Cashing in on Pacific remittances

The Pacific is one of the most remittance-dependent regions in the world. Pacific Island Countries (PICs) have a large diaspora, particularly in Australia and New Zealand. Just under 130,000 Samoans live overseas, compared to a domestic population of around 200,000. Remittances are an outsized component of many families' incomes and an important source of foreign exchange. In Tonga, they make up 43 per cent of GDP and in Samoa, 21 per cent. Samoa recorded remittances reaching SAT164.4 million (AUD87.1 million) in Q3 2021, up 18.4 per cent compared to the same quarter in pre-COVID 2019. In both countries, around 80 per cent of households received remittances. With a growing number of Pacific Islanders participating in labour mobility schemes, and with other sources of foreign exchange, such as tourism, limited due to the pandemic, capitalising on remittance flows is essential for economic growth in the Pacific.

A key barrier for making the most of the remittances in the Pacific is the high cost. On average, the cost of sending money to the Pacific is over 10 per cent of the transaction value, compared to a global average of around 6.5 per cent. It is significantly higher than the UN Sustainable Development Goal (SDG) of an average remittance cost of only three per cent. This is because despite being a highly remittance-dependent region, overall volumes being sent in the Pacific are low, so financial institutions and money transfer organisations are unable to achieve economies of scale. Moreover, traditional methods of sending remittances remain dominant, that is, via money transfer organisations, banks or travelling with cash.

Mobile money is an increasingly popular lower-cost alternative to traditional transfer methods. It is the only channel that comes close to meeting the SDG target, with an average global cost of 3.5 per cent. In the Pacific, mobile money transfers cost around six per cent on average, compared to 13 per cent to send remittances between bank accounts. Beyond being low cost, mobile money has several advantages. The money is received in real time and there's increased transparency for senders, receivers and governments.

Despite the positives, there are several challenges to overcome. Cash remains king in the Pacific and trust in other methods for storing and sending money is generally low. Along with poor telecommunications infrastructure, financial and digital literacy among consumers is one of the barriers to the growth of mobile money.

Despite the challenges, the benefits are clear. Cheaper channels for sending remittances means more money in the pockets of receivers. Given many Pacific Islanders remain unbanked, a mobile wallet can be a useful introductory tool to start saving and then access other formal financial services. At the same time, increased uptake of digital financial services will help each PIC grow its e-commerce and digital economy potential, facilitating growth and trade. MDF sees supporting mobile money providers to increase usage as one of the key early steps in the wider digital transformation of Pacific economies.