

Financial sovereignty requires Caribbean crypto currency solutions

The View from Europe

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Last month Facebook announced that it will roll out in 2020 a global digital currency to be known as Libra.

It is a decision that has profound implications for all financial institutions everywhere, raises new regulatory concerns for Central Banks and governments, and challenges Caribbean financial sovereignty.

In outline, Libra is intended to be a “global currency and financial infrastructure” powered by Facebook’s own encrypted blockchain technology. It will, once operational, offer banking through Calibra, a smartphone digital app, either on a standalone basis or through WhatsApp and Facebook Messenger.

What Facebook is proposing is a new global financial entity and a currency that will circumvent the problems of correspondent banking, exchange rate fluctuations and interoperability.

Partnered with PayPal, Visa, Uber, Coinbase, Lyft, Mastercard, Vodafone, eBay and Spotify and others, Facebook, says its new entity will create a global ‘stablecoin’ pegged to existing assets including the US Dollar or Euro, making transactions less volatile. It will be serviced by a collective of companies operating through a ‘Libra Association’, a not-for-profit Swiss based organisation, from where it says it will manage a ‘reserve Libra’ and validate transactions.

The effect will be to provide global access to digital banking to those who are unbanked or conventionally banked. It will enable through an electronic wallet immediate transfers and payments, potentially disrupting the existing financial infrastructure in the Caribbean and elsewhere, reducing for users the cost of commercial transactions, remittances and payments.

The impact could be significant.

In the Caribbean, studies indicate that although 65 per cent of the population is unbanked, mobile penetration stands at about 74 per cent of population. Other research suggests that Facebook Messenger and WhatsApp have on average a 37 per cent national penetration rate across the region as a whole, including Haiti and Cuba: a figure that rises to over 50 per cent in some anglophone nations.

Libra also has important geopolitical implications. It will likely spur nations including China and Russia that express an interest in an alternative reserve currency to the US Dollar, to develop alternative systems. Both nations are unwilling to cede control to any entity which at heart is US oriented, so may well choose to build on other experience such as that of the Chinese Alibaba Group which through Ant Financial already has 1bn users largely in the Asia-Pacific region.

Libra will undoubtedly also be challenged by commercial banks which are developing their own systems. More significantly, it will have to overcome regulatory hurdles, antitrust and information

privacy concerns, as the EU and other regulators expand existing investigations into the company's ability to control and digitally harvest user information and seek to breakup up its dominance.

Notwithstanding, the Caribbean is woefully unprepared for where Libra leads.

If Governments and their Central Banks are to retain some semblance of financial sovereignty, they need to move to adopt harmonised regulatory standards and pay much more attention to the interests of the region's established remittances transfer companies. They also need to consider, the potential role that recent start-ups like Bitt Inc and others might play, companies that understand the economic and political importance of regional financial services companies not being eclipsed by powerful external providers.

Bitt, a Barbados-based fintech company, envisages central banks issuing digital currencies, enabling eventually the free movement of capital across the region through bilateral digital currency swap agreements. It is hoping to build on its experience of working with the Eastern Caribbean Central Bank's (ECCB) digital currency pilot project to develop blockchain-based digital currencies for Central Banks and a retail transaction and remittances business.

Its CEO Rawdon Adams believes that as Caribbean currency unification is unlikely in the near future, such an approach would obviate existing correspondent banking arrangements for intra-regional transactions: a process which presently incurs significant fees, involves two or more banks in the US or elsewhere, is slow and has recently been subject to a growing number of politically-led compliance requirements.

To this end, the company is working with the Caribbean Development Bank, the IDB, CARICOM as well as with other interested fintech companies and academics to explore through a working group the creation of a 'Caribbean Settlement Network'. This, Bitt Inc suggests, would be an inclusive not-for-profit regional public entity that would facilitate Caribbean businesses and residents' ability to conduct intra-regional digital financial transactions instantly on smartphones or tablets at a fraction of the current cost of wire transfers or other remittance channels.

Quite separately, Cuba has also begun to study the possibility of using cryptocurrency for national and international commercial transactions. According to the country's President, a team from its Ministry of Economy and Prices and a group of academics are working together to explore the possibilities.

All this comes at a time when the issue of the withdrawal of correspondent banking services and de-risking by international banks seems to have fallen off the Caribbean agenda, going unmentioned in the communiqué issued following the recent CARICOM summit in St Lucia.

Early next year, Barbados' Prime Minister, Mia Mottley, is expected to announce new measures intended to unify the financial architecture of the Caribbean Single Market and Economy (CSME). Despite this, little has been said when it comes to revitalising the CSME and the regional integration process about the role of digital currencies for regional transactions, and the benefit they might bring to companies and ordinary citizens.

Ms Mottley is known to be interested in the topic, but other Caribbean governments also need to recognise the implied challenge that crypto currencies will have in future on the region's financial sovereignty.

Facebook's announcement suggests that there is a need to rapidly explore and develop Caribbean owned digital currency solutions.

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