Center for Island Pacific Research and Development

CIPRD Policy Briefs

August 22, 2007
No. 12

Migrating to Prosperity – Remittances in the Pacific

This brief, which draws on Richard Brown's expertise in Pacific remittances and Patrick Kilby's work on migration and development policy, proposes that well constructed labour mobility programs and well managed remittances offer a path to prosperity for the Pacific.

When Bob Zoellick called for Australia to open its borders to our Pacific neighbours, a row erupted. Pacific countries called for Australia to start a seasonal labour scheme, while Australia seems determined to resist amidst claims that such a scheme could create an underclass of lower-paid workers and would result in visa over-stayers.

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But when Mr Zoellick said that "labour mobility is absolutely critical to the long-term development of the South Pacific," he was simply articulating what development experts already know – remittances and migration are fundamental to developing country prosperity. The World Bank estimates that remittances are now twice as large as foreign aid and foreign investment combined. Around 200 million people live outside their country of birth for social, economic, environmental or political reasons. Around US $204 billion of remittances are being received by developing countries through formal channels, and far more is likely to be entering through informal transfers – sent through friends, carried in when returning home for visits or simply being sent through the mail.

The effect on developing country economies and local communities is significant. Every dollar of remittances sent into poor communities generates up to three dollars of economic activity. The World Bank estimates that a 10 per cent rise in remittances leads to a two per cent fall in poverty. For many poor families, over half their income comes from remittances.

The World Bank believes that the horticultural industry in Australia has the potential to employ 16,000 to 24,000 guest workers annually, with up to 38,000 individuals during peak periods. But the World Bank also estimates there will be over 4.5 million working-age citizens of Pacific island countries not employed by the formal sector in 2015 – clearly, a seasonal labour scheme is only the tip of the iceberg needed to help these people to find productive and sustainable employment.

POLICY RECOMMENDATIONS

1. ENCOURAGE A REMITTANCE CULTURE

Richard Brown's work shows unambiguously that remittances reduce poverty and improve income distribution. The Australian aid program needs to recognize the importance of remittances to developing countries and incorporate them into poverty reduction strategies. Programs that help workers send remittances, such as the www.sendmoneyhome.org website, should be encouraged under the White Paper's Accelerating Economic Growth initiative.

2. PROVIDE AVENUES FOR SHORT-TERM LABOUR MOBILITY

The New Zealand Recognised Seasonal Employer program will demonstrate to Australia how a well-managed seasonal labour program can work. Australia should learn from this program and create similar opportunities for the Pacific to provide trained, reliable staff for the agriculture and horticulture industries.

3. PROVIDE FINANCIAL LITERACY TRAINING FOR PACIFIC WORKERS IN AUSTRALIA

Migrant workers are often intimidated by financial institutions, and are poorly informed about the services they provide. A focused program of financial literacy training that reaches Pacific communities in Sydney and Brisbane will help workers manage their money and find the best ways of helping their families at home and abroad.

4. LOWER THE COST OF REMITTANCES

Encourage the private sector in Australia to focus on the costs of sending remittances, possibly as part of their Corporate Social Responsibility programs. A substantial cut in the cost of remittances will see more money reaching poor families. Workers living in Australia also need insurance, credit cards and term deposit accounts – by focusing on the needs of remitters, banks have an opportunity to provide a wide range of services to new, but inexperienced, customers.

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Australia's concerns regarding visa over-stayers may have some substance. A distinctive feature of international migration from the Pacific is that migrants have typically tended to be settlers, rather than temporary migrants, even though they may express (and sometimes act on) intentions to return home. Unlike countries such as the Philippines or Pakistan, where most migrants are on short-term contracts, permanent migration is a feature of Fiji (mainly Indo-Fijians) and especially Tonga.

But there is a growing demand for more temporary, contract migrants. The Gulf countries have been particularly active in attracting growing number of temporary migrants from Fiji, mainly Indigenous Fijians, and growing labour-market pressures have seen increased short term contract labour opportunities in Australia and New Zealand for both skilled and unskilled work.

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Household surveys of remittance recipients in Fiji and Tonga form the basis of analytical work undertaken by Richard Brown at the University of Queensland. Tonga has experienced over 40 years of intensive remittances-motivated migration, and remittances form a significant part of the Tongan economy. Fiji, in contrast, is the new face of labour mobility, with labour-motivated migration a more recent phenomenon. But already migration and remittances have grown in significance, as has the awareness of their importance on the part of the government and financial sector. Today, as many as a third of all households in Fiji had at least one overseas migrant (compared with 60% in Tonga), and 43% of households receive remittances (compared with 90% in Tonga).

There is conflicting evidence in the literature on the impact of remittances, with some finding that remittances assist in escaping poverty while others find that they reinforce existing inequalities. It is likely that the impact of remittances evolves over time. In the earlier stages of a country's migration experience, "middle-class" migrants – nurses, doctors, professionals – are more likely to work overseas and it is their families that receive most of the remittances. But, as migration networks develop and migration becomes more widespread among all income groups, remittances to lower income households increase, and these remittances are likely to be much larger compared to the income their families receive from other sources.

Remittances are critical to improving the lives of the poor. In Tonga, remittances are used to pay school fees, set up micro-enterprises such as petty trade, and make a significant contribution to savings and investment.

In Fiji, relatively new flows of remittances are allowing households to reallocate their resources and helping them to move away from traditional subsistence living towards other, business-oriented activities.

Remittances are very stable over time. As such, they can be a lifeline for governments facing a crisis. When a shock hits an economy, be it a natural disaster or an economic problem, workers abroad respond by sending money home to help their families through the difficult times. With remittances now so vital to many economies, developing country governments are encouraging central banks to institute policies that encourage remittance flows and are creating departments to respond to the needs of foreign-based workers.

An important part of encouraging remittance flows is reducing the cost of sending remittances home, hence making it more attractive for foreign workers to send money frequently and through formal channels. But financial transfers remain very expensive in the Pacific. These high costs are unlikely to reflect the small size of the market because examples from comparable countries elsewhere find costs to be far lower. For example, Tonga receives approximately the same level of total remittances as Ghana (US $65 million in 2003), but the cost of sending money to Ghana is one-third of the cost to Tonga.

In part, this can be attributed to the focus of important donors on African remittances. The British Department for International Development has a successful program to reduce the costs of sending remittances. Its website www.sendmoneyhome.org publishes the cost of sending money via different money transfer organizations, allowing remitters to comparison shop. As a result of this publicity, the cost of transfers has fallen by up to 30 percent in the countries listed.

Financial literacy education can also help Pacific islanders find cheaper ways to send money home. The cost of money transfers from New Zealand to Tonga range from 15-20 percent when sending bank drafts or using money transfer organizations, but are only four percent when the recipient uses an Automatic Teller Machine (ATM) to withdraw money via a joint account set up by the remitter. New Zealand has made financial literacy training part of its labour mobility program.

Remittances will become increasingly important to the Pacific over the next decades, and migration may offer the only employment opportunities for their growing population. Australia can carefully and considerately help the Pacific by providing both opportunities for employment and assistance with managing remittances.