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Financial Divide, E-Governance and Financial Freedom : Empirical evidence from Emerging Economies

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Abstract

This paper examines the linkages among e-governance, financial freedom, and financial inclusion using a panel data of emerging economies from 2004-2017. Despite the existence of a strong rationale for investigating the dynamics between these variables, especially from an economic policy standpoint, there has been very little empirical studies in the literature. For this study, an index for financial inclusion was developed using indicators sourced from the World Bank database. E-governance index, a measure of usage of information and communications technologies (ICT) for public services, as well as a financial freedom indicator, a measure of banking freedom from control, was also used for the analysis. Johansen's co-integration test has revealed evidence for co-integration.

I. Introduction

FINANCIAL INCLUSION (FI) AIMS to provide all segments of society uniform access to financial services and it serves an important part in the economic growth (World Bank, 2013). FI has received greater attention from academicians and policymakers because of its positive effect on the financial development. The heightened interest of international forums like G20 also reflects the significance of FI for social and economic development (Culpeper, 2012). There is world-wide consensus on the significance of the digitalization of financial services to bridge the financial divide (Mahapatra, and Perumal, 2006). Information and Communication Technology (ICT) plays an important part in facilitating the information flow between government and citizens and it promotes inclusive growth. Studies suggest that increasing ICT investments will result in increased GDP growth (Dewan and Kraemer, 2000; Dimelis and Papaioannou, 2010; Hawash and Lang,

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Given the significant effects of financial freedom and e-governance on financial inclusion, the study suggests that promoting financial freedom and emphasizing on policies for accelerated use of digital technologies for delivering public services will help in bridging the financial divide in emerging economies in the long-run. The results imply that to address the financial divide, emerging economies should be implementing long-run policies targeting the advancement of e-governance and also it is desirable to undertake financial reforms, especially the liberalization of the financial sector. Future studies are therefore required to determine the level of financial freedom for the efficient functioning of the financial sector in order to reach the financially excluded.

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