Fiji Sun
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Saturday November 14, 2015

Making remittances work for prosperity

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Fiji's inward remittances are rising: from $295 million in 2010 to $306 million in 2012, $339 million in 2013 to $383 million in 2014. It is estimated to reach $413 million in 2015 and $426 million in 2016.

Fijians working overseas, either on temporary work permits or long term residents working and settled overseas, with their regular remittances have been supporting their families back home on an increasing scale.

These transfers are welcome for many reasons.

From the government side, these transfers are in terms of foreign exchange, adding to country's reserves. Further, they are non-debt creating inflows supplementing domestic savings. They are a great help to island nations, whose exports are less, paying for their imports of food and fuel and a host of consumption and capital goods. Remittances reduce external trade deficits, minimizing the need to borrow externally.

A boon to rural families

Remittances have been supplementing disposable incomes of the recipient families. Though they are spent on consumption of clothing, food, medicine and shelter, they also enable them to spend on investment: education and health care, besides investments in semi durable goods and additions and improvements to their dwellings.

Overtime if inward remittances are steady, they become a support to some families to undertake simple food processing microenterprises for pickles, chutneys and condiments for local markets. Thus, remittances have also emerged as a source of funding new production opportunities for commercial purposes. Remittances relax credit constraints imposed by the undeveloped financial sector.

Research findings, including an IMF study by Giuliano and Ruiz-Arranz on 100 plus developing countries over a 28 year period, have found that the remittances and growth nexus efficiency is contingent upon financial sector development. Mobilisation of savings from the remittance recipient families on a regular basis, through provision of access to banking services is now recognized as the key to prosperity.

In the absence of interest earning savings facilities, remittance receivers tend to fritter them away on needless consumption. Addition to bank reserves through resource mobilisation enables banks to lend more to needy investors.

Governments are aware of the immense potential of remittances in triggering entrepreneurial efforts. They are now encouraging financial institutions to help in channeling remittance inflows through formal banking channels. Banks have responded by opening more branches in urban as well as new branches in rural areas and introducing mobile banking in inaccessible areas.

Research study on Fiji

An ongoing research study on Fiji's remittances and growth by the author with Dr Hong Chen of University of the South Pacific shows that remittances when combined with higher degree of financial sector development, normally represented by indicators such as broad money or quasi-money (time and saving deposits), and bank credit to private sector speeds up Fiji's economic growth.

Financial sector development cannot be fostered unless it covers all. The buzzword is financial inclusion. A major effort was initiated by United Nations a decade ago, as part of poverty reduction strategy. The UN declared:

"The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives."

Out of 10 million in the Pacific islands countries (PICs), 6.5 million are low income people with no access to basic financial services. The reasons are: geographic isolation within each PIC, low population density, poor infrastructures; low levels of financial literacy and of course, the forbidding operational costs faced by banks.

Statistics released by Reserve Bank of Fiji reveal:

- 60 percent of adults have a bank account;
- Financial Inclusion is lower, in the Eastern and Western provinces;
- Use of credit in Fiji: 32 percent compared to 38 percent in upper-middle income countries;
- Informal sector use shop credit; hire purchases and borrowing from family and friends.

Efforts during last few years have shown Fiji among all PICs has made considerable progress.

We have some fascinating details:

- ATMs per 10,000: 3 in 2010; 5 in 2014
- EFTPOS per 10,000: 31 in 2010; 87 in 2014
- Deposit accounts per 10,000: 10,341 in 2010; 13,000 in 2014

- Credit accounts per 10,000: 1381 in 2010; 1724 in 2014
- ATMs per 1000 square kilometer (sq.km): 11 in 2010; 15 in 2010
- Branches of financial institutions per 1000 sq.km: 3 in 2010 ; 4 in 2014

A long way to go, but the progress is most impressive when compared to other PICs.