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## The Use and Impact of Remittances

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The majority of studies of remittance use in the Pacific suggest that despite considerable diversity they primarily are spent on consumption. A World Bank report on Tonga stated that, “Large private remittances and official grant inflows have enhanced consumption and resulted in negative gross domestic savings equivalent to nearly a quarter of gross domestic product” (World Bank 1993). Prasad similarly argued that, “The strategy (or non-strategy) of depending on remittances provides crucial revenue and contributes to the balance of payments in small countries, but creates a consumption society, where productive economic activities hardly exist” (2003). There are, however, alternative perceptions. It is not easy to assess the extent to which higher household incomes as a result of remittances affect patterns of consumption and savings at the margin, and only one study has sought to address this issue in any detail (Walker and Brown 1995). The use of remittances is also a function of volume and a variety of other factors. The remainder of this section therefore discusses migrants’ expressed or perceived uses for their remittances rather than analyzing actual uses.

### **DEBT REPAYMENT**

It is not surprising that remittances are primarily used for consumption given the range of barriers to using them for investment (Ahlburg 1991; Connell 1980), yet in reality, they have different and distinct uses. Migration can be costly hence remittances are often first used to repay debts that migrants (and their families) incurred in moving (Tongamoia 1987). This use emphasizes social obligations. In this sense at least the first wave of remittances constitutes informal loan arrangements within families (Poirine 1997; Brown and Poirine 2004) and is far from being an incidental or random by product of migration.

In parts of Papua New Guinea, migrants even repay their parents for the money they spent educating them (Morauta 1985). Elsewhere in Papua New Guinea, Boyd has argued that, “Parents and older siblings stake their claims on the responsibility they shouldered in rearing a future migrant to adulthood (1990). Even more precisely,

Ponam [island] is not a society passively allowing or suffering the migration of its members. Rather it is a society which actively regulates this migration, and it does so in a way which helps secure a substantial remittance income [hence people say] ‘Children are our garden and we survive by eating the fruit’ (Carrier 1984).

On Ponam and on other islands like Nanumea in Tuvalu, control of both migration and population growth thus has a conscious economic rationality equating an economic return (remittances) with an economic investment (child rearing for migration). This is more appropriately labor export rather than merely migration.

## **CONSUMPTION**

### **Food**

Most studies suggest that food is one of the main items purchased with remittances. Expenditure on food, much of which is imported, has in fact become so extensive that the cost of food imports is considerable in some island states. Nowhere is this more evident than on the small island of Ware, Papua New Guinea where households spent fully 88% of all remittance income on food (Hayes 1993). A similar situation was true on the outlying Fijian island of Rotuma (Rensel 1993). In Tuvalu, two thirds of respondents claimed that food was the most important use and about half of all remittance income was spent on it with additional expenditures for electricity for the refrigerators that were consequently necessary (Clark 2004). Much the same is true in Kiribati where almost all remittances are used for basic needs, including food and clothes, and what is left is saved for almost obligatory community feasts (Borovnik 2004). In both Kiribati and Tuvalu, expenditure on processed food, especially tinned fish and rice, increases immediately after the arrival of remittances (Dennis 2003). In each of these cases, the strong focus on basic needs, especially food, is due in part to poverty on outer islands and in part to the exceptionally limited alternatives for using remittances. National estimates for Tonga suggested that about 70% of remittances was spent on imported tinned and preserved foods, beverages, and tobacco (Tongamoia 1987).

### **Goods**

There has been a transition from using remittances to purchase basics such as food, to spending them on items such as outboard motors and

construction materials. More recent studies have demonstrated not only that remittances are more likely to be used for modern goods such as sound systems rather than for basic needs, but that as in the case of Fijians in the United States these goods include telephones, televisions, and video systems. Indeed in this case and probably others, migrants have been instrumental in connecting their families in Fiji to themselves and the wider world by financing the installation of telephone services (Scott 2003). Despite the massive growth of the Internet and e-mail in the Pacific islands, there is no evidence yet that remittances have been used to purchase computer systems, but this too may be due to the lack of recent studies.

## **HOUSING**

The construction or purchase of improved housing is sometimes perceived as a form of consumption rather than as an investment or a welfare gain. Overall, expenditure on improved housing contributes to welfare, security, prestige, and income generation. Moreover, to a greater extent than other forms of expenditure, it has a multiplier effect as it provides employment and expands other local industries and services. Using remittances for housing is so widespread in some countries such as Tonga that casual inspection of a village shows which households have migrants overseas. In the outer island of Falahola, the largest and most regular remittances were spent on construction materials (James 1991). In Samoa, housing improvements along with small-scale luxury consumption and church donations represent an investment in security (Shankman 1976). In several places including the Cook Islands (Loomis 1990), houses built with remittances are rented out and become real investments.

## **SAVINGS**

To date there has been very little evidence of remittances directly contributing to savings or to other financial investments (Ahlburg 1991; Brown and Connell 1993). However, in the case of Tuvaluan seafarers where actual use is more transparent and where return migration is necessary, as much as 37% of remittances went into personal bank accounts rather than to partners or families (Dennis 2003). In Fusi, Samoa, villagers argued that the amount remitted was too small to meet anything other than its immediate purpose and that any surplus was absorbed by life crises (Muliaina 2001). In Falahola, Tonga, however, "...in remitting to their wives, who bank most of the funds for the family's future, the young husbands are sending money to themselves" (James 1991). Kiribati seafarers may also hold remittances for investment

instead of spending them immediately (Borovnik 2003). These kinds of situations are probably more common than is otherwise recorded, though in general, savings rates are low in the Pacific islands.

Households in Tonga that received remittances saved more than those that did not, but as would be expected, the inclination to save remittances was no different than the inclination to save total income since remittances are just one source of income among several (Walker and Brown 1995). There is also growing evidence that money that might have been remitted is saved in the host countries for use at a later date. Moreover, for at least Samoa and Tonga, remittances and savings are both linked to interest rates (Foster 1995). Thus, despite the focus that much of the existing literature gives to the social context and impact of remittances, there are clear indications that both senders and recipients behave in an economically rational manner.

## **AIR FARES AND EDUCATION**

In a different sense, remittances are invested in the future in two ways. On one hand, they are used to purchase airline tickets for other family members. Some two thirds of Tongan remitters in Auckland claimed to have paid for at least one airfare for a relative, and some migrants had paid for up to ten. Similarly, 75% of Samoan and 33% of Tongan households had had airfares paid by a migrant family member during 1992 (Brown 1995). The recipients of airfares were broadly similar to the recipients of remittances (Fuka 1985; Morton Lee 2004a).

Remittances for school fees are also important and tend to have a standard value. Migrants without younger siblings in school do not usually send any. After food, education was the most important use of remittances in Tuvalu and probably in Kiribati since education is specifically regarded as an investment in the future (Clark 2004; Borovnik 2003). In these ways and in others, remittances support the migration-remittance nexus by ensuring that other family members have the opportunity to benefit from education and migration.

## **INVESTMENT**

Remittances are used for various forms of investment sometimes in agriculture but more frequently in the service sector especially for shops and transport businesses. Nevertheless, there is still a general belief that, as in Samoa, "...remittances were not used for capital investment or, to be more specific, for speculative capital investment" (Shankman 1976). Shankman went on to observe that, "...migration was a far more lucrative investment

than anything available in the village” (1976), hence the conservative use of remittances reflected limited investment opportunities especially in productive sectors. Since that early study there is, however, evidence there and elsewhere that remittances have constituted the start-up money for many shopkeepers and other small entrepreneurs. Half of all market vendors in Apia, Samoa, all of whom received remittances, claimed that some had been used as capital for the purchase of seeds, fertilizer, and tools to produce food to sell (Muliaina 2001). Walker and Brown (1995) found that a significant proportion of remittances received by Samoan and Tongan households was used for business and farm investments. Apart from this, there is limited evidence that any investment of remittance money has had a lasting impact on future income generation and employment, but this may be because many of the studies were done in relatively remote locations.

In most places, attempts have been made to invest remittances. Even on a small outer island like Falahola (Tonga), remittances were used for economic ventures ranging from agriculture to tourism, though remoteness limited their success (James 1991). Here at least and no doubt elsewhere, remittances were, “...highly individual and many are concerned with capital accumulation” (James 1993b). Throughout Tonga, the increased use of remittances for investment in fishing, agriculture, shops, and transport businesses attests to the shift from consumption to investment (Fa'amani 1995; Walker and Brown 1995) that has occurred in part as consumption goals have been satisfied. This transition has also occurred in parts of rural Papua New Guinea (Boyd 1990) and Pakistan (Helweg 1983) and in several parts of the eastern Caribbean in similar small island environments (Connell and Conway 2000). While the transition may benefit economic development, at least one anthropologist (Small 1997) has raised concerns that it might also further emphasize intra-village (and country) economic inequalities and hamper social development.

Where there are opportunities and where consumption goals have been satisfied, remittances are used for investment, to stimulate entrepreneurial and trading activity, to increase formal sector employment, and to produce multiplier effects. The expansion of the Nuku'alofa flea market in Tonga since the mid-1980s is an example. Many households used remittances in kind as investments in their market stalls, and these stalls sometimes enabled economic diversification. (Significantly, the flea market was forced to move three times within a few years partly because of opposition from the private sector which felt that a “black economy” of this kind might undermine the formal sector). This indicates a shift away from using remittances for immediate consumption toward increasing their returns through entrepreneurial activity (Brown and Connell 1993). Moreover, James noted

from a parallel perspective that, “It has been argued that remittances take away the motivation of locals to produce, but the facts of local entrepreneurship seem to contradict this since large consignments of local products. . . are sent to relatives overseas for sale among the Polynesian population” (1991).

In certain contexts there is also an urban bias in the use of remittances. In both Kiribati and Tuvalu, though overseas jobs are rotated among islands so that residents of outer islands have access, one outcome is that the immediate families of some of the migrants move into the capital. Moreover, when seafarers return, a substantial proportion of their income is spent either in South Tarawa or Funafuti rather than on the outer islands. In Kiribati at least the majority is spent in South Tarawa (Clark 2004; Borovnik 2003). Indeed in certain circumstances relatives migrate into town with the specific objective of laying claim to some of the overseas earnings.

## **COMMUNITY USE**

A proportion of remittances is invariably used for community objectives such as support for social organizations and institutions, usually churches. Both in Samoa and Tonga (Shankman 1976), substantial sums have been remitted directly or indirectly for church construction and maintenance, pastors’ incomes, and related activities. This also appears to be the most important goal for remittances sent by Fijians in the United States (Scott 2003). Brown (1995) found that 41 and 18% of Samoan and Tongan migrants’ remittances, respectively, were sent to nonhousehold institutions including the high schools and primary schools run by the churches (Tongamoa 1987; Faeamani 1995; James 1997; Sudo, 1997). On the Tongan island of Ha’ano, the most significant correlation between remittances and other factors was with church expenditure (Evans 2001). In Tonga, most gifts to the church are sent to parents or close relatives to be given in the annual, highly competitive “free-gifting” ceremony, the *misinale*. The amount of the donation is announced in church and the whole family derives prestige (or, alternatively, notoriety and shame) from the extremely visible public presentation.

Remittances are also directed to local sporting associations, women’s groups, specific local development projects, scholarships and so on, which in many cases point to wider social gains. In a sense therefore, Tongans overseas support Tonga by sending money for various, usually village projects like schools or water systems and public occasions. “Overseas Tongans might repair the local island church, or contribute to the centennial celebration of their high school, or pay for the school fees of a relative who has passed her exams for the next grade level” (Small 1997). Samoans have similarly

contributed to a range of village facilities including schools, dispensaries, fish traps, access roads, and electricity generating plants (Macpherson 2004). However, in Tonga at least, sending money through the family for public presentation emphasized that part of the rationale was to give the family status in the community as pious, generous, prosperous and “properly Tongan” and only secondarily to support the social group (James 1997). In Tuvalu, remittance recipients are expected to support the relevant community island fund, and women contributed to this as a matter of pride even when they lived on the capital island of Funafuti. There were, however, household benefits to this since it demonstrated that the seafarer acknowledged the people who were taking care of his land until he retired from the sea (Clark 2004).

## **SOCIAL USES**

Remittances are used for a variety of social purposes including meeting the high costs of weddings, funerals, and other ceremonies but also for the costs of education that may lead to long-term economic gains. In most countries, contributions to significant life-cycle events are essential for migrants to retain a basic stake in home society, and requests are very often specifically for such functions. Samoan migrants have also contributed to families’ and parents’ attempts to enhance their status by supporting their bids to obtain chiefly titles and parliamentary seats (So’o 1998). It is particularly through these kinds of social expenditures that migrants emphasize their continued stake in and commitment to the home society.

Unequivocally, investment in flexible human capital is a most important and highly valued use of remittances, especially in circumstances where the lack of skilled individuals is a constraint to development. Indeed, much of the literature on migration has neglected the massive social significance of remittances by emphasizing their more obvious economic effects. Walker and Brown (1995) stated that for Samoa and Tonga, social uses predominated in 63 and 79% of households, respectively. Overall, nearly 10% was used for such purposes.

In places where remittances constitute an important part of total household income, it can be expected that they will also have a significant impact on its distribution though there is no consensus on how remittances actually affect distribution. This is not altogether surprising given the variety of forms, channels, and uses of remittances, both formal and informal, and the lack of good data on household income and expenditure. However, until relatively recently, the dominant view was that remittances were likely to reinforce income inequality by enhancing the capacity of recipient households to invest in additional migration, education, and other income-generating assets

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(Connell 1980; Shankman, 1976). Some village studies have demonstrated considerable income inequality (Hardaker *et al.* 1987) and have suggested that this is partly a result of remittance flows (Gailey 1992a; Small 1997). However, more recent empirical studies based on survey data have tended to challenge this view. From independent data sources, Ahlburg (1991, 1995) and Brown (1995) found that distribution of household income with remittances was less skewed than the distribution without remittances. Furthermore, other recent studies have indicated that inequality is a function of many factors of which the migration-remittance nexus may be an unimportant or tiny part (Evans 2001; Muliaina 2001; Halatuituia 2001).