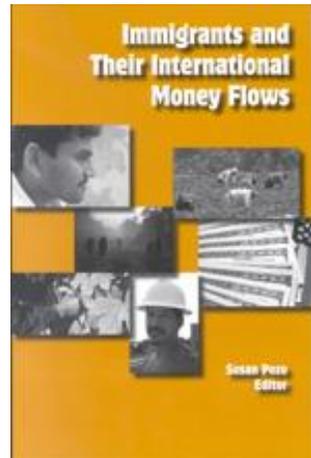

Upjohn Institute Press

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World Bank



Chapter 6 (pp. 99-122) in:

Immigrants and Their International Money Flows

Susan Pozo, ed.

Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2007

DOI: 10.17848/9781429492072.ch6

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6

Remittances in the Pacific

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Small island states have among the highest rates of migration in the world (Table 6.1).¹ The average island country with a population of under 1.5 million has 17 percent of all its citizens living overseas, and several of these island nations have more than 30 percent of their citizens abroad. Many of the Pacific Islands follow this pattern; for instance, approximately one-third of Samoa's and Tonga's populations live in another country. Some of the smallest islands in the Pacific have even more dramatic migration rates: more individuals born in Niue and Tokelau now live in New Zealand than on either of these two islands.² Together with high migration rates one finds heavy dependence on remittances in many of these countries.³ For the year 2004, Tonga, the main subject of this chapter, had remittances equal to 39 percent of GDP, the highest measured rate in the world.

The growing size of remittances around the world has led researchers to give renewed attention to their importance for development and has prompted officials to engage in discussion of policies designed to increase the benefits of migration (Global Commission on International Migration 2005; World Bank 2005). One question that can arise in these discussions is whether there is scope for countries such as Tonga, which already receives large remittance flows, to further increase the benefits from remittances. This chapter will use a recently conducted survey of Tongan migrants in New Zealand, and of Tongans in Tonga, to argue that there is still a sizable scope for policies designed to lower the costs of sending money and improve the knowledge of migrants and their families about remittance products.

The survey I use here collects much more detailed information on remittance transactions than is commonly the case. I use this information to provide a description of some aspects of remittances that are typically missed in standard surveys; these additional aspects have im-

Table 6.1 Migration and Remittance Rates for Small Islands

	Population (000s)	% migrants	Remittances (% GDP)	Main destination
Africa				
Cape Verde	470	18.7	11.5	Portugal
Comoros	600	3.2	3.8	France
Mauritius	1,222	6.9	4.0	France
Sao Tome and Principe	157	8.5	1.7	Portugal
Seychelles	84	8.7	0.3	United Kingdom
Caribbean				
Antigua and Barbuda	79	28.9	1.5	United States
Dominica	71	32.0	1.6	United States
Grenada	195	23.8	5.3	United States
St. Kitts and Nevis	47	38.5	1.1	United States
St. Lucia	161	17.5	0.6	United States
St. Vincent and Grenadines	109	31.1	0.8	United States
Trinidad and Tobago	1,313	18.8	0.8	United States
Pacific Islands				
Fiji	835	13.5	1.1	Australia
Kiribati	96	2.4	12.0	United States
Marshall Islands	53	13.0	—	United States
Micronesia, Federated States of	125	12.2	—	United States
Palau	20	20.2	—	United States
Samoa	178	35.1	14.2	New Zealand
Solomon Islands	457	0.5	0.9	Australia
Tonga	102	31.1	39.2	New Zealand
Vanuatu	210	1.0	3.3	Australia
South Asia				
Maldives	293	0.8	0.4	India

NOTE: — = data not available.

SOURCE: Remittances and population from World Development Indicators central database (August 2005 update); migration stocks and destinations from foreign-born Version 4 of the Global Trade Analysis Project (GTAP) database in Parsons et al. (2005).

plications for the measurement of remittances. The survey also matches a small sample of migrants in New Zealand to their family members remaining in Tonga, and both groups are interviewed. I conclude by using this matched sample to look at how expectations for the continuation of remittances differ between migrants and their families.

A BRIEF HISTORY OF TONGAN MIGRATION TO NEW ZEALAND

The Kingdom of Tonga is an archipelago of islands in the South Pacific, about two-thirds of the way from Hawaii to New Zealand.⁴ The population is just over 100,000, and more than 30,000 additional Tongans live abroad (Table 6.1). Tongan migration to New Zealand really began in the 1960s and 1970s, when Tongans began arriving on temporary permits to take up work opportunities. After their permits expired, some returned to Tonga and others stayed on in New Zealand illegally. An amnesty in 1976 granted many of these illegals permanent residence.

Migration for work continued in the late 1970s and into the 1980s, and by 1986 the Tongan population in New Zealand had reached 13,600. In 1991 New Zealand introduced a points-based selection system for immigration, in which potential migrants are awarded points for education, skills, and business capital. Few Tongans qualified to migrate under this points system, so most Tongan migration during the 1990s was under family-sponsored categories—as the spouse, parent, or child of an existing migrant. For example, in fiscal year 1998, only 29 Tongans were admitted as principal applicants under the points system, compared to 436 under family categories. With family migration, the Tongan-born population in New Zealand had grown to 19,000 by the 2001 census.

In early 2002 another channel was opened up for immigration to New Zealand, through the creation of the Pacific Access Category (PAC), which allows for a quota of 250 Tongans to emigrate to New Zealand each year. Applicants in this category must be between the ages of 18 and 45, meet requirements for health, character, and a minimum level of English-speaking ability, and have an offer of employment in

New Zealand. It is the group of new migrants in this category that I shall discuss.

DATA

The main source of data I use is the Tongan component of the Pacific Island–New Zealand Migration Survey (PINZMS), conducted in the first half of 2005. The PINZMS uses a sample frame of applicants in the Pacific Access Category. More individuals apply to migrate than the quota allows, so a lottery is used to allocate visas among applicants. A comparison of winners and losers in this lottery is a feature of other works that use this survey to estimate the causal effect of migration on a number of migration outcomes (McKenzie, Gibson, and Stillman 2006; Stillman, McKenzie, and Gibson 2006). In addition to sampling migrants in New Zealand who come through the PAC, the survey includes a sample of applicants for the quota who remain in Tonga, a sample of nonapplicants who live in the same villages as the applicants, and a sample of remaining household members of the migrants in New Zealand. The first round provides a sample of 65 migrant households in New Zealand and 230 households in Tonga. Forty-five out of the 65 migrants in New Zealand left behind household members in Tonga, and we were able to survey 28 of these remaining households.

The PINZMS is a multitopic, detailed survey designed to look at many aspects of the migration process. Detailed modules on remittances are given to migrant households in New Zealand and to all households in Tonga. The survey collects information on remittances sent and received by both groups, separates these into money and goods flows, collects information on the channels used to send remittances, and asks a number of questions about knowledge of remittance methods and expectations of future remittance patterns.⁵

I supplement the PINZMS survey with information on the cost of sending remittances, gathered directly from remittance service providers. For this chapter, for comparison purposes, I have additionally collected information on the costs of sending from Australia to several Pacific Island countries, and from the United States to a couple of small Caribbean countries.⁶

THE HIGH COST OF REMITTING IN THE PACIFIC

There are two main financial costs involved in sending money across borders.⁷ The first is the fee charged by the remittance-sending company, which is usually fixed or a step function. For example, ANZ and Westpac banks in New Zealand charge a fixed fee of NZ\$25 to send a telegraphic transfer (wire transfer) from a bank account in New Zealand to a bank account in Tonga. Western Union charges a fixed fee of NZ\$20 in New Zealand to send to Tonga or Samoa, but it charges a stepped fee in Australia: A\$15 for amounts of A\$75 or less, A\$20 for amounts of A\$76–\$300, and A\$25 for amounts of A\$301–\$999.

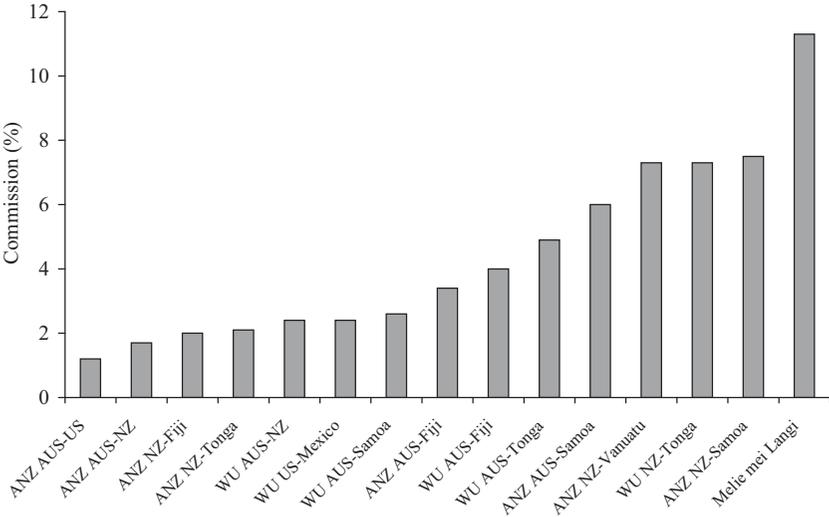
This component of the cost is the one most easily seen by consumers. However, the second component of the cost is less transparent. In addition to the fixed fee, remittance-sending companies typically make money by offering migrants a less advantageous exchange rate than the interbank rate. The exchange rate commission charged by the bank or remittance-sending company can be calculated by the equation

$$(6.1) \quad R = \frac{100 \times (\text{Interbank Rate} - \text{Offered Rate})}{\text{Interbank Rate}} .$$

For example, at the interbank rate,⁸ NZ\$100 would buy 138.71 pa'anga. However, at the exchange rate offered by ANZ Bank, one would instead receive 135.79 pa'anga (and also have to pay the fixed fee). The exchange rate commission of 2.1 percent therefore represents a loss of pa'anga compared to what one would receive at the interbank rate. Figure 6.1 graphs the exchange rate commission from New Zealand and Australia to a number of different Pacific Island countries for ANZ Bank telegraphic transfers and Western Union transactions. For comparison purposes I also show rates from Australia to the United States and New Zealand, and the Western Union rate from the United States to Mexico, one of the world's most competitive markets.

The figure shows a wide range of exchange rate commissions, from just over 1 percent to nearly 12. The highest commission is charged by Melie mei Langi, a church-run remittance channel for sending money from New Zealand to Tonga. This channel charges an extremely low fixed fee (NZ\$5), which is attractive to those who send small amounts,

Figure 6.1 Exchange Rate Commission on Remittances



NOTE: ANZ = ANZ Bank Telegraphic Transfer rate; WU = Western Union rate; AUS = Australia; NZ = New Zealand; US = United States.

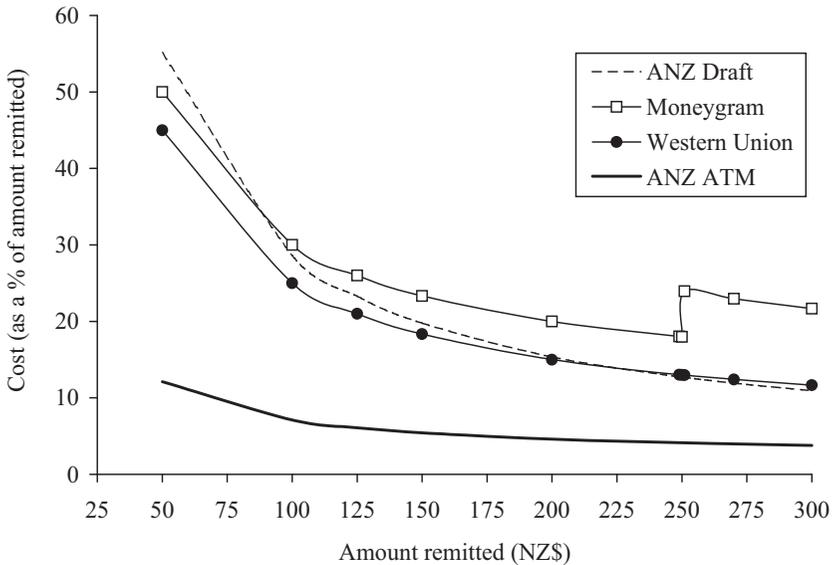
SOURCE: Author’s calculations from supplementary data collected on remittance costs.

even though they must pay a high exchange rate commission. Moreover, even between ANZ Bank and Western Union, it is not the case that one company always offers the better rate: Western Union has a lower rate to Samoa but higher rates to Tonga, for example.

Figure 6.2 plots the overall cost of remitting from New Zealand to Tonga by different channels, expressing the cost as a percentage of the amount remitted. The cheapest method by far is to use an ATM card: migrants in New Zealand can give their relative a second card, which can then be used to withdraw cash from the ATM for a fee of NZ\$5–\$8 for most banks. The other methods all have much higher fixed fees, resulting in extremely high costs for remitting small amounts. For example, remitting NZ\$100 (US\$68) ends up costing 25–30 percent of the amount remitted.

These high levels of costs are not atypical in the Pacific and are higher than in many other regions of the world. Figure 6.3 shows that the cost of sending from New Zealand to Tonga is very similar to that

Figure 6.2 Remittance Costs from New Zealand to Tonga by Various Means

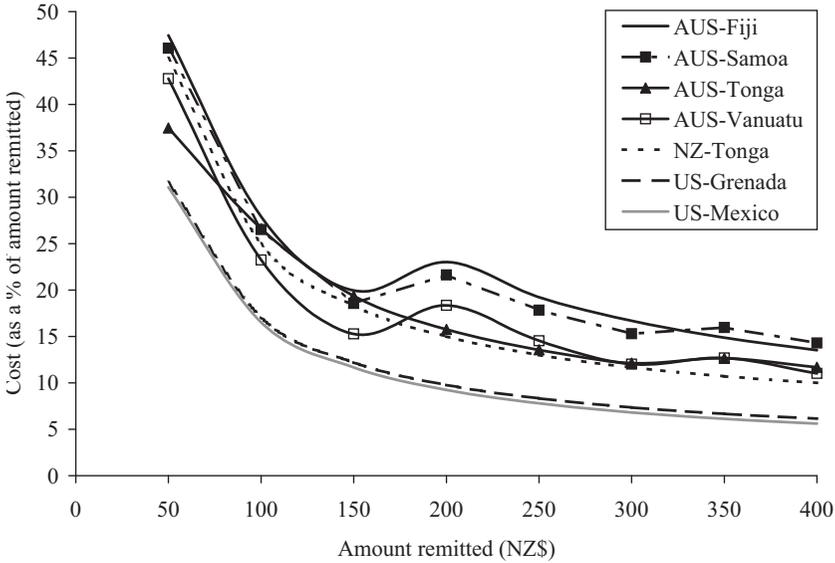


SOURCE: Adapted from Gibson, McKenzie, and Rohorua (2006).

of sending from Australia to other Pacific Island countries, and is higher than sending from the United States to Mexico, and from the United States to Grenada, another small island country. In Gibson, McKenzie, and Rohorua (2006), we compare the cost of sending US\$200 (NZ\$294) by way of different remittance channels around the world. The cost of 15–23 percent from New Zealand to Tonga is approximately twice the average cost of sending from France, Germany, the United States or the United Kingdom to a wide variety of destinations, including Pakistan, Mozambique, Portugal, Greece, and the Philippines. This is not simply a result of small economies of scale in Tonga, since Ghana and Mozambique, which receive the same total volume of remittances as Tonga, have costs of 5 percent or less for sending this amount.

These high costs of sending money in the Pacific therefore suggest that there is room for policies aimed at lowering these costs. The question that then arises is how sensitive remittance senders are to the cost. We asked Tongan migrants in New Zealand how much they sent

Figure 6.3 Comparison of Remittance Costs in the Pacific to those from the United States



NOTE: Amounts shown are based on Western Union rates from Australia and Moneygram rates from the United States.

SOURCE: Author's calculations from supplementary data collected on remittance costs.

in their last remittance transaction, the cost of sending this, and how much they would have sent if fees had been only half as much. Based on these answers, Gibson, McKenzie, and Rohorua (2006) estimate that the average cost-elasticity of remittances is -0.22 , so that when costs fall, remitters will send more remittances. As an example, if the cost of sending from New Zealand to Tonga were to fall to levels just above those between the United States and Mexico, we calculate that instead of sending NZ\$200, remitters would send NZ\$228, and receiving households would experience a 27.5 percent increase in the amount of remittances received in local currency.⁹ Given the large share remittances already make up in household incomes, this is a sizable potential gain.

WHAT CAN BE DONE TO REDUCE COSTS?

These high costs therefore do suggest that there is scope for increasing remittances, even in a country like Tonga, which already receives a large amount. What, then, can be done to reduce remittance costs? The World Bank's (2005) recent *Global Economic Prospects 2006* report on remittances emphasizes three policies for lowering remittance transaction costs:

- 1) Promoting competition,
- 2) Improving access of migrants to the financial system, and
- 3) Disseminating information.

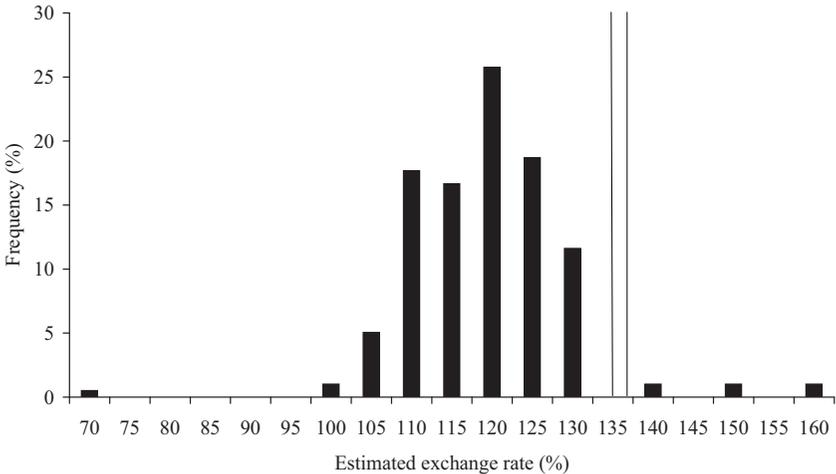
In the case of the Pacific, migrants do have a range of options available for sending money. The small size of these economies suggests that there is likely to be a limit on the number of separate banks and money transfer operators that can offer services. I therefore do not think there is much scope for enhancing competition through further entry of new remittance providers. All of the Tongan migrants we surveyed in New Zealand who send remittances have bank accounts, and 98 percent have ATM cards. Among the sample of households in Tonga, 79 percent have bank accounts and 54 percent have ATM cards. ANZ and Westpac banks both have four ATM locations in Tonga, and Western Union has 18 locations. There is thus some scope for expansion of access to financial services within Tonga, which would make it easier for migrants' family members to receive remittances through direct bank transfers and ATMs. As we saw, the ATM card transaction has by far the lowest fee, so any expansion of this channel can potentially have a large effect on reducing costs.

What would be the effect of information dissemination? The pricing of remittance transactions is rather opaque, particularly with regard to the exchange rate component. Phone calls to several of the nonbank remittance-sending companies were met with suspicion and, in some cases, refusal to provide information on the exchange rate or cost of sending without our visiting the office in person. Moreover, many migrants are not aware of the size of the commission being charged, or of what the interbank exchange rate actually is. We asked migrants in New Zealand and remittance receivers in Tonga what the New Zealand-to-Tonga

exchange rate was. Figure 6.4 shows a histogram of the answers from those in Tonga; the dual vertical lines show the Westpac/ANZ exchange rate (left line) and the Interbank exchange rate (right line). Although the exchange rate was stable over the survey period, the mean and median exchange rate quoted by the Tongan remittance receivers both missed the mark widely—they are around 120 pa’anga per NZ\$100, which understates the true exchange rate (136 pa’anga per NZ\$100) by about 12 percent. Similarly, among migrants sending remittances, the mean reported exchange rate was 122 pa’anga per NZ\$100. Therefore, Tongans displayed a wide lack of knowledge about the exchange rate whether they were sending or receiving remittances—thus affording remittance companies an opportunity to extract high commissions.

In addition to possessing incomplete information about the exchange rate, many remittance senders and receivers have a limited knowledge about the variety of different remittance-sending methods that are available. The PINZMS survey asked senders and receivers whether they knew about particular methods and whether they had used them. Table

Figure 6.4 Tongans’ Estimates of the New Zealand–Tonga Exchange Rate (pa’anga per NZ\$100)



NOTE: Left line marks the Westpac/ANZ exchange rate; right line shows where the Interbank exchange rate falls.

SOURCE: Author’s calculations from PINZMS (2007) data.

6.2 shows that almost all remitters and remitees know about Western Union and most have used it. Only about half of the remitters in New Zealand know how to send bank transfers by means of various banks, and much fewer than half actually do so. Melie mei Langi is known and used by about half the migrants but is less well known among the receivers, who know more about Moneygram.¹⁰ Despite ATMs being the cheapest method, only 2 percent know about sending money this way. None of the respondents knew about iKobo.com, a low-cost Internet-based method for sending money.

Table 6.2 Knowledge and Use of Different Remittance Channels (%)

Channel	Remittance senders in New Zealand		Remittance receivers in Tonga	
	Know	Use	Know	Use
Friend or relative paying for airfare		6.8		2.9
Friend or relative bringing back money on visit		4.5		4.9
Sending/receiving money through family/friends visiting overseas		13.6		4.4
Sending/receiving money through another person		45.5		28.6
Sending/receiving money through my church	9.1	2.3	1.5	0.5
Traveler's check	2.3	0.0	1.5	0.5
Bank transfer through ANZ	47.7	0.0	13.1	5.3
Bank transfer through Westpac	52.3	4.5	13.1	4.9
Bank transfer through another bank	38.6	2.3	8.7	1.5
Western Union	95.5	77.3	92.2	90.3
Travelex	6.8	6.8	1.5	1.0
Moneygram	6.8	2.3	46.6	43.7
Melie mei Langi	47.7	47.7	24.8	24.8
iKobo.com	0.0	0.0	0.0	0.0
ATM card or credit card from relative	2.3	2.3	2.4	1.0
Sample size	49	49	206	206

NOTE: Knowledge of the first four categories was assumed.

SOURCE: PINZMS (2007).

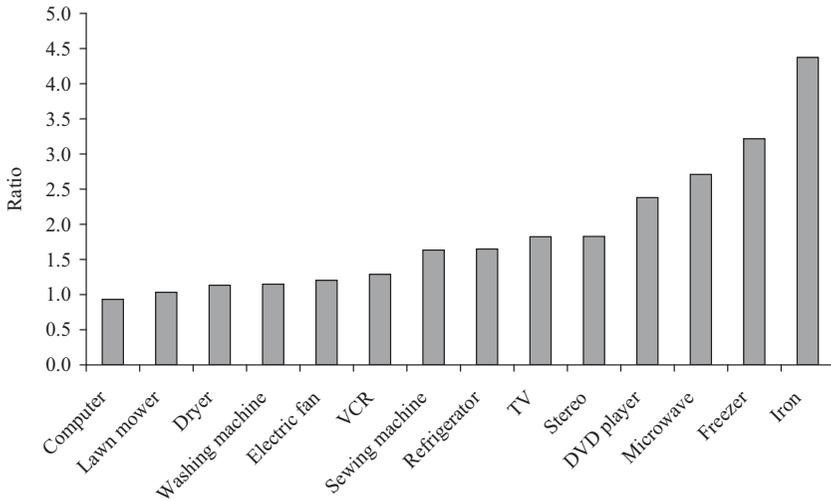
Thus, while competition does exist, and while migrants and their families generally do have access to bank accounts, the ability of both of these factors to help lower remittance costs seems to be hampered by a lack of information. There appears to be a role for information dissemination in increasing the benefits of competition and allowing migrants to obtain lower costs. The relatively small size of migrant communities may act as a barrier to widespread advertising campaigns by money transfer companies, and the time involved in researching their options may make it hard for individual migrants to know whether or not they are getting a good deal. This then suggests a role for community organizations or migrant news organizations, which could better disseminate this information.¹¹ Weekly newspapers that have as their audience the Fijian, Tongan, and Samoan communities in New Zealand could provide a listing of the fixed-cost exchange rate premium and the amounts received from sending \$NZ100 and \$NZ200 by way of different mechanisms.

WHAT DOES A RICHER REMITTANCE SURVEY TELL US ABOUT REMITTANCES?

The second part of this chapter involves dimensions of remittances that standard surveys and official statistics may not pick up very well. Standard household income and expenditure surveys typically ask for little detailed information about remittances. For example, the ENIGH surveys in Mexico only report the annual value of remittances received by households.¹² Even more specialized migration surveys such as the Mexican Migration Project (MMP93) and the Latin American Migration Project (LAMP) only ask respondents for the average monthly remittances sent and the purpose of these remittances.¹³ In contrast, the PINZMS has 10 pages of questions on remittances and thus is able to provide richer detail on some important aspects of remittance transactions.

The first aspect of the various dimensions of remittance surveys that I consider is what is being measured by remittances. Officially recorded remittances form a large share of GDP in many Pacific countries, but they do not capture all of the remittance action occurring. First, as

Figure 6.5 Ratio of Price of Durable Goods in Tonga to Price in New Zealand



SOURCE: Prices collected in New Zealand and Tonga in September 2005 for the PINZMS (2007) data set.

seen in Table 6.2, a number of remittance transactions occur through informal channels, such as sending money back with friends or family visiting from overseas. Second, in addition to cash, migrants also remit goods such as consumer durables. These can be particularly important in small island economies where the supply of durable goods is limited and prices are higher than in the migrant destinations. For the sample of 14 durable goods shown in Figure 6.5, the price in Tonga averages 1.7 times the price in New Zealand.

The PINZMS asked migrants separately about the remittances they had sent as monetary transfers and the remittances sent in the form of goods. On average, cash remittances accounted for 75 percent of total remittances sent and 63 percent of total remittances received by all remittance receivers in Tonga (not just those receiving from the New Zealand sample). Therefore surveys and official statistics that focus solely on monetary transfers in the Pacific Islands are likely to miss 25–40 percent of remittance transactions. Goods remittances are also important in other areas of the world, although more work elsewhere is

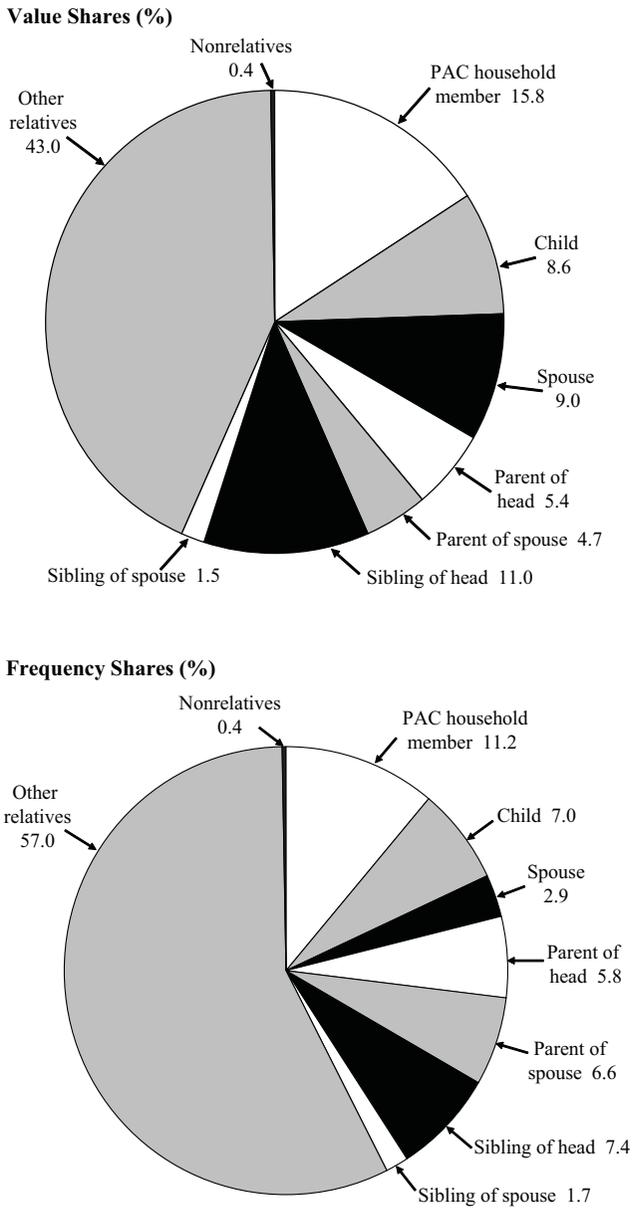
needed to generalize this result to obtain an estimate of the undercount of remittances at a world level.

Another understudied aspect of remittance transactions is reverse flows. Migrants not only send cash and goods to family members back home but also receive them from home. Twenty-two percent of the migrants who had sent remittances from New Zealand to Tonga had also received remittances from Tonga. However, remittances received are mostly in the form of goods rather than cash—on average, cash received by migrants accounts for only 11 percent of the total remittances they receive, whereas goods account for 89 percent. These goods often tend to be handicrafts, food, and other goods that carry nostalgic value. On average these goods equal 43 percent of the value of remittances sent by the migrants in New Zealand, meaning that the net flow of remittances is substantially smaller than the gross flow.¹⁴

The next aspect that a richer survey reveals is that many remittances do not come from former household members. Figure 6.6 uses the sample of remittance receivers in Tonga to plot the share of remittances received according to the sender's relationship to the household head. Both value shares and frequency shares are shown, in case one or two very rich relatives are driving all of the value share results. Remittances received by former household members who moved to New Zealand through the Pacific Access Category (that is, PAC household members) are the only remittances that we know for sure came from a former household member. Spouses abroad are also almost certain to be former household members, while children would have been household members at some stage but may have been living outside of the household before migration. These three groups, however, together account for only 34 percent of the value of remittances received and 21 percent of the number of remittance transactions.

Parents of the head and spouse of the head may or may not have lived with the household before migration. Siblings of the household head are much more likely to send remittances than siblings of the spouse of the head. However, it is likely that many of these brothers and sisters of the head were not living in the household before migration. The largest source of remittances is other relatives, such as cousins, uncles, aunts, grandparents, and other extended family. This shows that the benefits of a single individual migrating spread beyond the household he or she was living in at the time, and that the extended family benefits from

Figure 6.6 Sources from Whom Tongans Receive Remittances



NOTE: Percentages in top chart do not add up to 100 percent because of rounding. In the bottom chart, the term “Frequency Shares” refers to the share of the number of transactions contributed by each category of remitter.

SOURCE: PINZMS (2007).

these remittances as well. The mean remitter sends remittances to 1.25 distinct groups of people, and the mean remittance-receiving household in Tonga receives remittances from 1.22 people. However, these means are the result of a few individuals sending or receiving remittances to or from three people—the median remitter only sends remittances to one person, and the median remitee only receives remittances from one person, just not necessarily a former household member.

WHY MIGHT REMITTANCES BE SPENT DIFFERENTLY FROM OTHER FORMS OF INCOME?

The development impact of remittances depends on their sustainability and what remittances are spent on. Many studies have looked to see if remittances are spent differently from other sources of income. One reason remittances might be spent differently is that migrants send remittances in response to specific events, or conditional on certain actions being taken. Remittance receivers in Tonga reported that 66 percent of all remittance transactions received were earmarked for a special purpose. The main purposes were the *misinale* (a once-a-year gift made to the church [Puloka 2003]), which accounted for 33 percent of special purpose remittances, 28 percent of payment of school fees, and 14 percent of funeral expenses. Remittances received for funeral expenses can be considered a form of insurance, and therefore will be spent differently than an increase in general household income. Remittances sent for other special purposes will only alter spending patterns compared to the same increase in household income if the conditions placed on them are binding, or if the fact that they are received as remittances increases the cost of certain expenses. This might be the case for *misinale* payments and schooling, if families receiving remittances are expected to pay more.¹⁵

A second reason remittances may be spent differently than other sources of income is that households view them as being more temporary in nature. Standard economic theory suggests that households will save a larger fraction of transitory income (or invest it in schooling and housing) than they would for permanent income. However, the cross-sectional nature of existing remittance surveys provides us with little

Table 6.3 Mean Expected Chance Of Remitting/Receiving Remittances

	Migrants	Remaining household
In 1 year's time	79.6	78.1
In 5 years' time	63.7	68.3
In 10 years' time	31.5	36.9

SOURCE: PINZMS (2007).

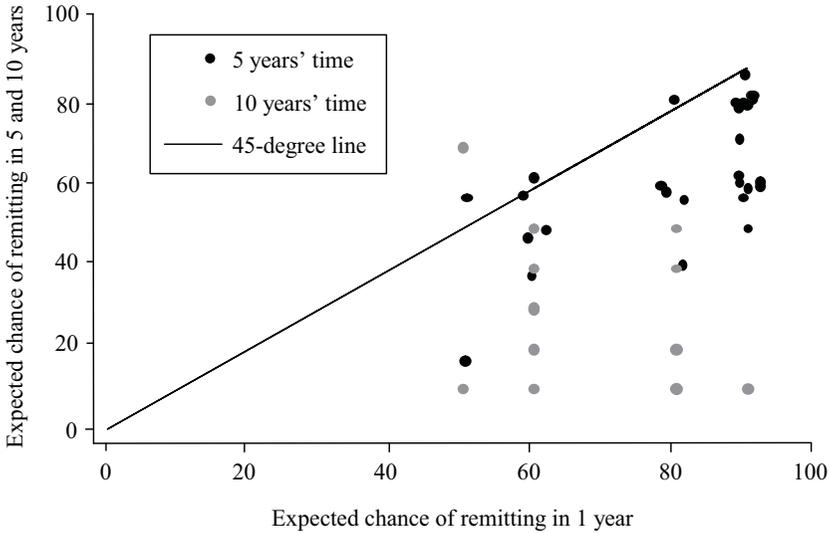
information on how households expect remittances to vary over time, and whether these expectations match those of the migrants.

Our survey asked migrants what they thought the percent chance was that they would remit in 1 year's time if they were still in New Zealand. This was followed by similar questions for 5 and 10 years' time. Similarly, the head of the household that the migrant had been a part of was asked what he or she thought was the percent chance that the migrant would remit in 1, 5, and 10 years' time if the migrant was still in New Zealand. We were able to match 28 migrants to their remaining family members. Table 6.3 shows the average percent chance reported for different periods. On average, migrants and their families have very similar expectations: both have high expectations of remittances occurring 1 year out, but lower expectations of remittances occurring in 5 and 10 years. That is, many remittance receivers believe that remittances will be a short-term source of income.

Not only does the average expectation of receiving remittances decline over time, but the expectation declines for almost every single family. Figure 6.7 shows that families with higher expectations of receiving remittances in 1 year also have higher expectations of receiving remittances in 5 and 10 years, but that the percent chance of receiving is almost always less than the 1-year-out expectation.

However, although on average migrants and their families have similar expectations, when we look at the matched pairs, a very different pattern arises. Figure 6.8 shows the match between migrant and family expectations for remittances in 1 year and in 10 years. There is a much looser relationship for expectations 1 year out than 10 years out: the rank-order correlation is 0.27 for 1 year (insignificantly different from zero) and 0.43 for 10 years (significantly different from zero at the 0.05 level). At 1 year out, there is a group of migrants who have very

Figure 6.7 Expectations of Receiving Remittances Decay over Time



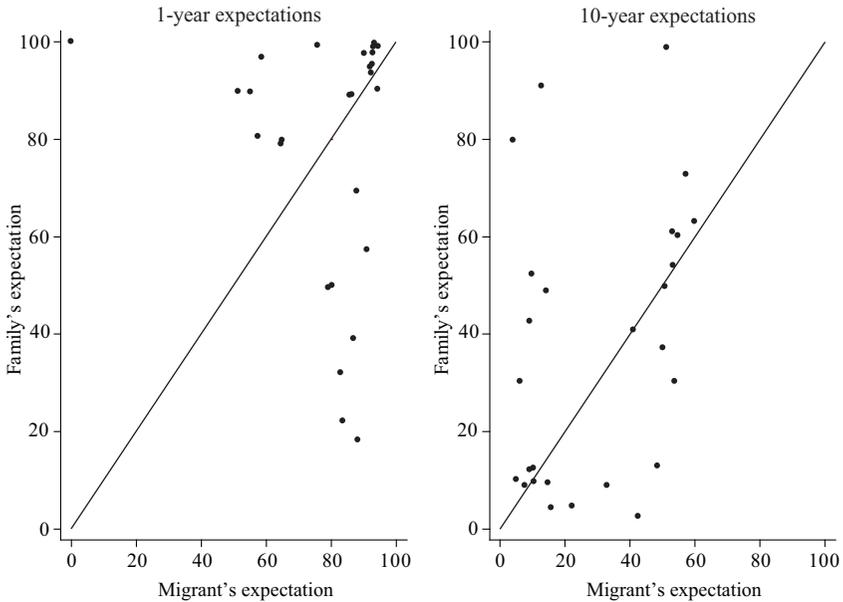
NOTE: The data consist of pairs of expectations, where an x,y pairing of (1-year expectation, 5-year expectation) is represented by one set of dots, and an x,y pairing of (1-year expectation, 10-year expectation) is represented by another set of dots. The 45-degree line shows what the 5- and 10-year expectations would be if they were the same as the 1-year expectations.

SOURCE: PINZMS (2007).

high expectations of remitting, but whose families have low expectations of receiving remittances, and another group whose families expect remittances, but who don't expect to be sending them.

This difference between the remittance expectations of migrants and their families 1 year out may reflect uncertainty over how long it will take the migrant to get settled in his new country and start earning sufficient income to send remittances. Regression of the difference between the family's expectations and the migrant's expectations on characteristics of the migrant finds the family to have higher expectations than the migrant when the migrant is currently unemployed, and when the migrant states there is a high probability of losing his job in the next year and a low probability of being employed in 1 year's time. However, these correlates are only suggestive; as with the small sample

Figure 6.8 Relationship between Migrant and Family Expectations for Remittances in 1 Year, 10 Years



SOURCE: PINZMS (2007).

size of matched observations, no explanatory variables were significant in the regression.¹⁶ In contrast, expectations are much more aligned 10 years out—this is sufficiently long enough for migrants to have become established and to have found a good job.

Note that both migrants and their families have lower expectations of remittances being sent in 10 years' time than they do in one year's time. This decay in the probability of sending remittances suggests that remittances are viewed as a transitory form of income, which suggests that receiving households should save or invest a higher proportion of the income received from remittances than they would from a wage income that was higher by the same amount. Nevertheless, this does not necessarily mean that the level of remittances received by Tonga from this group of Tongan migrants will decay over time—it may be the case that falling probabilities of remitting are accompanied by higher

amounts sent when remittances actually do occur. Most existing studies of remittance decay are cross-sectional in nature and thus not able to capture these dynamic aspects.¹⁷

CONCLUSION

Migration and remittances are of large importance to a number of Pacific Island nations. This chapter has attempted to show that even though these countries currently receive a lot of remittances, there is still scope for further remittance growth, because the high costs of sending money may discourage some remittance. Expansion of ATM services and provision of information on exchange rate commissions and the remittance options available seem promising avenues for lowering these costs.

I have also highlighted some aspects of remittances that may not so easily be seen in traditional surveys. Remittances occur as goods as well as cash, are often accompanied by sizable reverse flows, and, at least in the case of the Pacific Islands, are sent to the extended family in addition to direct household members. Matching migrants to their remaining household members shows that both groups expect the likelihood of remittances occurring to decrease with the time spent overseas, and that there is more concurrence in expectations in the long term than in the short term. These findings are drawn from a rather small sample of matched migrants, and so in future research it will be useful to see whether they hold for larger samples and for migrants from other countries.

Notes

This chapter builds on surveys and joint work conducted with John Gibson and Halahingano Rohorua. Thanks to John Gibson for useful comments.

1. Measurement of migration stocks and remittances received is poor in a number of countries, so the numbers in Table 6.1 should be treated with caution.
2. The population of Niue is 1,761, yet 5,328 Niue-born citizens live in New Zealand; Tokelau's population is 1,513, yet 1,662 Tokelau-born citizens live in New

- Zealand. These figures are according to the Government of Niue (2004) and Statistics New Zealand (2001a,b).
3. Connell and Brown (2005) provide a recent overview of remittances in Pacific Island countries and discuss reasons why some of the relatively high-migration islands receive small remittances.
 4. This section is based on information from *The World Factbook* (CIA 2006) and from *Te Ara: The Encyclopedia of New Zealand* (Taumoeofolau 2006).
 5. The PINZMS data come from a survey conducted by the author. A Web site dedicated to reporting the findings of this survey is at <http://www.pacificmigration.ac.nz>.
 6. Costs of sending from New Zealand to Tonga were collected in March 2005, at the time of the PINZMS survey (see Gibson, McKenzie, and Rohorua [2006] for details). Costs of sending from Australia and the United States via Western Union and Moneygram were collected in January 2006.
 7. A third potential cost faced by the receiver is a charge for receiving remittances. For example, Westpac Bank in Tonga charges a fee to receive a telegraphic transfer or deposit a bank draft. Western Union typically does not charge the recipient, although there may be a fee to notify the recipient if he or she is in a distant location. A fourth cost that occurs in some areas of the world is the "float" or overnight interest collected by remittance companies (World Bank 2005). This is not a major element in the Pacific.
 8. As obtained from <http://www.oanda.com>. The interbank rate is the market rate used between banks for transactions of US\$1 million or more. This is the "official rate" typically quoted in the media.
 9. The percentage increase in remittances received in local currency is the combination of two factors: 1) for each New Zealand dollar of remittances sent, a reduction in remittance costs leads to more Tongan pa'anga being received, and 2) senders in New Zealand also will send more New Zealand dollars when remittance costs fall. The 27.5 percent increase in local currency is the combination of these two factors.
 10. Note that the sample of receivers includes those receiving money from family members who have migrated to New Zealand, Australia, and the United States through other methods than the Pacific Access Category, the category that the sample of migrants come from.
 11. An alternative would be for the Pacific Island consulates to provide this service for their migrants. Mexico's consulates in the United States collect weekly data on the costs of sending money from nine cities in the United States and publish it on Mexico's consumer protection Web site, <http://www.profeco.gob.mx>.
 12. ENIGH stands for Encuesta Nacional de Ingreso y Gasto de los Hogares, or the National Survey of Household Incomes and Expenses.
 13. See Amuedo-Dorantes (2005) and documentation on the MMP93 and LAMP Web pages, found at <http://mmp.opr.princeton.edu> and <http://lamp.opr.princeton.edu>, respectively. The questionnaires are contained at <http://mmp.opr.princeton.edu/databases/ethnosurvey-en.aspx> and <http://lamp.opr.princeton.edu/documents-en.aspx>.

14. This pattern of bidirectional remittance flows involving goods as well as cash corresponds to findings of other remittance studies in the Pacific. See Connell and Brown (2005) for a review.
15. This may be because families with migrants are expected to contribute more to local public goods since having a migrant member is seen as a source of wealth, as well as because migrant members planning on returning may be expected to contribute to local public goods while away, so that the family merely acts as an intermediary between the migrant and the community.
16. I also tried regressing the difference and the absolute difference in expectations on age, education, sex, marital status, past income in Tonga, current income in New Zealand, the difference in income, and the difference in employment status. These variables were tried one by one, and also in groups. Current unemployment had the largest economic effect (associated with a 23 percent gap in expectations) and the highest *t*-statistic (1.4) in this regression.
17. Connell and Brown (2005) survey several studies of remittance decay in the Pacific and conclude there is little statistically significant evidence for remittance decay. There are two main concerns with many of these cross-sectional studies. The first is that they may rely on community networks to obtain a sample of migrants, so that only migrants who remain tied to their communities (and hence more likely to continue remitting) appear in the sample. If more recent migrants are more likely to rely on membership of these ethnic networks, this will result in a systematic bias against finding remittance decay. Second, these studies are generally unable to control for return migration. If individuals who are less successful in the migrant destination are more likely to return, then the only migrants in the sample who have been in the host country for a long period of time are successful migrants who can send large amounts of remittances.

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Immigrants and Their International Money Flows

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Editor

2007

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

Immigrants and their international money flows / Susan Pozo, editor.

p. cm.

Includes bibliographical references and index.

ISBN-13: 978-0-88099-299-2 (pbk. : alk. paper)

ISBN-10: 0-88099-299-9 (pbk. : alk. paper)

ISBN-13: 978-0-88099-325-8 (hardcover : alk. paper)

ISBN-13: 0-88099-325-1 (hardcover : alk. paper)

1. Emigration and immigration—Economic aspects. 2. Emigrant remittances. I. Pozo, Susan.

JV6217.154 2007

330.9172'4—dc22

2007011020

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Kalamazoo, Michigan 49007-4686

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Cover design by Alcorn Publication Design.

Index prepared by Diane Worden.

Printed in the United States of America.

Printed on recycled paper.