Forum: Economic and Social Council

Issue: Bridging the digital divide and enhancing access to financial services

Student Officers: Jerry Cui, Helen Xu, Rucha Kulkarni

Positions: President, Assistant President, Assistant President

Introduction

After entering the 21st century, despite the current era of unprecedented global development, many nations persistently contend with an array of intricate and multifaceted issues, encompassing substandard accessibility to reliable internet connection and restricted financial service availability, laying barriers to digital and economic inclusion around the world. The cyclical trap of poverty continues to perpetuate as families are ensnared in a struggle to transcend regional and geographical constraints such as unpredictable weather patterns, Inadequate telecommunications infrastructure, income inequality, and limited economic opportunities. For individuals and businesses, especially those in underserved or marginalized communities located in impoverished areas where internet connectivity and electrical supply are unreliable, the geographic remoteness has relegated these communities to the periphery of the financial ecosystem, casting shadows over the path to digital and financial empowerment.

The worrying "digital divide" is a comprehensive term for the gap between individuals, households, businesses, and geographic areas that have access to modern information and communications technology (ICT), and those that don't or have restricted access based on educational attainment, income, locations, and disability. The issue of the digital divide fundamentally affects individuals' ability to participate fully in the global economy, access essential financial services, and improve their overall quality of life. The digital divide is usually driven by a confluence of factors that require careful consideration and strategic intervention. The predominant cause of this issue is the disparity in digital infrastructure, where regions, particularly in less economically developed countries (LEDCs) and developing countries, often lack the necessary technological foundations such as reliable internet connectivity, adequate broadband coverage, and consistent electricity supply, limiting the ability of communities to leverage financial innovations. Another significant factor is economic inequality, in which individuals and families in lower-income brackets frequently struggle to afford the devices and data plans necessary to access digital services. This financial barrier is compounded by a lack of investment in these communities, both from the public and private sectors, which further restricts their digital participation.

In the dynamic landscape of global development, bridging the digital divide and enhancing access to financial services remain fundamental challenges and moral imperatives. This conference, themed "Building Resilience and Navigating Global Challenges," provides an opportune platform to address these critical issues. Resilience, at its core, involves the capacity to adapt and thrive amidst adversity. By enhancing digital access and financial inclusion with collaborative endeavors, equitable access to financial services is ensured, and inclusive economic growth is fostered.

Definition of Key Terms

Financial Inclusion

Financial inclusion refers to providing/ delivering financial services at a cheaper cost specifically to the lower privileged or low-income society of the population.

Digital Divide

Digital divide refers to the gap between those who have access to proper information technology and who lack access or are unable to use such digital resources.

Financial Technology

FinTech, or financial technology refers to technology that is developed and implemented in financial services. It includes integrating technology with finances. Some examples include online banking.

Information and Communicational Technology (ICT)

ICT also known as Information and communication technology, is the network structure that uses wireless signals to monitor and control various technologies that help handle telecommunications, audio-visual processing, and data storage. For example – the internet, cell phones, and television.

Digital Access Index (DAI)

An establishment that measures the capacity of a nation to effectively use and implement various modern technologies within its national system and its citizens. It considers various factors such as the digital infrastructure economy, digital literacy, and the cost of the technology to calculate the overall of a country.

Microfinance

Microfinance services enable low-income individuals to use special financial services that are often not accessible and affordable through the normal banking system.

Background

In contemporary times, concern regarding access to financial services has become increasingly prevalent throughout the world, particularly in emerging and developing countries. 4 billion people on earth still don't have proper internet access. The topic has solicited the attention of policymakers, who regard it with apprehension that the benefits produced by financial intermediation and markets are not spread widely enough throughout the population and across economic sectors. This would instigate potential negative implications on growth, income distribution, and poverty levels, among others. Their concerns extend to worries regarding macro stability when financial system assets are concentrated in relatively few individuals, firms, or sectors.

Financial Exclusion

Financial exclusion refers to when individuals and populations lack access to mainstream financial services. This could include the absence of banking accounts, credit cards, and insurance policies.

Causes

These customers may be deprived of access to financial services due to a multitude of reasons. To begin, many individuals and firms are considered ineligible for these services from the perspective of commercial financial markets and institutions due to their low income. It is often regarded that a low income is directly related to those people who are completely financially excluded. Demographics including single parents, disabled individuals, and those on benefits often find themselves in the low-income bracket, making them less desirable to mainstream banking. In many instances, they are unable to meet the minimum prerequisites for an account, including identity requirements such as driving license, passport, or permanent address. This would significantly impede their opportunities to utilize financial products, making it virtually impossible to gain access. Something noteworthy is the poverty premium enforced upon people facing financial exclusion. This is an occurrence where people may experience carrying out transactions which people with full access to financial services don't incur, leading to an increase in the burden. Moreover, societal factors also play a pertinent role in perpetuating this issue, namely the presence of social exclusion. Individuals who are unemployed, financially dependent, or have no credit history in the country they reside in are often excluded due to their social status. This is especially prevalent in migrants, many of whom experience financial exclusion in their new country. Furthermore, the inaccessibility to information technology (IT) also poses adversities. The inability to maintain an IT presence would indicate implications including but not limited to access to online resources such as online banking. In the digital age, seclusion from online resources may result in acquiring a limited or inaccurate understanding of the information provided. In addition, the scarcity of products that accommodate all customers denotes the genuine lack of financial services for people who do not fit a mainstream financial profile. A deficiecy in insurance, credit, and banking facilities indicates that improvement in financial profile and development towards financial inclusion becomes immensely difficult . Finally, we must also consider the potential possibility of self-exclusion due to a variety of reasons, such as inadequate trust in providers or aversion to products via undesirable channels.

Effects

There are numerous effects of this exclusion, which generally denotes an inability to eradicate poverty. To begin, the lack inadequate accessibility to the necessary financial resources impoverishes individuals; in a state of indigence, they are unable to access financial products and services, resulting in the formation of a vicious cycle. Moreover, without access to affordable financial products and services that meet people's requirement, it can prevent them from meeting their fundamental needs including nutritious food, clean water, housing, and healthcare. This will profoundly impact quality of life, posing health implications, and potentially endangering lives. Furthermore, financial exclusion would deprive people of their ability to build financial security for the future. Simultaneously, this would indicate the inability to build protection for themselves in times of crisis. In addition, another impact is the prevention of investment in opportunities including education and other aspirations. Finally, the culmination of these implications ultimate results in the impotence of mitigating poverty, perpetuating the cycle of penury.

Financial Inclusion

Financial inclusion refers to efforts to make financial products and services accessible and affordable to all demographics. Financial inclusion, being recognized by the World Bank, is considered a potential catalyst to reduce poverty and boost prosperity. It has also been identified as an enabler for 7 of the 17 Sustainable Development Goals (SDGs). The G20 has exhibited commitment to advancing financial inclusion worldwide and reaffirmed its dedication to implementing the G20 High-Level Principles for Digital Financial Inclusion. In recent years, steady development has been made towards financial inclusion. Since 2010, more than 55 countries have made commitments to financial inclusion, and more than 60 have either launched or are developing a national strategy. Some efforts towards progress include the implementation of policies, leverage of government payments, flourishment of mobile financial services, utilization of e-commerce data, and development of national financial inclusion strategy (NFIS), among many more. Notably, the number of adults without access to an account has steadily declined from 2.5 billion in 2011 to 1.7 billion in 2017 to 1.4 billion in 2021. As of 2021, 76% of the world's adult population had an account. Digital financial services have now been set in motion in more than 98 countries, with over 1.35 billion registered mobile money accounts worldwide. As a result, millions of formerly excluded and underserved populations have transitioned from exclusively cash-based transactions to formal financial services with the assistance of digital technology. However, it is imperative to also consider the fact that close to one-third of adults – 1.4 billion – are still unbanked in 2021.

Measuring Financial Access

Financial inclusion measurement initially focused on provider-side indicators such as bank branches or ATMs per capita, collected through the Financial Access Survey (FAS) for 187 jurisdictions from 2004 to 2011. However, the provided insights into the global reach and inclusion of financial services among various groups are limited. Recently, this gap has been addressed with the Global Financial Inclusion database, created by the World Bank in cooperation with the Bill and Melinda Gates Foundation and Gallup, Inc. The Global Findex provides user-side indicators from the Gallup World Poll Survey, covering 148 economies with data from over 150,000 adults interviewed in 2011. The measurement scale includes more than 40 indicators on account ownership, payments, saving, borrowing, and risk management, available online for public use. It is a valuable measurement for benchmarking, diagnostics, and cross-sectional analysis. The World Bank Enterprise Surveys measure firm-level financial inclusion, while the Global Financial Development Database tracks access to financial markets transnationally.

Bridging the Digital Divide

The digital divide refers to the gap between those with access to reliable information technology and those who do not. In modern society, where digital technology prevails as one of the most important skills to obtain, reducing the digital divide emerges as something fundamental. According to the United Nations Educational, Scientific and Cultural Organization (UNESCO), approximately 45 per cent of global households lack access to the internet. Moreover, a report from the United Nations Children's Fund (UNICEF) estimates that 1.3 billion children between the ages of 3 and 17 lack internet access at home, representing nearly two-thirds of the world's school-age children. The lack of this resource indicates that people are unable to build proficiencies to alleviate their impoverished state. Furthermore, according to a 2018 report from the U.S. Department of Education, 16 percent of American adults between the ages of 16 to 65 are digitally illiterate. The report found 23 percent of adults lack digital literacy skills on a global scale. With technological advancement being exponential, the pertinence of imminent actions to bridge the digital divide is evident.

Major Parties Involved

United Nations Development Programme (UNDP)

The UNDP is the United Nations global development network, which advocates for change and aids countries to connections to knowledge, experience, and resources. As the largest UN development agency, it is tasked with assisting countries in achieving sustainable development. UNDP functions with the objective to establish solutions to challenges of poverty reduction and achievement of the Millennium Development Goals (MGGs), democratic governance, crisis prevention and recovery, and environment and energy for sustainable development.

United Nations Children's Fund (UNICEF)

The UNICEF, operating in 192 countries and territories, is a United Nations agency that functions on the mandate of providing humanitarian and developmental aid to children worldwide. Its activities include immunizations and disease prevention, enhancing childhood and maternal nutrition, administering treatment for children and mothers with sickness, improving sanitation, promoting education, and providing emergency measures to alleviate the impact of disasters. UNICEF relies entirely on voluntary contributions and benefactions from governments and private sectors.

World Bank

The World Bank is an international financial institution that assists low- and middle-income countries in pursuing capital projects through the provision of loans and grants. Its roles are to reduce poverty by issuing monetary assistance to governments to improve their economies, and by extrapolation, improve the living standards of their people. The World Bank is owned by the governments of nations, who have the ultimate authority to make decisions on all matters within the organization, including policy, financial, or membership issues.

International Monetary Fund (IMF)

The IMF is a major financial agency of the United Nations, and a financial institution funded by 190 member states. It operates with the mission of "working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world." IMF is founded upon the three primary functions of overseeing fixed exchange rate arrangements between countries, providing short-term capital to aid the balance of payments, and to facilitate the recovery of the international economy after the Great Depression and World War II.

International Labour Organization (ILO)

The ILO is a United Nations agency, constituting of 187 member states, that sets international labor standards with a directive to advance social and economic justice. It serves society in ways including but not limited to the formulation of international policies and programs, the creation of international labor standards, the formation of an extensive program of international technical cooperation, and the provision of training, education, and research activities to help advance all these efforts.

Organization for Economic Co-operation and Development (OECD)

The OECD is an intergovernmental organization, constituting of 38 member states, that aims to stimulate world trade and economic development. It functions on a mission to shape policies that foster prosperity, equality, opportunity, and well-being for all. The member countries involve collaborate with the mandate of committing to democracy and the market economy, providing a platform to share policy experiences, identify good practices, and build resolutions to issues.

Previous Attempts to Resolve the Issue

Various stakeholders, including governments, NGOs (Non-governmental organizations), and international organizations, such as the World Bank and the United Nations, have joined forces to spearhead initiatives aimed at bolstering digital infrastructure in disenfranchised regions and implementing measures that uplift public accessibility to variegated financial services, thereby laying the groundwork for broader financial inclusivity especially targeted at the vulnerable segments of the social strata. Some paradigmatic instances and efforts made to settle this issue are the 'Life Project 4 Youth' which has been preparing young adults and women for their professional lives by integrating digital technology into training programs that could potentially deliver economic empowerment ("2. Bridge the Digital Divide", UNDP) and the Internet Governance Forum (IGF) which propels a myriad of actions that harness the internet to support human resilience and build solidarity amid COVID-19, further allowing developing countries to benefit from digital and other cutting-edge technologies such as artificial intelligence, quantum computing, and robotics. Concurrently, public-private partnerships have emerged as pivotal actors in the play of resolving this issue, with tech giants and financial institutions collaborating to develop and deploy innovative solutions like mobile banking platforms, which have proven instrumental in extending financial services to remote and rural populations where traditional means are not approachable. Additionally, national governments have implemented regulatory reforms and legislative changes to foster financial inclusion, such as the establishment of digital identification systems that facilitate access to banking services for previously unbanked populations, and, to safeguard security and enhance processing efficiencies, standards such as inter-bank settlement, open-loop payment cards, and cross-border transactions are employed. Despite these efforts, challenges persist, particularly in terms of the internet's coverage, digital literacy, and cybersecurity, underscoring the need for a more holistic and integrated approach that not only expands technological infrastructure to wider localities and broader population but also addresses the socioeconomic and educational barriers that inhibit full participation in the digital economy.

Possible Solutions

FinTech Literacy

Provide financial literacy programs/workshops in schools,insitutions and workplaces to educate people on essential digital financial literacy skill which will help them understand and trust the digitalized system more effectively. This knowledge will motivate people to shift towards digital system rather than a traditional system. Furthermore, to maintain the digital system's security, banks should provide extensive employee training with the help of cybersecurity organizations to create advanced digital monitoring systems.

Offer More Microfinance services

Offer more microfinance programs to lower-income populations through both digital and offline banking services that have lower interest rates and flexible terms, by doing so it helps and empowers individuals to improve their financial security.

Satellite Technology

Satellite technology works as a catalyst that connects mobile networks with a faster network connection in all areas. This can allow banks to establish online systems in a secure way by providing real-time trafficking data and faster transactions. satellite technology can allow nations to shift from an offline system to an online financial institution system in an easier way. Making sure everyone, regardless of the location, can have access to all kinds of digital services.

Incentives for digital adoption

Encourage local financial institutions & NGOs to implement special rewards & bonus systems for their customers that incentivize the use of technological services such as cashback, and discounts. This is because people often engage in word-of-mouth marketing when they receive gifts or bonuses which will eventually spread and might help advertise services among people.

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