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Rise in remittances to Pacific island countries

T. K. JAYARAMAN

December is Santa's season!

Good tidings and gifts are part of the season.

The World Bank's Migration and Remittances Unit has just announced that in 2012 there has been an increase of 6.5 percent in remittances to developing countries. The report says the worldwide remittances are US\$534 billion and flows to developing countries are US\$406 billion this year.

That would be music to the ears of governments of Pacific island countries. Remittance inflows are important as they are three times the size of foreign aid.

They supplement national savings. Being in foreign exchange, remittances are real resources. They enable the recipient country to import more food, fuel and intermediate goods to capital goods. Aside from favourable effects on development and growth in GDP, remittances reduce the poverty level of the recipient families and foster human and financial capital.

Above all, the recipient country's creditworthiness is also enhanced by steady inflows of remittances.

Recession and the falling US\$

Six weeks ago, Governor of National Reserve Bank of Tonga told a Canberra audience that she was concerned that economic record of one percent growth in the last decade would be further marred by declines in remittance flows.

Since 2008, Tonga's inward remittances decreased by US\$100 million equivalent to almost 15 percent of GDP in 2011. Remittances used to be around 30 percent of Tonga's GDP. In fact, the two top most remittance recipient countries in terms of percentages of GDP have been Samoa and Tonga during 2001-2006.

The decline in remittances is attributed to two factors: the global economic recession and the appreciating Pa'anga (the Tongan currency) against the American dollar.

The global recession affected industrialised countries including America and New Zealand, and Australia to a lesser extent. Tongans working in advanced countries have been finding it hard to maintain the same rate of remittance flows as in the past, as they were hit hard by recession.

Remittances which are denominated in the US dollar have been fetching less in terms of Pa'anga. The US dollar has weakened considerably due to its benign neglect by the US central bank.

World Bank predicts global remittances would be US \$685 billion in 2015; and remittances to developing countries would grow by 7.9 per cent in 2013, 10.1 per cent in 2014 and 10.7 per cent in 2015 to reach an estimated figure of \$534 billion in 2015.

Top recipients of inward remittance for 2012 are India (US\$70 billion), China (US\$66 billion), the Philippines and Mexico (US\$24 billion each), and Nigeria (\$21 billion), followed by others.

In terms of percentages of GDP, the top recipients in 2011 were Tajikistan (47 per cent), Liberia (31 per cent), Kyrgyz Republic (29 per cent), Lesotho (27 per cent), Moldova (23 per cent), Nepal (22 per cent), and Samoa (21 per cent) and Tonga (20 per cent).

Costs of sending remittances

The downward risks to remittances are two: worsening of global economic conditions; and costs of sending remittances to developing countries. While the first one is dealt with by the countries concerned, the second risk is being tackled by coordinated efforts of banking sector and bi-lateral governments.

The cost of sending remittances from Australia and NZ to the Pacific Islands, such as Fiji and Samoa was high at about 12 percent. Various initiatives have been taken including the introduction in 2009 of a website by Australia and NZ, www.sendmoneypacific.org, which enables senders to compare the cost of sending remittances by different channels.

The Vodafone MPAISA introduced its first international remittances to allow mobile phone users in Fiji to receive money from Australia and NZ. Digicel also allows customers in Australia and New Zealand to send remittances by mobile phone to Fiji, Tonga, and Samoa.

In 2009, the average cost of sending US\$200 from Australia to Fiji was US\$27.57, or 13.8 percent. It decreased in 2012 and is now about US\$19.46 or 9.7 percent.

Fiji's inward remittances were low in terms of percentage of GDP (less than 6 percent) but were large in absolute amounts (US\$183.3 million in 2010) compared to Samoa (US\$143.3 million) and Tonga (US\$84.6 million).

Measures including the exchange of skilled personnel under the Melanesian Spearhead Group (MSG) Skills Movement Scheme would provide job opportunities for Fiji's labour force in other MSG countries. This would not only promote closer relations but also enable MSG countries meeting shortages in specific areas. It has been estimated there would be 1200 jobs available for Fijian workforce in MSG countries.

That augurs well for growth in Fiji's inward remittances too!

Dr TK Jayaraman is Professor of Economics, Fiji National University, Nasinu Campus.