

## Inclusive financial services and family remittances for poor rural people – Lessons from the COVID-19 pandemic

### Panellists:

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### Inclusive Financial Services

The COVID-19 crisis is a global phenomenon, and its ripple effects are adversely affecting livelihoods across the board. The vulnerability of poor rural people, especially small-scale producers, has been exposed as never before by the multi-dimensional impact of the pandemic. Meanwhile, agribusinesses are exposed to a shortage of workers and decreased revenues. In addition, financial service providers are more risk averse to providing loans in this period and overall, their liquidity is diminishing.

Response, recovery, and resilience, including mitigation and preparedness, are greatly interrelated. In agricultural finance, recovery will present an opportunity to promote ICT-based agricultural finance systems that allow bundling of financial and non-financial services.

Robust digital payment infrastructure and other digital mechanisms are key to addressing the immediate needs of rural poor people. Over the past decade, the international donor community, including IFAD, has generously invested in this. Among the many options are value chain payment digitization, warehouse receipt financing supported by blockchain-based escrow accounts and e-wallets for payments, and digital transformation of community-based financial organizations and savings and credit cooperative societies. An example worth noting is The Better-Than-Cash-Alliance, a global partnership committed to move from cash to digital payments in order to reduce poverty and drive inclusive growth. **Digital infrastructure development will play a more prominent role in the new generation of IFAD projects, especially under public-private partnership arrangements.**

### Proposals submitted for funding under IFAD's new Rural Poor Stimulus Facility in the Asia and the Pacific Region include

1. **Nepal** - Introduction of a credit card and app to enable the Government to make direct payments of grants and subsidies to smallholder farmers, ensuring transparency, eliminating leakages, and reducing transaction cost to both the recipient and government. The initiative is through the existing IFAD-financed Value Chains for Inclusive Transformation of Agriculture programme.
2. **Cambodia and Myanmar** – Introduction in ongoing projects conditional cash transfer mechanisms and a virtual market platform through apps that provide a full range of services related to weather information, market price and extension services.

### Remittances

About one billion people are involved in sending (200 million) or receiving (800 million) remittances, which tend to be considered a lifeline for poor people. Due to COVID-19, and as economies have shut down, tens of millions of jobs have been lost, some perhaps permanently. Migrants are among the worst hit as the crisis affects their ability to send money back home. It is estimated that flows of remittances in 2020 will drop by 20 per cent, or USD 110 billion, of which half would have otherwise gone to rural areas. As a result, millions of recipients in rural areas of the developing world risk being pushed back into poverty.

In addition, lockdowns and closure of traditional cash-to-cash remittance services have made it difficult for families to receive their funds. In contrast, the market has seen a surge in digital remittances. While this may be crucial for the financial inclusion of millions of recipient families, it comes with its own issues, particularly in rural areas where the infrastructure is not yet in place to enable people to benefit fully from cashless transactions and service provision.

Through its Global Remittance Community Task Force, created to address the negative impacts of the crisis on remittances, IFAD has highlighted the benefits that specific products and services linked to remittances can have for promoting both recovery and resilience. For example, an IFAD/FFR project in Uganda was able to maintain its remittances services thanks to the inclusion of digital financial services. Another project with private sector entity Valyou has deployed mobile wallets that enable Pakistani and Bangladeshi migrants to send their remittances, and links them with financial services. Finally, in the United Arab Emirates, a project enabled migrants to access insurance products digitally for themselves and their relatives in the Philippines when sending remittances.

### Related Knowledge Resources

1. Disruptions caused by the COVID-19 pandemic create opportunities for innovative solutions. In Zambia, an IFAD-supported project operating through a network of microfinance institutions and digital financial services aggregators sent messages related to the prevention of COVID-19 spread as well as made these recommendations available throughout the project's financial networks. Nsingui Barros, A., and Rakotovololona, L., 2020. [Stepping up rural finance to support smallholder farmers in Zambia](#). Rome, IFAD

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### Related Knowledge Resources

2. Thoughts on solidarity-based lending in times of the COVID-19 pandemic as part of a series of publications and other experiences and ideas are shared with our peers such as the Capacity Building in Rural Finance (CABFIN) Partnership in the "Boulder Community Corner" that can be reached at: <https://www.bouldermft.org/blog/contact-us/>. CABFIN is increasingly sharing experiences about digitizing rural and agricultural finance as part of the response to the pandemic through webinars and cooperating through online communication more conveniently and effectively; visit: <https://www.ruralfinanceandinvestment.org>
3. Making sure that food systems continue to operate during the COVID-19 pandemic is critical to guaranteeing food security in developing countries. Innovations such as electronic marketing channels and credit platforms could benefit small-scale producers both during the pandemic and beyond. Reardon, R., and Swinnen, J., 2020. COVID-19 and resilience innovations in food supply chains. Washington, DC, IFPRI.
4. A global Remittance Community Task Force (RCTF) led by IFAD released a Blueprint for Action, showcasing measures to help spur the recovery and the resilience of the one billion people that composed remittance families. This report presents the reality of both remittance senders in host countries and their families in LMICs and examines the impact of the crisis from the perspective of service providers. It also addresses the policy and regulatory challenges that must be tackled to improve the resilience of remittance markets in the face of external shocks, along with the actions to be taken by remittance service providers (RSPs) and other relevant stakeholders. Remittance Community Task Force, 16 June 2020. Remittances in times of Crisis: Response, Resilience, and Recovery. Rome, IFAD
5. Building partnerships with the postal network could offer channels to provide financial and remittance services in rural areas. Examples include field experiences in Pakistan, Azerbaijan, Turkey, Algeria, and Uganda. IFAD, 2020. Post offices channelling remittances in the midst of the COVID-19 pandemic. Rome, IFAD.

### Recommendations

1. **Bundling of services** – COVID-19 provides an opportunity to stimulate a consolidation of different rural finance sectors, involving fintech for increased market access, for example. For producers, direct cash transfers have proved essential to increase cash support. Also, tapping into intermediary networks for financial and non-financial services is key.
2. **Institutional support** – While promoting innovative approaches in response to COVID-19, it is also important to create an environment to promote long-term resilience and recovery. Understanding the viability of microfinance institutions and of other financial service providers is crucial because they provide direct financing to the poorest communities. Additionally, the needs of member-based institutions, such as credit and savings groups and producer associations cannot be overlooked.
3. **Robust digital infrastructure** – For IFAD, there is an opportunity to influence policy and regulatory frameworks to digitalise the rural sector, as well as to provide digital extension services and ICT literacy, particularly digital financial education models for IFAD's target group. It is envisioned that key focus areas would centre around digital literacy, especially involving the last mile connectivity in collaboration with mobile network operators. Responding to shortcomings in the digital infrastructure will be key going forward. Essential to digital payments and remittances, this could revolve around issues, such as changing transaction patterns, liquidity, and physical infrastructure, among others.
4. **Remittances** – Making remittances more resilient to shocks (COVID-19 included) and as buffers against financial vulnerability, possible policy responses may include:
  - a) Declare remittance services as essential services during lockdowns
  - b) Increase digitalization of remittances
  - c) Offering financial education classes
  - d) Supporting increase in switching to formal financial services; and
  - e) Increase income-generating opportunities to make use of remitted funds.