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# Mobilizing savings for growth

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Last week, we discussed how the informal participants in the tourism industry are benefitted with greater inflows of tourist dollars from rising cruise ship tourism. As cruise ship travelers do not spend money on overnight stays in hotel, which are in the formal sector, their dollars go to the informal sector. The informal sector comprises handicraft sellers, food stalls and unregistered tourist operators including guides and taxi drivers, driving around the port towns.

Many in the informal sector do not have bank accounts to put their day's savings in.

The results released last week of the survey of cruise ship tourism in PNG confirm the findings of 2013 Vanuatu study that informal sector should be the target of financial inclusion efforts.

If savings are not mobilized by financial institutions, they get spent on wasteful consumption.

**Remittances**

We focus on the steadily mounting remittance inflows from migrants to families and elderly left behind. Data released by World Bank last month reveals that worldwide migration population is 3% of world population, having risen from 175 million in 2000 to 247 million in 2013; and 251 million in 2015. Their remittances in 2015 are US$601 billion, out of which developing countries received US$441 billion, which is three times the amount of foreign aid they get from official agencies.

Pacific island countries (PICs) get a bigger slice on a per capita basis. In the absence of a wide range of exportable goods to earn foreign exchange, greater labour mobility is an effective alternative. Labour mobility from PICs helps to meet the shortage of unskilled labour in advanced countries to work on farms.

Thanks to increased globalization, more islanders are now working in developed countries than ever before as doctors, lawyers, accountants, nurses and of course, rugby players. In addition, unskilled workers under Australia's Seasonal Worker Program and New Zealand Recognized Seasonal Employer Scheme, around 12,000 from PICs have been benefitted during last seven years.

PICs do depend on remittances. Among the 15 top recipients of remittances as shares of national incomes, three Pacific island countries figure prominently: Tonga, Samoa and Marshall islands. Tonga is the world's fourth ranked country with near one-third of its annual national income (28%) coming from Tongans working overseas. The next is Samoa, twelfth in rank with (18% of GDP); and Marshall Islands ranked twentieth (14%).

Fiji's economy is more diversified. The share of remittance in Fiji's GDP is less (5% GDP). However in 2014, remittances received by Fiji in 2014 in absolute terms were higher: US$209 million compared to Tonga's US$114 million and Samoa's US$141 million.

In the initial years, families receiving remittances tend to raise their consumption levels. As remittances become regular and steady, families spend them on improvements to their dwellings. Some with entrepreneurial skills start small enterprises. If they have a bank account, they can use regular inflow of remittances as collateral and borrow for undertaking small business activities.

Developmental impact of remittances can be enhanced only when savings of remittance recipient families are mobilized by financial sector institutions. These savings add to bank reserves and banks increase their loans, thus recycling the mobilized deposits resources as credit.

The *Post-2015United Nations (UN) Sustainable Development Framework* has laid down targets for promoting financial inclusion. The UN defines it as "effective access and use by individuals and firms of access of affordable and sustainable financial services from formal providers".

**Fiji's financial inclusion**

The Reserve Bank of Fiji (RBF) says 60% of the country's adult population of around 616,000 has access to formal financial services as compared to Samoa's 39% and Solomon Islands' 26%. Regionally speaking, data on financially included adults are impressive. About 13% are connected either formally or informally with some non-banked services. Thus, Fiji's financially excluded are 27% as compared to 34% and 31% in Samoa and Solomon Islands. Bank branches are 1.17 per every 10,000 adults against Samoa's 1.92. Only 32% of adult population in Fiji use bank credit, which is lower than other upper middle income countries average of 37%. The main sources of credit to the needy are families, friends and shop credit.

An impact study of remittances on growth co-authored with Dr Hong Chen of USP, employing specifically a financial sector development (FSD) indicator: the quasi money or savings and time deposits, confirms that remittances and quasi money are positively associated with growth. That is rise in remittances or in quasi money leads to Fiji's growth. However, the interaction between remittances and quasi money emerged with a negative sign indicating the absence of a complementary or mutually enforcing relationship between the two.

That is there is only a relationship of substitutability. We need a stronger FSD.

**Not a surprising result**

A larger study by IMF's economists, Paola Giuliano and Marta Ruiz-Arranzo on 100 plus developing countries, which did not include Fiji, came up with a similar result. If FSD is shallow, with a limited number of players mostly dominated by state sponsored pension funds and with bonds issued only by governments, and has a small stock market, and no secondary markets, remittances act as substitutes.

The complementary relationship emerges only when the financial sector development makes an all round progress in various segments.

Two decades ago, the first ever intensive, a six-volume study by World Bank on aid and development in Pacific island countries under the stewardship of a Sri Lankan economist Hilarian Codipilly coined a catchy term, *Pacific Paradox* signifying "poor growth in the midst of plentiful aid."

Financial inclusion efforts have to be matched with progress in all segments of financial sector to avoid the emergence of another paradox of 21$^{st}$ century: “poor growth in the midst of plentiful remittances”.

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