Financial Inclusion in Latin America and the Caribbean during the COVID pandemic

Peterson K. OZILI
Central Bank of Nigeria
Address: Central Bank of Nigeria, Abuja, PMB 0187, Nigeria.

Abstract

Purpose: This paper provides an overview of financial inclusion in the Latin America and Caribbean region during the COVID pandemic based on 2021 Global Findex data.

Methodology: The study used descriptive data analysis to show the trend in financial inclusion during the pandemic.

Results: The study found that there was low level of financial inclusion in the LAC region. Account ownership and formal savings of the LAC region were below the world average in all population categories during the pandemic. The female, poor and uneducated population were the most adversely affected during the pandemic. This calls for urgent need to accelerate recovery from the pandemic and increase financial inclusion interventions for the vulnerable members of the population in the LAC region.

Originality: Existing financial inclusion studies focusing on LAC countries have not provided an overview of the state of financial inclusion in Latin America and Caribbean countries during the COVID pandemic. Therefore, there is an urgent need to understand the current state of financial inclusion in the Latin American and Caribbean region during the COVID-19 pandemic.

Keywords: financial inclusion, digital financial inclusion, savings, payments, borrowings, Latin America, Caribbean.

Inclusion financière en Amérique latine et dans les Caraïbes pendant la pandémie de COVID

Résumé

Objectif : Ce document donne un aperçu de l'inclusion financière dans la région Amérique latine et Caraïbes (ALC) pendant la pandémie de COVID, sur la base des données Global Findex 2021.

Méthodologie : L'étude a utilisé une analyse descriptive des données pour montrer la tendance de l'inclusion financière pendant la pandémie.

Résultats : L'étude a révélé un faible niveau d'inclusion financière dans la région ALC. La détention de comptes et l'épargne formelle dans la région ALC étaient inférieures à la moyenne mondiale dans toutes les catégories de population pendant la pandémie. La population féminine, pauvre et sans instruction a été la plus touchée par la pandémie. Il est donc urgent d'accélérer la reprise après la pandémie et d'augmenter les interventions d'inclusion financière en faveur des membres vulnérables de la population de la région ALC.

Originalité : Les études existantes sur l'inclusion financière axées sur les pays d'ALC n'ont pas fourni un aperçu de l'état de l'inclusion financière dans les pays d'Amérique latine et des Caraïbes pendant la pandémie de COVID. Il est donc urgent de comprendre l'état actuel de l'inclusion financière dans la région de l'Amérique latine et des Caraïbes pendant la pandémie de COVID-19.

Mots clés : inclusion financière, inclusion financière numérique, épargne, paiements, emprunts, Amérique latine, Caraïbes.

1. Introduction

This paper provides an overview of financial inclusion in the Latin America and Caribbean (LAC) region during the COVID pandemic.

Financial inclusion enables access to useful and affordable formal financial services (Allen et al, 2016). An inclusive financial system is a financial system with a large number of the population using formal financial services (Ozili, 2020). Financial inclusion is often linked to financial development. This is because countries that have a well-developed financial system usually have high levels of financial inclusion and a developed financial system provides individuals and firms with greater access to financial services to meet their individual and business needs (Demirgüç-Kunt et al, 2019). Therefore, greater financial inclusion enables financial sector development by offering affordable payment, savings and credit services that enables economic growth and development (Demirgüç-Kunt et al, 2019). However, financial systems in some regions are far from inclusive.

In the Latin America and Caribbean region, a large number of people are financially excluded. They lack access to basic financial services that meet their needs and there is low demand for formal financial services (Bebczuk, 2008; Motta and Gonzalez Farias, 2022). As a result, most people in the region rely on cash for payments which are largely undocumented, unsafe and difficult to manage. There are microfinance institutions in the region, but the microfinance institutions do not go to remote rural areas to reach the unbanked. Many individuals in the region rely on family and friends to raise funds for emergency as access to emergency funds from banks is almost impossible either because it is too expensive, or it takes too long for emergency loans to be approved by banks even after providing valid documentation and collateral. The inability of large number of people to use formal financial services in the LAC region contributes to the low financial access, low-income inequality and slow economic growth and development in the region. Furthermore, in Caribbean countries, many commercial bank branches operate only in profitable urban and rural areas. Banks are unwilling to open branches in unprofitable rural areas, and this leads to financial exclusion for people living in remote rural areas as they will find it difficult to access formal financial services. Distance to a bank is also a problem due to poor transportation infrastructure in Latin America and Caribbean countries.

The low level of financial inclusion problem in LAC countries was further worsened by the COVID-19 pandemic. The pandemic led to reduced access to cash and reduced physical access to financial institutions due to the social distancing restrictions which made it very difficult for a lot of people to access formal financial services in LAC countries. The COVID pandemic made it more difficult to access financial services as bank branches were shut down due to social distancing and lockdown restrictions during the pandemic. The absence of a well-developed digital payment system also made it difficult for the people to use digital financial services during the COVID-19 pandemic. These issues make it important to understand the trends and contribution of financial inclusion in the LAC region especially during the COVID pandemic. However, the literature has not documented the extent to which the level of financial inclusion decreased in the region during the pandemic.

Existing financial inclusion studies focusing on LAC countries have not provided an overview of the state of financial inclusion in Latin America and Caribbean countries during the COVID pandemic. Therefore, there is an urgent need to understand the current state of financial inclusion in the Latin American and Caribbean region during the COVID-19 pandemic. Our overview of the state of financial inclusion during the pandemic in the LAC region provides an opportunity for policy makers to identify the issues that exist and develop a strategy to address the existing challenges in the region. The insight gained from such overview can assist policy makers in identifying the right strategies and policies to adopt in addressing existing financial inclusion challenges in the region.

Our study contributes to the literature in the following way. First, our study contributes to the development literature that identifies financial inclusion as a possible solution to the development challenges facing developing countries including the LAC countries (e.g. Bebczuk, 2008; Pería, 2013). Our overview is timely because it has emerged at a time when Caribbean authorities have identified access to financial services as an important aspect of development and have begun to take seriously the need to increase financial inclusion in their countries. Second, our study contributes to the extensive literature that analyse the level of financial inclusion in several regions of the world. Existing studies have provided an overview of the state of financial inclusion in the Asian region (Ayyagari and Beck, 2015; Jahan et al, 2019), in Europe (Demirgüç-Kunt, Hu, Klapper, 2019; Corrado and Corrado, 2015), in Africa (Demirgüç-Kunt and Klapper, 2012; Beck, Senbet and Simbanegavi, 2015), Australia (Godinho and Singh, 2013), in the Latin and American region (Bebczuk, 2008; Pería, 2013) and in the World (Ozili, 2021). But there has not been an overview of the state of financial inclusion in the Latin America and Caribbean countries during the COVID pandemic. We extend this literature by presenting a regional analysis of financial inclusion during the pandemic in the LAC region.

The rest of the paper is structured as follows. Section 2 presents the theory and literature review. Section 3 presents an overview of financial inclusion during COVID.

2. Theory and Literature

The vulnerable group theory of financial inclusion states that vulnerable people are at a disadvantage in society and they are at risk of financial exclusion; therefore, financial inclusion intervention programs should be targeted at the vulnerable groups in society such as women, young adults and older citizens, among others (Ozili, 2020). Other theoretical studies argue that financial market frictions are the cause of poverty, inequality and lack of access to financial services (Aghion and Bolton, 1997; Galor and Zeira 1993). Therefore, removing financial market frictions is important to promote financial inclusion through greater access to financial services (Demirgüç-Kunt, Hu, Klapper, 2019).

Much of the existing literature on financial inclusion in the LAC region focus on a pre-COVID context. For instance, Gershenson et al (2021) show that the LAC region continue to lag behind other regions in terms of financial inclusion and it is unclear whether Fintech developments in the region can support greater financial inclusion in the LAC region. Pería (2013) evaluates financial inclusion in Latin America and Caribbean countries and find that the low level of financial inclusion in the region is caused by the general low demand for formal financial services in the region. The author also points out that the high financial fees play a major role in discouraging people from access financial services in the region. Motta and Gonzalez Farias (2022) examine the determinants of financial inclusion in LAC and show that people who make more income and are educated are more likely to be financially included in the LAC region, implying that income level and education are determinants of financial inclusion in LAC countries. Kazemikhasragh and Pineda (2022) analyze financial inclusion based on gender equality in the LAC countries and find that Latin America and the Caribbean countries can increase financial inclusion through gender equality to ease using technology and access to credit. Jungo et al (2022) examine the relationship between financial inclusion and monetary policy. They compare Sub-Saharan African (SSA) countries with Latin America and the Caribbean (LAC) countries and find that financial inclusion increases the effectiveness of monetary policy in SSA and LAC countries. Roa (2015) shows that the level of financial inclusion in Latin America and the Caribbean countries is still low despite the steps taken in the region to achieve greater financial inclusion and there are substantial differences in the level of financial inclusion in Caribbean countries. Bebczuk (2008) surveys financial inclusion in Latin American and Caribbean countries using access to both credit and deposit accounts by poor households. The author shows that discrimination against the poor is not much of a problem in LAC countries, rather financial inclusion is hindered by a low demand for financial services, limited access to financial services, and lack of coordination between the private sector and public sector in promoting financial inclusion.

3. Trends in financial inclusion during the COVID pandemic

Our methodology is based on trend analysis of six financial inclusion indicators using the 2021 Global Findex data. We compare the financial inclusion indicators of the Latin America and Caribbean region (excluding high income countries) with the World average and assess the dynamics of each financial inclusion indicator in different population categories.

3.1. Account ownership during the pandemic

The percent of people who own an account was high and above 63% during the pandemic and across all the population categories. The high percentage of account ownership is attributed to the high demand for transaction account in the pre-pandemic period caused by governments effort to increase financial inclusion and such efforts were sustained during the pandemic. Despite the relatively high percentage of account ownership in the LAC region, figure 1 shows that the percentage of account ownership in the LAC region was higher among the rich, employed, educated and male population at 76.8, 76.1, 77.3 and 76.6 percent respectively during the COVID pandemic while the percentage of account ownership in the LAC region was relatively low among the unemployed, uneducated, young and poor population at 64.3, 64.2, 66.2 and 67.1 percent respectively during the COVID pandemic.

In figure 2, we compare account ownership in the LAC region with the rest of the World during the pandemic in 2021. We observe that the percentage of people above the age of 15 that own an account whether at a bank or another type of financial institution in the LAC region fell marginally below the world average in all categories. Account ownership in the LAC region was 72.9 percent in 2021 while the World average was 76 percent. A closer look at the demographic characteristics of the population provides some interesting insights. In terms of gender, female account ownership was 69 percent in the LAC region compared to the World average at 73.9 percent, representing a 6.6 percent decrease below the World average during the pandemic. In contrast, male account ownership was 76.6 percent in the LAC region compared to the World average at 78.3 percent, representing a 2.2 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 7.6 percent gap between female account ownership and male account ownership in the LAC region, with the female population being the most affected at 69 percent compared to the male population at 76.6 percent.

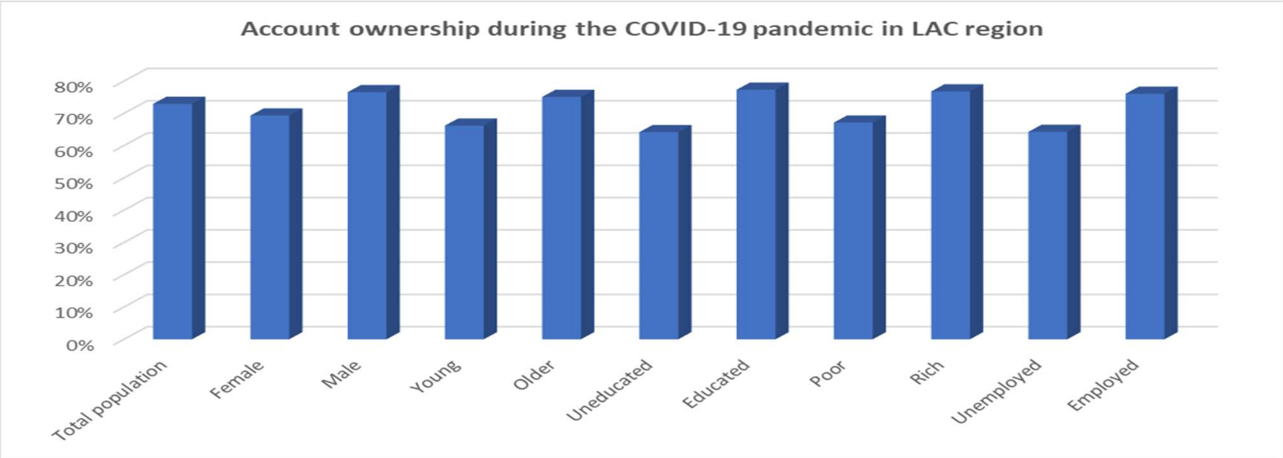
With regard to age, account ownership by the young population was 66.2 percent in the LAC region compared to the World average at 65.5 percent, representing a 1.1 percent decrease below the World average during the pandemic in figure 2. In contrast, account ownership by the older population was 75 percent in the LAC region compared to the World average at 79 percent, representing a 5.1 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to an 8.8 percent gap in account ownership between the young and older population in the LAC region, with the young population being the most adversely affected at 66.2 percent compared to the older population at 75 percent.

With regard to education, account ownership by the educated population was 77.3 percent in the LAC region compared to the world average at 84.6 percent, representing an 8.6 percent decrease below the World average during the pandemic in figure 2. In contrast, account ownership by the uneducated population was 64.2 percent in the LAC region compared to the World average at 66 percent, representing a 2.7 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 13.1 percent gap in account ownership between the educated and uneducated population in the LAC region, with the uneducated population being the most adversely affected at 64.2 percent compared to the educated population at 77.3 percent.

With regard to employment, account ownership by the employed population was 76.1 percent in the LAC region compared to the world average at 77.2 percent, representing a 1.4 percent decrease below the World average during the pandemic in figure 2. In contrast, account ownership by the unemployed population was 64.3 percent in the LAC region compared to the World average at 65.4 percent, representing a 1.7 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 11.8 percent gap in account ownership between the employed and unemployed population in the LAC region, with the unemployed population being the most adversely affected at 64.3 percent compared to the employed population at 76.1 percent.

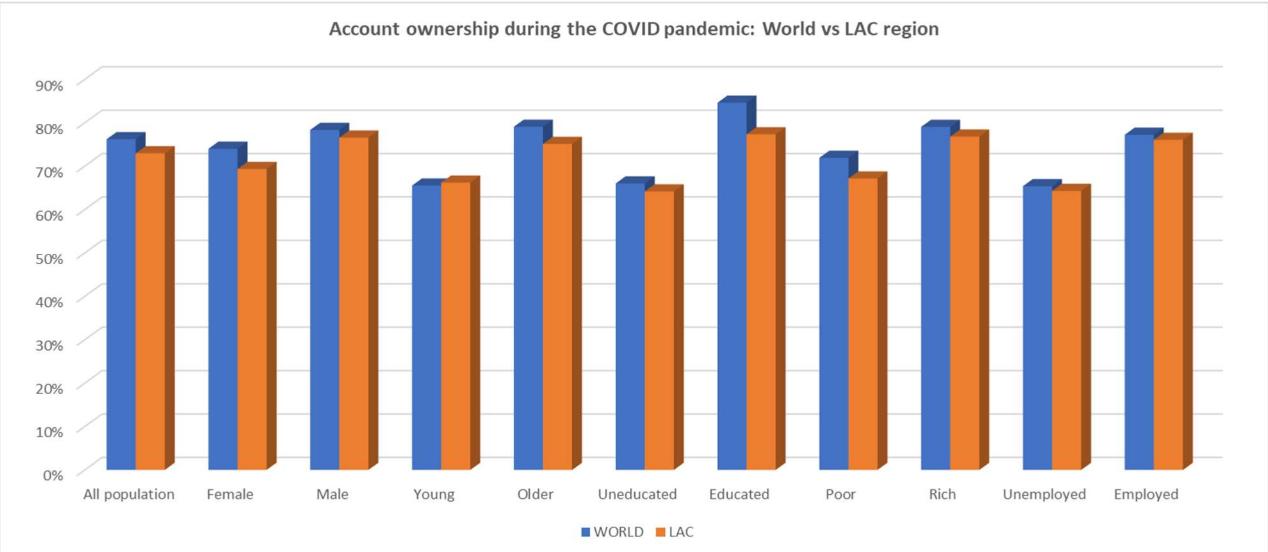
In terms of income, account ownership by the rich population was 76.8 percent in the LAC region compared to the World average at 79 percent, representing a 2.8 percent decrease below the World average during the pandemic in figure 2. In contrast, account ownership by the poor population was 67.1 percent in the LAC region compared to the World average at 71.9 percent, representing a 6.7 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 9.7 percent gap in account ownership between the rich and the poor population in the LAC region, with the poorest population being the most adversely affected at 67.1 percent compared to the rich population at 76.8 percent.

Figure 1: Account ownership during the COVID-19 pandemic in LAC region



Source: 2021 Global Findex data

Figure 2. Account ownership during the COVID pandemic



Source: 2021 Global Findex data

3.2. Account ownership at a financial institution during the pandemic

The percentage of people who own a financial institution account was high and above 60 percent during the pandemic and across all the population categories. The high percentage of financial institution account ownership is attributed to the high demand for transaction account in the pre-pandemic period caused by governments effort to increase financial inclusion and such efforts were sustained during the pandemic. Despite the relatively high percentage of financial institution account ownership in the LAC region, figure 3 shows that the financial institution account ownership in the LAC region was higher among the rich, employed, educated, older and male population at 74.9, 73.9, 75.3, 73.4 and 74.8 percent respectively during the COVID pandemic while the percentage of financial institution account ownership in the LAC region was lower among the uneducated, poor and female population at 62.2, 65.2 and 67.2 percent respectively during the COVID pandemic.

In figure 4, we compare the percentage of financial institution account ownership in the LAC region with the rest of the World during the pandemic in 2021. We observe that the percentage of people above the age of 15 that own a financial institution account fell below the World average in all categories except for the employed and young population category. Financial institution account ownership in the LAC region was 71 percent in 2021 while the World average was 73.9 percent. A closer look at the demographic characteristics of the population provides some interesting insights.

In terms of gender, financial institution account ownership by the female population was 67.2 percent in the LAC region compared to the World average at 71.9 percent, representing a 6.5 percent decrease below the World average during the pandemic in figure 4. in contrast, financial institution account ownership by the male population was 74.8 percent in the LAC region compared to the world average at 76 percent, representing a 1.2 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 7.6 percent gap in the percentage of financial institution account ownership between the male and female population in the LAC region, with the female population being the most adversely affected at 67.2 percent compared to the male population at 74.8 percent.

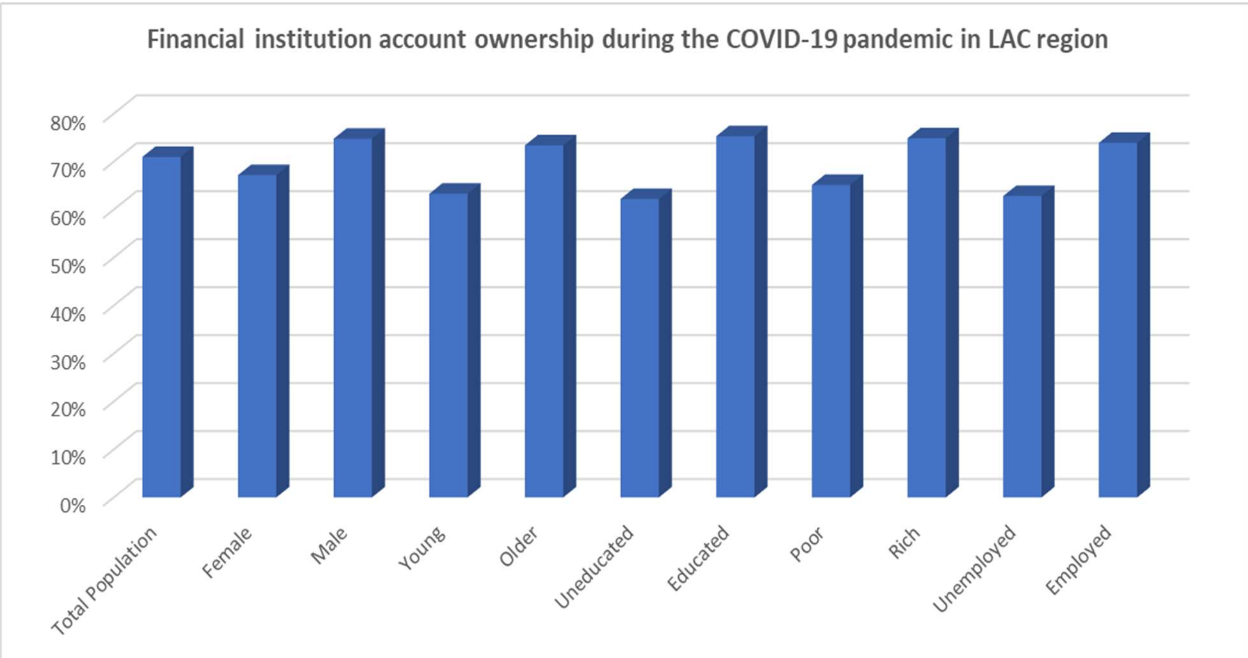
With regard to age, the percentage of financial institution account ownership by the young population was 63.3 percent in the LAC region compared to the World average at 61.8 percent, representing a 2.4 percent increase above the World average during the pandemic in figure 4. In contrast, the percentage of financial institution account ownership by the older population was 73.4 percent in the LAC region compared to the World average at 77.2 percent, representing a 4.9 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 10.1 percent gap in financial institution account ownership between the young and older population in the LAC region, with the young population being the most adversely affected at 63.3 percent compared to the older population at 73.4 percent.

With regard to education, financial institution account ownership by the educated population was 75.3 percent in the LAC region compared to the World average at 82.4 percent, representing an 8.6 percent decrease below the World average during the pandemic in figure 4. In contrast, financial institution account ownership by the uneducated population was 62.2 percent in the LAC region compared to the World average at 63.7 percent, representing a 2.4 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 13.1 percent gap in financial institution account ownership between the educated and uneducated population in the LAC region, with the uneducated population being the most adversely affected at 62.2 percent compared to the educated population at 75.3 percent.

With regard to employment, the percentage of financial institution account ownership by the employed population was 73.9 percent in the LAC region compared to the World average at 73.8 percent, representing a 0.1 percent increase above the World average during the pandemic in figure 4. In contrast, the percentage of financial institution account ownership by the unemployed population was 62.8 percent in the LAC region compared to the World average at 63.4 percent, representing a 0.9 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 11.1 percent gap in financial institution account ownership between the employed and unemployed population in the LAC region, with the unemployed population being the most adversely affected at 62.8 percent compared to the employed population at 73.9 percent.

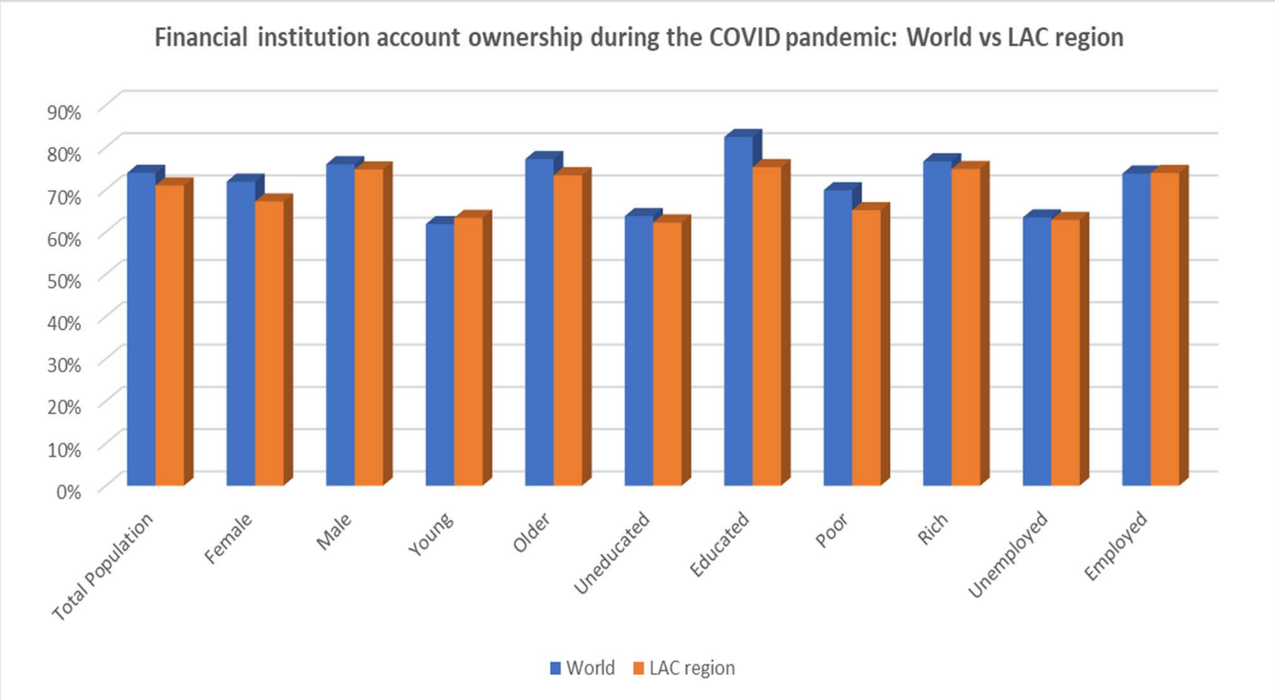
In terms of income, the percentage of financial institution account ownership by the rich population was 74.9 percent in the LAC region compared to the world average at 76.7 percent, representing a 2.3 percent decrease below the World average during the pandemic in figure 4. In contrast, the percentage of financial institution account ownership by the poor population was 65.2 percent in the LAC region compared to the World average at 69.9 percent, representing a 6.7 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 9.7 percent gap in financial institution account ownership between the rich and the poor population in the LAC region, with the poorest population being the most adversely affected at 65.2 percent compared to the rich population at 74.9 percent.

Figure 3. Financial institution account ownership during the COVID-19 pandemic in LAC region



Source: 2021 Global Findex data

Figure 4. Financial institution account ownership during the COVID pandemic: World vs LAC region



Source: 2021 Global Findex data

3.3. Debit or credit card ownership during the pandemic

The percentage of people who own and use a debit or credit card was averagely high and above 50 percent in some population categories during the pandemic. Figure 5 shows that debit or credit card ownership in the LAC region was higher among the rich, educated and male population at 60.6, 60.44 and 61.6 percent respectively during the COVID pandemic while debit or credit card ownership in the LAC region was lower among the uneducated, poor, female and unemployed population at 44.9, 47.9, 49, 49.4 percent respectively during the COVID pandemic.

In figure 6, we compare debit or credit card ownership in the LAC region with the rest of the World during the pandemic in 2021. We observe that the percentage of people above the age of 15 that own and use a debit or credit card was above the World average in some categories and was below the World average in other categories. Debit or credit card ownership for the entire population in the LAC region was 55.5 percent in 2021 while the World average was 54.7 percent. A closer look at the demographic characteristics of the population provides some interesting insights.

In terms of gender, female debit or credit card ownership was 49.4 percent in the LAC region compared to the World average at 51 percent, representing a 3.1 percent decrease below the World average during the pandemic in figure 6. In contrast, male debit or credit card ownership was 61.6 percent in the LAC region compared to the World average at 58.2 percent, representing a 5.8 percent increase above the World average during the pandemic. This statistic also shows that the pandemic led to a 1.6 percent gap in the percentage of debit or credit card ownership between the female and male population in the LAC region, with the female population being the most adversely affected at 49.4 percent compared to the male population at 61.6 percent.

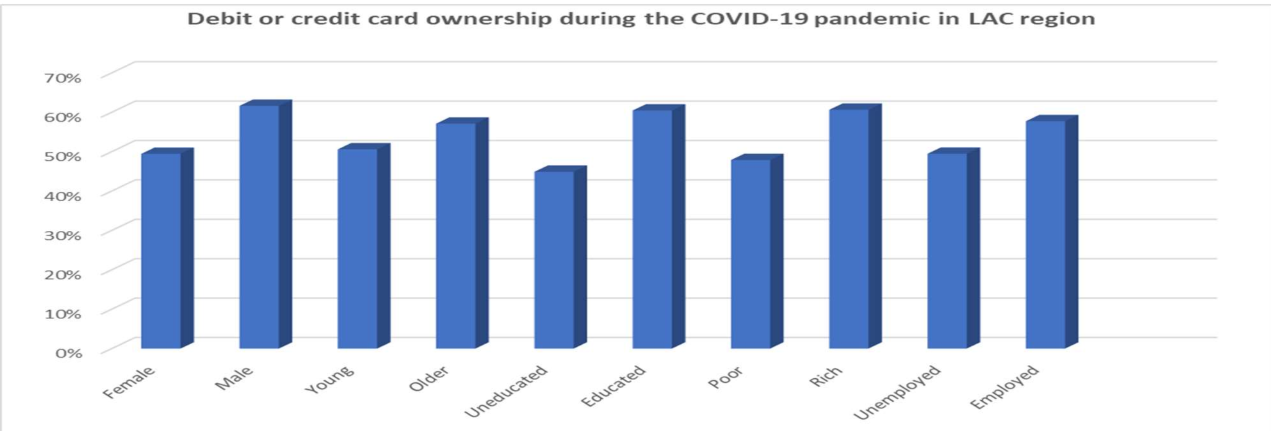
With regard to age, debit or credit card ownership by the young population was 50.6 percent in the LAC region compared to the World average at 42.4 percent, representing a 19.3 percent increase above the World average during the pandemic in figure 6. In contrast, debit or credit card ownership by the older population was 57.1 percent in the LAC region compared to the world average at 57.9 percent, representing a 1.4 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 6.5 percent gap in the percentage of debit or credit card ownership between the young and older population in the LAC region, with the young population being the most adversely affected at 50.6 percent compared to the older population at 57.1 percent.

With regard to education, debit or credit card ownership by the educated population was 60.4 percent in the LAC region compared to the World average at 69.1 percent, representing a 12.6 percent decrease below the World average during the pandemic in figure 6. In contrast, debit or credit card ownership by the uneducated population was 44.9 percent in the LAC region compared to the World average at 36.9 percent, representing a 21.7 percent increase above the World average during the pandemic. This statistic also shows that the pandemic led to a 15.5 percent gap in the percentage of debit or credit card ownership between the educated and uneducated population in the LAC region, with the uneducated population being the most adversely affected at 44.9 percent compared to the educated population at 60.4 percent.

With regard to employment, debit or credit card ownership by the employed population was 57.7 percent in the LAC region compared to the world average at 53.9 percent, representing a 7.1 percent increase above the World average during the pandemic in figure 6. In contrast, debit or credit card ownership by the unemployed population was 49.4 percent in the LAC region compared to the world average at 39.1 percent, representing a 26.3 percent increase above the World average during the pandemic. This statistic also shows that the pandemic led to an 8.3 percent gap in the percentage of debit or credit card ownership between the employed and unemployed population in the LAC region, with the unemployed population being the most adversely affected at 49.4 percent compared to the employed population at 57.7 percent.

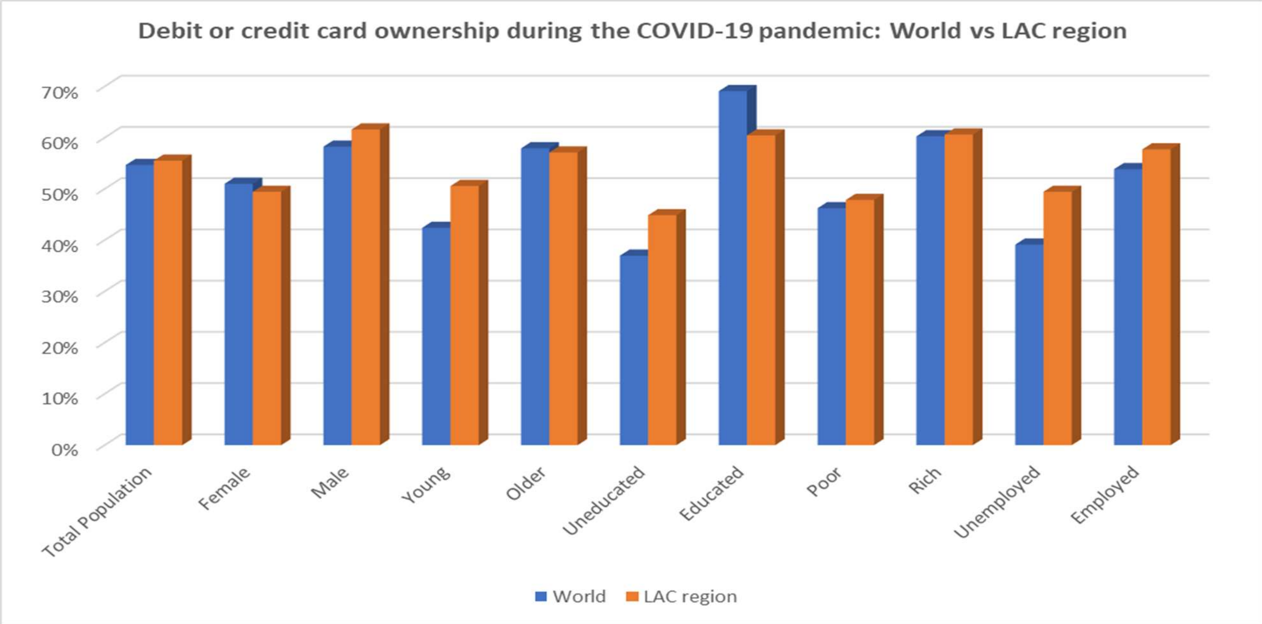
In terms of income, debit or credit card ownership by the rich population was 60.6 percent in the LAC region compared to the world average at 60.3 percent, representing a 0.5 percent increase above the World average during the pandemic in figure 6. In contrast, debit or credit card ownership by the poor population was 47.9 percent in the LAC region compared to the world average at 46.2 percent, representing a 3.7 percent increase above the World average during the pandemic. This statistic also shows that the pandemic led to a 12.7 percent gap in the percentage of debit or credit card ownership between the rich and the poor population in the LAC region, with the poorest population being the most adversely affected at 47.9 percent compared to the rich population at 60.6 percent.

Figure 5. Debit or credit card ownership during the COVID-19 pandemic in LAC region



Source: 2021 Global Findex data

Figure 6. Debit or credit card ownership during the COVID-19 pandemic: World vs LAC region



Source: 2021 Global Findex data

3.4. Formal borrowing during the pandemic

The percentage of people who borrowed from family and friends was low and below 40% during the pandemic and across all the population categories. The low level of formal borrowing is attributed to the lockdown restrictions and bank closure during the pandemic that made it difficult for people to visit banks to make a loan application. Despite the relatively low level of formal borrowings in the LAC region, figure 7 shows that the percentage of people who borrowed from a formal financial institution in the LAC region was higher among the employed, rich, educated, male and older population at 32.7, 36.1, 33.9, 35.3 and 31.5 percent respectively during the COVID pandemic while the percentage of people who borrowed from a formal financial institution in the LAC region was lower among the female, young, uneducated, poor and unemployed population at 24.3, 24.1, 19.9, 20.3 and 21.9 percent respectively during the COVID pandemic.

In figure 8, we compare the percentage of people who borrowed from a formal financial institution in the LAC region with the rest of the World during the pandemic in 2021. We observe that the percenta of people above the age of 15 that borrowed from a formal financial institution was above the World average in some population categories and was below the world average in other categories. The percentage of people who borrowed from a formal financial institution for the entire population in the LAC region was 29.9 percent in 2021 while the world average was 28.4 percent. A closer look at the demographic characteristics of the population provides some interesting insights.

In terms of gender, the percentage of the female population who borrowed from a formal financial institution was 24.3 percent in the LAC region compared to the World average at 27.1 percent, representing a 10 percent decrease below the World average during the pandemic in figure 8. In contrast, the percentage of the male population who borrowed from a formal financial institution was 35.3 percent in the LAC region compared to the World average at 29.6 percent, representing a 19.3 percent increase above the World average during the pandemic. This statistic also shows that the pandemic led to a 11 percent gap in the percentage of the male and female population who borrowed from a formal financial institution in the LAC region, with the female population being the most adversely affected at 24.3 percent compared to the male population at 35.3 percent.

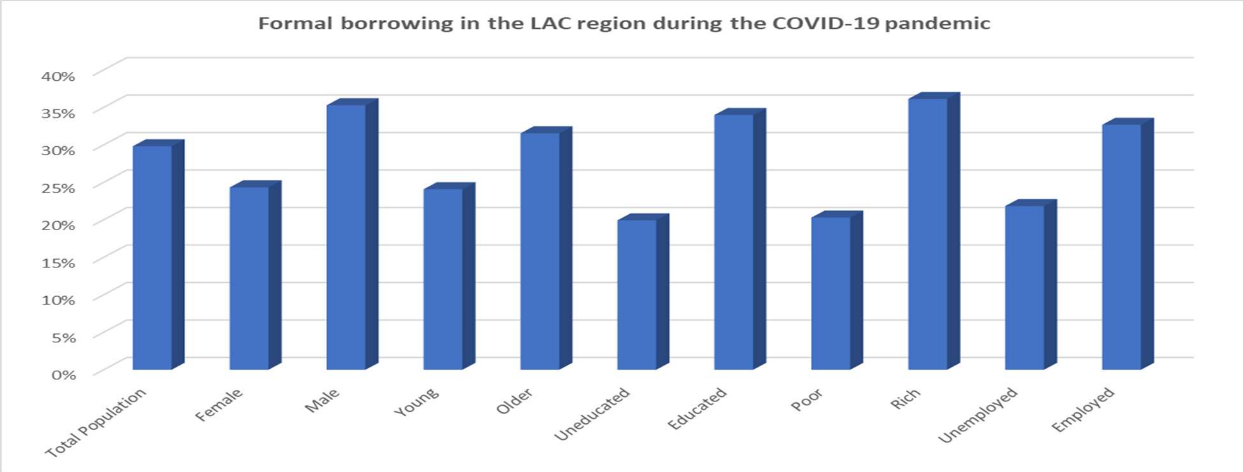
In terms of age, the percentage of young people who borrowed from a formal financial institution was 24.1 percent in the LAC region compared to the World average at 15.7 percent, representing a 53.5 percent increase above the World average during the pandemic in figure 8. In contrast, the percentage of older people who borrowed from a formal financial institution was 31.5 percent in the LAC region compared to the World average at 31.8 percent, representing a 0.9 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 7.4 percent gap in the percentage of young and older population who borrowed from a formal financial institution in the LAC region, with the young population being the most adversely affected at 24.1 percent compared to the older population at 31.5 percent.

With regard to education, the percentage of educated people who borrowed from a formal financial institution was 33.9 percent in the LAC region compared to the World average at 36.9 percent, representing an 8.1 percent decrease below the World average during the pandemic in figure 8. In contrast, the percentage of uneducated people who borrowed from a formal financial institution was 19.9 percent in the LAC region compared to the World average at 17.8 percent, representing a 2.1 percent increase above the World average during the pandemic. This statistic also shows that the pandemic led to a 14 percent gap in the percentage of educated and uneducated people who borrowed from a formal financial institution in the LAC region, with the uneducated population being the most adversely affected at 19.9 percent compared to the educated population at 33.9 percent.

With regard to employment, the percentage of employed people who borrowed from a formal financial institution was 32.7 percent in the LAC region compared to the World average at 29.7 percent, representing a 10.1 percent increase above the World average during the pandemic in figure 8. In contrast, the percentage of unemployed people who borrowed from a formal financial institution was 21.9 percent in the LAC region compared to the world average at 18.3 percent, representing a 19.7 percent increase above the World average during the pandemic. This statistic also shows that the pandemic led to a 14.4 percent gap in the percentage of employed and unemployed people who borrowed from a formal financial institution in the LAC region, with the unemployed population being the most adversely affected at 21.9 percent compared to the employed population at 32.7 percent.

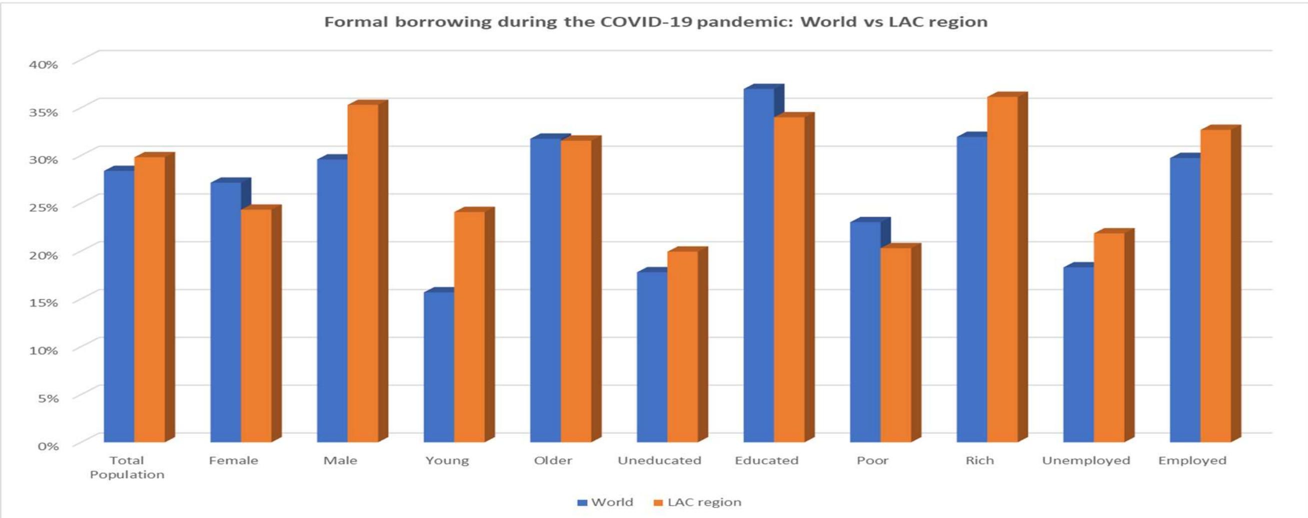
In terms of income, the percentage of rich people who borrowed from a formal financial institution was 36.1 percent in the LAC region compared to the World average at 31.9 percent, representing an 18.2 percent increase above the World average during the pandemic in figure 8. In contrast, the percentage of poor people who borrowed from a formal financial institution was 20.3 percent in the LAC region compared to the World average at 23 percent, representing a 11.7 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 15.8 percent gap in the percentage of rich and poor people who borrowed from a formal financial institution in the LAC region, with poor people being the most adversely affected at 20.3 percent compared to the rich population at 32.7 percent.

Figure 7. Formal borrowing in the LAC region during the COVID-19 pandemic



Source: 2021 Global Findex data

Figure 8. Formal borrowing during the COVID-19 pandemic: World vs LAC region



Source: 2021 Global Findex data

3.5. Informal borrowing from family and friends during the pandemic

The percentage of people who borrowed from family and friends was low and below 35% during the pandemic and across all the population categories. The low level of informal borrowings is attributed to the lockdown restrictions during the pandemic that made it difficult for people to visit family and friends to seek financial assistance. Despite the relatively low level of informal borrowings in the LAC region, figure 9 shows that the percentage of people who borrowed from family and friends in the LAC region was higher among the female, educated and employed population at 26.3, 27.9 and 28.3 percent respectively during the COVID pandemic while the percentage of people who borrowed from a family and friends in the LAC region was lower among the unemployed and uneducated population at 18.7 and 21.8 percent respectively during the COVID pandemic.

In figure 10, we compare the percentage of people who borrowed from family and friends in the LAC region with the rest of the World during the pandemic in 2021. We observe that the percentage of people above the age of 15 that borrowed from family and friends was above the World average in some categories and was below the World average in other categories. The people who borrowed from family and friends for the entire population in the LAC region was 25.8 percent in 2021 while the World average was 27.4 percent. A closer look at the demographic characteristics of the population provides some interesting insights.

In terms of gender, the percentage of the female population who borrowed from family and friends was 26.4 percent in the LAC region compared to the World average at 25.7 percent, representing a 2.7 percent increase above the World average during the pandemic in figure 10. In contrast, the percentage of the male population who borrowed from family and friends was 25.2 percent in the LAC region compared to the World average at 29.1 percent, representing a 13.4 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 1.2 percent gap in the percentage of the male and female population who borrowed from family and friends in the LAC region.

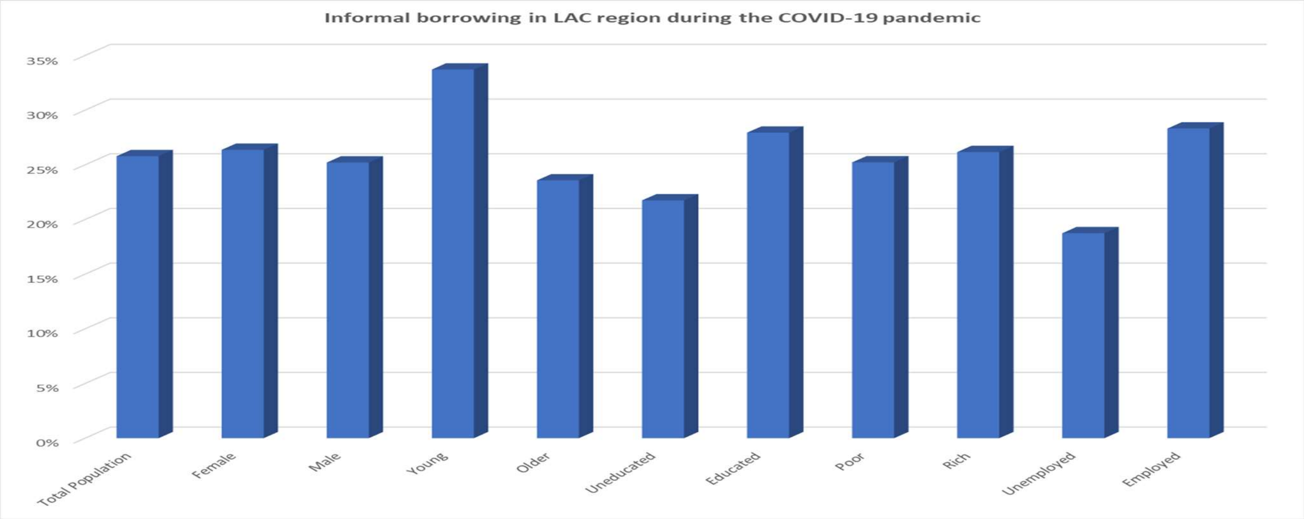
In terms of age, the percentage of the young population who borrowed from family and friends was 33.7 percent in the LAC region compared to the World average at 27.9 percent, representing a 20.8 percent increase above the World average during the pandemic in figure 10. In contrast, the percentage of the older population who borrowed from family and friends was 23.6 percent in the LAC region compared to the world average at 27.3 percent, representing a 13.6 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 10.1 percent gap in the percentage of the young and older population who borrowed from family and friends in the LAC region.

With regard to education, the percentage of the educated population who borrowed from family and friends was 27.9 percent in the LAC region compared to the World average at 24.2 percent, representing a 15.3 percent increase above the World average during the pandemic in figure 10. In contrast, the percentage of the uneducated population who borrowed from family and friends was 21.7 percent in the LAC region compared to the World average at 31.4 percent, representing a 30.9 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 6.2 percent gap in the percentage of the educated and uneducated population who borrowed from family and friends in the LAC region.

With regard to employment, the percentage of the employed population who borrowed from family and friends was 28.3 percent in the LAC region compared to the world average at 24.2 percent, representing a 16.9 percent increase above the World average during the pandemic in figure 10. In contrast, the percentage unemployed population who borrowed from family and friends was 18.7 percent in the LAC region compared to the world average at 22.9 percent, representing an 18.3 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 9.6 percent gap in the percentage of the employed and unemployed population who borrowed from family and friends in the LAC region.

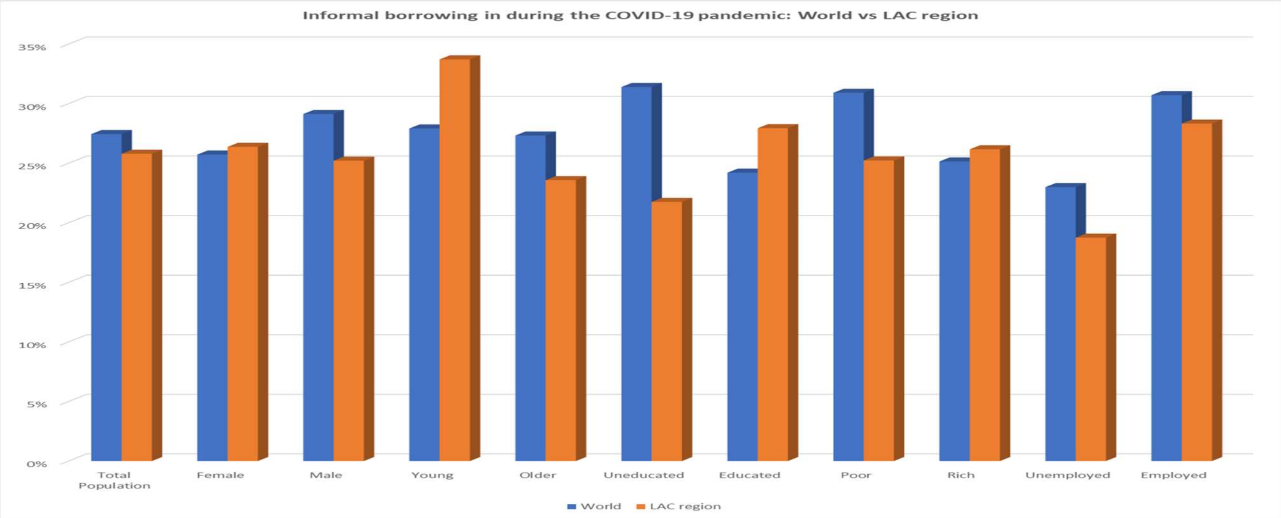
In terms of income, the percentage of the rich population who borrowed from family and friends was 26.2 percent in the LAC region compared to the world average at 25.1 percent, representing a 4.4 percent increase above the World average during the pandemic in figure 10. In contrast, the percentage of the poor population who borrowed from family and friends was 25.2 percent in the LAC region compared to the World average at 30.9 percent, representing an 18.4 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 1 percent gap in the percentage of the employed and unemployed population who borrowed from family and friends in the LAC region.

Figure 9. Informal borrowing in LAC region during the COVID-19 pandemic



Source: 2021 Global Findex data

Figure 10. Informal borrowing in during the COVID-19 pandemic: World vs LAC region



Source: 2021 Global Findex data

3.6. Formal savings during the pandemic

The percentage of people who saved at a financial institution or using a mobile money account in the region during the pandemic was very low at 17.3 percent. The low level of formal savings is attributed to the lockdown restrictions and bank closure during the pandemic that made it difficult for people to visit banks to save money. Despite the low level of formal savings in the LAC region, figure 11 shows that formal savings in the LAC region was higher among the educated, young, rich and male population at 20.3, 21.9, 21.1 and 21.2 percent respectively during the COVID pandemic while formal savings in the region during the pandemic was lower among the poor, uneducated and female population at 11.4, 9.5 and 13.3 percent respectively. This indicates that the most vulnerable people (i.e., poor, uneducated and female) were severely affected during the pandemic as they were less likely to access formal savings during the pandemic.

In figure 12, we compare formal savings in the LAC region with the rest of the world during the pandemic in 2021. We observe that the percentage of people above the age of 15 that use formal savings was below the world average in all categories. The percentage of people who used formal savings in the entire population in the LAC region was 17.3 percent in 2021 while the world average was 29.4 percent. A closer look at the demographic characteristics of the population provides some interesting insights.

In terms of gender, the female population who use formal savings was 13.3 percent in the LAC region compared to the World average at 28.1 percent, representing a 52.7 percent decrease below the World average during the pandemic in figure 12. In contrast, the male population who use formal savings was 21.2 percent in the LAC region compared to the World average at 30.8 percent, representing a 31.2 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 7.9 percent gap in the percentage of the male and female population who use formal savings in the LAC region, with the female population being the most adversely affected at 13.3 percent compared to the male population at 21.2 percent.

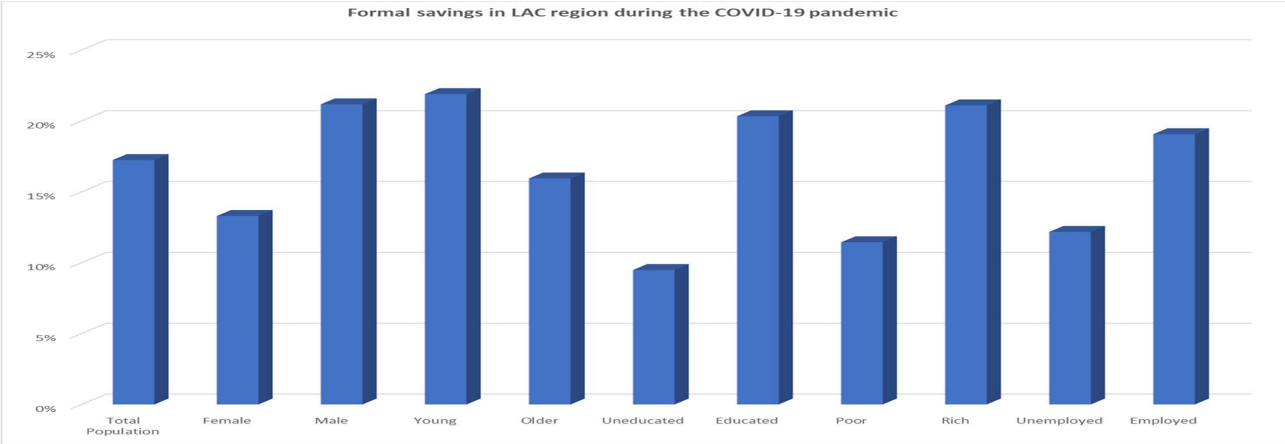
In terms of age, the percentage of the young population who use formal savings was 21.9 percent in the LAC region compared to the World average at 23.3 percent, representing a 6 percent decrease below the World average during the pandemic in figure 12. In contrast, the percentage of the older population who use formal savings was 15.9 percent in the LAC region compared to the World average at 30.9 percent, representing a 48.5 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 6 percent gap in the percentage of the young and older population who use formal savings in the LAC region, with the older population being the most adversely affected at 15.9 percent compared to the young population at 21.9 percent.

With regard to education, the percentage of the educated population who use formal savings was 20.3 percent in the LAC region compared to the World average at 39.1 percent, representing a 48.1 percent decrease below the World average during the pandemic in figure 12. In contrast, the percentage of the uneducated population who use formal savings was 9.5 percent in the LAC region compared to the world average at 17.4 percent, representing a 45.4 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 10.8 percent gap in the percentage of the educated and uneducated population who use formal savings in the LAC region, with the uneducated population being the most adversely affected at 9.5 percent compared to the educated population at 20.3 percent.

With regard to employment, the percentage of the employed population who use formal savings was 19.1 percent in the LAC region compared to the World average at 28.8 percent, representing a 33.7 percent decrease below the World average during the pandemic in figure 12. In contrast, the unemployed population who use formal savings was 12.2 percent in the LAC region compared to the World average at 19.2 percent, representing a 36.5 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 6.9 percent gap in the percentage of the employed and unemployed population who use formal savings in the LAC region, with the unemployed population being the most adversely affected at 12.2 percent compared to the employed population at 19.1 percent.

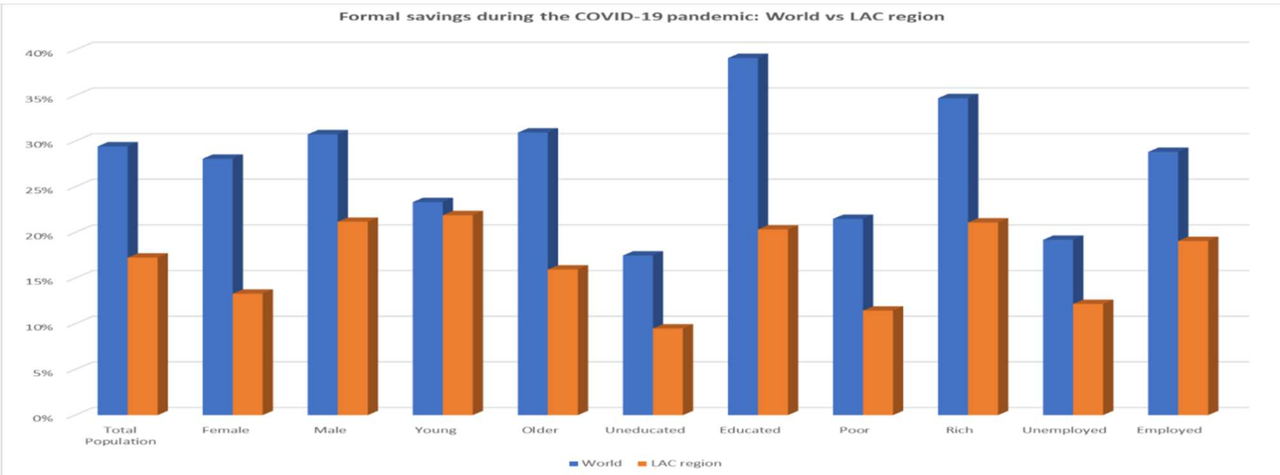
In terms of income, the percentage of the rich population who use formal savings was 21.1 percent in the LAC region compared to the World average at 34.7 percent, representing a 39.2 percent decrease below the World average during the pandemic in figure 12. In contrast, the percentage of the poor population who use formal savings was 11.4 percent in the LAC region compared to the world average at 21.4 percent, representing a 46.7 percent decrease below the World average during the pandemic. This statistic also shows that the pandemic led to a 9.7 percent gap in the percentage of the rich and poor population who use formal savings in the LAC region, with the poor population being the most adversely affected at 11.4 percent compared to the rich population at 21.4 percent.

Figure 11. Formal savings in LAC region during the COVID-19 pandemic



Source: 2021 Global Findex data

Figure 12. Formal savings during the COVID-19 pandemic: World vs LAC region



Source: 2021 Global Findex data

4. Post-COVID implication

The trend analysis above shows that the COVID-era social distancing and containment measures were partly responsible for the low level of formal savings and formal borrowings in the LAC region. The low level of financial inclusion among vulnerable groups, such as women, the poor and uneducated, calls for the need to use some carefully thought-out strategies to accelerate financial inclusion in the post-COVID period. Policy makers in LAC countries need to adopt digital financial inclusion strategies to support immediate recovery from the pandemic, build resilience and accelerate financial inclusion so that the benefits of financial inclusion can reach women, the poor and uneducated in LAC countries. There is also a need for policy makers in LAC countries to consider technology-enabled financial inclusion strategies or Fintech strategies that can bypass lockdown restrictions in the event of another pandemic in the future. Policy makers in LAC countries should allow banks and financial technology, or

Fintech, agents to increase access to financial services for the vulnerable population in rural and urban areas of LAC countries. Technology-based financial inclusion through Fintech will usher in digital financial inclusion which can help to accelerate and enhance financial inclusion in LAC countries. Fintech can be used to close the wide gender gap in financial inclusion so that women in LAC countries are not left behind even after the pandemic ends. Fintech is not without its problems. Lack of access to mobile phone and internet connectivity can hinder Fintech-based financial inclusion. But this issue can be addressed by introducing public policies that are designed to increase the supply of mobile phones and digital devices that aid financial inclusion. Public policies should also create an enabling environment for the development of a robust internet infrastructure that delivers cheap and affordable internet connectivity to individuals, households and firms in LAC countries. There are also cybersecurity and financial stability risks that may arise from Fintech-based financial inclusion. Such risks can be effectively mitigated through robust regulation and supervision. There is also the need for significant investment in digital literacy which is crucial to close the gender and non-gender gaps in access to financial services in LAC countries. Finally, individual LAC countries must identify specific local strategies that will achieve optimal digital financial inclusion results that lead to the prosperity of its citizens.

5. Conclusion

This paper provided an overview of financial inclusion in the Latin America and Caribbean region during the COVID pandemic based on the 2021 Global Findex data. The trend analysis revealed that there was low level of financial inclusion in the LAC region during the pandemic. Account ownership and formal savings were below the world average in all population categories during the pandemic. The female, poor and uneducated population were the most adversely affected during the pandemic.

The implication of the study is that a lot needs to be done to increase financial inclusion during bad times such as during a pandemic in LAC countries. This calls for urgent need to accelerate recovery from the pandemic and increase financial inclusion interventions for the vulnerable members of the population in the region. There is already a growing trend in the digitalization of financial services among banks in some Caribbean countries such as digital borrowing and digital lending. But this trend is growing at a slow pace. Such trend needs to be sustained with equal access to digital infrastructure, greater digital literacy, effective consumer protection, cyber security risk monitoring and effective regulation.

While governments must play an important role in coordinating financial inclusion programs, government efforts should be supported with private sector partnership because a successful financial inclusion program in LAC countries relies on private sector and public sector coordination and collaboration. It is recommended that the private sector and the public sector should collaborate and coordinate efforts to increase financial inclusion using digital technology tools in LAC countries.

A limitation of the study is that the study provided a descriptive assessment of financial inclusion. Future research can improve on this study by conducting an empirical analysis of financial inclusion determinants in LAC countries. Future studies can extend this study by investigating the effect of financial inclusion on macroeconomic performance in LAC countries. Future studies should also provide an analysis or overview of financial inclusion in specific Caribbean countries.

Reference

AGHION, P., BOLTON, P., 1997, "A Theory of Trickle-Down Growth and Development", Review of Economics Studies, 64, 2, pp. 151-72.

ALLEN, F., DEMIRGUC-KUNT, A., KLAPPER, L., PERIA, M. S. M., 2016, "The foundations of financial inclusion: Understanding ownership and use of formal accounts", Journal of financial Intermediation, 27, pp. 1-30.

AYYAGARI, M., BECK, T., 2015, "Financial inclusion in Asia: An overview", Asian Development Bank Economics Working Paper Series, 449, Mandaluyong, Philippines.

BECK, T., SENBET, L., SIMBANEGAVI, W., 2015, "Financial inclusion and innovation in Africa: An overview", Journal of African Economies, 24, suppl_1, pp. i3-i11.

BEBCZUK, R. N. 2008, "Financial Inclusion in Latin America and the Caribbean: review and lessons", CEDLAS Working Documents.

CORRADO, G., CORRADO, L., 2015, "The geography of financial inclusion across Europe during the global crisis", Journal of Economic Geography, 15, 5, pp. 1055-1083.

DEMIRGÜÇ-KUNT, A., KLAPPER, L. F., 2012, "Financial inclusion in Africa: an overview", World Bank Policy Research Working Paper, 6088. Washington.

DEMIRGÜÇ-KUNT, A., HU, B., KLAPPER, L., 2019, "Financial inclusion in the Europe and Central Asia region: Recent trends and a research agenda", World Bank Policy Research Working Paper, 8830, Washington.

GALOR, O., ZEIRA, J., 1993, "Income Distribution and Macroeconomics", Review of Economics Studies, 60, 1, pp. 35-52.

GERSHENSON, M. D., LAMBERT, F., HERRERA, L., RAMOS, G., ROUSSET, M. M. V., TORRES, J., 2021, "Fintech and Financial Inclusion in Latin America and the Caribbean", International Monetary Fund, Washington.

GODINHO, V., SINGH, S., 2013, "Technology enabled financial inclusion and evidence-based policy for the underbanked: A study of remote Indigenous Australia", In CPRsouth8/CPRafrica2013 conference, New York.

JAHAN, M. S., DE, J., JAMALUDIN, M. F., SODSRIWIBOON, P., SULLIVAN, C., 2019, "The financial inclusion landscape in the Asia-Pacific region: A dozen key findings", International Monetary Fund, Washington.

JUNGO, J., MADALENO, M., BOTELHO, A., 2022, "The relationship between financial inclusion and monetary policy: a comparative study of countries' in Sub-Saharan Africa and Latin America and the Caribbean", Journal of African Business, 23, 3, pp. 794-815.

KAZEMIKHASRAGH, A., BUONI PINEDA, M. V., 2022, "Financial inclusion and education: An empirical study of financial inclusion in the face of the pandemic emergency due to Covid-19 in Latin America and the Caribbean", Review of Development Economics, 26, 3, pp. 1785-1797.

MOTTA, V., GONZALEZ FARIAS, L. E., 2022, "Determinants of financial inclusion in Latin America and the Caribbean", Development in Practice, pp. 1-15.

OZILI, P. K., 2021, "Financial inclusion research around the world: A review", Forum for social economics, 50, 4, pp. 457-479.

PERÍA, M. S. M., 2013, “Financial inclusion in Latin America and the Caribbean”, Emerging Issues in Financial Development, pp. 91-107.

ROA, M. J., 2015, “Financial inclusion in Latin America and the Caribbean: access, usage and quality”, (Vol. 10). Mexico, DF: CEMLA.