EBS/13/14
Supplement 2
Correction 2

March 13, 2013

To: Members of the Executive Board

From: The Secretary

Subject: **Haiti—Staff Report for the 2012 Article IV Consultation and Fifth Review Under the Extended Credit Facility—Financial Sector Review**

The attached correction to EBS/13/14, Sup. 2 (2/25/13) has been provided by the staff:

Typographical Error

Page 26, footnote 27, line 3: for "substantial amount of poor and less educated refugees ('boat people') arriving." read "substantial amount of poor and less educated refugees arriving."

Questions may be referred to Mr. Loko (ext. 37611), Ms. Sulla (ext. 38766), and Mr. Brousseau (ext. 37983) in WHD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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49. The United States - Haiti corridor is the largest remittances' corridor. In 2011, more than 77 percent of the inflows of remittances were sent from the United States, according to BRH's statistics. Thus, Haiti is vulnerable to the US economic situation, especially to its unemployment rate. In 2009, in the midst of the financial crisis, inflows of remittances flattened for the first time. Other corridors include: France (6 percent), Canada (6 percent), DR (2 percent), and others (8 percent).

50. The corridor Dominican Republic - Haiti is reported to provide only three percent of the reported remittance volume but it is likely to be considerably larger. With an estimated number of 450,000 migrants, the Dominican Republic is a significant destination for Haitian migrants. The total volume of remittances coming from the Dominican Republic is estimated to be considerably larger that the reported three percent, as it is responsible for most of the informal remittances that enter the country. It is estimated that nearly 54 percent of remittances inflows from the Dominican Republic are sent to rural areas, while roughly 23 percent are sent to the capital and other urban areas (23 percent each).[22]

51. The high level of informality in the Dominican Republic – Haiti corridor limits the availability of data, while raising concerns about the security of transactions and the protection of consumers. According to industry experts, the main reasons behind higher levels of informality in DR-Haiti corridor are geographic proximity, lower amounts per transaction, the undocumented status of migrants and the existence of informal networks in rural areas in the Dominican Republic -Haiti corridor. Informality is not as high in the US - Haiti corridor due to its nature and the number of companies in the market, which has helped push costs down. In addition, the average reported transaction amounts are lower in the Dominican Republic - Haiti corridor. According to the latest information available on formal remittance flows, the average remittance transaction from the US to Haiti was USD 120, and in the Dominican Republic - Haiti corridor, USD 70. Informal remittances from the Dominican Republic are likely to be smaller than this amount.

52. The differences between the corridors are explained by different migration patterns. The Haitian Diaspora in the Dominican Republic mainly consists by Haitians living in border areas, working predominantly in sugar cane, the service industry and in the informal economy.[26] The number of the mostly undocumented immigrants looking for work in the Dominican Republic increased significantly since the 2010 Earthquake. On the other hand, in general, the Haitian Diaspora in the US has a better financial situation due to the higher level of formal education of many of the Haitian emigrants and better income opportunities.[27]. Another difference between the US and the Dominican Republic corridors is the profile of the recipients: Haitians in the US are sending money to their dependents: husband/wife (30 percent), parents (22 percent) and children (24 percent); while the beneficiaries of remittances from the Dominican republic are largely the parents (52 percent).

[26] Of note, there are roughly 6,500 of Haitian students in the Dominican Republic who rely on remittances from Haiti to pay for tuition and living costs, see: "Encuesta sobre gastos de estudiantes extranjeros en la Republica Dominicana" (Banco Central de la Republica Dominicana, 2012).

[27] Initially, Haitian migrants into the US were mainly upper and middle class families, whose economic interests were at risk due to the uncertain political and economic scenario. After the 1970s, the demographic profile of emigrants has changed significantly with a substantial amount of poor and less educated refugees ~~('boat people')~~ arriving.

53. Money transfer operators (MTOs) are the primary formal remittance service providers (RSPs). There are only seven RSPs partnering with 134 payout institutions to offer 411 payment locations. The market is highly concentrated with Western Union holding 48 percent of the payment points. With 30 percent of the payout locations, banks are the largest payer type. The network of MFIs (15 percent) is particularly important for reaching recipients living in more remote areas as 96 percent of their payout locations are located outside Port-au-Prince.

B. Policy Recommendations

a. Promoting competition in the market would be an important step to help reduce the costs of remittances and to improve the security of transactions. Over the last year, the average cost of sending funds to Haiti has decreased from USD 7.7 to 5.7 between the third quarter of 2011 and 2012. However, compared to other countries in the Caribbean and Central America, Haiti still has one of the highest remittance fees.

b. Assessing the impact of a recent remittance tax on remittances flows and considering alternatives to the current flat fee. A flat fee (such as the USD 1.5 tax on remittances from the Haitian Diaspora established in June 2011) could have negative implications for smaller transactions. In addition to reducing household income, a remittance tax usually reduces incentives to send remittances, drives resources underground and impedes efforts to link remittances to financial inclusion.

c. Studying in depth the structure and operation of the Haiti – Dominican Republic remittance corridor to better understand its characteristics and to design a strategy for its formalization. Based on the results on this analysis, the Government could establish mechanisms to issue licenses to sound providers and define appropriate policy measures and communication campaigns to deal with any problems.

d. Assessing the legal and regulatory framework of remittances in Haiti could contribute to improve transparency, competition and financial inclusion. The Law on Money Laundering, amended in 2008, and the new Banking Law of 2012 include provisions on AML, which improved the quality of information collected, IT systems and internal controls. However, the quality of information and transparency still need to be further improved. In addition, only recently, credit unions started providing remittance services.28 Given the broad branch network of credit unions and MFIs as well as the potential for financial inclusion, the Government should consider creating a mechanism to encourage credit unions and MFIs expand the offer of the remittance services. As done in many other countries, an in-depth review of all legal statutes concerning remittances (including AML/CFT), could help develop a coherent regulatory framework.

[28] In September 2011, 7 credit unions affiliated with Le Levier started a remittances pilot, through 15 service points, with the International Remittances Network (IRnet®), a platform owned and operated by the World Council of Credit Unions (WOCCU).