations that stimulate innovation, promote competitive markets, and ensure the efficient and sustainable delivery of high-quality financial services.

To build inclusive societies and address rising inequalities during and after the ongoing crisis, global and national leaders must close the digital divide across and within countries to reap the benefits of digital financial services. This means finding the right balance between enabling financial innovation and addressing several risks: insufficient consumer protection, lack of financial and digital literacy, unequal access to digital infrastructure, and data biases that need action at the national level; as well as addressing money laundering and cyber risks through international agreements and information sharing, including on antitrust laws to ensure adequate competition.

In addition to protecting consumers from unfair practices, especially the poor, regulators must ensure that the risks posed by new suppliers and business models are effectively managed to maintain the stability of the financial sector.

Bibliography:

1. CGAP. Toward a New Impact Narrative for Financial Inclusion. [online]. [cited September 2, 2020]. Available: <https://www.cgap.org/research/publication/toward-new-impact-narrative-financial-inclusion>
2. DEMIRGUC-KUNT, A., The Global Findex Database 2014 Measuring Financial Inclusion Around the World. Published by The World Bank. 2015 [online]. [cited September 2, 2020]. Available: <http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf>
3. DEMIRGUC-KUNT, A. The Global Findex Database 2017 Measuring Financial Inclusion and the Fintech Revolution. Published by The World Bank. 2018. ISBN 978-1-4648-1268-2 [online]. [cited September 2, 2020]. Available: https://globalfindex.worldbank.org/#data_sec_focus
4. FOELSTER, J., KHAIRY, A., Leveraging Technologies to Improve the Quality and Maximize the Productivity of Agent Models. Published by Centre for Financial Inclusion. 2019. [online]. [cited September 29, 2020]. Available: https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2019/07/Leveraging_Tech_Agent_Models_FINAL3.pdf
5. KELLY, S., FERENZY, D., How Financial Institutions and Fintechs Are Partnering for Inclusion: Lessons from the Frontlines. Published by Centre for Financial Inclusion. 2017. [online]. [cited September 29, 2020]. Available: https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2018/08/IIF-CFI_FI-Fintech_Partnerships_Final.pdf
6. MORGAN, L., CHURCHILL, C. How financial inclusion can boost nations-health and well-being. [online]. [cited September 18, 2020]. Available: <https://www.cgap.org/blog/how-financial-inclusion-can-boost-nations-health-well-being>
7. SURI, T., WILLIAM, J. The long-run poverty and gender impacts of mobile money. [online]. [cited on August 30, 2020]. Available: <https://science.sciencemag.org/content/354/6317/1288>
8. WORLD BANK. Financial inclusion. Overview. [online]. [cited on August 30, 2020]. Available: <https://www.worldbank.org/en/topic/financialinclusion/overview>
9. ZEALL, A. Redefining Financial Inclusion in Today's World [online]. [cited September 2, 2020]. Available: <https://medium.com/sentinelchain/redefining-financial-inclusion-in-todays-world-4be2566c7727>
10. TRIKI, T., FAYE, I., Financial inclusion in Africa. African Development Bank Group. 2013. ISBN 978-9938-882-19-3. [online]. [cited September 2, 2020]. Available: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Financial_Inclusion_in_Africa.pdf
11. YOPSINO, N., MORGAN, P., Financial inclusion, Regulation, and Literacy Asian Perspectives. Published by Asian Development Bank Institute. 2017. ISBN 978-4-89974-064-3. [online]. [cited September 2, 2020]. Available: <https://www.adb.org/sites/default/files/publication/350186/adbi-financial-inclusion-regulation-literacy-asian-perspectives.pdf>