

Information Brief: Financial Inclusion and Small Island Developing States

In Preparation of the 4th United Nations International Conference on Small Island Developing States
Prepared 6 May 2024

Introduction: Financial Inclusion to Support Sustainable Development

Financial inclusion means that all people and businesses have access to – and are empowered to use – affordable and responsible financial service to meet their needs, including payments, savings, credit, and insurance.¹ Financial inclusion is increasingly recognized at global and national levels as a key enabler of sustainable development. In December 2021, the United Nations General Assembly passed a [resolution](#) reaffirming the role of financial inclusion in the 2030 Sustainable Development Goal Agenda and underlining the need for foundational investments in digital connectivity and financial and payment infrastructure.² Financial inclusion is featured in seven of the seventeen United Nations Sustainable Development Goals. A growing body of empirical research has emphasized the importance of financial inclusion to build resilience to economic shocks and invest in health, education, and income-generating opportunities.³ Digital payments empower female entrepreneurs through increased control over their earning, which has benefits for entire households and children.⁴

The global community has made significant progress on establishing basic financial access over the past fifteen years. According to the World Bank Findex survey, 1.2 billion adults gained access to a formal account between 2011 and 2021, representing a 50% increase from 51% to 76%. The gender gap in account ownership has been reduced, to 6% in developing countries (from 9% in 2017). This progress is due in part to growing access to mobile telephones, mobile internet, improved regulation, and the proliferation of digital financial services that bypass traditional geographic and cost barriers to serving hard to reach segments.

Financial Inclusion and Small Island Developing States

Financial inclusion remains an important challenge for Small Island Developing States (SIDS).⁵ A key initial issue is data availability. 79 countries – mainly small island states and microstates – were not part of the Global Findex data collection effort in 2021.⁶ Without this data it is difficult to ascertain headline financial inclusion levels for SIDS including to compare across jurisdictions. Bespoke surveys at the country level provide us insight into specific jurisdictions. A demand-side survey conducted in 2022 in Saint Maarten found that 17% of people have no access to financial services whatsoever and that cash dominates retail transactions (88%) and bill payments (69%).⁷ Nearly half of respondents without a current account reported not being interested in accessing one, suggesting low levels of general awareness of the utility of financial products. The IMF notes that the Caribbean region has many characteristics that may pose challenges to financial development and inclusion, including the countries' small size and scale, prolonged low growth, high debt levels, and vulnerabilities to external

¹ For more information on financial inclusion, please see the UNSGSA website: <https://www.unsgsa.org/financial-inclusion>

² For more on how financial inclusion supports the attainment of the 2030 Sustainable Development Goals, see the 2023 publication on "[Igniting SDG Progress through Digital Financial Inclusion](#)" a joint product of the Better than Cash Alliance, the World Bank, and the Office of the UNSGSA.

³ For a summary of this literature and related discussion, see: El-Zoghbi, Mayada et al. 2019. "Emerging Evidence on Financial Inclusion." Consultative Group to Assist the Poor (CGAP). Available [here](#).

⁴ See: Klapper, Leora. 2023. "How Digital Payments can Benefit Entrepreneurs." IZA World of Labor. Available [here](#).

⁵ The Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States classifies 39 SIDS globally. The full list can be found [here](#).

⁶ [The Global Findex database](#) is the world's preeminent dataset on how individuals access and use formal financial services.

⁷ Central Bank of Curaçao and Saint Maarten. 2022. "A Glance into Saint Maarten's Payment Behavior and Financial Matters 2021. Available [here](#).

shocks and natural disasters.⁸ There is, however, heterogeneity in financial inclusion levels in the Caribbean, including in jurisdictions such as the Bahamas and Barbados, which have higher levels of financial sector development.

Financial inclusion challenges in SIDS relates to limitations in physical and digital infrastructure, the enabling environment (regulation), and market dynamics. SIDS often face limited physical infrastructure, including roads and transportation networks, which pose barriers to expanding financial services to remote island communities. Lack of reliable electricity and costly digital connectivity hampers efforts to promote digital financial inclusion. In addition, regulation remains a key constraint, with many SIDS lacking regulation allowing for non-bank payment service providers, banking agents, and fintech companies to operate on islands. A reliance on brick-and-mortar solutions can be expensive, particularly given many islands are far from key economic centers and lack the population needed to achieve economies of scale. The cost of sending remittances remains a challenge with bank-led models being more expensive than mobile service providers.⁹

SIDS are often characterized by low levels of financial literacy and a scarcity of financial products tailored to the needs of low-income and rural populations. A 2023 report on financial inclusion and literacy from the Eastern Caribbean Central Bank (ECCB) found that financial literacy was low across the Eastern Caribbean Currency Union, with an average score of 12.2 out of 20 across seven jurisdictions.¹⁰

SIDS disproportionately suffer from climate impacts given they are often located in regions prone to natural disasters such as hurricanes, cyclones, and rising sea levels due to climate change. These disasters can devastate infrastructure, disrupt economic activities, and impede financial services delivery. SIDS can have slim margins and limited access to strategies that can help them deal with, handle, and adjust to these shocks. Financial inclusion can play a key role in supporting climate resilience building for households and local businesses in SIDS. For example, digital payments through mobile wallets play a key role in getting emergency cash delivered quickly to those affected by natural disasters. Savings and insurance products can help build capital buffers and manage risk. Fintech platforms can support productivity through connecting farmers and microbusinesses to better inputs (e.g. fertilizer, machinery), finance, and value chains. Overall, empirical evidence has found that financial inclusion has a positive impact on economic growth, including in the tourism through increased entrepreneurship, consumption, and financial market participation.¹¹

Forward Look

Looking ahead, developing a national financial inclusion strategy can be an effective starting point to accelerate financial inclusion amongst SIDS. Such strategies marshal high-level commitment and action across public and private sectors. Global best practice indicates financial inclusion strategies should be supported by a clear governance framework and explicit results indicators to promote accountability and implementation.¹² In addition, investing in foundational policies and infrastructure will support financial inclusion in SIDS economies, including those critical for access, notably digital connectivity, identification, and access points. Regulation allowing for non-bank payment service providers, or mobile money, have proven critical in support financial inclusion around the

⁸ Wong, Joyce. 2017. "Financial Development and Inclusion in the Caribbean. International Monetary Fund. [Available here](#).

⁹ See World Bank Remittance Prices Worldwide Database. [Available here](#).

¹⁰ Eastern Caribbean Central Bank. 2023. "ECCU's financial literacy and financial inclusion survey results." Available [here](#).

¹¹ Haohan Luo, Haijun Wang, and Ying Wu. 2024. "Digital financial inclusion and tourism development." International Review of Economics & Finance, Volume 90. Available [here](#).

¹² For more see the World Bank's National Financial Inclusion [Resource Center](#).

globe. Another foundational building block includes interoperability amongst financial service providers and agents. Interoperability allows for affordable and frictionless financial transactions and ultimately helps households and small businesses save time and money.

As digital financial services become more ubiquitous within SIDS, it is important efforts are prioritized to bolster financial consumer protection and financial and digital literacy to ensure financial services are delivered responsibly and in ways that improve development outcomes for citizens. To support data collection, financial inclusion data could also be integrated into the proposal to establish a global SIDS data hub, including through the collection of supply and demand-side data for financial inclusion. Companies can lead by digitizing salaries and private sector payments, which is proven to make concrete progress in getting those hard to reach financially included. Digitizing these payments can also help build volume needed to incentivize financial service providers to invest further in digital offerings in SIDS.

Office of the UNSGSA and support with financial inclusion in SIDS economies

Her Majesty Queen Máxima of the Netherlands has served as the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development ([UNSGSA](#)) since 2009. The UNSGSA raises awareness, serves as a convener, and encourages leaders to take action to expand financial inclusion at a global and country level, in close collaboration with partners from the public and private sector. Over the past fifteen years, UNSGSA Queen Máxima has conducted over 48 country visits, met with over 1,200 global leaders (both public and private) and delivered hundreds of speeches at relevant global forums including the United Nations General Assembly, the G20 (Finance and Leaders Track as well as at the Global Partnership for Financial Inclusion), and amongst financial sector standard-setting bodies.¹³

[The Office of the UNSGSA](#) stands ready to engage with SIDS economies on how to bolster financial inclusion in their relative jurisdictions. Several UNSGSA [reference group partners](#) are providing technical support to SIDS economies, including through existing financing projects from the World Bank (including the [Caribbean Digital Transformation Project](#)) and the United Nations Capital Development Fund (via its [Digital Finance for Resilience Programme](#)). For further engagement with the Office of the UNSGSA, please contact Mrs. Smita Aggarwal, Director: (smita.aggarwal@unsgsa.org).

¹³ Standard-setting bodies, or SSBs, include the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI), the Financial Action Task Force (FATF), the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI) and the International Association of Insurance Supervisors (IAIS).