The first blog in this series highlighted the large gap between low- and high-cost Remittance Service Providers (RSPs) in Tonga and other Pacific countries. The second showed that most people tend to use higher-cost options, thus keeping average realized remittance costs high. In this final blog in the series, we emphasise the opportunities for public policy by calculating the gains from switching to the lowest-cost RSPs, and highlight the remaining knowledge gap.

How much would Tongan households and the economy gain if people were to make a concerted shift to the lowest-cost RSPs? Here, we calculate the gain that could be made by switching from the two popular RSPs, Moneygram and Western Union, to the lowest-cost RSPs — Ria, in the Australia-Tonga corridor, and Ave Pa’anga Pau in the New Zealand-Tonga corridor.

Our simple simulation exercise consists of three steps.

First, we derive the gain per transaction of 200 dollars (AUD and NZD, respectively) by calculating the difference between the cost of the lowest-cost RSP and the two popular RSPs in both local currency terms and as a percentage of remittance costs.

Second, we estimate the average of remittances sent in six months by Tongan temporary migrants in Australia and New Zealand from the Pacific Labour
Mobility Survey’s (PLMS) worker survey component. The average remittances in six months are AUD $8,116.50 (12695.7 Pa’anga) in Australia and NZD $9,265.30 (13410.2 Pa’anga) in New Zealand.

Third, we calculate the aggregate gain to the Tongan economy by multiplying the gain per household by the number of households using Moneygram and Western Union, based on PLMS household survey and migration statistics from the Australian and New Zealand governments.

Table 1 shows the simulation results based on data from Send Money Pacific. In the Australia-Tonga corridor, switching to Ria would enable the Tongan economy to receive 1,103,809 Pa’anga more in a six-month period, amounting to 2.4% of the remittances sent by Tongan PALM workers. In the New Zealand-Tonga corridor, switching to Ave Pa’anga Pau would save 424,596 Pa’anga, or 2.3% of the remittances sent by RSE workers.
In total, the approximate gain to the Tongan economy (as proxied by that flowing to households instead of RSPs, which are usually not local companies) would equal 1,528,405 Pa’anga, which is 2.3% of the estimated total remittances sent by temporary migrants in Australia and New Zealand. Recall that remittances are today approximately equal to half of Tonga’s GDP, making these gains not at all trivial. The same analysis based on data from Saver Pacific shows a 0.1 percentage point higher gain, but the results are qualitatively similar (Table 2).

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Table 1: Gain from switching based on Send Money Pacific

In total, the approximate gain to the Tongan economy (as proxied by that flowing to households instead of RSPs, which are usually not local companies) would equal 1,528,405 Pa’anga, which is 2.3% of the estimated total remittances sent by temporary migrants in Australia and New Zealand. Recall that remittances are today approximately equal to half of Tonga’s GDP, making these gains not at all trivial. The same analysis based on data from Saver Pacific shows a 0.1 percentage point higher gain, but the results are qualitatively similar (Table 2).
The underutilization of low-cost remittance services is not just an issue for Tonga but for most Pacific countries. Our simulation suggests quantitatively large gains can be made by switching to lower-cost RSPs. But what currently prevents people from doing so?

Barriers to switching typically relate to a lack of awareness of low-cost options, preference for the services provided by the higher-cost provider even when users are aware of low-cost options, or a lack of capability to use the lower-cost options, especially if they are digital. Policy interventions aimed at building awareness of and trust in low-cost options would clearly be worth exploring. However, first it will be important to improve our understanding, including through rigorous testing, of how each of these barriers actually limits the uptake of low-cost RSPs in Tonga and other Pacific countries.

This is the third blog in a three-part series.
Disclosure

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It pays to switch remittance service providers, so what’s stopping people?

By Hiroshi Maeda, Ryan Edwards and Daniel Suryadarma
16 February 2024

In our previous blog, we showed how remittance costs in Tonga could be much lower than the average calculated by Remittance Prices Worldwide (RPW) if households and workers chose low-cost Remittance Service Providers (RSPs). In this blog, we use the Pacific Labour Mobility Survey (PLMS) to show that households and workers actually tend to choose high-cost RSPs, with the result that realised remittance costs remain high.

The PLMS asks workers in Australia and New Zealand and households in the Pacific about the main remittance channels and RSPs they use. The household survey covers six types of remittance channel: online transfer through banks; online transfer through Money Transfer Operators (MTOs) such as Western Union and Moneygram; over-the-counter transfer through MTOs; mobile wallets; through friends; and other. The worker survey has five categories: online transfer (through both banks and MTOs); over-the-counter transfer; mobile wallet; through friends; and other.

Table 1 reports the main remittance channels used by Tongan households. 47.6% used over-the-counter transfers through MTOs. Just over one-third used online transfers through MTOs, followed by online transfers through banks with 12.4%. Mobile wallets had a relatively small share at 5.7%. Only one household said they
used informal transfers through friends. (It is likely pandemic travel restrictions prevented migrants from carrying cash home by hand, as they tended to stay abroad.)

The same question from the worker survey, which draws from only some of the same households, gives a slightly higher share for online transfers. Table 2 shows that 69.9% of Tongan temporary migrants sent remittances by online transfer through banks or MTOs, while 25.6% used over-the-counter transfers. Mobile wallets remained relatively unpopular at 1.7%. The number of temporary migrants who sent money through friends was higher (at 2.5%) because the worker survey was conducted after border restrictions eased.

Combining the PLMS and the new market audit data we presented in the previous blog reveals that most Tongan households and migrants choose higher-cost RSPs. This leads to an average realised remittance cost, among workers surveyed who also use the RSPs we audited, of around 6.4%. For PALM workers the costs are slightly higher at 9.5% compared to RSE workers’ 6.27%.

Figure 1 illustrates the main RSPs in the Australia- and New Zealand-Tonga corridors used by households and workers. More than 20 RSPs are used by Tongan households and workers, but three are popular: Moneygram, Western Union, and Ave Pa’anga Pau. In the Australia-Tonga corridor, Moneygram had a dominant share of 54.29%, followed by Western Union with 19.9%. Ave Pa’anga Pau, a relatively new MTO established by the Tonga Development Bank to lower remittance costs, came in third at 7.8%. These shares were relatively consistent in the worker survey.

Figure 1: The use of RSPs by Tongan households and workers (%)
Despite Moneygram and Western Union having a dominant market share, cash transfers through Moneygram, as well as both cash and online transfers through Western Union, are considerably more expensive than through low-cost RSPs. Table 3 shows that cash transfers through Moneygram cost 5.4%. Although Moneygram also offers lower-cost online transfers, 44.4% of households using Moneygram received money in cash (Figure A1 in online appendix). For Western Union, cash transfers cost 8.2% and online transfers 7.4%, much more than the cheapest RSP’s 1.8%.

In the New Zealand-Tonga corridor, the lowest-cost RSP Ave Pa’anga Pau was also popular with a more than 30% market share. Between 12.3% and one-third of survey respondents used Moneygram, while between 15.2% and 21.3% used Western Union. Western Union and Moneygram users paid remittance costs up to six percentage points higher than the cheapest option (Table 4).

Given the relatively higher market share of the higher-cost RSPs, the obvious question is: why do people choose them?

Figure 2 shows that 79.9% of Moneygram and Western Union users chose their remittance channels because of ease of use, followed by cost (38.0%), and speed.
(34.2%). It is reasonable that people do not use Ria much in the Australia-Tonga corridor because it has only one agent in Tongatapu and remains relatively new. Figure 3 shows that the users of Ave Pa’anga Pau, by contrast, paid much more attention to cost (60.9%). Those who keep using Moneygram and Western Union presumably stick with them because they accord strong priority to factors other than cost.

**Figure 2: The reason why Tongan migrants who use Western Union and Moneygram choose remittance channels (%)**

![Bar chart showing reasons for choosing Western Union and Moneygram](source: Created by the authors from PLMS data.)

**Figure 3: The reason why Tongan migrants who use Ave Pa’anga Pau choose remittance channels (%)**

![Bar chart showing reasons for choosing Ave Pa’anga Pau](source: Created by the authors from PLMS data.)
Nevertheless, we found a silver lining.

RSP choice appears to be naturally shifting to lower-cost RSPs over time. Western Union’s market share among SWP workers declined from around 96% in 2017 to 17% in 2023 (see page 38). The share among RSE workers fell from 60% in 2010 to 15% in 2023 (see Table A9 in the online appendices). New lower-cost RSPs like Ave Pa’anga Pau and KlickEx have quickly grown in popularity among temporary migrant workers, accounting for 14.5% of all surveyed households, higher than 10% in the Australia-Tonga corridor and 37% in the New Zealand-Tonga corridor (see Table A2-6 in online appendix).

An earlier blog and recent brief discuss macro-level constraints on remittance cost reduction, like financial capability and price transparency regulations. We have now added workers and households to this discussion: much lower remittance costs could be realised simply by shifting remitter behavior. But how much would Tonga gain? What prevents people from switching to lower-cost options? We will address these questions in the final blog of this series.

This blog is the second in a three-part blog series.

Disclosure
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It pays to switch remittance service providers, so what’s stopping people?

By Hiroshi Maeda, Ryan Edwards and Daniel Suryadarma
16 February 2024

Remittance costs in the Pacific are widely believed to be high. This blog shows how this common perception is a product of how such costs are measured. A different but reasonable approach paints a very different picture.

The World Bank’s Remittance Prices Worldwide (RPW) website is often used to calculate average remittance costs globally and in specific corridors (sending and receiving country pairs). Average remittance costs are usually a simple average of the costs of using Remittance Service Providers (RSPs) listed in RPW. Figure 1 shows that the average remittance cost in the Pacific was 9.1% in the fourth quarter of 2022 (the “Pacific average” includes Fiji, Tonga, Vanuatu, and Samoa, as noted in a previous blog), higher than the global average of 6.25% and more than triple the global target of 3%.

Figure 1: Remittance costs in four Pacific island countries, March 2023
However, this may not give the best picture of remittance costs in the Pacific. In 2016, RPW introduced the Smart Remitter Target (SmaRT) as an alternative measurement of remittance costs accounting for changes in remittance markets and RSP accessibility. SmaRT is a simple average of the three cheapest RSPs in a given corridor after dropping RSPs that do not satisfy certain criteria on transfer speed, access points, and availability of technologies. The average SmaRT of the four countries above is 5.63% in the same quarter (Figure 1). The simple average of the three cheapest RSPs is 3.94%, just 0.94 percentage points higher than the global target.

It is important also to consider potential fluctuations, which require higher frequency data. Send Money Pacific (SMP) and Saver Pacific (SP) are platforms that compare remittance costs and speed of transfer across different RSPs. A recent report on remittance data collection in the Pacific (funded by the Pacer Plus Implementation Unit and the Asian Development Bank, and done by Saver.Global, which runs Saver Pacific) highlights how this type of data is needed to understand fluctuations in remittance costs within RSPs over time. However, such data collection takes time and is limited to formal channels — and these two
platforms only provide users with comparisons at a single point in time, not actually over time.

There are three main differences and one similarity between SMP and SP.

First, data coverage. Only SMP provides total remittance costs in percentage terms to the public. We derived it ourselves for SP data.

Second, the timing of data updates. SMP updates every Thursday, while SP updates irregularly, with some RSPs (for example, ANZ, KlickEx, and OFX) updated daily, in real time. This leads to a slight difference in costs reported for the same RSPs between the two platforms.

Third, the number of RSPs. On 3 August 2023, SMP presented 35 options from 14 RSPs (with different transfer methods) in the Australia-Tonga corridor and SP presented 21 options from 15 RSPs.

Importantly, both platforms show similar fluctuations in remittance costs over time although the cheapest RSPs can be different on some days by a tiny margin.

We manually collected the remittance cost data for each of the five lowest-cost RSPs, the highest-cost RSP, Moneygram, and Western Union, when sending 200 dollars (AUD and NZD) from Australia and New Zealand to Tonga each day from 25 July to 7 August 2023 (this final data collection followed weeks of pilot data collection before it). We recorded remittances reported to be received in local currency, fixed fees, exchange rates, total remittance costs in percentages, transfer methods, and transaction speeds.

Figure 2 shows the short-run fluctuations in remittance costs for the seven RSPs in the Australia-Tonga corridor using SMP data (see our full paper for results using SP and for the New Zealand-Tonga corridor). Low-cost options are clearly available, and there are large differences between low- and high-cost RSPs.

Figure 2: Remittance costs in the Australia-Tonga corridor (%)
In the Australia-Tonga corridor, Ria charges 1.7% on average, which is lower than OFX and NAB by more than 15 percentage points. In the New Zealand-Tonga corridor, the average cost of Ave Pa’anga Pau is just over 3%, but Kiwi Bank and ASB charge more than 15%. Importantly, the rank ordering is generally stable over time: what is the cheapest today is likely to be the cheapest tomorrow, and so forth.

Table 1 shows that the average of the five lowest-cost RSPs was 3.1% and 4.8% in the Australia- and New Zealand-Tonga corridors, respectively, more than five percentage points lower than a simple average from RPW.

So, average remittance costs look quite different depending on what you take the average of, an analytical decision that can matter a lot for substantive conclusions. The long-standing perception of high remittance costs in the Pacific appears to be based on simple averages of remittance costs across all RSPs, regardless of market share and accessibility. Yet, if households and workers were to choose low-cost RSPs, average realized costs would be lower than 5%, perhaps close to the global target of 3% (Table 2).

Unfortunately, in the case of Tonga, people tend to choose services that lead to higher realised remittance costs, as we will show in a companion blog.
This is the first in a three-part series.

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Link:
Date downloaded: 27 June 2024
A previous blog introducing the Tongan household survey component of the Pacific Labour Mobility Survey answered three questions on remittances. One of these questions was “What are remittances used for?”. We saw that, when people were asked whether they used remittances for different things, the most common uses were (a) paying everyday expenses, (b) donating to church, and (c) paying school or other educational fees.

Yet this question does not tell us how much people are spending on different categories, and whether participating in temporary migration schemes in fact affects the levels or patterns of household spending back home. Using the detailed information on household expenditures from the same survey, we can approach these questions by comparing this data for migrant households to that for non-migrant households.

The questionnaire asks how much people spend on different goods in a nominal week, the last month, or in the last 12 months, depending on the type of goods. We aggregate these into monthly data, for consistency. There are 25 types of goods, which we also aggregate into total expenditure, basic consumption (that is, food and other daily needs), necessary expenditure (that households pay frequently, such as utilities, mobile data, petrol, and maintenance of their house...
and vehicle), durable goods (for example, furniture, electric goods and home appliances) and investment, for analysis. Respondents reported expenditure in local currency, pa‘anga (see supplementary material for more details).

Table 1 shows the average total spending, per capita spending, and relative budget shares for migrant and non-migrant households across each expenditure category. We use this household-level expenditure data to ask two main questions: does temporary migration affect total household expenditures, and does temporary migration affect the relative budget shares of different goods?

Since naive comparisons between households with temporary migrants and those without can be misleading (as described in this recent blog), we use a matching strategy to bring our comparisons a little closer to the experimental ideal. The selection process for these schemes actually lines up well with key assumptions for such a “selection on observables” research design.

First, we know that workers are eligible, then selected, based on a number of key characteristics which we see and can thus adjust for in our data, such as health and age. For more difficult-to-observe factors – which are the key concern with this type of approach – we have rich information on location, household assets, past employment, migration history and much more, from which we expect to at least partially capture such factors, like intrinsic motivations and social networks.

Another key assumption is “overlap”, that we actually have sufficiently similar households in our non-migrant and migrant samples. Since not all applicants can participate in the schemes, there are ample households with similar characteristics that were suitable for the schemes that did not get selected or even apply. We estimate a propensity score – which allows us to find migrant and non-migrant households with very similar odds of participating – conditional on household size and structure, wealth, island of residence, education, English literacy, employment history and migration history, and use that to estimate the “treatment effects” of temporary migration on household expenditure patterns.
Figure 1 presents the estimated impacts of temporary migration for all households, on all categories separately, with horizontal lines indicating 95% confidence intervals. We take the natural logarithm of all expenditure variables, so a rough interpretation here is the percentage change relative to what would have happened in the absence of temporary migration. Migration increases expenditures on food consumption at home (19%), housing (45%), non-durable goods (29%), gambling (5%), education (20%) and lending money (16%). Vehicle spending is reduced (5%), and the coefficients for investment are not statistically different from zero at the 10% level.

**Figure 1: The impact of temporary migration on different expenditures**

If we look at more aggregated variables (Figure 2), we see that only the coefficient for basic consumption is positive and statistically significant at conventional levels.

**Figure 2: The impact of temporary migration on aggregate expenditures**
Among these level impacts, the positive impact on lending money is worth a brief comment. The survey was carried out from November 2021 to January 2022, during COVID-19. This positive impact therefore might reflect more informal money lending across families, relatives and friends due to remittances sent by temporary migrants while the Tongan economy was being battered by the pandemic.

Figure 3 shows the impacts on budget shares – the changes in the share of expenditure out of total expenditure, to examine potential reallocation of the household income – at an aggregate level. The patterns are like Figure 2: a positive effect on basic consumption, and no evidence of any effect on investment.

**Figure 3: The impact of temporary migration on aggregate budget shares**
Figure 4 disaggregates these relative effects to find that temporary migration increases the budget shares of food at home (4%) and housing (1%), but decreases the share of community spending (6%). The last result looks surprising because more than a third of recipients reported donating some remittances to the church (Table 3 in this blog). However, the absence of key household members (as migrants) obviously could explain this drop, for example through deferred, in-kind, or direct transfers.

**Figure 4: The impact of temporary migration on different budget shares**
Since the Seasonal Worker Programme (SWP) generates higher levels of remittances than the other schemes, we also investigated differences in expenditure impacts across programs. The Pacific Labour Scheme (PLS) is omitted due to the relatively small number of PLS respondents. Overall, both the SWP and the Recognised Seasonal Employer (RSE) scheme appear to support basic consumption but not investment, although the patterns across the two schemes are slightly different. In the aggregate categories, the SWP increases durable goods expenditure. In the subcategories, it increases expenditure on food at home (34%), while the RSE increases expenditures on daily necessities (39%), housing (32%), health (49%), home appliances (30%), gambling (11%) and non-durable goods (27%). For the budget shares, SWP increases the budget share on food outside the home (2%), and both programs decrease spending on the community (5% for SWP and 7% for RSE).

Our preliminary findings, like the previous blog, suggest that Tongan households use income from temporary migration programs mainly to meet basic consumption and necessary spending, rather than as a source of productive investment. Although the findings remain preliminary (this analysis is part of Hiroshi’s master’s dissertation currently in progress), and estimates not without
limitations, the findings suggest that we should think about how these schemes can be a more accessible, flexible and effective financial management tool in the near term (see also this episode of Devpolicy Talks), rather than, for example, an instrument for economic growth and broader economic transformation, for which such evidence for now remains thin. They also suggest that – if focusing labour mobility earnings on consumption is in fact not optimal – it may be worth investigating why households do not seem to make more productive investments, and ways to overcome this.

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