FINANCIAL INCLUSION CHALLENGES AND PROSPECTS DURING THE COVID-19 PANDEMIC: INSIGHTS FROM BOTSWANA, NAMIBIA, SOUTH AFRICA AND ZIMBABWE

THEME: Covid-19 and financial inclusion: prospects and challenges

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Author biography

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strategy, leadership, general management, entrepreneurship, family businesses and marketing management.

Abstract

Financial inclusion is a process that enables the ease of access, availability and usage of formal financial services for all members of an economy. It is a United Nations Sustainable Develop Goal (SDG) earmarked to alleviate poverty and income inequality. As such, financial inclusion has attracted the attention of many researchers and policymakers. However, the outbreak of the Covid-19 pandemic has brought the whole world to a standstill. It has impacted many facets of the economy. The pandemic has reshaped the financial services sector. Financial inclusion is one facet of the economy that has been affected positively and negatively by the pandemic. This chapter explores the literature on the Covid-19 pandemic and financial inclusion. The chapter goes further to explicate the challenges and prospects of financial inclusion due to the Covid-19 pandemic. It concludes by illuminating future research directions. The chapter also recommends the way forward on what can be done to achieve financial inclusion in a COVID-19 pandemic environment.

Keywords: Covid-19, financial inclusion, challenges, opportunities, pandemic, prospects

1. Introduction

COVID-19 is a disease caused by the coronavirus. The disease originated in China in December 2019. Since then, the disease has spread all over the world. The disease has become a global pandemic. Many people have fallen ill and many have died in both developing and developed countries. The disease spreads very fast and has the potential to infect many people within a short space of time. Since its origin, countries have instituted measures to contain the disease such as lockdowns, social distancing, sanitising and wearing of face masks. Of late, nations have discovered vaccines and have started vaccinating their citizens. Developing countries are lagging behind developed nations in terms of the number of people vaccinated. COVID-19 containment measures such as social distancing and lockdowns have disrupted supply chains and slowed the growth of financial markets and economies. Many people have lost their jobs. Many businesses have either closed down or retrenched many of their employees. The most affected are low-income earners and informal businesses that typically lack financial reserves to cushion themselves during the pandemic. This has the potential to increase poverty, widen income inequality and reverse the progress made over the years on financial inclusion.[4,5,6]

Financial inclusion is described as a process that enables ease of access, availability and usage of formal financial services by all members of society including the poor, low-income earners, vulnerable members of the population, informal businesses, and small, micro and medium enterprises.[7,8] Financial inclusion is a tool that can be used to achieve sustainable economic development, alleviate poverty and reduce income inequality. Thus, financial inclusion fosters inclusive economic development.[9] Although financial inclusion is still low in Botswana, Namibia, South Africa and Zimbabwe, there has been significant progress towards improving it over the past few years.[10] This upward financial inclusion trajectory has been spurred by the increased use of digital financial solutions such as mobile money services.

This chapter reviews the literature on COVID-19 and financial inclusion. It explicates the scope of COVID-19 and financial inclusion. The chapter explores challenges and prospects on financial inclusion as a result of the COVID-19 pandemic. Insights are drawn from Botswana, Namibia, South Africa and Zimbabwe. The chapter

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[4] R.S Arunachalam and G.L.K Crentsil 'Financial Inclusion in The Era of Covid-19' (2020) *Workshop Presentation Paper (Draft). The Financial Inclusion Advocacy Centre* 1 33

[5] E Mogaji 'Financial Vulnerability During a Pandemic: Insights for Coronavirus Disease (COVID-19)' (2020*)* *Research Agenda Working Papers* 2020 57-63

[6] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

[7] M Sarma and J Pais 'Financial Inclusion and Development' (2011) 23 *Journal of International Development* 613 613.

[8] A.M Matongela 'Understanding the State of Financial Inclusion in Namibia' (2014) 5 *Computer Engineering and Intelligent Systems* 71 71.

[9] T Kasradze 'Challenges Facing Financial Inclusion Due to the COVID-19 Pandemic' (2020) *3 European Journal of Marketing and Economics* 63 74

[10] R Ayadi and M Shaban 'Digital Financial Inclusion: A Pillar Of Resilience Amidst Covid-19 In The Mediterranean And Africa' (2020) June 2020 *EMEA Policy Paper* 1 16 www.euromed-economists.org

suggests future research prospects. The chapter recommends the way forward on achieving financial inclusion in a COVID-19 pandemic environment.

COVID-19

COVID-19, an acronym for coronavirus disease 2019, is a disease caused by the coronavirus (SARS-CoV-2), which affects human beings. The disease originated in China in the Wuhan Province in December 2019. In January 2020, the World Health Organisation declared the disease a Public Health Emergency of International Concern (PHEIC). COVID-19 has become a global pandemic. By midyear 2021, COVID-19 has spread to all countries in the world.[11,12,13]

COVID-19 has infected millions of people and has claimed many lives in both developed and developing countries. The disease does not respect class, status, education, wealth, etc. It can affect anybody.[14,15] The extent to which nations are affected by this disease differs from country to country and from time to time. COVID-19 confirmed cases have also been on the rapid increase in African countries such as Botswana, Namibia, South Africa and Zimbabwe.[16,17] Table 1 shows COVID-19 total number of cases, deaths, recoveries and active cases in Botswana, Namibia, South Africa and Zimbabwe as of 25 July 2021.

Table 1 COVID-19 data in Botswana, Namibia, South Africa and Zimbabwe as of 25 July 2021

[11] R.S Arunachalam and G.L.K Crentsil 'Financial Inclusion in The Era of Covid-19' (2020) *Workshop Presentation Paper (Draft). The Financial Inclusion Advocacy Centre* 1 33

[12] E Mogaji 'Financial Vulnerability During a Pandemic: Insights for Coronavirus Disease (COVID-19)' (2020*) Research Agenda Working Papers* 2020 57-63

[13] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

[14] R.S Arunachalam and G.L.K Crentsil 'Financial Inclusion in The Era of Covid-19' (2020) *Workshop Presentation Paper (Draft). The Financial Inclusion Advocacy Centre* 1 33

[15] F Obeng-Odoom 'COVID-19, Inequality, and Social Stratification in Africa' (2020) 12 *African Review of Economics and Finance* 3 37

[16] E.S Knotek II et al 'Consumers and COVID-19: A Real-Time Survey' (2020) Number 2020-08 April 17, 2020 *Econometric Commentary* Federal Reserve Bank of Cleveland 1 6 doi: 10.26509/frbc-ec-202008

[17] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

Country	Total number of confirmed cases	Total number of deaths	Total number of recoveries	Active cases
Botswana[18]	97,657	1,375	84,189	12,093
Namibia[19]	116,603	2,811	92,879	20,913
South Africa[20]	2,377,823	69,775	2,158,183	149,865
Zimbabwe[21]	97,894	3,094	65,913	28,887
Total	**2,689,977**	**77,055**	**2,401,164**	**211,758**

The novel COVID-19 spreads very fast. The infected person does not show symptoms during the first few days but starts to show symptoms at advanced stages of the disease. By this time, the disease would have spread to other people who would have come into the proximity or contact with the infected person. At the onset of COVID-19, there were no vaccines to curb the spread of the disease. As a result, controlling the spread of the disease demanded drastic measures such as social distancing and partial or full lockdowns.[22] As of July 2021, COVID-19 vaccines have been developed and countries have been vaccinating their populations. However, the rate of vaccination is lagging behind in developing countries including Botswana, Namibia, South Africa and Zimbabwe as compared to developed nations. Nonetheless, the efficacy of vaccination is still inadequately known because there are new variants of the coronavirus causing new strains of COVID-19 which might require new vaccines.[23]

COVID-19 has resulted in both health and economic crises in many countries including Botswana, Namibia, South Africa and Zimbabwe. Health systems in countries cannot cope with the increased number of COVID-19 patients. On the other hand, the

[18] Worldometer 'Botswana' (2021) https://www.worldometers.info/coronavirus/country/botswana/
[19] Worldometer 'Namibia' (2021) https://www.worldometers.info/coronavirus/country/namibia/
[20] Worldometer 'South Africa' (2021) https://www.worldometers.info/coronavirus/country/south-africa/
[21] Worldometer 'Zimbabwe' (2021) https://www.worldometers.info/coronavirus/country/zimbabwe/
[22] A Jhunjhunwala 'Role of Telecom Network to Manage COVID-19 in India: Aarogya Setu' (2020) 5 *Transactions of the Indian National Academy of Engineering* 157-161
[23] World Health Organisation 'Coronavirus disease (COVID-19): Vaccines' (2021) https://www.who.int/news-room/q-a-detail/coronavirus-disease-(covid-19)-vaccines?adgroupsurvey={adgroupsurvey}&gclid=Cj0KCQjwl_SHBhCQARIsAFIFRVX_7GJKwt-2b4H5otoMyf5_WAwbwCtytFTjWBdt-kvmzUtbDUntIf0aAlCFEALw_wcB

economic crisis is a result of the containment measures such as lockdowns and social distancing which have disrupted supply chains. Many organisations, small or big, formal or informal, have closed businesses. As a result, many people have lost their jobs and incomes.[24,25,26]

Financial Inclusion

Financial inclusion refers to a process that enables the ease of access, availability and usage of formal financial services for all members of an economy.[27] It is concerned with the delivery of and access to financial services at reasonable costs to all members of society including the poor and disadvantaged.[28] It fosters ease of access, availability and usage of the formal financial system for the members of society.[29] The scope of financial inclusion is broad and encompasses business enterprises. Thus, financial inclusion can broadly be defined as the ease of access, availability and usage of formal financial services by individuals and enterprises in an economy.[30,31] A situation where members of a society do not have access to a formal financial system is called financial exclusion. Financial exclusion can be voluntary and involuntary. Voluntary financial exclusion takes place when members of society willingly decide not to use services in a formal financial system. This decision could be triggered by many factors such as cultural, religious, personal or lack of need. On the other hand, involuntary financial exclusion takes place when members of a population do not have access to formal financial services due to barriers such as high cost of transactions, insufficient income, high-risk profile,

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[24] D.W Arner et al 'Digital Finance & The COVID-19 Crisis' (2020) Social Science Research Network 1 23 https://ssrn.com/abstract=3558889

[25] I.O Randa and S.O Atiku 'SME Financial Inclusivity for Sustainable Entrepreneurship in Namibia During COVID-19' (2021) Chapter 18 *IGI Global* 373 393

[26] D Susskind and D Vines 'The economics of the COVID-19 pandemic: An assessment' (2020) 36 *Oxford Review of Economic Policy* S1-S13

[27] M Sarma and J Pais 'Financial Inclusion and Development' (2011) 23 *Journal of International Development* 613 613.

[28] A.M Matongela 'Understanding the State of Financial Inclusion in Namibia' (2014) 5 *Computer Engineering and Intelligent Systems* 71 71.

[29] A Demirgüç-Kunt and L Klapper 'Measuring Financial Inclusion: Explaining Variation in Use of Financial Services Across and Within Countries' (2013) Spring 2013 *Brookings Papers on Economic Activity* 279 280.

[30] I Khan et al 'Does Financial Inclusion Induce Poverty, Income Inequality, and Financial Stability: Empirical Evidence From the 54 African Countries?' (2021) *Journal of Economic Studies* [Volume and page numbers ahead-of-print] https://doi.org/10.1108/JES-07-2020-0317

[31] C.M Menyelim et al 'Financial Inclusion, Income Inequality and Sustainable Economic Growth in Sub-Saharan African Countries' (2021) 13 *Sustainability* 1 1.

market failure and imperfection, and discrimination. An inclusive financial system should increase the availability of, access to and usage of formal financial services while minimising involuntary financial exclusion.[32] Policy interventions should be directed towards involuntary financial exclusion which can be addressed by appropriate financial reforms and policies.[33]

Financial inclusion fosters sustainable economic development; hence it has been dubbed a key enabler for the attainment of seven of the 17 United Nations Sustainable Development Goals.[34] Financial inclusion has been considered a strategic tool to reduce poverty and ameliorate income inequality.[35] It leads to inclusive economic growth. Similarly, where there is financial exclusion, economic growth only benefits a few members of the economy.[36] Without an efficient financial system, it is difficult for the economy to achieve an efficient and effective allocation of resources to productive sectors. As a result, it becomes difficult to achieve economic growth.

Although financial inclusion is still low in Botswana, Namibia, South Africa and Zimbabwe, significant strides have been made towards improving it over the past few years.[37] Over the period 2004 to 2018, the financial inclusion index has increased from 0.165 to 0.219 in Botswana, from 0.085 to 0.306 in Namibia, from 0.148 to 0.313 in South Africa, and from 0.0726 to 0.1086 in Zimbabwe.[38] Technology has played a pivotal role in this upward trajectory in these countries. The growth of ICT and increased use of mobile broadband technologies have resulted in increased financial inclusion in Botswana, Namibia, South Africa and Zimbabwe. The four countries have witnessed increased usage of mobile phones among the citizens including low-income earners. This

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[32] D.M Turégano and A.G Herrero 'Financial Inclusion, Rather Than Size, Is the Key to Tackling Income Inequality' (2018) 2018 *The Singapore Economic Review* 1 4.
[33] C-Y Park and R.Jr. Mercado 'Financial Inclusion, Poverty, and Income Inequality' (2018) 2018 *The Singapore Economic Review* 1 2.
[34] R Gutiérrez-Romero and M Ahamed 'COVID-19 response needs to broaden financial inclusion to curb the rise in poverty' (2020) 138 *World Development* 1 37
[35] R Ayadi and M Shaban 'Digital Financial Inclusion: A Pillar Of Resilience Amidst Covid-19 In The Mediterranean And Africa' (2020) June 2020 *EMEA Policy Paper* 1 16 www.euromed-economists.org
[36] T Kasradze 'Challenges Facing Financial Inclusion Due to the COVID-19 Pandemic' (2020) *3 European Journal of Marketing and Economics* 63 74
[37] R Ayadi and M Shaban 'Digital Financial Inclusion: A Pillar Of Resilience Amidst Covid-19 In The Mediterranean And Africa' (2020) June 2020 *EMEA Policy Paper* 1 16 www.euromed-economists.org
[38] R Gutiérrez-Romero and M Ahamed 'COVID-19 response needs to broaden financial inclusion to curb the rise in poverty' (2020) 138 *World Development* 1 37

technology has enabled the low-income earners and the other vulnerable members of society to send and receive money without even opening bank accounts which are relatively more expensive as compared to mobile money services. Mobile money services lower transaction costs and increase money transfers.[39,40]

Challenges

COVID-19 has resulted in negative growth of economies and financial markets, and increased unemployment as organizations lay off people.[41] Thus, COVID-19 is not just a pandemic, it is a global economic crisis because of the measures taken to contain it. It disrupts supply chains.[42] COVID-19 has socio-economic negative impacts. It slows down economies. It disrupts the production and movement of goods and services locally and internationally. The movement of people and social gatherings are banned. This includes postponement of sporting events which can also stimulate economic growth for economies. As such, the COVID-19 pandemic has the potential to reverse the financial inclusion progress made in many developing countries. It worsens poverty and income inequality. Financial inclusion is a tool that can be used to alleviate poverty. Hence, the disruption caused by the pandemic has the potential to cause increased poverty and income inequality. COVID-19 induced restrictions such as lockdowns, albeit at varying levels, have increased poverty levels by as much as 56% in developing countries. This worsens the poverty situation and financial vulnerability in these countries. Research has shown that the COVID-19 pandemic has severely affected many African countries more than in any other region in the world. Lockdowns and social distancing restrictions have

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[39] E.T Hasheela *Access to Finance and Financial Inclusion in Namibia* (2013) Master of Business Administration Dissertation, University of Stellenbosch 1 12.

[40] A. Mukong et al 'A Decomposition of the Gender Gap in Financial Inclusion: Evidence from Namibia' (2020) 15 *African Journal of Business and Economic Research* 149 151.

[41] T.K Manyati and M Mutsau 'Leveraging green skills in response to the COVID-19 crisis: A case study of small and medium enterprises in Harare, Zimbabwe' (2021) [Volume ahead-of-print] *Journal of Entrepreneurship in Emerging Economies* [Pages ahead-of-print] https://doi.org/10.1108/JEEE-07-2020-0236

[42] R.S Arunachalam and G.L.K Crentsil 'Financial Inclusion in The Era of Covid-19' (2020) *Workshop Presentation Paper (Draft). The Financial Inclusion Advocacy Centre* 1 33

reduced social interaction and economic activities thereby increasing financial exclusion.[43,44]

COVID-19 has both economic and health impacts, especially in the developing world. With increasing COVID-19 cases in many African countries including Botswana, Namibia, South Africa and Zimbabwe, many people fell sick. This put pressure on the already relatively underdeveloped health care systems. As a result, the health care systems in these countries couldn't cope, resulting in many people dying. With many people falling sick, they could not continue to go to work thereby worsening poverty and financial vulnerability.[45]

The spread of COVID-19 brought economies to a standstill. The Chinese economy was the first one to be severely affected. China is a major trading partner of many African countries including Botswana, Namibia, South Africa and Zimbabwe. So, a negatively impacted Chinese economy has resulted in spill over effects in these countries. Many businesses in these countries were affected because they largely depend on imports from China. Many businesses retrenched their employees, further worsening poverty, income inequality and financial exclusion in these countries.[46]

Countries increased national budgets for the health sector to cope with the increased number of COVID-19 related illnesses. This placed a burden on the already constrained financial resources in developing countries. This implies decreased support towards financial inclusion initiatives thereby worsening financial inclusion.[47]

COVID-19 has placed a burden on both individuals and businesses. This has left developing countries much more vulnerable. The greatest impact is likely to be left by the

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[43] T.K Manyati and M Mutsau 'Leveraging green skills in response to the COVID-19 crisis: A case study of small and medium enterprises in Harare, Zimbabwe' (2021) [Volume ahead-of-print] *Journal of Entrepreneurship in Emerging Economies* [pages ahead-of-print] doi 10.1108/JEEE-07-2020-0236

[44] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

[45] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

[46] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

[47] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

less resilient such as informal businesses and vulnerable members of the society.[48] The informal sector is high in developing countries such as Botswana, Namibia, South Africa and Zimbabwe. Zimbabwe has the second biggest informal sector in the world with more than 60% of the total economy.[49] The most affected part of the economy is the informal sector. Many people in developing countries such as Botswana, Namibia, South Africa and Zimbabwe are employed in the informal sector. The informal sector typically survives on daily incomes and lacks such benefits as pension and usually lacks support in terms of access to credit lines to sustain businesses during the pandemic. As such, COVID-19 induced lockdowns imply that the majority of the people employed in the informal sector cannot go to work and will not have an income. For example, informal cross-border trading, the mainstay of livelihoods of many Zimbabweans, has been put on hold due to the COVID-19 related restrictions. In Namibia, such vendors as *kapana* traders have found it difficult to conduct business. The market has dwindled due to social distancing measures. These traders don't have financial reserves to cushion themselves during these trying times. This has resulted in the loss of livelihoods, resulting in increased financial exclusion and income inequality.[50,51,52,53,54]

Apart from posing a global health crisis, COVID-19 has become a global economic crisis, damaging the livelihoods of people all over the world.[55] Most affected are poor people and other vulnerable members of society. These people typically do not have stable and alternative sources of income. They survive mainly from hand to mouth.

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[48] D.W Arner et al 'Digital Finance & The COVID-19 Crisis' (2020) *Social Science Research Network* 1 23 https://ssrn.com/abstract=3558889

[49] T.K Manyati and M Mutsau 'Leveraging green skills in response to the COVID-19 crisis: A case study of small and medium enterprises in Harare, Zimbabwe' (2021) [Volume ahead-of-print] *Journal of Entrepreneurship in Emerging Economies* [pages ahead-of-print] doi 10.1108/JEEE-07-2020-0236

[50] R.S Arunachalam and G.L.K Crentsil 'Financial Inclusion in The Era of Covid-19' (2020) *Workshop Presentation Paper (Draft). The Financial Inclusion Advocacy Centre* 1 33

[51] M Dzingirai et al 'Challenges and Opportunities From COVID-19 vis-àvis Informal Cross-Border Women Entrepreneurs Scenario in Zimbabwe' (2021) Chapter 3 *IGI Global* 40 58 doi: 10.4018/978-1-7998-6632-9.ch003

[52] Gutiérrez-Romero, R., & Ahamed, M. 2020

[53] T.K Manyati and M Mutsau 'Leveraging green skills in response to the COVID-19 crisis: A case study of small and medium enterprises in Harare, Zimbabwe' (2021) [Volume ahead-of-print] *Journal of Entrepreneurship in Emerging Economies* [pages ahead-of-print] doi 10.1108/JEEE-07-2020-0236

[54] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

[55] R Ayadi and M Shaban 'Digital Financial Inclusion: A Pillar Of Resilience Amidst Covid-19 In The Mediterranean And Africa' (2020) June 2020 *EMEA Policy Paper* 1 16 www.euromed-economists.org

Therefore, COVID-19 containment measures such as social distancing and ban on public gatherings immediately switch off the main source of income. This implies loss of income despite the need to meet financial obligations such as buying food and health care products, paying school fees, paying utilities, etc. With little to no income reserves, poor people become more financially vulnerable. This increases poverty and widens income inequality. It also worsens pre-existing financial exclusion.[56,57,58,59]

Prospects

Despite the detrimental effects of COVID-19 on financial inclusion, it has also brought prospects. Technology is redefining the landscape of the financial sector. At the height of COVID-19 containment measures such as social distancing, technology has given birth to new opportunities in the form of digital financial services. Digital financial technology can be leveraged to achieve financial inclusion, thereby providing a sigh of relief in ensuring financial inclusion during the COVID-19 pandemic.[60] This process is known as digital financial inclusion.[61,62] Digital financial inclusion involves "capitalising on cost-saving digital technologies and the widespread use of mobile phones to reach the financially excluded and enhance access to formal affordable financial services in a sustainable manner".[63] Thus, digital financial inclusion plays a pivotal role as a resilience tool to financial instability caused by the pandemic.

The challenges posed by COVID-19 containment measures such as social distancing and lockdowns resulted in the closure of banking halls and other financial services providers. Nation governments in many countries including Botswana, Namibia,

[56] E.S Knotek II et al 'Consumers and COVID-19: A Real-Time Survey' (2020) Number 2020-08 April 17, 2020 *Econometric Commentary* Federal Reserve Bank of Cleveland 1 6 doi: 10.26509/frbc-ec-202008
[57] I.N Machasio 'COVID-19 and digital financial inclusion in Africa: How to leverage digital technologies during the pandemic' (2020) October 2020 *Africa Knowledge In Time Policy Brief* Issue 1, No. 4, 1 7
[58] E Mogaji 'Financial Vulnerability During a Pandemic: Insights for Coronavirus Disease (COVID-19)' (2020*) Research Agenda Working Papers* 2020 57-63
[59] V Nuguer and A Powell 'Inclusion in Times of Covid-19' (2020) *Inter-American Development Bank* 1 83
[60] A Jhunjhunwala 'Role of Telecom Network to Manage COVID-19 in India: Aarogya Setu' (2020) 5 *Transactions of the Indian National Academy of Engineering* 157-161
[61] D.W Arner et al 'Digital Finance & The COVID-19 Crisis' (2020) Social Science Research Network 1 23 https://ssrn.com/abstract=3558889
[62] R Sahay et al 'The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era' (2020) [Online] https://books.google.com.na/books?id=UqwYEAAAQBAJ&source=gbs_navlinks_s
[63] R Ayadi and M Shaban 'Digital Financial Inclusion: A Pillar Of Resilience Amidst Covid-19 In The Mediterranean And Africa' (2020) June 2020 *EMEA Policy Paper* 1 16 www.euromed-economists.org

South Africa and Zimbabwe advocated for increased use of cashless and contactless transactions to minimise the spread of the disease. This has increased the use of mobile financial services. It has also been observed that Sub Saharan Africa has recorded the greatest number of mobile financial services usage between 2010 and 2019. This has coincided with the increased demand for cashless transactions due to social distancing.[64]

Cash has always been responsible for spreading diseases. Although the Zimbabwean situation seems to be different because cash has become a sought-after commodity because of its scarcity, the general public tends to be reluctant to accept cash[65] in Botswana, Namibia and South Africa. Thus, cashless and contactless payment systems can be the solution during the pandemic. This technology is easily accessible to the poor and rural folks that seem to have limited financial access to formal financial services, thereby increasing financial access to these disadvantaged members of society.[66]

Digital financial services such as mobile money services are cheaper, fast and more efficient than conventional financial services such as banking. As such, digital financial services are easily accessible to small enterprises, informal businesses and low-income and other disadvantaged members of the society such as the unbanked. Financial technology enables contactless and cashless transactions which auger well with COVID-19 containment measures. This facilitates transacting during the COVID-19 pandemic. Digital financial services can also be used to facilitate efficient distribution of government's financial support to affected members of the society such as small businesses and low-income earners.[67,68] Similarly, digital financial solutions accelerate access to financial services by the informal sector and disadvantaged and vulnerable members of the society

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[64] I.N Machasio 'COVID-19 and digital financial inclusion in Africa: How to leverage digital technologies during the pandemic' (2020) October 2020 *Africa Knowledge In Time Policy Brief* Issue 1, No. 4, 1 7

[65] R.S Arunachalam and G.L.K Crentsil 'Financial Inclusion in The Era of Covid-19' (2020) *Workshop Presentation Paper (Draft). The Financial Inclusion Advocacy Centre* 1 33

[66] D.W Arner et al 'Digital Finance & The COVID-19 Crisis' (2020) Social Science Research Network 1 23 https://ssrn.com/abstract=3558889

[67] I.N Machasio 'COVID-19 and digital financial inclusion in Africa: How to leverage digital technologies during the pandemic' (2020) October 2020 *Africa Knowledge In Time Policy Brief* Issue 1, No. 4, 1 7

[68] R Sahay et al 'The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era' (2020) [Online] https://books.google.com.na/books?id=UqwYEAAAQBAJ&source=gbs_navlinks_s

such as the poor and rural inhabitants. Thus, financial inclusion can be used as a tool to withstand the shocks caused by COVID-19.[69]

Digital financial technology has the potential to increase economic growth, alleviate poverty and lessen income inequality.[70] In this regard, research has shown that digital financial inclusion fosters increased economic growth. Thus, digital financial inclusion can be used to dampen the detrimental effects of COVID-19 on the economy and the well-being of people. Increased financial access by small businesses and vulnerable members of society through financial technology can lead to inclusive economic growth.[71]

Despite significant strides made by digital financial services in promoting financial inclusion in Botswana, Namibia, South Africa and Zimbabwe, there is a risk of asymmetry in information and access to digital infrastructure. Lack of information and such infrastructure as mobile phones, computers and the internet could also lead to another form of exclusion which can be worsened as the adoption of digital financial services increases during the COVID-19 pandemic. The cost of data can be a major stumbling block in these countries. Efforts are being made to alleviate the cost of data on mobile financial transactions. For example, financial mobile applications are being zero-rated so that members of society will no longer require data to use mobile financial applications. Financial institutions that have zero-rated their mobile applications include FNB in Namibia, Ozow in South Africa and Stanbic Bank in Zimbabwe. Increased financial services can also result in financial instability if the financial services providers are not properly regulated. In Zimbabwe, mobile money services such as EcoCash have been accused by the government of fuelling increases in prices and parallel foreign exchange rates. This led to further tightening of regulations against mobile money operators. Increased growth in digital financial services also poses risks. Increased adoption of

[69] R Ayadi and M Shaban 'Digital Financial Inclusion: A Pillar Of Resilience Amidst Covid-19 In The Mediterranean And Africa' (2020) June 2020 *EMEA Policy Paper* 1 16 www.euromed-economists.org
[70] I.N Machasio 'COVID-19 and digital financial inclusion in Africa: How to leverage digital technologies during the pandemic' (2020) October 2020 *Africa Knowledge In Time Policy Brief* Issue 1, No. 4, 1 7
[71] R Sahay et al 'The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era' (2020) [Online] https://books.google.com.na/books?id=UqwYEAAAQBAJ&source=gbs_navlinks_s

digital solutions raises consumer safety and cybersecurity issues. These risks have the potential to worsen financial exclusion and income inequality.[72]

Conclusion

COVID-19 has brought financial inclusion challenges and opportunities in Botswana, Namibia, South Africa and Zimbabwe. The disease has become a global crisis because of the measures taken to contain it. These include social distancing and lockdowns. These containment measures have resulted in negative economic growth. Financial markets have also been severely affected and are experiencing stunted growth. Supply chains have been disrupted. There has been increased closure of businesses. Individuals have lost their jobs, their main source of livelihood. With many people falling sick, it means they cannot go to work and this is a loss of income. The most affected are informal businesses and micro, small and medium enterprises. The informal sector constitutes a significant chunk of the economy in Botswana, Namibia, South Africa and Zimbabwe. Similarly, poor and vulnerable members of society are severely affected because they lack resilience in the form of other sources of income. As such, the COVID-19 pandemic has reversed the financial inclusion progress made in these developing countries over the past few years. This situation has worsened poverty and income inequality thereby accelerating financial exclusion. The spread of COVID-19 has affected the Chinese economy. Many businesses in Botswana, Namibia, South Africa and Zimbabwe depend on imports from China. A slowing Chinese economy coupled with failure to import goods from China due to lockdowns resulted in many businesses retrenching their employees. This situation further worsened poverty, income inequality and financial exclusion in these countries. With increased budgets for the health sector to cope with the increased number of COVID-19 related illnesses, countries were left with fewer resources directed towards supporting financial inclusion initiatives. This also worsened financial inclusion.[73]

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[72] R Sahay et al 'The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era' (2020) [Online] https://books.google.com.na/books?id=UqwYEAAAQBAJ&source=gbs_navlinks_s

[73] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

Notwithstanding its detrimental effects on financial inclusion, COVID-19 has also brought opportunities in terms of accelerating digital financial inclusion. Digital financial technology has emerged as the main solution to facilitate transactions midst of COVID-19 containment measures such as social distancing and lockdowns. Therefore, digital financial inclusion has played a major role as a resilience tool to financial instability caused by the pandemic. Botswana, Namibia, South Africa and Zimbabwe have encouraged cashless and contactless transacting to minimise the spread of COVID-19. This has increased the use of mobile financial services. Digital financial services such as mobile money services are cheaper, fast and more efficient than conventional financial services such as banking. They are easily accessible to small enterprises, informal businesses and low-income and other disadvantaged members of the society such as the unbanked. Thus, digital financial inclusion can be used as a tool to withstand the shocks caused by the COVID-19 pandemic. It results in inclusive economic growth.

However, digital financial services have inherent risks that need to be managed to ensure that this innovation is a success in promoting financial inclusion. Lack of information to other members of the society, usually the poor and informal sector businesses, can be a barrier to financial inclusion. Digital financial infrastructure can also be elusive to poor and disadvantaged people. Such infrastructure as mobile phones, computers and the internet might be inaccessible and too expensive to these members of the society. The cost of data might not be affordable. This calls for innovation. One such innovation is the zero-rating of mobile financial applications so that members of society will no longer require data to use mobile money financial applications. Increased digital financial solutions can also result in financial instability if the financial service providers are not properly regulated. As such, there is a need for increased and appropriate digital financial regulations to ensure financial stability. Digital financial services also raise consumer safety and cybersecurity issues. These risks have the potential to worsen financial exclusion and income inequality. There is a need to enact consumer safety and cybersecurity laws designed to protect consumers and digital financial services providers.

Recommendation

This chapter illustrated the impact of COVID-19 on financial inclusion by focusing on challenges and opportunities. However, there is a lack of empirical research that has been conducted to ascertain the extent to which COVID-19 has affected financial inclusion in Botswana, Namibia, South Africa and Zimbabwe. Still, there is an unanswered question. For example, do the prospects of COVID-19 on financial inclusion outweigh the challenges? Therefore, it is recommended that empirical studies be conducted in these countries to ascertain the extent to which COVID-19 has impacted financial inclusion.

The chapter recommends the way forward on achieving financial inclusion in a COVID-19 pandemic environment. There is a need for increased collaboration between financial technology companies, financial institutions and governments. These entities should have concerted efforts directed towards increased financial inclusion.[74]

Digital financial technology has emerged as an effective solution. Therefore, there is a need to promote cashless and contactless transactions through mobile money and other electronic financial solutions. Countries should invest in affordable digital financial infrastructure, targeting vulnerable groups and people in marginalised areas such as rural areas. This can be achieved by increasing internet connectivity and provision of cheaper data and zero-rating of mobile financial applications. The acceptance and use of digital currencies also present an opportunity. Digital currencies that can be used to facilitate transactions are known as cryptocurrencies. An example is Bitcoin which can be used to purchased goods and services.[75]

There is a need to increase digital financial awareness to boost digital financial inclusion. This can be achieved by providing digital financial education through various channels such as mass media and social media. Financial education could be targeted to vulnerable groups such as low-income earners, informal traders and micro, small and medium enterprises.[76]

The promotion of digital financial solutions should be accompanied by increased financial regulation to ensure financial stability. If not properly regulated, digital financial

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[74] R Sahay et al 'The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era' (2020) [Online] https://books.google.com.na/books?id=UqwYEAAAQBAJ&source=gbs_navlinks_s

[75] D.W Arner et al 'Digital Finance & The COVID-19 Crisis' (2020) Social Science Research Network 1 23 https://ssrn.com/abstract=3558889

[76] R Gutiérrez-Romero and M Ahamed 'COVID-19 response needs to broaden financial inclusion to curb the rise in poverty' (2020) 138 *World Development* 1 37

services can cause financial instability which might worsen the plight of the poor and vulnerable members of society. This has the potential to worsen financial exclusion.[77]

There is a need to encourage cash withdrawals at the point of sale in-store to cater for situations where cash is required.[78] Poor and vulnerable people should be allowed to withdraw money when they need it. As such, financial institutions such as banks should remain accessible to vulnerable groups especially in marginalised areas such as rural and remote areas where digital financial solutions might be limited.[79]

Main affected businesses include micro, small and medium enterprises and informal businesses. As such, there is a need to provide short-term to medium-term financial assistance to low-income individuals and businesses.[80] There is a need for the provision of ease of access to prompt and efficient credit facilities at affordable interest rates to affected business end individuals. This can be strengthened by the provision of government credit guarantee schemes. This will protect vulnerable individuals and affected businesses from informal sector lenders such as loan sharks that usually charge exorbitant interest rates. The continued survival of these businesses preserves employment. These initiatives can be augmented with physical policies that enhance inclusive growth e.g., fiscal packages to rescue businesses and favourable tax regimes that promote business recovery and growth.[81]

It is also recommended that governments provide relief financial packages to households that have lost their incomes. Directed financial assistance is needed to at least maintain the welfare of vulnerable members of society. This is useful in stimulating demand for goods and services which in turn spurs economic growth.[82,83]

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[77] R Ayadi and M Shaban 'Digital Financial Inclusion: A Pillar Of Resilience Amidst Covid-19 In The Mediterranean And Africa' (2020) June 2020 *EMEA Policy Paper* 1 16 www.euromed-economists.org

[78] T Kasradze 'Challenges Facing Financial Inclusion Due to the COVID-19 Pandemic' (2020) *3 European Journal of Marketing and Economics* 63 74

[79] P Ozili 'COVID-19 in Africa: Socio-economic impact, policy response and opportunities' (2020) *International Journal of Sociology and Social Policy* Volume ahead-of-print https://doi.org/10.1108/IJSSP-05-2020-0171

[80] R Gutiérrez-Romero and M Ahamed 'COVID-19 response needs to broaden financial inclusion to curb the rise in poverty' (2020) 138 *World Development* 1 37

[81] D.W Arner et al 'Digital Finance & The COVID-19 Crisis' (2020) Social Science Research Network 1 23 https://ssrn.com/abstract=3558889

[82] D.W Arner et al 'Digital Finance & The COVID-19 Crisis' (2020) Social Science Research Network 1 23 https://ssrn.com/abstract=3558889

[83] V Nuguer and A Powell 'Inclusion in Times of Covid-19' (2020) *Inter-American Development Bank* 1 83

Financial institutions also require assistance. This can be achieved by easing existing capital and liquidity requirements. This will enable financial service providers to offset potential losses and still have enough resources to continue to offer credits to affected individuals and businesses.