

# *Financial Institutions Can Play Leading Role on Poverty Reduction*

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There's a lot of talk these days about global poverty. The UN had its big summit in New York a couple weeks ago to discuss the new sustainable development goals for the year 2030. The IMF and World Bank met at Lima, and the main agenda was global poverty.

Let's look at some interesting statistics. In a country like Haiti remittance, which is people abroad ending money to their families and friends, has a much greater impact on the local economy than foreign aid for development. The Haitians, for example, who are working outside of the country, 2.2 million of them and about about 20% of the population, are sending back what amounts to 25% of its GDP to Haiti in the form of private aid to their families. Concrete payments. It now exceeds all foreign aid. It exceeds all of Haiti's exports. It's the largest single source of foreign capital for Haiti.

Worldwide, remittances have grown to about \$450 billion. This is three times the amount of foreign aid that is provided to developing countries that is in the order of \$135 billion. We are talking about private

grants to friends and families.

The problem is that when we look closely at this we find that there is a remittance cartel. This is led by a big company called Western Union, which recently acquired Moneygram, a direct competitor, and they work with local banks.

In Haiti's case they have a consortium of six banks that dominate this market. And they're charging Haitians up to 13% on every dollar that is sent back.

Sending a \$100 payment to Haiti will cost \$13. Dollars. And you want to spend the money in Haitian local currency, the gourde, you have to go through another exchange transaction. So the total cost is in the order of 15%. This is about three or four times what it costs these companies to make these payments. That's outrageous.

It's the equivalent of a private tax. These private companies, the banks and Western Union, are collecting it from the poorest people on the planet. In the case of Haiti, this is bigger than the entire tax budget which is 10% of GDP.

How would it be possible to get around this?

Now Pope Francis has been trying to reform the Vatican Bank. Why not have the Vatican Bank become an international bank. Basically to work with other financial institutions. There's more than 2.5 billion people on the planet who do not have bank accounts. Some of the poorest people in the world. And they could really benefit from having bank accounts. Not only for the sake of reducing the cost of remittances, but also to have savings to be able to avoid the risks, dealing so much in currency.

Catholics are well-represented throughout the developing world. They could set up bank accounts for schools and hospitals, and places that could receive remittance payments on the behalf of the poor and if they worked together with other private foundations and other religions, they might well provide a solution to this capitalist rip-off.

Again, in Kenya, they have successfully lowered the cost of remittances below 2% by using digital phone technology. Mobile technology. There's more than 7 billion cell phones in the world now. In Haiti's case you have 70% of the population has cell phones, but only 20 percent have bank accounts.

It is possible to use e-wallet technology to transfers cash to poor Haitians, or to schools. This was tried in Haiti, but it was blocked by the remittance cartel.

Western Union has business in almost every developing country. and they're extracting exorbitant profits from the system.

But the other key players in this are other financial institutions that can also help out here. So if you have a Citibank account in New York you can transfer money to Haiti's Citibank account in Port-au-Prince for a 1 percent fee. It is essential that banks open up so that poor people can also get access to those services.

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