Haiti-The productive use of remittances

CEPAL, Mexico, June 14, 2019

Fritz Duroseau/Edwige Jean

BANQUE DE LA RÉPUBLIQUE D'HAÏTI

BANQUE DE LA RÉPUBLIQUE D'HAÏTI

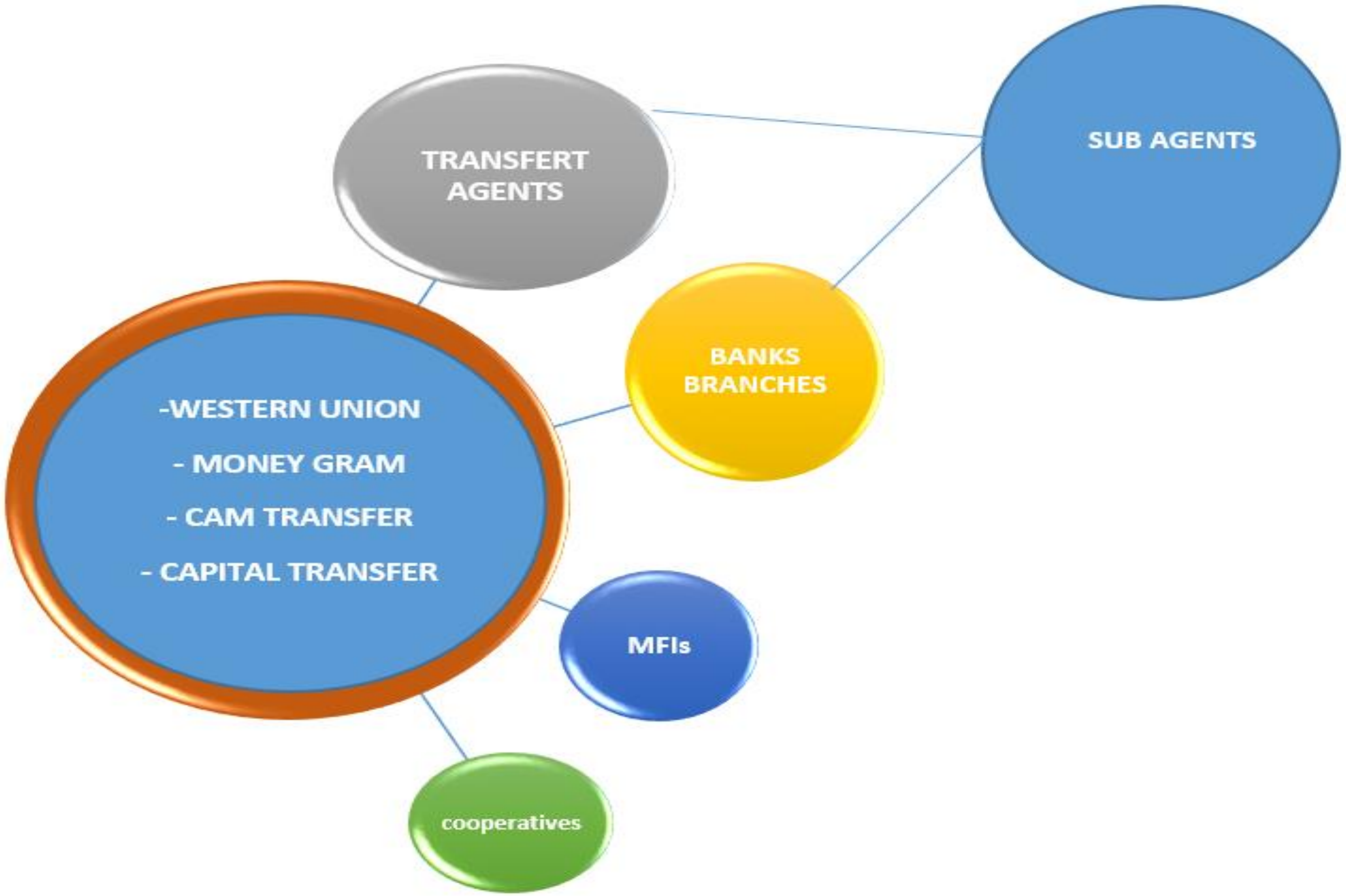
Outline

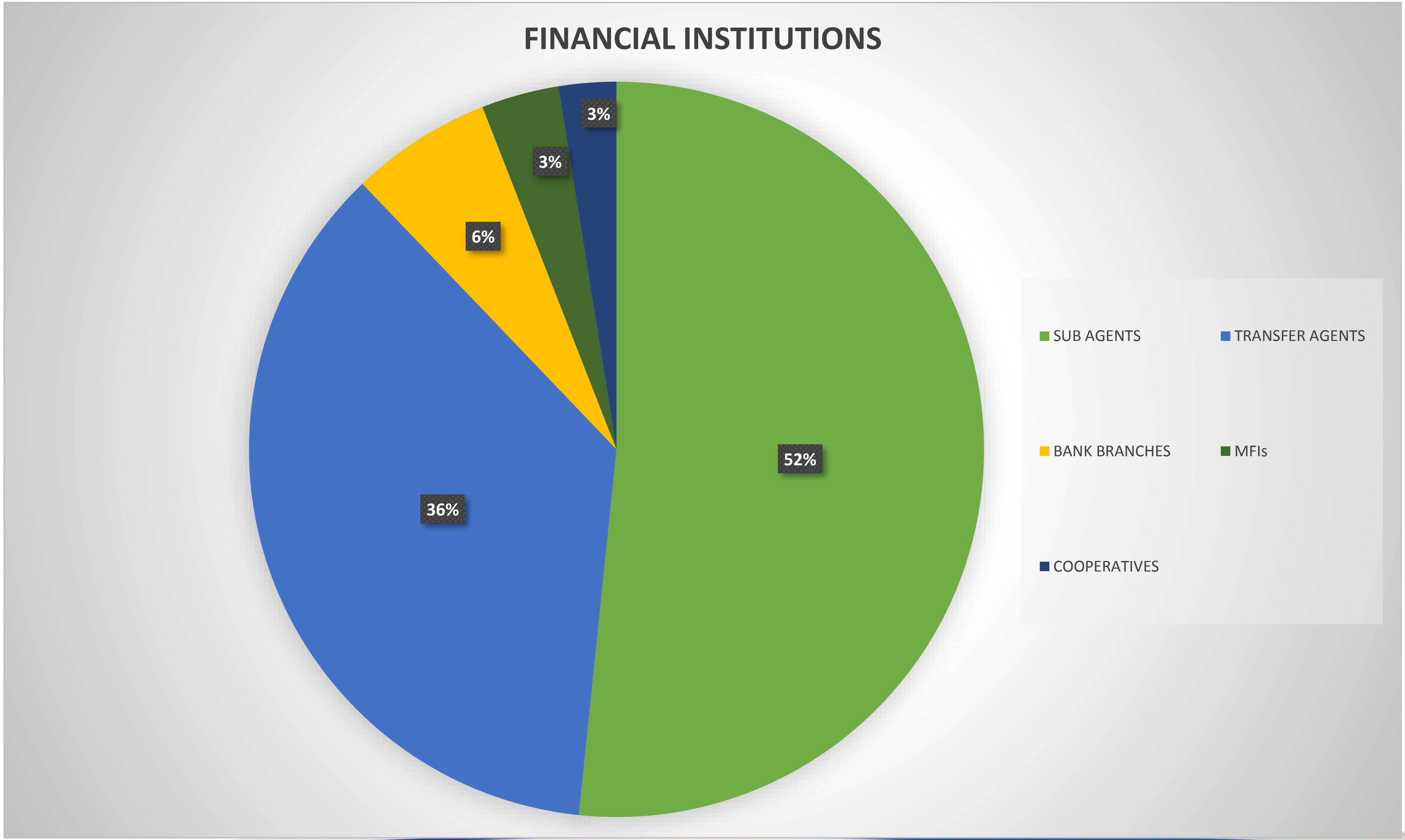
- The market: Demand and supply side;
- Recent developments;
- Role in macroeconomic stability;
- Alternative role and economic growth;
- Conclusion

The market: supply side

- Remittances kept an upward trend since the early 90s, 3,2 billion USD, 32% of GDP in 2018;
- 72% come form the US, 7% Chile, 4,4% Canada, 2,7% DR, 2,3% Brazil;
- Channeled mostly through 1901 transfer agents and subagents of Western Union, MoneyGram, CAM, Capital Transfer. Very few via banks (40 million per month);
- FINSCOPE survey identified a total of 5250 financial institutions in the country: 2711 non bank agents, 1901 transfer agents, 326 bank branches, 179 MFIs and 133 cooperatives;
- Financial services are concentrated in the capital, Port-au-Prince and other big cities. In certain remote areas transfer non bank agents are the only ones providing financial services;
- Only 27,5% of the adult population has a formal bank account, and only 10% has access to formal credit, while more than 50% of the adult population has an outstanding loan

Ecosystem of the Transfers Market




FINANCIAL INSTITUTIONS
3%
3%
6%
52%
36%
SUB AGENTS
TRANSFER AGENTS
BANK BRANCHES
MFIs
COOPERATIVES

The market: demand side

- BRH data for March 2019, showed that 45% of remittances were between 100-500 USD,, 16,41% />500-1000, 22,9%/ 1000& up and statistical mode of 150USD
- Most remittances are small amounts received on a monthly basis. They finance basic consumption expenditures (food, education, health, rent) as Haiti GDP per capita is under 900 USD (2018 data) and the most frequent profile of senders is the blue collar;
- Remittances positively impact the revenue of the beneficiaries, reduce poverty and improve human development indicators: from 1960 to 1980 and 2017, life expectancy at birth grew from 41 to 50 and 64 years in Haiti, while GDP per capita moved from 70 to 243 and 768 USD during the same period;
- Instrument of risk mitigation in difficult times (hurricanes, droughts, funeral);
- Some remittances concern land purchase, small business investment owned by migrant workers

Recent Developments: non bank channel

TRANSFERTS RECUS EN GLISSEMENTS								
(En Dollars US)								
	Exercice	Glissement mens.	*Exercice*	Glissement mens.	Glissement annuel	*Exercice*	Glissement mens.	Glissement annuel
Période	*2016 - 2017*	*2016 - 2017*	*2017 - 2018*	*2017 - 2018*	*2017-2018/2016-2017*	*2018 - 2019*	*2018 - 2018*	*2018-2019/2017-2018*
Octobre	**154,415,656.05**	**6.34**	**175,322,718.51**	**4.81**	**13.54**	**194,665,628.32**	**2.04**	**11.03**
Novembre	**135,666,582.52**	**-12.14**	**165,626,686.83**	**-5.53**	**22.08**	**178,471,480.82**	**-8.32**	**7.76**
Décembre	**198,048,406.02**	**45.98**	**239,506,616.17**	**44.61**	**20.93**	**269,062,743.74**	**50.76**	**12.34**
Janvier	**129,357,578.37**	**-34.68**	**165,020,352.05**	**-31.10**	**27.57**	**177,185,077.61**	**-34.15**	**7.37**
Février	**149,031,118.16**	**15.21**	**188,297,523.78**	**14.11**	**26.35**	**185,558,876.34**	**4.73**	**-1.45**
Mars	**203,249,889.45**	**36.38**	**246,585,979.63**	**30.96**	**21.32**	**249,586,500.59**	**34.51**	**1.22**
Avril	**178,959,163.89**	**-11.95**	**206,480,480.16**	**-16.26**	**15.38**	**230,644,218.09**	**-7.59**	**11.70**
Mai	**173,520,309.59**	**-3.04**	**203,980,523.50**	**-1.21**	**17.55**			
Juin	**162,039,175.60**	**-6.62**	**191,749,078.37**	**-6.00**	**18.34**			
Juillet	**164,020,988.82**	**1.22**	**182,044,092.20**	**-5.06**	**10.99**			
Août	**171,362,550.34**	**4.48**	**200,156,036.57**	**9.95**	**16.80**			
Septembre	**167,275,720.71**	**-2.38**	**190,782,835.08**	**-4.68**	**14.05**			
OCT - SEPT	**1,986,947,139.52**		**2,355,552,922.85**			**1,485,174,525.51**		
Taux de croissa	**15.57**		**18.55**					

BANQUE DE LA RÉPUBLIQUE D'HAÏTI

Impact on macroeconomic stability

- <u>Positive</u>
- Positive impact on the current account by containing the trade balance that is negative of 3,5 billion USD;
- Main source of foreign currency inflow, 10 times above public aid flows (3,2 billion USD in 2018);
- Main supply of the local FX market;
- Positive impact on exchange rate and price stability as the pass-through of depreciation to inflation is immediate. In the Haitian CPI, imported goods have a weight that exceeds 65%;
- <u>Negative</u>
- Some unregulated money remitters introduce distortions on the foreign exchange market that create pressures on the exchange rate;
- Haiti is a net importer of goods, thus remittances finance imports of non productive goods. These flows came with new consumption habits that made the economy very vulnerable to external price shocks. For instance, in 2008, hikes in the international prices of cereals led to a political turmoil and food riots that resulted in the resignation of the Prime Minister of Haiti;

Alternative role and economic growth

- The low value of received remittances, for subsistence purposes, implies a poor impact on savings and investment;
- Since September 2014, Haiti has launched its National Financial Inclusion Strategy based on 5 pillars:
  - Financial services for inclusion and poverty reduction,
  - Credit for economic growth,
  - Proximity financial services,
  - Financial education and consumer protection;
  - Expansion of financial infrastructure end empowerment of financial institutions.

(*) Only 27,5% of the adult population has a formal bank account, and only 10% has access to formal credit, while more than 50% of the adult population has an outstanding loan;

Alternative role and economic growth(continued)

- The implementation of the 5 pillars of the NFIS combined with well designed public policies can:
  - Bring more efficiency and competition on the remittance market and consequently will help reduce the costs, thus increase the amount available to the beneficiary for savings,
  - Use financial innovation and technology (mobile banking, block chain, Crowd Funding) to bank the unbanked and leverage more resources: mobile banking is developing very well in Haiti (6 million cell phone subscribers), however it is limited to local currency transactions, thus payments of remittances are excluded from this channel. Adapted regulation can lead to a paradigm shift by bringing remittance beneficiaries to the formal financial sector and have access to savings and credit services. Cell phone companies are interested and have the capacity to come with mobile payments in the remittance industry;
  - Enlarge access to financial services can lead to more productive credit and reach positive impacts on growth and poverty reduction;

Alternative role and economic growth(continued)

- Substantial financial Inclusion implies as prerequisites: economic and social inclusion;
- In Haiti, public investment, based on several WORLDBANK country diagnostics, has a poor impact on growth and doesn’t play properly its catalyst role on private investment;
- Competitive and high potential economic sectors that could contribute to sustained economic growth have been identified by several studies: Cultural and Historical Tourism, agriculture value chains, textiles, BPOs, renewable energy, construction;
- Haiti could tap on international financial resources available for the local and FDI private sectors (IFC, IIC, OPIC) if we succeed in putting in place the ecosystem favorable to investments in the abovementioned;
- Haitian diaspora annual savings were estimated to be in the range of 3,7 to 5.1 billion USD (IMF: consultation Article IV, 2012), while their annual income was estimated to 25,6 billion USD (Supriyo De, Dilip Ratha, Seyed Yousefi, sept 2014). 5-7 years later these numbers have probably increased due to increased migrations and positive economic cycles in the sender countries;

Alternative role and economic growth(continued)

- Haitian diaspora investors are interested to bring working and investment capital to Haiti (mostly in SMEs) and spend money there in: Hospitality services, construction of gated communities, Tourism-related businesses, import-substitution;
- Many Haitian diaspora members aspire to retire in the home country and have been saving money during their entire life to attain this goal. Local financial services for migrant workers (mortgage loans, insurance, retirement savings, private equity) are in high demand but not available for the diaspora;
- BRH has initiated discussions with IFC regarding diaspora bonds issuance that could be backed by the IFC rating;
- The authorities have to create the ecosystem that could favor the implementation of sound projects with a reasonable risk/return ratio, to maximize the resources leveraged by this mechanism;

Conclusion

- There are no quick fix neither one size fits all answers to the problematic of productive use of remittances;
- Iterative policy and regulation are required to stimulate more efficiency in the market by promoting enhanced competition, financial and payment innovation and information asymmetry minimization;
- Financial education at the beneficiary and sender levels (Greenback Initiative in Haiti) to better understand their needs and put at their disposal financial mechanisms for the funding of investment, alternative to traditional credit;
- Coherence between policies designed to foster financial products around the remittance market with economic policies addressing the development of competitive economic sectors;
- Implement diaspora round tables to reduce information asymmetry regarding economic opportunities, public policies and regulation and available financial products and services.

References and data sources

- Banque de la République d'Haïti;
- Institut Haitien de Statistiques;
- Worldbank data;
- IMF: consultation Article IV, 2012,
- IMF: (Supriyo De, Dilip Ratha, Seyed Yousefi, sept 2014).
- Pour une Haiti inclusive et prospère, Commission Présidentielle sur la Compétitivité, Nov 2009;
- Haiti, des catastrophes naturelles à la sécurité économique, Paul Collier, Jan 2009;
- Haiti DSNCRP (2008-2019), Nov 2007;
- Haiti, Financial Inclusion Strategy, Sept 2014, BRH-Worldbank;
- Haiti FINSCOPE Survey, USAID, BRH, FINMARK SCOPE, 2018 .
- The use of remittances and financial inclusion, GPFI, Worldbank, IFAD, 2015

BANQUE DE LA RÉPUBLIQUE D'HAÏTI