FINANCIAL DISTRESS IN LATIN AMERICA AND THE CARIBBEAN DURING THE COVID-19 PANDEMIC: COPING MECHANISMS AND UNFOLDING CONSEQUENCES *

December 2022

Main messages:

- *On average, 69.7 percent of households in LAC countries used at least one coping mechanism to mitigate financial distress and cope with food insecurity. Household exposure to food insecurity is closely linked to their reliance on coping strategies.*

- *To meet basic health, education, and food expenses, 59.3 percent of households decided to use their savings, 33.1 percent of them were forced to interrupt rent or loan payments, and finally, 38.1 and 4.8 percent of households reported that either previously inactive adult members or school-age children, respectively, were forced to look for a job.*

- *Although small in magnitude, the premature entrance of children into the labor market is unfortunate as it might have long-term consequences on their human capital accumulation. Across the region, high rates of school-age children entering the labor force coincide with high school dropout rates.*

- *Households in rural areas, with lower asset ownership, headed by less educated individuals, and those exposed to pandemic-related job losses were more likely to report the need to undertake at least one coping strategy.*

- *During the pandemic, households faced stressful events, such as job loss, that were closely tied to the reliance on coping strategies. Added to that, reports of mental health complications went hand in hand with the prevalence of strategies to cope with financial hardship and the perceived increase in neighborhood domestic violence.*

- *Financial distress and mental health issues are both related to a perceived increase in neighborhood criminal activity. On average, 43.1 percent of households reported that insecurity in their neighborhoods had increased with respect to the pre-pandemic period. Similarly, 24.6 percent of households reported an increase in domestic violence in their neighborhoods*

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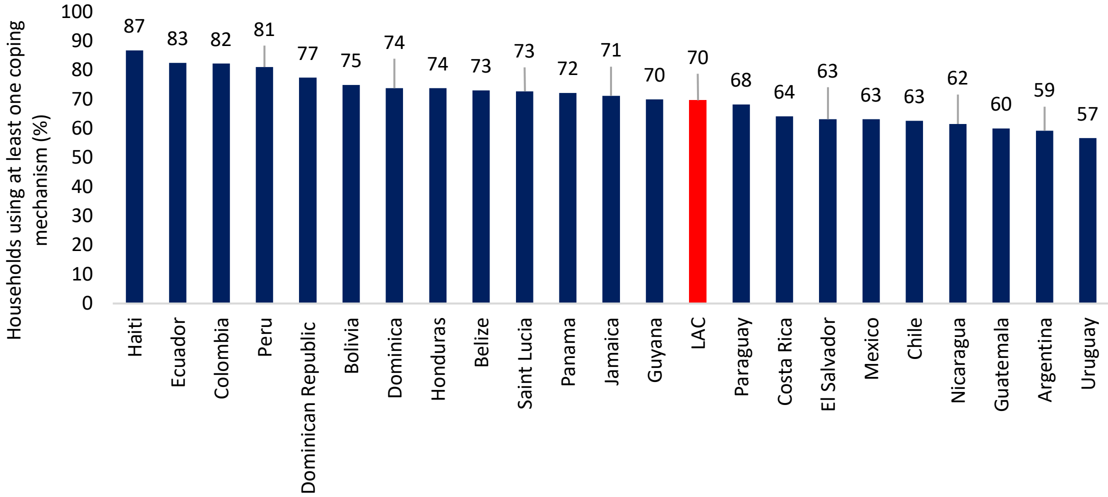
To continue monitoring the consequences of the COVID-19 pandemic on household welfare in the Latin America and the Caribbean, the World Bank and UNDP joined forces to implement the second phase of High-Frequency Phone Surveys (HFPS) in Latin America and the Caribbean (LAC) in 2021.[1] The first wave of this second phase was collected between May and July 2021, and the second wave was collected between October 2021 and January 2022. This note focuses on the consequences of financial distress undergone by households in LAC during the COVID-19 pandemic and the different strategies they put in place to cope with hardship. It aims to shed light on the role of behavioral responses in determining welfare effects in the advent of a post-pandemic future.

Financial distress and coping strategies during the pandemic in LAC

On average, 69.7 percent of households in LAC countries have had to use at least one coping mechanism to manage financial distress. These include being forced to spend their savings, interrupting rent or loan payments, or entering the labor force. Households in Haiti, Ecuador and Colombia were more like to resort to one of these strategies (86.8, 82.5, and 82.3 percent of households, respectively). In contrast, households in Uruguay, Argentina, and Guatemala seem to have experienced less difficulties adapting to the economic challenges associated to the pandemic: only 56.7, 59.3, and 60.0 percent of households in those countries reported the use of at least one coping strategy, respectively (figure 1).

1 Waves 1 and 2 of the second phase of the survey were collected in 22 countries (Argentina, Belize, Bolivia, Chile, Colombia, Costa Rica, Ecuador, Dominica, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, and Uruguay) and are nationally representative of the adult population (18+) with a phone. Wave 1 also included data from Brazil and Antigua & Barbuda, both of which have been excluded from this analysis to ensure comparability of results from both waves. Unless otherwise stated, all indicators thereafter referring to mid-2021 end 2021 correspond to the data from the latest wave of HFPS 2021 (PH2W2).

Figure 1. Share of households that resorted to at least one coping mechanism to manage financial distress in LAC, by country



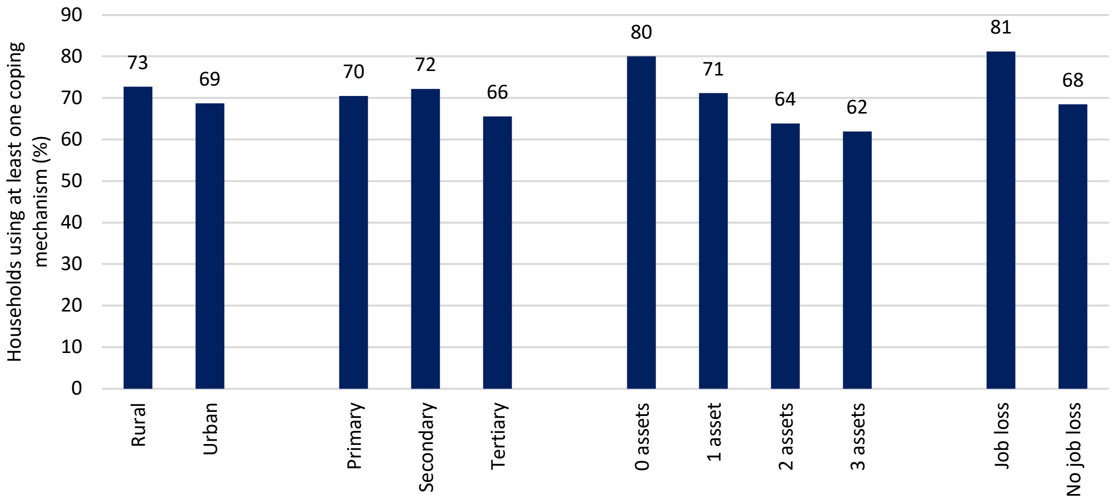
Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

Note: Financial coping mechanisms include spending savings, interrupting rent or loan payments, and entering the labor force.

Households in rural areas, with lower asset ownership, and those exposed to job losses were more likely to have been exposed to financial distress, as evidence by their use of coping strategies. The prevalence of use in rural areas exceeds urban areas by 4 percentage points (Figure 1). Similarly, households headed by individuals with secondary education were more likely to resort to the use of coping strategies compared to those headed by individuals with tertiary education or higher, with a difference of 6.6 percentage points. As proxied by their asset ownership, financial distress and the reliance on coping strategies was also more common among vulnerable households (those with no reported assets) with respect to more “affluent” households (those with three reported assets), a 18.2 percentage-point difference.[2] Households exposed to job losses, measured by shifts from employed to unemployed/inactive of main survey respondents, were 12.7 percentage points more likely to have used coping strategies than those without exposure (Figure 2).

2 Household asset ownership refers to the possession of a motorcycle, washing machine and/or a computer or tablet.

Figure 2. Share of households that resorted to at least one coping mechanism to manage financial distress in LAC, by household characteristics

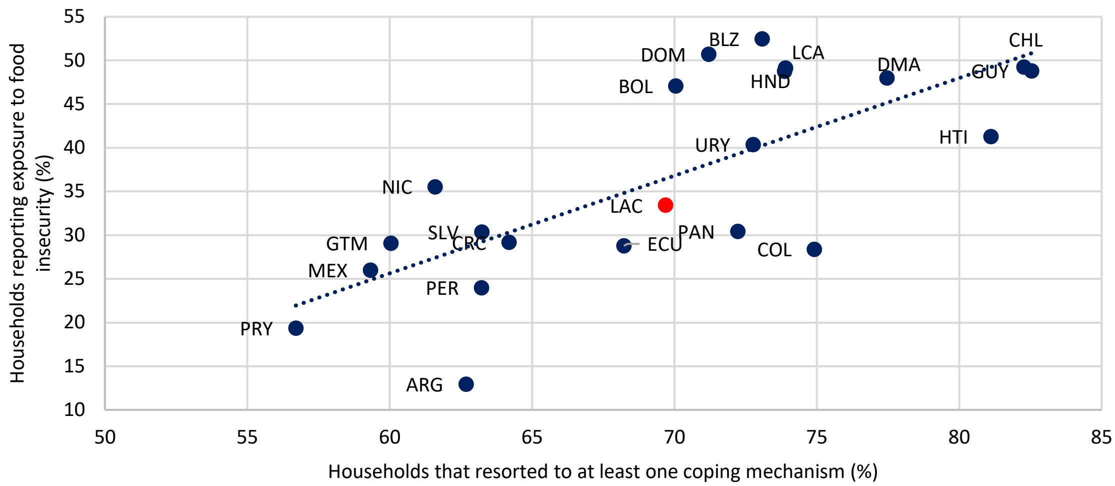


Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.
Note: Financial coping mechanisms include spending savings, interrupting rent or loan payments, and entering the labor force.

By late 2021, the higher prevalence of financial coping strategies during the pandemic went hand in hand with greater exposure to food insecurity. There is evidence of a positive correlation between the share of households that reported exposure to at least one type of food insecurity in the 30 days preceding the survey and the proportion that reported the use of at least one coping mechanism. Experiences of food insecurity here considered include households that ran out of food, were unable to buy good-quality food or in which adults went without eating for one full day, within the 30 days preceding the survey (figure 3).[3]

3 When correlating the proportion of households that relied on coping strategies to the share of households reporting each particular type of food insecurity, this same pattern holds.

Figure 3. Households exposed to at least one type of food insecurity during late 2021 vs. households that resorted to at least one coping mechanism to manage financial hardship during the pandemic



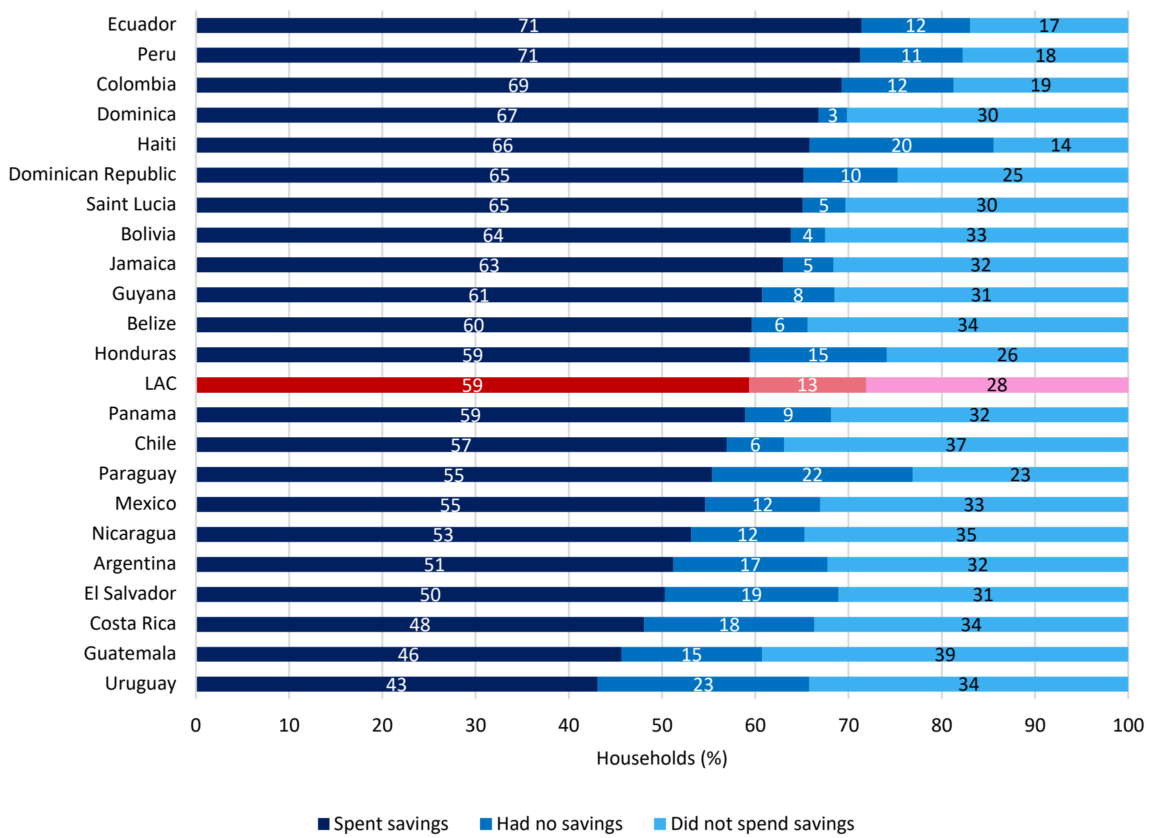
Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.
Note: Haiti is an outlier regarding the rate of households exposed to food insecurity and has thus been excluded. The pattern of positive correlation holds when it is included.

Household savings, rent and loan payments during the pandemic

On average, 59.3 percent of households in LAC countries have had to spend some of their savings during the pandemic to cover essential health, food, and education expenses. At the regional level, 28.1 percent of households reported not having spent any savings, while 12.5 percent had no savings to spend (Figure 4). Households in Ecuador, Peru, and Colombia were more likely to have been forced to spend their savings (71.4, 71.2, and 69.2 percent, respectively). In contrast, households in Uruguay, Guatemala, and Costa Rica were less inclined to use their savings to cover expenses (43.1, 45.6, and 48.1 percent, respectively).

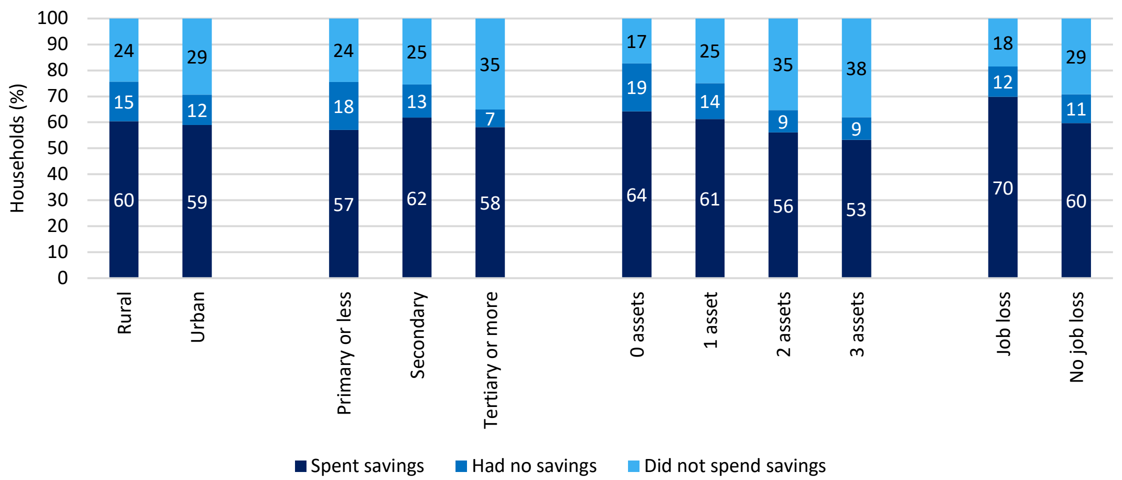
As evidenced by the reported reductions in savings, pandemic-related financial distress was more prevalent in households with fewer asset ownership and households exposed to job losses. As depicted in Figure 5, 64.2 percent of the households with no assets had to spend their savings during the pandemic, compared to 53.3 percent of households with three assets. Analogously, 69.8 percent of households in which the main survey respondent lost their job spent their savings. This contrasts with households that did not experience this shock, among which only 59.7 percent needed to spend their savings (a 10 percentage-point difference). All other household characteristics do not play a significant role in pandemic-induced changes to saving decisions.

Figure 4. Changes in household saving decisions during the pandemic in LAC, by country



Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

Figure 5. Changes in household saving decisions during the pandemic in LAC, by household characteristics

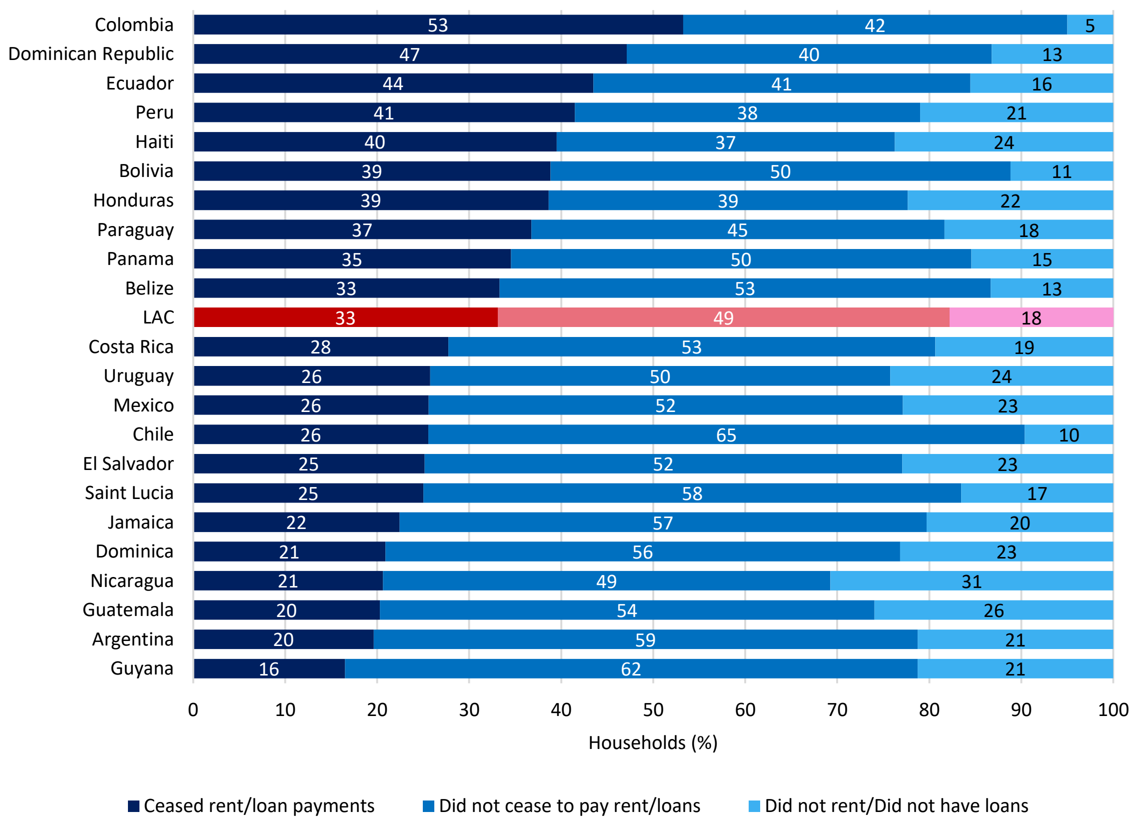


Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

On average, 33.1 percent of households in LAC countries ceased to pay rent or loan obligations. On the other hand, 49.0 percent of households were able to continue paying loans or rent, while 17.8 percent of them either did not rent and had no loans. At country level, a comparatively greater share of households in Colombia, Dominican Republic and Ecuador were faced with the prospect of having to halt rent or loan payments to meet more pressing needs (53.2, 47.1 and 43.5 percent of households, respectively). Conversely, households in Guyana, Argentina and Guatemala were less likely to have forgone their liability commitments (16.5, 19.6 and 20.3 percent of households, respectively). (Figure 6).

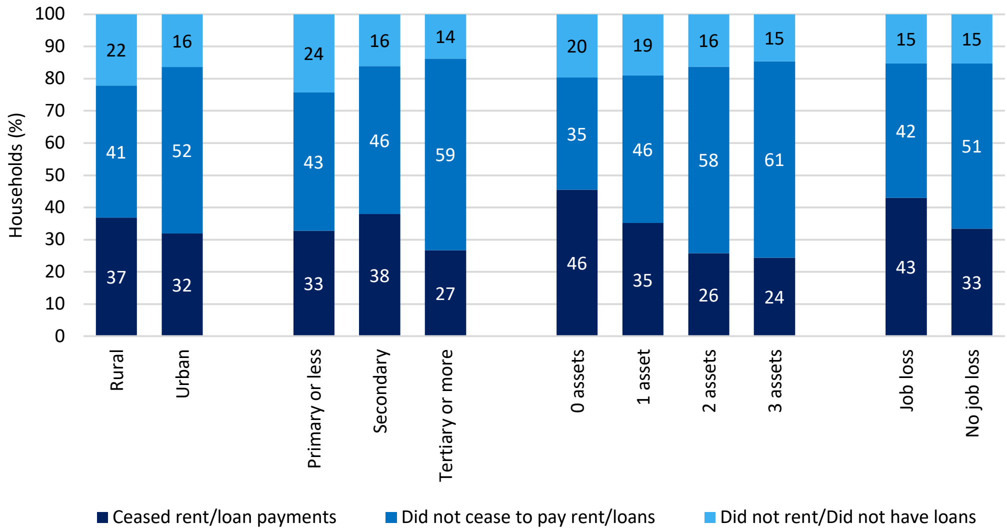
Interruptions to loan or rent payments during the pandemic were more prevalent among the households with less asset ownership, in rural areas, and with exposure to job losses. Households in which the head has a lower educational attainment (primary or less and secondary) stopped paying their loans and rent in a higher proportion (approximately 35 percent) compared to household in which head had tertiary education or more (26.8 percent). Similarly, 45.5 percent of households with no reported assets ceased to pay loans or rent, compared to 24.4 percent of households holding 3 assets. Among households in which respondents had lost their job, those which had to interrupt loan and debt payments amounted to 43.0 percent. This share was close to 10 percentage points above the equivalent rate among households without a similar exposure to job losses.

Figure 6. Changes in household rent and loan payment decisions, by country



Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

Figure 7. Changes in household rent and loan payments decisions, by household characteristics



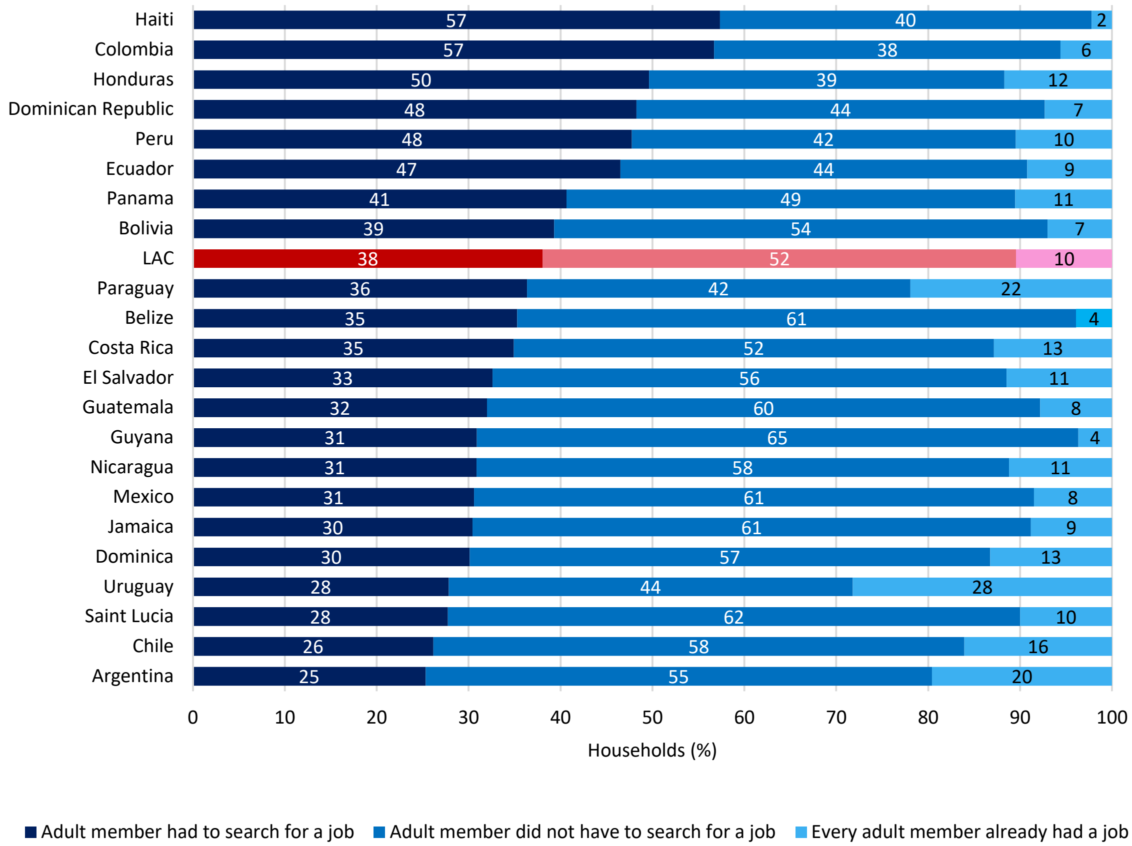
Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

Job search decisions in LAC households during the pandemic

On average, 38.1 percent of households in LAC countries reported that adult members who were previously inactive started looking for a job as a way to earn additional resources and mitigate financial distress arising from the pandemic. This entry into the workforce was more common among households in Haiti, Colombia, and Honduras (57.3, 56.7 and 49.6 percent, respectively), while less likely among those in Argentina, Chile, and Saint Lucia (25.3, 26.2 and 27.8 percent, respectively).

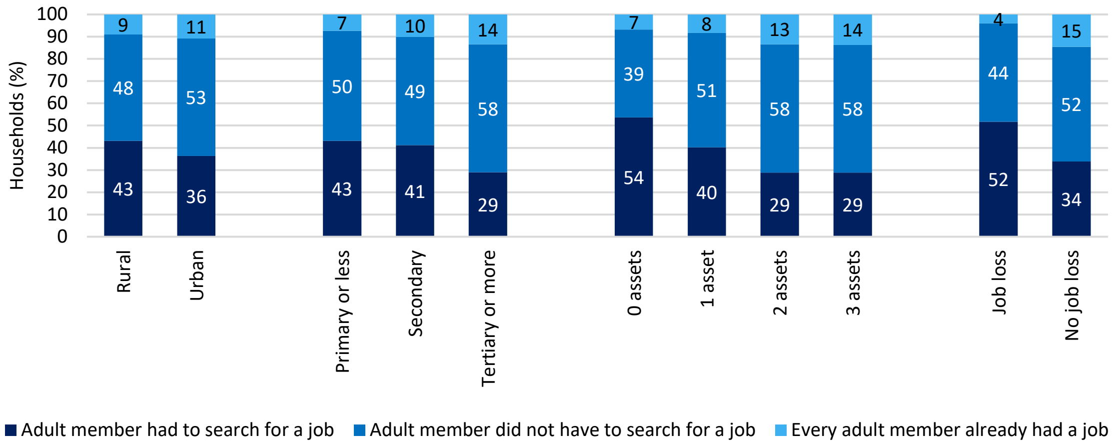
The decision to look for a job by adult members was also more prevalent in rural households (43.2 percent) compared to urban households (36.4 percent) (figure 9). In similar fashion, the degree of household adaptability to shifting livelihood circumstances may be influenced by differences in the educational attainment of the head, as evidenced by the fact that 43.1 percent of households in which the head had completed only primary education or less reported adult members having search for a job, as opposed to 28.9 percent in households with heads educated at least at the tertiary level. The broadest gaps, however, are observed between vulnerable and wealthy households: among those owning no assets, 53.6 percent reported the decision by an adult member to join the workforce, while this condition was only shared by 28.8 percent of households owning three assets. Naturally, individual exposure to job losses during the pandemic by survey respondents made it more likely for households to report a decision to look for a job by an adult member (51.8 percent), when compared to households without exposure to job loss (33.8 percent).

Figure 8. Adult household members' job search decisions during the pandemic, by country



Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

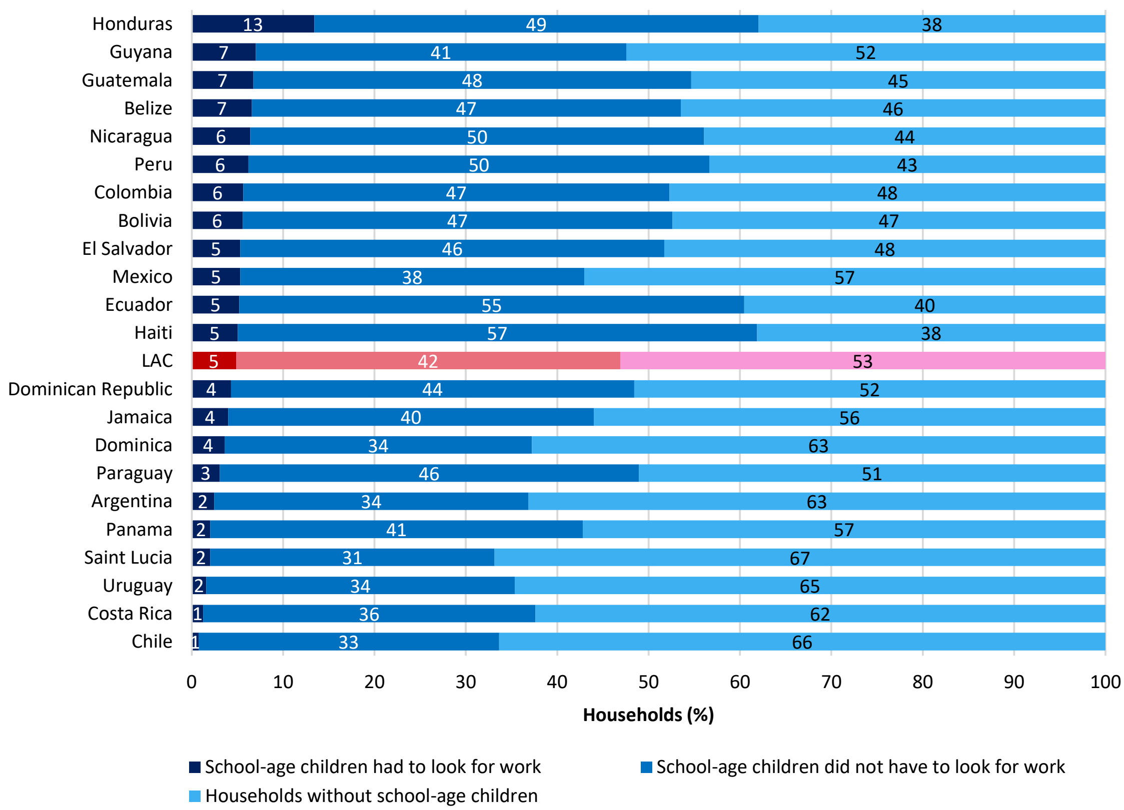
Figure 9. Adult household members' job search decisions during the pandemic, by household characteristics



Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

At the regional level, school-age children in 4.8 percent of households were forced to look for a job during the pandemic to help cover basic household expenses. The premature entry of children into the workforce was more common in Honduras (13.4 percent of households), followed by Guyana, Guatemala and Belize (approximately 7 percent) (figure 10). In contrast, this particular need was less frequent in Chile, Costa Rica, and Uruguay, all with rates below 2 percent. Put differently, 42.1 percent of households did not have the need for a child of school age to look for a job instead, while the remaining 53,1 percent belonged to households without children in this age range.

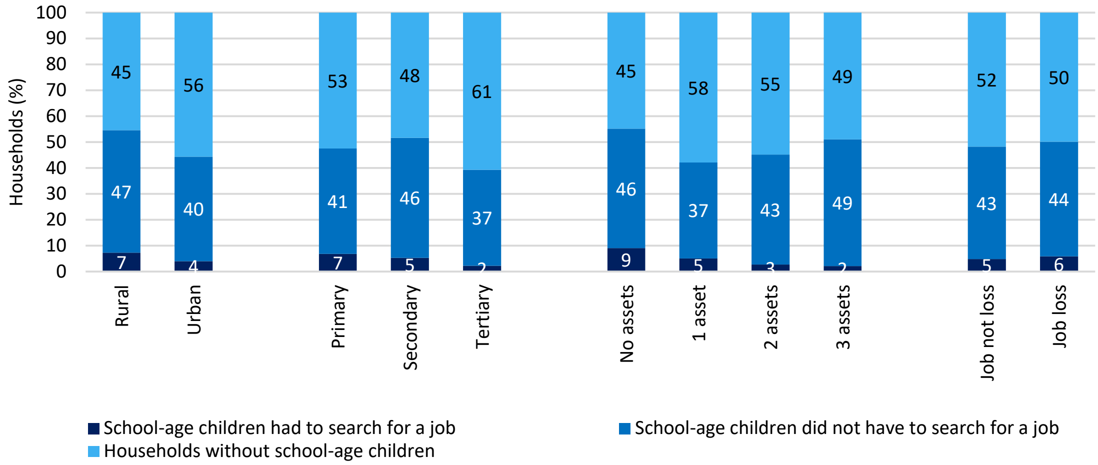
Figure 10. School-age children´s job search decisions in the household during the pandemic, by country



Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.
Note: Households were classified on the basis of having school-age children who were not working but had to start doing so as a means to meet basic financial needs.

Households in rural areas, with less asset ownership, and those exposed to job losses were more likely to send their children to look for work during the pandemic. A higher proportion of households in rural areas reported job search efforts by school-age members, when compared to households in urban areas (7.4 vs. 4.0 percent, respectively). This need was also more frequent among households headed by individuals with maximum educational attainment levels of primary or below (6.8 percent), no reported asset ownership (9.1 percent), and in which the main respondent had lost their job (5.9 percent). In fact, households headed by individuals with primary education or less were three times more likely to have a school-age child searching for a job during the pandemic than those headed by individuals with tertiary education or more. Regarding asset ownership, households with no reported assets were more than four times as likely to have a school-age child looking for a job during the pandemic than those with three assets.

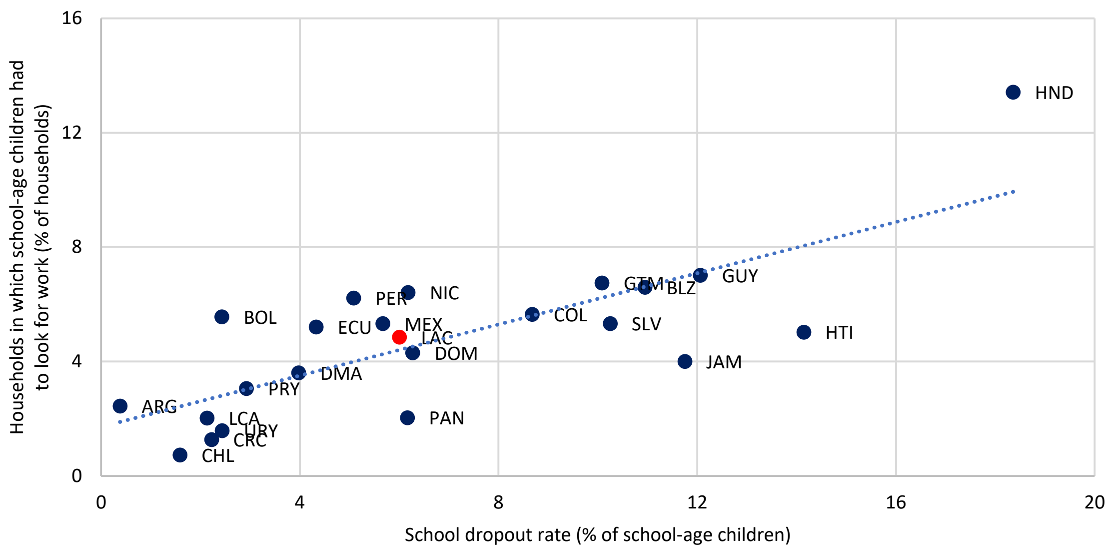
Figure 11. School-age children's job search decisions in the household during the pandemic, by household characteristics



Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.
Note: households were classified on the basis of having school-age children who were not working but had to start doing so as a means to meet basic financial needs.

This premature entrance into the labor market might have long-term consequences on human capital accumulation in the region. This is further aggravated by the fact that underage job seeking is positively correlated to school dropout rates at country level (figure 12). In other words, the greater the rate of school-age children entering the labor force during the pandemic, the greater the school drop-out rate.

Figure 12. Share of households reporting school-age children entering the labor force and school drop-out rate during the pandemic

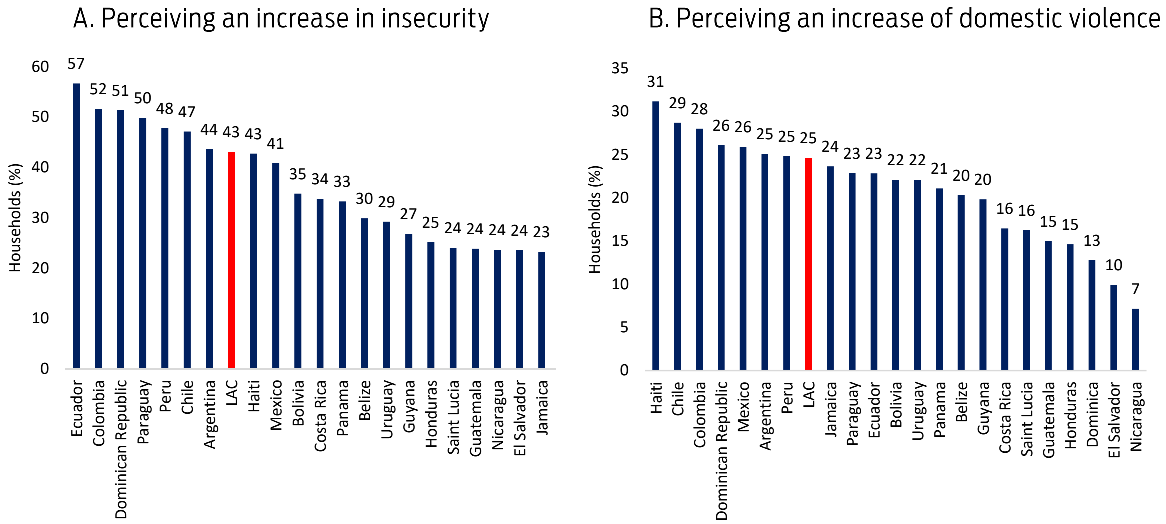


Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.
Note: The share of households in which school-age children had to look for a job is calculated with respect to all households in the sample, regardless of having children.

Financial Distress and Perception of Insecurity

The patterns associated to the different types of coping strategies put in place by households in the region to endure financial hardships reveal a considerable shift in behavior that stems from the profound economic impact of the pandemic. The emerging economic conditions may, in turn, bring about aggregate effects that modify perceptions of crime and security in the region. There is evidence of a perceived increase in the levels of neighborhood insecurity and violence during the pandemic (figure 13). **On average, by the end of 2021, 43.1 percent of households in LAC countries perceived that there had been an increase in insecurity and crime in their neighborhoods (Figure 13A), while 24.6 percent perceived an increase in domestic violence (Figure 13B).** This perceived increase was shared by more than half of all households in in Ecuador, Colombia, and the Dominican Republic (56.7, 51.6, and 51.4 percent, respectively). Analogously, households in Haiti, Chile, and Colombia were more likely to perceive an increase in domestic violence in their neighborhood (31.2, 28.7, and 28.0 percent, respectively). In contrast, the perceptions of increased insecurity and domestic violence were both relatively infrequent among households in Dominica and El Salvador.

Figure 13. The proportion of households perceiving an increase in insecurity and domestic violence in the neighborhood during the pandemic in LAC, by country



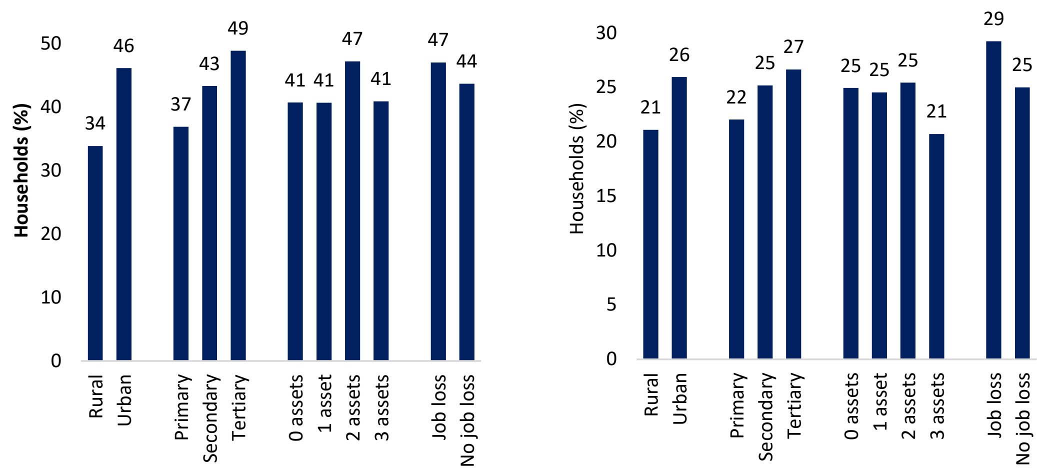
Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

The perception of increased insecurity and domestic violence is more prevalent among households living in urban areas, headed by individuals with greater educational attainment, and those exposed to job losses. The perceived increase in the levels of insecurity and domestic violence at the neighborhood level is greater in urban areas (46.2 and 25.9 percent, respectively) than in rural areas (33.9 and 21.1 percent, respectively) (figure 14A and figure 14B). There is also a 12 and 5 percentage-point difference between households headed by individuals with tertiary education or more and those headed by individuals with primary education or less when it comes to the perceived increase in the levels of insecurity and domestic violence, respectively. Likewise, the perception of an increase of both types of conflict is higher by approximately 4 percentage points among households exposed to job losses. Furthermore, the rate of job loss at the country level appears to be positively correlated with an increase in perceived insecurity. This implies the importance of future efforts to study the link between job losses and crime in a post-pandemic scenario. On a similar note, the perceived increase in the levels of insecurity and domestic violence is closely related to the incidence of mental health issues during the pandemic (figure 15).

Figure 14. The perception of insecurity and domestic violence in the neighborhood during the pandemic in LAC, by household characteristics

A. Perceiving an increase in insecurity

B. Perceiving an increase of domestic violence

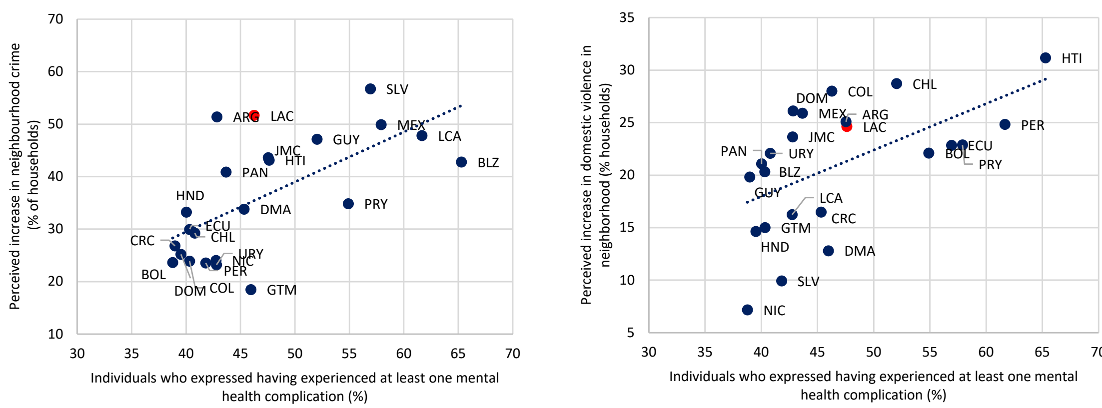


Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

Figure 15. Relation of experiencing at least one mental health problem with the perception of insecurity and domestic violence in the neighborhood

A. Perceiving an increase in insecurity

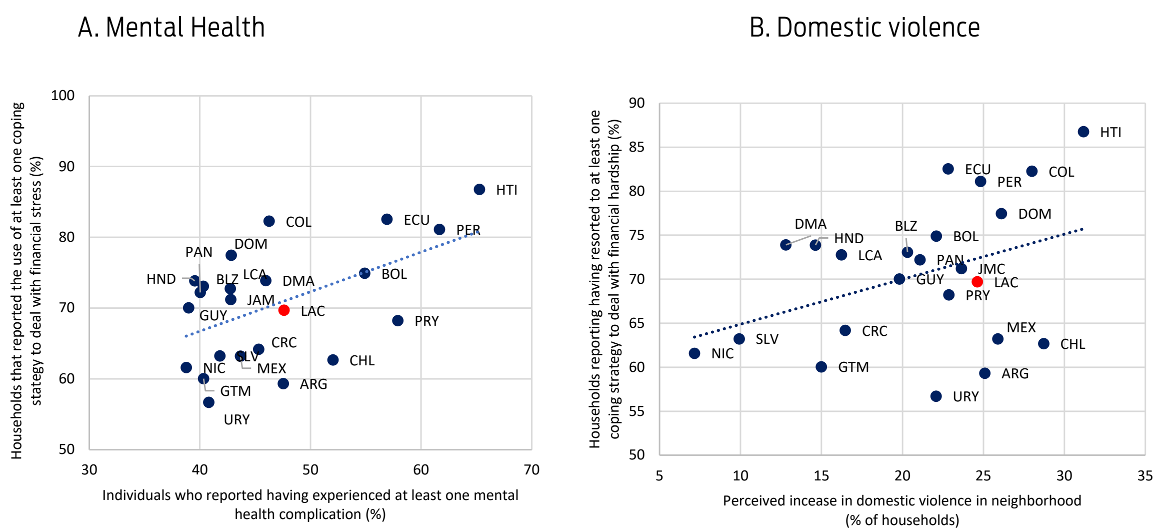
B. Perceiving an increase of domestic violence



Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

Figure 16A shows a positive correlation between the share of households that reported using at least one coping mechanism and the share of individuals reporting having at least one mental health issue during the pandemic. This reinforces the extent of the negative impact on individual and household welfare during the pandemic. Said impact may also be associated with increasing tension within households, that may evolve in instances of physical aggression (Figure 16 B). In addition, the gap between males and females in the time spent on unpaid domestic work positively correlates with the increased perception of domestic violence in the neighborhood. This suggests that an increase in the burden of household duties may bring about distress and problems among household members.

Figure 16. Relationship between the use of at least one coping mechanism with the experience of at least one mental health issue and with the increased perception of domestic violence in the neighborhood



Source: The World Bank and UNDP LAC High-Frequency Phone Surveys II (Wave 2), 2021.

Final Remarks

The financial impact of the pandemic on households in LAC was considerable due to lockdowns that reduced economic activity for extended periods. This impact is embodied in the challenging economic trade-offs endured by households in the region and their widespread dependence on coping strategies to mitigate financial distress. Households relied on coping mechanisms such as the expenditure of their savings, the interruption of rent and loan payments, and the mobilization of household members, both adult and of school age, to find a job. All those factors, however, have undesirable consequences, such as children forgoing the opportunity to learn given the urgency to participate in income-generating activities.

The living conditions engendered by the pandemic led 59.3 percent of households to spend their savings to meet basic food, health, and education expenses. Similarly, 33.1 percent of households reported an interruption to their rent and loan obligations. In addition, households reported that 38.1 percent of adults and 4.8 percent of school-age children entered the labor force to alleviate financial distress. Structural economic vulnerability systematically underpinned the frequency with which households found themselves in need of resorting to strategies to confront this challenging juncture. The use of coping strategies occurred predominantly in rural areas, in households where the head of household had lower education attainment, in households with fewer assets, and in households exposed to pandemic-related job losses.

On average, 43.1 percent and 24.6 percent of households have shown an increased perception of insecurity and domestic violence in their neighborhoods, respectively. In this sense, events such as a decrease in income, loss of employment, spending of savings, and suspension of loan payments are factors that are, at the aggregate level, directly correlated with the increase in insecurity and domestic violence.

Ultimately, the financial distress that affected households also pushed school-age children out of school and into the workforce.