The View from Europe
By David Jessop

Remittances underpin the lives of many

Remittances continue to play a central role in the lives of many families in the Caribbean. Although they help support national economies and provide governments in almost all of the region with additional foreign exchange, their fundamental role is to offset the worst for the poorest, and enable recipients, in most cases, to be able to live a better life.

A recent report published earlier this year by the Multilateral Investment Fund (MIF), a part of the Inter-American Development Bank, makes clear just how important these flows are for the Caribbean and Latin America.

According to the figures, which appear in 'Remittances to Latin America and the Caribbean in 2012: Differing Behavior among Sub-regions', remittances to Latin America and the Caribbean (LAC) showed a slight overall increase in 2012 in relation to the previous year, totalling US$61.3 billion. This amount, the MIF reported, represented a 0.6 per cent increase over 2011.

The figure compares with an historic high of nearly US$65 billion in 2008, before a 15 percent drop occurred due to the financial crisis of 2009, but seem to indicate that money transfers to the region are slowly increasing as the international economy recovers.

According to the report, the trends in the flow of remittances varied between the countries of Latin America and the Caribbean. While remittances to South American countries and Mexico decreased by 1.1 percent and 1.6 percent respectively, those to the countries in the Caribbean saw a modest growth. Central American nations in contrast experienced a significant increase of 6.5 percent in the total remittances received.

In the case of the Caribbean, the first signs of improvement following the global economic crisis began in 2010 when remittance inflows first began to accelerate with a growth rate of 8.3 per cent. However, a significant part of this was subsequently attributed to the unusually high volume of transfers received in Haiti following to the earthquake there that year. Thereafter, in 2011, the growth rate relative to the prior year's reached 5.9 per cent, a figure similar to the rest of Latin America. However, quarter to quarter fluctuations in 2012 meant that the region's overall growth rate was just 0.1 per cent, a figure marginally higher than in the previous year.

Although these figures bring together data for all Caribbean nations except Cuba, some nations, most notably the Dominican Republic, experienced a significant growth in remittances with an overall rate recorded at 4.8 per cent.

What the figures suggest is the flows continue to depend on the economic situation in the countries from which remittances are sent.

Their overall value is also affected by the rate of inflation and the exchange rate of the currencies in the two countries concerned. Helpfully, the MIF report looks at this. It suggests that in the Caribbean, average inflation reduced the purchasing power of remittance flows by 4.5 per cent in 2012 and as a joint product of inflation and exchange rate movements by minus 2.3 per cent in the case of the region.

The report also shows that in absolute terms there were a total of US$8.3 billion in remittances to the Caribbean last year. In the case of the Dominican Republic, there was a 4.8 percent growth to a total of US$3.16 billion, for Jamaica, a rise of 0.6 percent to US$2.04 billion; and for Haiti a 3.4 percent fall to US$2 billion.

The report does not address the subject of Cuba, presumably for political reasons, but other figures produced unofficially suggest that remittance transfers there mainly from the US and Europe, stood at around US$ 2.06 billion.

This means that the total of cash transfers through remittances to friends and family – which is to say nothing of informal goods transfers – stood last year at a staggering total of US$10.1billion; a figure that suggests why together with the black economy, the Caribbean people continue to survive the present period of prolonged austerity.

The significance of these figures in keeping Caribbean economies afloat should not be underestimated. For example in the case of Haiti the sums transferred amounted last year to 25 per cent of GDP; in Guyana's case around 17 per cent; for Jamaica close to 14 per cent; and for other nations like Belize and the Dominican Republic somewhere between 5 and 10 ten per cent of GDP.

One consequence of this is that an increasing number of Caribbean countries have been trying to encourage those who remit and receive to consider placing some of the money they send to relatives, or other disposable income they might have, into Government bonds or local investments. However this is fraught with difficulty.

Jamaica, for example, has been seeking to appeal to its overseas nationals' patriotism and has been considering a low yielding government bond, in part aimed at its Diaspora. However, this has run into a number of difficulties as any such bond would add to Government's overall debt stock and would require bringing within the scope of the island's IMF agreement. Moreover, the abiding sentiment is that few in the Diaspora would transfer funds to Jamaica for patriotic reasons; requiring, quite understandably, a return higher than is available to them through bank savings or deposits held elsewhere. It is also far from clear whether any government, a bank, or other entity would be willing to undertake the development of such a relatively high cost venture, or be prepared to manage or underwrite it.

There are of course other options which include, at their most straightforward, the use of one or another of the Caribbean-owned money transfer services that have offices and agents overseas able to remit sums to a bank account linked to a saving account. There are also Caribbean mutual funds or commercial options outside of the region that work on the basis of having a portfolio of projects, funds and public-private partnership opportunities that focus on investing in regions that individuals in the Diaspora may come from, or others may care about.

For the most part, however, as attractive as the huge sums in remittances that flow to the region are to financial services companies, government or the private sector as a new source of productive investment, the reality is, as the MIF report shows, remittances first and foremost are and always will be about enabling the lives of family or friends to be lived above the poverty line.

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