

# **It's poor people's money that makes the wealthy rich**

**About the scandalous gains by banks and other financial institutions profiting from the revenues and money transfers of emigrants**

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Francine Mestrum in Geneva, Oct 2006(photo M.B.)

Francine Mestrum is a Belgian social scientist and specialist on development issues. Her publications include *Mondialisation et pauvreté. De l'utilité de la pauvreté dans le nouvel ordre mondial* (L'Harmattan 2002).

Mestrum is active in the international movement Attac (Association to Tax financial Transactions to Aid Citizens). This article explains the idea of a campaign about 'remittances', that is the money migrant workers transfer to their home countries. Attac Flanders, Italy and Spain plan to launch a campaign about the remittances at the WSF in Nairobi. The article has been translated from French by Harriet Leeck.

About ten years ago I was walking on an almost virginal beach on the Atlantic coast of Honduras. Suddenly I saw an African village on the beach! A maze of lanes and huts, with women who prepared food in front of their doors and children playing. And in the centre of these huts, there were some stone-built houses. Houses built with the money of the emigrants who live in New York, it was explained to me. Garifunas – which represents the Black population of Honduras – is a significant community of emigrants in New York. And it sends money regularly to its village of origin. This money makes it possible to build `real' houses. On the beach!

A few years now, this money, sent by emigrants to their countries of origin, has been the subject of lively discussions in all the international organizations. That is explained by the discovery that they constitute actually a rather important and very stable financial source going in the direction of developing countries. And each year this financial flow increases.

According to estimates by the World Bank, these transfers ('remittances') rose in 2005 to 232 billion dollars. Not less than 167 billion dollars were headed towards developing countries. This amount doubled in five years. It is also the double of what the sum total of official development aid represents. And it is eleven times the amount of net transfers directed towards developing countries. Moreover, according to the World Bank, it is necessary to add about 50% to this, to include informal 'transfers': money which is transferred by friends or the family, or systems such as 'hawala'.

The money is not primarily intended for the poorest countries. In fact, sub-Saharan Africa receives less than the other countries. Nevertheless, these amounts can play an important part in the reduction of poverty. This is very interesting, because this way, the World Bank is bound to admit that monetary transfers can contribute to reducing paucity, an element that was not paramount in its global strategy for fighting poverty.

It is obvious that these money transfers by emigrants can potentially contribute to reducing poverty, but only provided that the migrants come from poor families. An Indian engineer in the United States, transferring money, will help his family of the middle class, but it will not reduce poverty. A Mexican peasant, picking fruit in the United States and sending money to his family will reduce poverty directly. According to World Bank sources, poverty in Guatemala has thus been reduced by 20% and in Uganda by 11%.

The money received by poor families is used for consumer spending, food and clothing. After that come health care and education. More than just the number of poor people, actual poverty is thus reduced.

At this point in time when poverty reduction has become more of a priority for the development of co-operation, the attention that international organizations pay to these financial transactions is thus easily explained. It should nevertheless be mentioned that there are other considerations at play here, too, that are not always as laudable.

First of all, following the UN conference in Monterrey in 2002, there began a somewhat deeper probing to find 'innovative mechanisms for the financing of development'. There had been deliberations about international taxation - a Tobin tax or the tax on plane tickets that was recently introduced in France. There were also discussions of a tax on immigrants' transfers, but this idea was quickly abandoned, given the already very high prices of these transfers and the fact that they were in the majority of cases about incomes that had already been taxed in the

country where they had been earned.

Secondly, following the attacks on September 11, 2001, the United States want stricter control on financial transactions, given that they could be used to finance terrorism. Hezbollah recently stated having received money from Lebanese emigrants in Argentina. This is something that the United States would like to avoid. The idea is interesting insofar as it enables the control of financial flows of dirty or illegal money.

A third reason is the desire to eliminate informal transfers as much as possible. The idea is to facilitate and simplify the life of emigrants, by facilitating a sort of liberalization of financial services. In fact, if banks in the developed countries have easier access to the markets of developing countries, then that leads to greater control of financial transactions and to integrating an additional segment into the capitalist system.

A fourth reason is that one wants, one way or another, to use this money for 'development'. All organizations declare that these transfers can never replace development aid, and that they constitute private means. There are however lots of ideas bandied about suggesting ways to use those private means towards productive ends, and not just for consumption. In Mexico, for example, the State, the regions and the communities donate three dollars for each dollar that comes into the country and that is then invested in local development funds. However, in spite of this generosity, the families often prefer to use the money as they see fit.

Finally, a fifth reason is that one would want money transfers to be less expensive. This is the principal argument of all liberalization efforts. In this specific case, the argument is correct because the amounts that are being charged for these transfers are scandalously high. Admittedly, they were lowered in the past years, but on average the transfer of small amounts costs between 10 and 15%. It's there that the World Bank pleads for substantially higher competitiveness.

A transfer of 100 dollars from Texas to Mexico costs the emigrant 18.99 dollars. A transfer of 100 Euro from Italy towards Morocco costs 14.99 Euro. Senegalese emigrants in Belgium transfer on average 154 Euro per month to their family, Congolese emigrants average 78 Euro per month. In the Benelux countries, transfers between 100 and 200 Euro cost 17 Euro.

In reality very few banks and financial institutions effect money transfers of amounts that are relatively low. But according to the World Bank, the received costs are always quite higher than the real costs. The major players in this market are Western Union (with a market share of 13%), MoneyGram, Vigo, Dolex and Bank of America. In Belgium it is primarily Western Union operating there, in partnership with the Post Office. This formula is, according to the World Bank, the most expensive. Another solution was introduced in the Philippines: emigrants can transfer money to their families at lower costs with the help of their mobile telephone!

More competitiveness is a consideration, but not necessarily the ideal

solution. An interesting alternative could be to directly entrust the Post Office, an institution represented in all the countries of the world and a global organization, with these transfers. Free counters could be reserved for the money transfers of emigrants. One could also try to make informal arrangements more transparent because they are in any case by far the least expensive. Money transfers towards criminal or terrorist ends are also quite easily done in formal systems such as in Clearstream, etc.

Whatever the preferred solution, the exorbitant costs which are currently taken from emigrant workers are unacceptable. Attac protests against the exploitation of people who are already very vulnerable in our societies.

In this document, we do not deal with the issue of migration itself, as this involves another discussion. We limit ourselves here to the question of those individuals who live and work in our countries and who want to help their families that remain in their country of origin. It is those for whom their financial assistance is intended, and not banks and financial institutions.

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