

Inter-American Development Bank
Remittances As A Development Tool: A Regional Conference
Institutional Challenges



Grace E Solas (Mrs)
Jamaica Cooperative Credit Union League Limited

May 18, 2001

Inter-American Development Bank
Remittances As A Development Tool: A Regional Conference
Institutional Challenges
Washington DC
May 18, 2001

Mr Chairman...distinguished guests. Good afternoon. This presentation attempts to provide an insight into the institutional challenges facing the conduct of remittances throughout parts of the English-speaking Caribbean. The countries included in the discussion are the six (6) members of the Eastern Caribbean Currency Union ("ECCU"), Trinidad & Tobago, Barbados, and Jamaica. The Cayman Islands are considered a country of origin for remittances.

Overview Of The Economic Role Of Remittances

Within the Caribbean region there are many varied economies. In spite of the diversity, most of these economies share the common characteristic of high migration. They are sometimes referred to as migratory economies. This is largely because of the persistent challenge wherein economies are perceived as being too small or inadequate to satisfy the needs of their inhabitants.

These inhabitants therefore create avenues to satisfy their various needs for a higher standard of living, employment, and education. The avenues created, link these Caribbean States to the countries of North America and other continents as well as the Cayman Islands. The migration of Caribbean nationals to these countries has resulted in an inflow of remittance money back to the islands.

Developing countries are challenged to create economic opportunities for trained persons and are being marginalized by the impact of globalization and the advent of aging economies in Canada and Europe currently engaged in the import of labour. These have created an attraction for the younger skilled labour force of Caribbean nationals. For these reasons, it is certain that the phenomenon that is remittances will be with us for a long time.

In Jamaica for example, these remittances have impacted on the economy as they represent a substantial proportion of foreign exchange earnings, contributed to an improvement of the standard of living of many Jamaicans, provided finance for balance of payments support, and aided economic growth and development of the economy.

Private remittances from overseas to Jamaica continue to help underpin the local economy. During the latter half of the 1990's remittances to Jamaica totaled USD3.2Billion. On an annual basis, these inflows have equaled between 9 - 10% of GDP. For comparative purposes, Jamaica's main hard currency income earner is tourism and this grossed approximately USD5.73Billion in earnings during the latter half of the 1990's representing 17.8% of GDP during that period.

In other Caribbean countries, the percentage of GDP that remittance inflows represent is not as high as in Jamaica, but nevertheless these inflows are significant.

Inter-American Development Bank
Remittances As A Development Tool: A Regional Conference
Institutional Challenges
Washington DC
May 18, 2001

The Eastern Caribbean Currency Union is comprised of 6 member countries, Anguilla, Antigua & Barbuda, Dominica, Grenada, Montserrat, St Kitts & Nevis, St Lucia, and St Vincent & The Grenadines. It is estimated that on aggregate, transfers equaled 5.3% of GDP of the ECCU from 1996 - 1999. This group experienced real growth in GDP of 5.65% during that period. Montserrat was severely affected by natural disasters and the inclusion of this country's negative GDP growth rates of -9.0975% affects the reported averages. Relief and emergency aid to all of these nations, which have experienced natural disasters of one form or another during the period 1996 - 1999, have also buoyed transfers to these economies.

For both Trinidad & Tobago, and Barbados private and government transfers equate on average to just less than 1% of GDP respectively. In the case of Trinidad & Tobago, these do not include transfers that come through the banking system as there are no mechanisms to capture these.

The profile of a typical recipient in all of the States mentioned, is lower to lower-middle income or unemployed persons. This would suggest that there should be a correlation between high unemployment and the volume of remittances to the countries. The data for Jamaica, Trinidad & Tobago, and Barbados does not support this.

During 1995 - 1999, Jamaica experienced unemployment levels that averaged 16% and real growth in GDP averaging -0.72%. Trinidad & Tobago, which experienced similar levels of unemployment at 15.16%, generated real growth in GDP averaging 4.8%. Barbados with average rates of unemployment of 14.52%, generated real growth in GDP of 2.92% for the same period.

What could be surmised is that there is a correlation between negative economic growth and the volume of remittances.

Although the rate of international migration of Jamaicans fluctuates periodically due to tightened immigration practices of the popular destinations (USA, Canada, UK, etc), many families have separated and parents still work abroad and send money home to meet the basic needs of children and other dependent family members.

The frequency of the remittance also speaks to the vital role it plays. For many households, the remittance is the means by which the basic necessities are met. There are the weekly as well as monthly transfers as well as those that are less frequent and are used for specific non-recurrent expenses. The average remittance is in the range of USD100-USD200.

Financial Mechanisms To Transfer Remittances As Well As The Migrant's Capital

The mechanisms used to transfer remittances include but are not limited to:

- Purchased Money Orders
- Regular Mail
- Informal Couriers

Inter-American Development Bank
Remittances As A Development Tool: A Regional Conference
Institutional Challenges

Washington DC
May 18, 2001

- Private Remittance Companies
- Banks

Data collection is limited, as all the countries do not have established statutory reporting requirements that capture data relating to these operations. In the case of Jamaica and T&T, assumptions are made about these operations based on voluntary reporting by the private remittance companies and information from post offices; and in the case of the ECCU estimates are made using a balance of payments formula.

Deregulation of currency markets in a number of Caribbean economies, has resulted in the loss of some means of data capture but it is widely acknowledged that private remittance companies generally attract the bulk of these transfers.

The reasons for this include the fact that these companies do not require banking relationships, their hours of business are convenient, they have convenient locations, the transfer is quick, and the safety of the transfer is presumed to be as would obtain in a bank.

In discussions with users, it was discovered that even cost-sensitive users prefer to use this means because it is less formal and less bureaucratic than using a bank, and there was no need to have an established banking relationship to qualify the sender or recipient.

The amounts remitted using the regular mail and informal couriers cannot be quantified. However, because it is understood that speed of transfer and safety are necessities for both the sender and the recipient, we know that these means are used by the less frequent remitter and those that are particularly cost-sensitive.

Income from offshore investments and migrant capital repatriation are typically handled within the formal banking system.

Outbound remittances are also very insignificant in these countries. As is the case with inbound remittances, the selection of the private remittance companies or the banking system is determined by the same factors of: safety, convenience, timing, and cost.

Productive Investments Of Remittances

There is no data to suggest that traditional industries of mining, finance & insurance services, agriculture, and manufacturing & processing are significantly affected by remittances.

Jamaica's large informal economy is comprised mainly of small and micro-enterprises engaged in the retail of apparel, cosmetics, household and food items. While the investors in this economy originate from diverse economic groupings, many of those engaged in micro-enterprise obtain capital through private remittances.

Inter-American Development Bank
Remittances As A Development Tool: A Regional Conference
Institutional Challenges
Washington DC
May 18, 2001

The core of this informal economy's clientele is characterized in the main as being the same lower, lower-middle income and unemployed persons that dominate remittance recipients.

Challenges

Regulatory & Reporting

In support of the deregulated currency markets in the 8 countries included in this discussion, respective central banks have not instituted any regulations that specifically address remittance operations. While there have been no systemic crises of mention, important data capture relating to remittances has been sacrificed. As a result, remittance inflows which, form such an important part of the BOP has to be estimated because of a lack of formal reporting mechanisms.

How to Lower Costs

All operators need to maintain critical volume levels for viability. For institutions whose business it is to provide lower cost financial services, lower costs will typically mean a longer turnaround time for transactions. These institutions must compete with those that can afford to promote service in minutes at higher costs in economies where there is typically a weak savings culture.

Developing a Savings and Long-term Investment Culture

In order for countries like Jamaica to be able to take remittances to the next level where they are used as a true development tool that positively impact economic growth, it must stimulate the development of a savings and long-term investment culture. By this it is meant that recipients have to be encouraged to view the remittance as a means to, and not the end of economic independence.

Positively Impacting GDP

As we develop the savings and investment culture, and the informal sector grows through micro-enterprise, the significance of this sector to the development of many Caribbean countries and Jamaica in particular, should justify a reclassification of the sector from informal to formal and the appropriate measurements included in the computation of GDP.

Ladies and gentlemen, I hope that this presentation has increased your knowledge of the economic role of remittances in the Caribbean, the financial mechanisms used to transfer funds, the productive uses of remittances and the institutional challenges we face at this time.

Thank you.