



**The role of remittances in improving family wellbeing and supporting the transition to sustainable livelihoods.**

by

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*A Thesis  
Submitted to Flinders University  
for the degree of*

**Master of International Development**

College of Humanities, Arts and Social Sciences  
11 October 2018

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## **ABSTRACT**

In 2017 remittances totalled US\$ 613 billion, three quarters of which ended up in low and middle income countries. The rapid growth and relative stability of remittances positions them as a critical driver of future development. This thesis uses quantitative and qualitative measures of macro- and micro-economic data to investigate the role of remittances in improving family wellbeing and supporting the transition to sustainable livelihoods. For comparison, two country case studies were examined; Tonga a country with high levels of human development and a demonstrated history of remittance motivated migration and Timor-Leste, a relatively new country with medium levels of human development and an emerging emigrant community.

The new economics of labour migration theory or NELM is used to understand migration and remittances as products of a household strategy to diversify their resources in order to minimise risks while maximising income. The findings of the research suggest that remittances perform a central role in improving well-being in recipient households. The findings also indicate that the utilisation of remittances shifts over time, maturing from expenditure on daily consumption to investment in small and medium businesses. This affirms the assumption that remittances support families in transitioning to more sustainable livelihoods through the diversification of household income, making them less susceptible to stresses and shocks.

The research also established that both positive and negative effects of remittances extend beyond the household to the wider community ranging from employment opportunities and stimulation of the local economy to increased household inequality. The research findings suggest that the potential of remittances as a tool for development is tremendous and advises governments to engage their respective diasporas and those involved in the migration and remittance process to ensure the greatest benefits.

## DECLARATION

I certify that this thesis does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief, does not contain any material previously published or written by another person except where due reference is made in the text.

Signed .....

Date .....

## **ACKNOWLEDGEMENTS**

I would first like to thank and acknowledge my thesis advisor, Associate Professor Udoy Saikia of the College of Humanities, Arts and Social Sciences at Flinders University. Dr Saikia's guidance and encouragement were central to the completion of this paper. He consistently steered me in the right direction but allowed this concept to flourish into a completed piece of work.

I must also express my profound appreciation to my partner James for providing me with unfailing support and continuous encouragement throughout my years of study and through the process of researching and writing this thesis. This accomplishment would not have been possible without you.

## ABBREVIATIONS

EPS	Employment Permit System
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HDI	Human Development Index
HDR	Human Development Report
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
LDS	Latter Day Saints (Church of)
MDGs	Millennium Development Goals
NCDs	Non-communicable Diseases
NELM	New Economics of Labour Migration
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PAC	Pacific Access Category
RSE	Recognised Seasonal Employer
SDGs	Sustainable Development Goals
SEPFPOPE	The Secretariat of State for Professional Training and Employment Policy
SLA	Sustainable Livelihoods Approach
SWP	Seasonal Worker Programme
TOP	Tongan Pa ‘anga
UNDP	United Nations Development Program
USD	United States Dollar
WB	World Bank
WCED	World Commission on Environment and Development

# TABLE OF CONTENTS

<b>ABSTRACT</b> .....	I
<b>DECLARATION</b> .....	II
<b>ACKNOWLEDGEMENTS</b> .....	III
<b>ABBREVIATIONS</b> .....	IV
<b>TABLE OF CONTENTS</b> .....	V
<b>LIST OF TABLES</b> .....	VI
<b>LIST OF FIGURES</b> .....	VII
<b>CHAPTER 1 INTRODUCTION</b> .....	1
1.1 Introduction .....	1
1.2 Research Question .....	2
1.3 Methodology .....	3
1.4 Organisation of the Thesis .....	3
1.5 Theoretical Approach and Literature Review .....	4
<i>1.5.1 Summary of Neo-Classical and Historical Structuralist Theories</i> .....	4
<i>1.5.2 New Economics of Labour Migration and Sustainable Livelihood approaches</i> .....	5
<i>1.5.3 Migration and Development</i> .....	7
<i>1.5.4 Remittances</i> .....	9
<i>1.5.5 Wellbeing</i> .....	10
<i>1.5.6 Gender</i> .....	11
<b>CHAPTER 2 CURRENT SITUATION OF TONGA AND TIMOR-LESTE</b> .....	13
2.1 Introduction .....	13
2.2 Tonga Country Summary .....	14
<i>2.2.1 Overview of Social and Economic Well-Being Indicators</i> .....	15
<i>2.2.2 Tonga's Migration History</i> .....	18
<i>2.2.3 Migrant Remittances</i> .....	22

2.3 Timor-Leste Country Summary .....	25
2.3.1 Overview of Social and Economic Well-Being Indicators .....	26
2.3.2 Timor-Leste’s Migration History .....	31
2.3.3 Migrant Remittances .....	34
<b>CHAPTER 3 DISCUSSION AND ANALYSIS .....</b>	<b>37</b>
3.1 Introduction .....	37
3.1.2 Investment and Consumption of Remittances .....	37
3.2 Well-being .....	40
3.2.1 Health and Education .....	40
3.2.3 Standard of Living .....	43
3.3 Sustainable Livelihoods .....	46
3.4 Wider Impacts .....	49
3.5 Negative Impacts .....	50
3.6 Conclusion .....	52
<b>CHAPTER 4 CONCLUSION .....</b>	<b>53</b>
4.1 Introduction .....	53
4.2 Implications for Theory .....	53
4.3 Findings Summary .....	54
4.3.1 The investment and consumption of remittances .....	54
4.3.2 Impact of Remittances on Wellbeing .....	55
4.3.3 Impact of Remittances on sustainable livelihoods .....	56
4.3.4 Negative Impacts and Wider Impacts .....	57
4.4 Limitations .....	57
4.5 Implications for Policy .....	57
4.6 Implications for Research .....	59
4.7 Conclusion .....	59
<b>REFERENCES .....</b>	<b>61</b>

## LIST OF TABLES

Table 2.1 Key Development Indicators, Tonga .....	16
Table 2.2 Tonga’s final status on the MDG Targets, 2015 .....	17
Table 2.3 Recognised Seasonal Employer Scheme, Number of Tongan employees 2007-2017 .....	21
Table 2.4 Seasonal Workers Program, Country of Origin 2012/13-2015/16 .....	22
Table 2.5 Key Development Indicators, Timor-Leste .....	27
Table 2.6 Timor-Leste’s Final Status on the MDG Targets, 2015 .....	28
Table 2.7 Industry Distribution of Timorese Workers in South Korea 2009-2015 .....	32
Table 2.8 Seasonal Workers Program, Country of Origin 2012/13- 2015/16 .....	33
Table 2.9 Average Yearly Amount Remitted by EPS Workers .....	35
Table 3.1 Breakdown of Household Remittance Expenditure in Tonga .....	38
Table 3.2 Number of household members whose education is supported by a remittance fund ..	40



## LIST OF FIGURES

Figure 1.1 Dominant Theoretical Perspectives of the Migration and Development Nexus .....	4
Figure 2.1 Map of Tonga .....	14
Figure 2.2 Tonga Net Migration Rate (per 1,000) .....	20
Figure 2.3 Top Remittance Reliant Countries (% of GDP), 2017 .....	23
Figure 2.4 Personal Remittances Received as % of GDP .....	23
Figure 2.5 Map of Timor-Leste .....	25
Figure 2.6 MPI Indicator: No access to clean drinking water .....	30
Figure 2.7 Timor-Leste Net Migration Rate (per 1,000) .....	31
Figure 2.8 Timor-Leste Personal Remittances Received (US\$) .....	34
Figure 3.1 House in Tonga built using western style materials .....	45
Figure 3.2 New House Construction in Urban Oecusse, Timor-Leste .....	45

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Introduction**

The movement of people across borders in search of work is a complex feature of an increasingly globalised world. As migration flows increase in scope and impact migrants can be seen as both a cause and effect of the global development process. The International Labour Organisation (ILO) estimates that there are currently upwards of 232 million people living outside their countries of birth, of these 150.3 million migrants are workers who are employed in a country other than their birthplace (ILO, 2015). The rise in global mobility and the impact of transnationality on migrants, their families, extended home communities, and countries of origin have made international migration a priority for the international community.

A particular area of interest for researchers and policy makers are remittances, defined as ‘cross border transfers of money from workers in one country back to relatives and family in their country of origin’ – often through cash or in-kind payments (IFAD, 2017, p. 4). Remittances are measurable representations of the strong transnational connections to families and communities maintained by overseas migrant workers and are described by Deirdre McKay (2007) as monetized expressions of care and obligations to family. From a macroeconomic perspective, remittances are recognized as ‘an important and stable source of development finance’ for poor, labour-exporting countries (Ratha, 2007, p. 157) and in 2017 global remittances grew to a record level US\$613 billion (World Bank, 2011). Remittances were equivalent to approximately 30% of the total value of foreign direct investment (in 2017) and more than three times the total value of Official Development Assistance (in 2017) (World Bank, 2018). Of the estimated US\$613 billion in remittances, US\$466 billion was sent to low- and middle-income countries, improving not only economic growth but also development. The growing potential of remittances as drivers of development is a critical area of research.

This thesis will analyse and compare two country case studies, Tonga and Timor-Leste in order to explore the potential of remittance led development in two areas, household wellbeing and the transition to sustainable livelihoods. The Kingdom of Tonga has engaged in remittance motivated migration for over fifty years. Remittances now comprise over 30 percent of the country's GDP, making it the most remittance reliant country in the world. Timor-Leste, a relatively new country that has only recently gained independence is experiencing a shift from politically and socially motivated migration to economic migration. The potential remittances produced by a strong Timorese diaspora could be a valuable tool for the Government of Timor-Leste to follow in Tonga's footsteps to diversify the national economy and improve human development.

## **1.2 Research Question, Scope, and Limitations of the Study**

The overarching aim of this study is to investigate the impact that remittances have on household wellbeing and their potential to support the transition to sustainable livelihoods.

The key question the study seeks to answer is:

**Are remittances a development mechanism to improve family wellbeing and support the transition to sustainable livelihoods?**

The thesis will be somewhat limited in scope due to time restraints and so will only examine the effect of remittances on three key wellbeing indicators, education, physical health and standard of living. While other domains of wellbeing such as community vitality and psychological health are valuable indicators there is insufficient pre-existing data to draw conclusions about how they are affected by the presence of remittances. While the paper recognises the value of and need for research that considers intersectional experiences, such as those affected by gender or disability, the research is unable to provide sufficient insight due to a lack of previous research and limited gender disaggregated data. Despite the recognition that the migration experience differs between urban and rural areas this study will examine the country experiences of Timor-Leste and Tonga as a whole. However, there is certainly scope for future research that examines the different impacts of remittance utilisation in rural and urban areas.

### **1.3 Methodology**

This thesis employs a mixed-method approach to the research, using both quantitative and qualitative data. The majority of macroeconomic quantitative data on migrant stock, migration rates and remittance flows are based on data from international institutions including the World Bank, International Monetary Fund, and the United Nations Development Program. Remittance data is also taken from RemitSCOPE, a data portal launched in 2018 by IFAD. RemitSCOPE provides remittance market profiles of over fifty countries in Asia and the Pacific region covering the most current and comprehensive data on remittance markets and emigration flows. Micro-economic quantitative data and qualitative, descriptive data were gathered from a series of household surveys in both Tonga and Timor-Leste. These were accessed through a review of archival research and articles on the topics of migration and remittances. The value of quantitative household data is that it provides insight into the amount and regularity of remittance transfers as well as statistical data about how they are consumed or invested upon receipt. The use of qualitative data from household surveys informs the understanding of the migration decision making process and also provides valuable insight into remittance utilisation. While the vast majority of data was specifically focused on the two country case studies broader data was used to contextualise the findings and support assumptions for which specific country evidence was unavailable or insufficient.

### **1.4 Organisation of the Thesis**

This thesis is comprised of four chapters, including this initial chapter which provides the introductory background to the thesis, outlines the aims and the research question and describes the methodology. Chapter One will also present the chosen theoretical approach, and a review of the existing literature on the migration-and-development nexus and the role of remittances in development. Chapter Two will provide an overview of the country case studies including a brief country summary, analysis of social and economic wellbeing, the history of migration and a description of the current state of labour migration and remittances. Chapter Three draws on a critical discourse analysis of the investment of remittances and the impact of this on recipient households and communities. This analysis will be used to assess the impact of remittances on household wellbeing and the potential of remittances to support the transition to sustainable

livelihoods. Chapter Four summarises the findings of the research, outlines limitations of the study and suggests the implications of the findings for policy and future research.

## 1.5 Theoretical Approach and Literature Review

This chapter presents a review of a selection of academic articles, reports, and other publicly available documents related to the topics of migration and development theory, the migration-development nexus, and remittances. The theory will be used as the basis for analysis of the findings within this report while the literature review will inform the background to the work. Despite the research focus on two specific country studies, Tonga and Timor-Leste, the literature review will present a broader analysis of the processes of migration, development, and remittances.

### 1.5.1 Summary of Neo-Classical and Historical Structuralist

For over fifty years the causes, mechanisms, and consequences of internal and international migration have been the focus of academic scholarship. The migration development nexus has been perceived in waves of positive and negative trends. Figure 1.1 below summarises the dominant theoretical perceptions of the migration and development nexus from the 1950s to present day.

**Figure 1.1: Dominant Theoretical Perspectives of the Migration and Development Nexus over time**

1950s-1960s	1970s-1980s	1990s-Present
Neoclassical	Historical Structuralist	Pluralism, NELM, SLA
Developmental Optimism	Developmental Pessimism	Developmental Optimism

*Source: De Haas, 2012; Massey et al 1998.*

The first wave of migration theory was neoclassical theory, which explained migration according to a classic push-pull framework. Neoclassical theory viewed migration as predominantly economically driven, operating under the assumption that people migrate when the opportunity for higher wages is present elsewhere. Douglas S. Massey, a proponent of neoclassical migration theory described the case of international labour migration as ‘the movement of capital’, with highly skilled workers moving from capital rich to capital poor countries in order to reap returns on their skills in a human capital scarce environment (Massey, et al. 1998 p. 433). While economically deterministic, neoclassical theories of migration are still considered representative of developmental optimism because they acknowledge migrant’s agency in the migration process as voluntary, self-initiated and self-controlled.

In the 1970s-1980s neoclassical theory became challenged by a historical structuralist approach deeply influenced by dependency theory and Marxist political orientation (Massey, et al. 1998). The pessimistic perception this produced of international labour migration was based in world systems theory, where migration was viewed as a process of funnelling cheap labour from the periphery to the core (De Haas, 2010). The fear was that the core states would develop at the expense of the periphery, simultaneously deepening existing inequality between the two. Since the 1990s the rise of the New Economics of Labour Migration (NELM) theory and Sustainable Livelihood Approaches has sparked the revival of developmental optimism.

### **1.5.2 The New Economics of Labour Migration and Sustainable Livelihood Approaches (NELM)**

The research within this thesis will be analysed through insights provided by the two theoretical perspectives mentioned above, new economics of labour migration theory (NELM) and sustainable livelihood approaches (SLA). These theories both link migration to development and can be used to understand the decision-making process that precipitates migration. NELM is built on the foundation of Lucas and Stark’s earlier work on the determinants of remittances and is the only migration theory that explicitly links migration decision making to the direct impacts of migration through remittances (Taylor, 1991). It is also considered to be the ‘most optimistic...about the developmental effect of labour flows’ (Portes, 2007, p. 21). Despite sharing some similarities with its neoclassical predecessor NELM recognizes the household as the unit for

analysing the decision-making process as opposed to neoclassical theory which views the individual as the decision-maker. NELM is focussed on the plural nature of migration and development and advocates a positive relationship between the two, mainly through the generation of remittances (Taylor, 1999). NELM is also more sociological in its approach than preceding theories as it recognises new aspects of migration such as social capital and analyses the decision making of migrants in the context of social groups. This is most apparent in NELM's model of migration as risk-sharing behaviour between families or households. Instead of seeing the migrant as an individual NELM examines the migrant as part of a household with the goal of diversifying their resources, such as labour, in order to minimise risks while maximising income (Stark and Levhari, 1982). NELM recognises remittances as one of the most essential motives for migration as they can be used to diversify household income, insure against shocks and be invested in new income-generating activities. Essentially, remittances borne out of migration are viewed through NELM as a household strategy to overcome economic constraints in the sending country. NELM is a useful theoretical approach for analysing the results of this research because it adopts household analysis to explain the migration decision making process but also because it provides sound reasons for why migrants remit and how this money affects the recipient household and the wider community.

The new economics of labour migration shares several similarities with the sustainable livelihoods approach (SLA), an anthropological/sociological theory which argues that the poor are not passive victims of global capitalist forces but are instead actors who employ their agency to actively improve their livelihoods despite constraints. Cahn, a proponent of SLA defines it as the capabilities, assets (including both material and social resources), and activities required for a means of living, including the income generating activities of a household but also the social institutions, intra-household relations, and mechanisms of access to resources throughout the life cycle (Cahn, 2002). The sustainable livelihoods approach views those experiencing deprivation as agents at the centre of the development process with the power to formulate and implement various livelihood strategies to overcome the constraints of poverty. According to SLA a livelihood is considered to be sustainable when:

- 1) it can cope with and recover from stresses and shocks and

- 2) is able to maintain or enhance its capabilities and assets, while not undermining the natural resource base (DFID, 1999).

Sustainable livelihood approaches are valuable for understanding the role of remittances and migration in development. Through SLA remittances are understood as a source of income diversification and risk sharing for the migrant household. Remittances are shown to be less affected by shocks and can be treated as an investment fund that can be utilised in order to enhance the capabilities of household members, insure against stresses and shocks and build family assets through reinvestment.

The similarity of the new economics of labour migration and the sustainable livelihoods approach is in their shared recognition of migration as a collective decision or strategy employed by households for the purpose of diversifying, securing, and durably improving, their livelihoods.

### **1.5.3 Migration and Development**

Despite the deep-rooted presence of development in migration-related research it has only been the past two decades or so that have seen migration recognised as a global phenomenon that can be shaped and manipulated in order to promote development (Skeldon, 2008). In analysing ‘migration’ and ‘development’ Skeldon (2008) found that ‘migration is seen as an integral part of the outcome of the implementation of development policy, thus, development policy becomes the driver to be managed and migration the outcome’ (Skeldon, 2008, p. 8). Skeldon’s assumption that development precedes migration is supported by the work of Nyberg-Sørensen, van Hear, and Engberg-Pedersen (2002) who found that a level of economic development is necessary in order to generate the required resources and incentivise people in poverty to overcome the ‘migration hump’ (Nyberg-Sørensen, et al., 2002). While it has been shown that the presence of development influences migration, there is also support for the assumption that migration influences development. However, there are two conflicting schools of thought over whether the effect of migration on development is positive or negative.

An example of the negative or pessimistic view is that outward migration can cause a critical shortage of agricultural labour, through the reduction of the able-bodied workforce (Taylor, 1984). Some researchers argue that the run on effect of a shortage of agricultural labour includes ‘the de-



intensification of agriculture and the decline of land under cultivation' (Rubenstein, 1992). While these assumptions were popular during the period of historical-structuralist approaches to migration and development, recently these pessimistic perspectives are increasingly found to be based on inadequate empirical and analytical bases. More recent studies support the existence of a positive relationship between migration and development, arguing that migration does not necessarily induce remittance dependence, but that it instead contributes to a broadening of the recipients economic activities, increasing both wealth and income (Taylor et al, 1996; 1996; De Haas, 2005). Several studies have also indicated that remittance receiving households are more likely to invest and save when compared to their non-migrant counterparts. Moreover, these studies indicate that previously labelled consumptive or unproductive expenses such as housing are not only responsible for positive multiplier effects in local and regional economies, through the purchase of materials and generation of employment (De Haas, 2005) but that they can also improve people's capabilities and well-being (Sen, 1999).

Brain Drain is another issue often raised when discussing if migration is a positive or negative force for development. Brain Drain has traditionally referred to the loss of highly skilled and educated workers who migrate for improved employment and wage potential. However, the real experience of brain drain is nuanced, in fact the universal validity of the brain drain hypothesis is increasingly questioned. In the case of labour migration for the purpose of remittances brain drain is less of a concern as first much of the work is less skilled, but second because strong ties to the home country and a willingness, even desire to return remains high. Furthermore, some research has found that where brain drain does occur it can be mitigated by the process of brain gain, where the prospect of moving abroad incentivises those left behind and those with aspirations to migrate to pursue further education (World Bank, 2005; Stark, Helmenstein and Prskawetz, 1997). Brain circulation is another argument that supports a positive link between migration and development where some researchers have found that highly skilled migrants often return to their country of origin and establish businesses or engage in skill sharing after a term of overseas employment (Saxenian, 2005). Labour migrants are beginning to be recognised not only as an important source of remittances, but also as a repository of skills and knowledge and are increasingly seen as an emerging 'bottom up' development resource for their countries of origin (Zewdu, 2014).

#### **1.5.4 Remittances**

Remittances are perhaps the clearest link between migration and development. Defined as a financial or in-kind transfer made by migrants employed and resident in the compiling economy to friends or relatives in their country of origin (IFAD, 2017), and according to Ratha (2007) have become a prominent source of external funding for many developing countries. The World Banks (2006) claim that remittances are partly responsible for reducing poverty in many developing countries is evidence of their function as a development resource. As a component of the migration and development nexus remittances are similarly perceived from both optimistic and pessimistic perspectives. In fact household remittance expenditure is often classified as either consumption/unproductive (pessimistic) or investment/productive (optimistic).

The assumption that the consumption sector is unproductive fails to account for family wellbeing which has been shown to rise with improved consumption (Magrabi et al. 1991). Improved wellbeing in turn influences future productivity and can influence future employability and earnings (Carling, 2007). The pattern of remittance usage is seen to change over time, shifting from daily consumption to savings and investment. Burgess (2005) supports a pessimistic view of remittances by evaluating their impact using the new economics of labour migration theory, finding that remittances lead to ‘excessive consumption, import dependency, or unproductive investment in housing and land...they can also negatively influence labour efforts and savings, even if that is not the intention of the remittance sender (P.234). Rampel and Lodbell (1978) support Burgess’ claim of remittances inducing ‘excessive consumption’ through their finding that remittances are mainly devoted to daily consumption needs. Evidence of the utilisation of remittances for consumption is seen in a study of Mexican households where 68% to 86% of remittances were used for daily consumptive needs (Massey et al., 1987). A pessimistic outlook on remittances is also noted by Adams (2011) who found that remittances increased inequality between migrant and non-migrant households and caused local inflation in Cape Verde.

More optimistic perspectives on the relationship between remittances and development found that remittances serve as household insurance during economic downturns (Yang and Choi, 2005). Lucas and Stark’s study (1985) found that remittances were higher during drought, indicating the ability of remittances to support agricultural production during hard times while another study

reported that in Tonga the presence of a household member with a medically-related incapacity lasting 30 days or more increased remittances by US\$300 (Brown, 2008). Evidence from case studies in Botswana, El Salvador and the Philippines all reported a positive relationship between remittances and education. Several studies reported a decrease in school dropout rates, an increase in years of education and greater expenditure on schooling (Lucas and Stark, 1985; Costa, 2006; Yang, 2005). Remittance dependence is a concern of the pessimists however, in a household survey study on the use of remittances Soraya, (2007) reported that remittances were considered to be a transitory income that enabled receiving households to invest in future income generating activities. This summation illustrates that while some researchers hold pessimistic accounts of remittance utilisation there are many that acknowledge the potential of remittances as funds for development.

### **1.5.5 Well-Being**

Where we once measured development progress in terms of economic growth, it is now recognised that a better quality of life should be the goal of development, and that economic prosperity is the means to this goal. Poverty, previously measured and understood in terms of consumption or income is now viewed through a multidimensional lens, a change that has precipitated the adoption of increasingly holistic approaches and frameworks to assess the varying dimensions and experiences of poverty.

Subjective well-being recognises the multi-dimensional nature of poverty and encompasses deficits in material aspects of life, but also in a range of less tangible areas – these can include human security, community vitality, dignity, participation, and access to education. Standard metrics of economic progress can be complemented with wellbeing measures to better depict changes in quality of life. Wellbeing is best understood not simply as having positive emotions, but, rather, as the ability of a person to thrive across multiple domains of life (Diener, Scollon, & Lucas, 2003). Wellbeing theories can encompass a range of these domains which are used to measure peoples experiences. Seligman’s (2011) Wellbeing Theory suggests that there are five domains of life that people pursue to improve their wellbeing: positive emotion, engagement, relationships, meaning, and achievement. In the 2018 Human Development Report for Timor-Leste a framework of eight domains, with origins in the Gross National Happiness Index pioneered

in Bhutan, was used to assess youth wellbeing. The eight domains were: physical health, psychological health, education, community vitality, cultural diversity, governance, ecological stewardship and living standards (UNDP, 2018). These eight domains are more suited to assessing wellbeing in a development context than those of Seligman.

Subjective wellbeing (SWB) is a valuable tool for producing data as it gives people the power to evaluate their own lives. One strength of this approach is that it encourages the recognition that depending on who they are, where they are and their position in society different people regard different domains as the most important to their personal wellbeing.

### **1.5.6 Gender**

While the gender aspect will only be briefly examined in the research it is a vital component of the migration development nexus. According to the IOM, ‘Gender influences reasons for migrating, who migrates and to where, how people migrate and the networks they use, opportunities and resources available at destinations, and relations with the country of origin’ (IOM, 2018). Over the past few decades migration researchers have observed the feminisation of migration, a trend toward an increasing proportion of women among international migrant worker stock. The process of migration has the potential to be both empowering and disempowering to women. Women who migrate experience financial freedom and independence, but are often at risk of poor working conditions (Chin, 1997). Women who remain in their country of origin while their husbands migrate internally or internationally often take up the role of head of household gaining their own level of financial freedom and decision making power (Riley and Gardener, 1993). However, this can also lead to increased inequality through widening differentials in skills, knowledge, experience, transnational connections, social status and income.

A study of Moldova by the International Organization for Migration (IOM), found that female migrants remitted at a higher rate than men and that the purpose of the funds was to pay for education, health, furniture, and loans. A study by Hallman (2000) using household survey data from Bangladesh found that remittance assets controlled by women were linked to better health outcomes for girls. De and Ratha (2005) found that in Sri Lanka remittances have a positive impact on health and education of the children when the household head is female, but not when the

household head is male. In the case of a male head of house, remittances were shown to have a positive impact on asset accumulation. A study of remittance impact on home communities in Ethiopia reported that in remittance receiving households with a female head education outcomes were improved, especially in the case of girl children (Zewdu, 2014). This was true even when the mother had very little education herself and is evidence against arguments that the absence of the male leads to the withdrawal of children from school.

This review of the literature demonstrates the two contradictory schools of thought on remittances and migration and their role in development. While both schools present convincing evidence for their position, even in the presence of some negative effects the impact of remittances on development is overwhelmingly positive. The review provided a brief introduction of wellbeing theory and frameworks, a central concept in the research and also contextualised the nuanced gender impacts of both migration and remittances.

## **CHAPTER 2**

### **CURRENT SITUATION OF TONGA AND TIMOR-LESTE**

#### **2.1 Introduction**

This paper will analyse migration and remittance flows in order to assess their impact on household wellbeing and their potential as stimulants to support the transition to sustainable livelihoods. NELM and SLA will be used as theoretical tools to inform the study. The choice of Timor-Leste and Tonga as country studies for this thesis is motivated by their location in the Asia-Pacific region, the highest remittance receiving part of the world. Tonga and Timor-Leste also present cases with different migration histories and remittance behaviours. Tonga has over 50 years of intensive remittances-motivated migration, that is fundamental to both the economy and society. Timor-Leste's remittance history is less intensive and more recent than that of Tonga's however, it has recently shifted from a remittance market borne from internal migration to one supported by international migration making the chance for remittances higher.

In order to assess the impact of migration and remittances on the chosen country studies it is important to first understand the historic social and economic conditions of the country. Due to this the following chapter will present a profile of each country, introducing data related to well-being indicators, migration, and remittances. Tonga will be analysed first as a long-term remittance reliant state that will provide context for the more recent remittance behaviours of Timorese migrants.

## 2.2 Tonga Country Summary

Figure 2.1: Map of Tonga



Source: World Atlas, 2018

The Kingdom of Tonga is a Polynesian country that lies to the North East of New Zealand in the Pacific. Tonga is an archipelago comprised of 176 islands, 36 of which are inhabited by a population of approximately 107,000 (Small and Dixon, 2004; World Bank, 2018). The islands are divided into four main groups – with the capital Nuku'alofa located on the main island of Tongatapu. Despite being a British protectorate for 70 years Tonga was able to maintain much of its heritage and autonomous authority, including indigenous chiefly leadership and Tongan-only land ownership, which has contributed to the kingdom's robust subsistence farming and fishing economic sector (Small and Dixon, 2004). Tonga has a small open economy with a narrow export base of agricultural goods, mainly squash, vanilla, and kava (CIA, 2018). Agriculture and fishing provide a basic livelihood for over 60% of the population (CIA, 2018). In 2017 the national GDP was US\$426 million and at US\$145.9 million international remittances absolutely eclipsed both foreign direct investment (US\$8.8 million) and official development assistance (US\$79.7 million) ([data.worldbank.org](http://data.worldbank.org). 2018). As mentioned above agricultural production is a predominant economic activity, accounting for 19.5% of GDP with industry, mainly fishing, tourism, and manufacturing accounting for 20.8% (CIA, 2018). However, the majority of GDP is comprised by the services sector, especially government and tourism at 59.8%. This summation of the Tongan economy demonstrates the vital importance of remittances in not only maintaining the prosperous

island life enjoyed by most Tongans but in assisting their economic transition from reliance on subsistence agriculture to services.

### **2.3 Overview of Social and Economic Well-Being Indicators**

When discussing human wellbeing we are really referring to peoples quality of life. The quality of life experience by an individual is influenced by both psychological and physical aspects that are interwoven and affect a great many facets. As discussed earlier there are multiple frameworks for determining well-being but they usually rely on three broad categories: material conditions, quality of life and sustainability. Within these three categories are then a set of variables upon which data can be assembled, variables include but are not limited to: income, employment, housing, health, education and skills, social connections, civic engagement and environmental quality (OECD, 2013).

There is currently a small pool of research assessing the well-being of the Tongan population. Due to this the thesis will present data on variables from all three categories in order to create a picture of well-being in Tonga. Either because of or in spite of its strong reliance on remittances Tonga has achieved relatively high levels of human development. The Human Development Index employs Amartya Sen's capabilities approach to assess human well-being. According to the UNDPs Human Development Indicators, Tonga has a Human Development Index value of 0.726—placing the country in the high human development category— and positioning it at 98 out of 188 countries and territories (UNDP, 2018). Tonga's HDI value has steadily, increased from its 2010 value of 0.712. Table 2.1 illustrates other key development indicators used to measure the level of human development in Tonga. While reasonably high for the region life expectancy is still lower than in neighbouring developed countries like Australia and New Zealand where life expectancy is 83.1 years and 82.0 years respectively. Primary and secondary enrolment rates are high, likely due to the provision of free compulsory education from ages 6-14.



**Table 2.1: Key Development Indicators, Tonga 2017**

<b>Indicator</b>	
HDI Rank	98
Adult Literacy Rate	99.4%
Life Expectancy at Birth (Male)	70.1
Life Expectancy at Birth (Female)	76.0
Infant Mortality Rate (per 1,000)	14.4
Gross Primary Enrolment Ratio %	108
Gross Secondary Enrolment Ratio %	90

*Source: UNDP, HDR Tonga*

The Human Development Index provides no data for tertiary enrolment in Tonga. This is due to the limited tertiary education options in country, and the cultural practice of undertaking higher education internationally, often in Indonesia or common migration destinations New Zealand and Australia. McKenzie and Gibson’s “Brain Drain” study found that 100 percent of the 193 Tongan survey participants had received their bachelor’s education abroad (McKenzie, and Gibson, 2010).

In 2000 and in the company of 188 other nations Tonga made its commitment to the Millennium Development Goals. How a country performed in reaching the Millennium Development Goals and targets by the 2015 cut off can provide some insight into the quality of life experienced by its people. Tonga’s final report on their MDG progress, published in September 2015, demonstrates key successes but also areas that still require some work. Table 2.2 below summarises the results of Tonga’s efforts. Tonga achieved success in all of the indicators for goals 2, 3, and 8. Goals 5 and 6 were partial successes, with progress made in halting and reversing the spread of HIV/AIDS and Tuberculosis and reducing the rate of maternal mortality by one-third. There was however, an increase in non-communicable diseases over the fifteen year period. Tonga is not the only country where NCDs are on the rise, in fact many other developing countries in East Asia and the Pacific are seeing rampant NCD rates as a result of lifestyle changes, decreased physical activity and the transition to Western diets high in animal fats, namely meat and milk as well as highly processed grains and cereals (Ministry of Finance, 2015). While eradicating extreme poverty (Goal 1: Target A) is depicted in the table as ‘not achieved’ the actual percentage of the Tongan population living below the poverty line is in fact very low at just 1.1 percent. Tonga’s progress on the Millennium

Development Goals demonstrates a strong country commitment to achieving high levels of inclusive human development. While education and health systems are strong there are still some issues restricting the well-being of Tongan nationals.

**Table 2.2: Tonga’s Final Status on the MDG Targets, 2015**

	<b>Indicator A</b>	<b>Indicator B</b>	<b>Indicator C</b>	<b>Indicator D</b>
<b>Goal 1: Eradicate extreme poverty and hunger</b>	Halve between 1990 and 2015 the proportion of people whose income is less than one dollar a day	Achieve full and productive employment and decent work for all, including women and young people	Halve, between 1990 and 2015, the proportion of people who suffer from hunger	
<b>Goal 2: Achieve universal primary education</b>	Ensure that, by 2015, boys and girls alike, will be able to complete a full course of primary schooling			
<b>Goal 3: Promote gender equality and empower women</b>	Eliminate gender disparity in primary & secondary education by 2005, and at all levels by 2015			
<b>Goal 4: Reduce child mortality</b>	Reduce by two thirds between 1990 and 2015 the under-five mortality rate			
<b>Goal 5: Improve maternal health</b>	Reduce by three quarters between 1990 and 2015 the maternal mortality ratio	Achieve by 2015, universal access to reproductive health		
<b>Goal 6: Combat HIV/AIDS and NCDs</b>	Have halted by 2015 and begun to reverse the spread of HV/AIDS	Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it	Have halted by 2015 and begun to reverse the incidence of TB and reduced the prevalence of NCDs	Have halted by 2015 and begun to reduce the prevalence of NCDs

<b>Goal 7: Ensure environmental sustainability</b>	Integrate the principles of sustainable development into country policies to reverse the loss of environmental resources	Reduce bio-diversity loss, achieving, by 2010, a significant reduction in the rate of loss	Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation	
Goal 8: Develop a global partnership for development	Develop further an open, rule-based, predictable, non-discriminatory trading and financial system	Address the special needs of small island developing states	In cooperation with pharmaceutical companies, provide access to affordable drugs in developing countries	Cooperate with the private sector, make available the benefits of new technologies, especially information and communication
<i>Not Achieved</i>		<i>Achieved</i>		<i>Not Available</i>

Source: Tongan Ministry of Finance (2015). *Tonga Millennium Development Goals Final Report*

A study conducted in 2004 aimed at assessing *Subjective Well-Being and Life Satisfaction in the Kingdom of Tonga* via a sample of 227 self-reports found that Tongans report higher rates of life satisfaction than neighbouring countries with similar levels of economic or social development (Moore, Leslie, and Lavis, 2005). The survey assessed relationships with family, friendships, values, and sense of belonging within the community. The highest reports of life satisfaction came from the older, married cohort of respondents who expressed strong ties to family, friends and their community (Moore, et. al., 2005). The findings of the study demonstrate the strength and importance of familial ties in the Tongan context. The value placed on community and belonging is very likely the reason for the Tongan diasporas’ strong commitment to remitting not only to their families, households and direct relations but also to churches and community groups. In fact, it is not uncommon for groups of Tongan’s to travel on short work visas with the express intention of raising funds for a particular community project. Evidence of this is apparent where every church building in Tonga built since the 1970s has been funded by overseas workers (Taufatofua, 2011).

**2.4 Tonga’s Migration History**

Internal and overseas migration have been a central aspect of the Kingdom’s labour history since the later part of the 20th century, transforming the distribution of the Tongan population within Tonga itself and redefining its entire economy. Tonga’s history of migration can be typified by

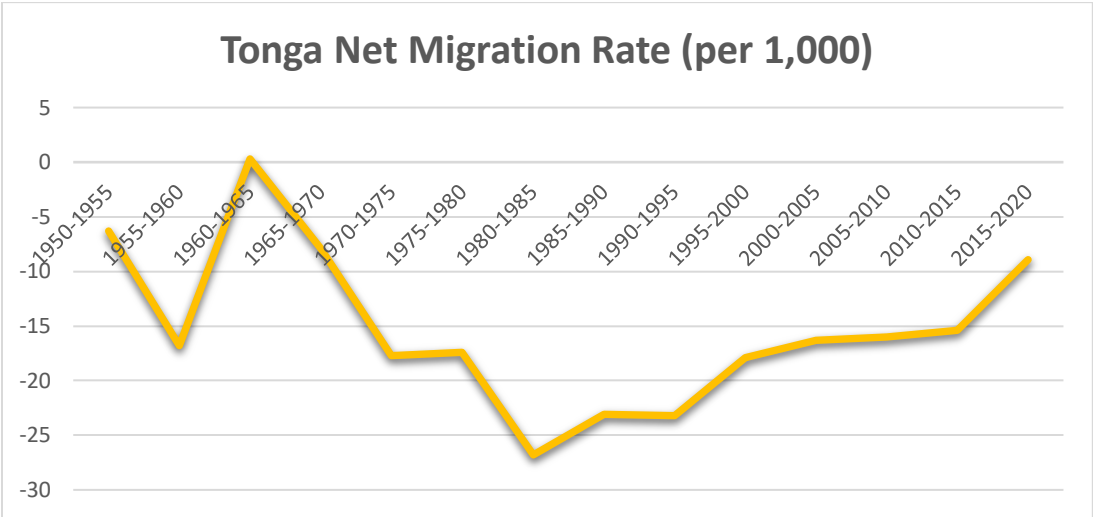
stages, first internal migration, then international migration to Australia and New Zealand, followed by religiously motivated emigration to the US.

In the 1930s, Tonga's population was distributed across 36 habitable islands across three island groups. Almost half of the 32,000 strong population resided on the main island of Tongatapu in 60 different villages (Small and Dixon, 2004). From around 1950 this distribution began to shift as work and education opportunities on the main island created a pull factor for those from the outer edges. Along with a mushrooming population and a shortage of agricultural land, young Tongans began to move from outer to main islands, and from smaller to larger towns. When opportunity became scarce and more competitive in the larger towns Tongan workers began to seek employment opportunities overseas, particularly in the primary destinations of New Zealand, Australia and the United States. The international migration of working age Tongans doubled as not only an economic advantage but also a solution to the intense population growth that had seen the population almost triple from the 1930s rate of 32,00 to more than 90,000 in 1976 (Small and Dixon, 2004). In a country reliant on agriculture with a land mass of 748 km<sup>2</sup> population growth was a serious concern, however, the high rate of migration insulated Tonga from potential social problems created by overpopulation such as inadequate infrastructure and high rates of unemployment (Taufatofua, 2011).

International migration was attractive to Tongan's mostly due to differentials in both wages and educational opportunities present abroad in comparison to the local context. Migration to Australia and New Zealand was strongly motivated by their proximity, level of industrial development and status as fellow members of the British Commonwealth. The large migration of Tongan's to the United States was prompted by intense evangelical activity in the Pacific region by Mormon missionaries from the Church of the Latter-Day Saints. For a period the LDS church provided new converts with a plane ticket to the United States, a fact which, unsurprisingly, greatly encouraged conversion (Small and Dixon, 2004). The actions of the LDS church resulted in the establishment of some of the first Tongan-American communities in Salt Lake City and Utah.

Figure 2.2 below contains World Bank net migration data from 1955-2015 and shows that Tonga’s net migration rate<sup>1</sup> has remained negative since 1965, meaning that the number emigrating from the kingdom has consistently outnumbered those entering for over 50 years (Data.worldbank.org, 2018). In figure 2.2 especially high levels of outbound migration can be observed between 1980-1995, this mirrors a period of relaxation of U.S. migration policies for non-Europeans. Although estimates show that out migration is slowing with an estimated net migration rate of -8.9 by 2020 as well as being somewhat mitigated through the return and repatriation of Tongan emigrants. (data.worldbank.org, 2018). It is currently thought that half of the estimated 216,000 Tongans in the world live abroad (Small and Dixon, 2004).

**Figure 2.2: Tonga Net Migration Rate (per 1,000)**



Source: World Bank data, 2018.

The majority of Tongan households have at least one relative who is a resident in another country. About two in 10 of Tonga's expatriates are residents of Australia, while four out of every 10 overseas Tongans live in the U.S., and another four out of 10 live in New Zealand (Taufatofua, 2011). While the level of Tongan migration to the US remains relatively high disaggregated data is more difficult to analyse as they represent such a small portion of the American population and are usually counted within a broad Pacific category. Due to this the thesis will focus on the

<sup>1</sup> Net migration is the total number of immigrants less the number of emigrants over an annual period and includes both citizens and noncitizens.

migration of Tongan nationals to Australia and New Zealand and to the EU through Portuguese channels.

Tonga - New Zealand migration is facilitated through the Pacific Access Category (PAC) Resident Visa and the Recognised Seasonal Employer (RSE) Scheme. The PAC resident visa is offered to Samoa and the Pacific island countries of Tonga, Tuvalu, Kiribati and Fiji (New Zealand Immigration, 2017). Visa recipients are chosen through a ballot of registrants, with an annual quota for Tongan citizens aged 18-45 of two hundred and fifty (New Zealand Immigration, 2017). The second notable avenue of migration from Tonga to New Zealand is the Recognised Seasonal Employer Scheme. The RSE provides an avenue for employers in the horticulture and viticulture industries who are having trouble filling employment opportunities with local workers to recruit workers from the Pacific regions for seasonal periods. The RSE features an administrative limit or cap, initially set at an annual level of 5,000 places for 2007. However, the success of the RSE and increased demand from employers has seen incremental annual increases to the 2017 administrative limit of 11,100, more than double the initial cap ten years previously (New Zealand Immigration, 2017). RSE workers must be recruited from eligible Pacific island countries, which includes Tonga. The annual number of Tongan participants in New Zealand’s RSE scheme is presented in table 2.3. Over the past ten years the RSE has seen over 12,500 Tongan’s migrate seasonally to New Zealand for work, many of whom remit or carry home the majority of their wages.

**Table 2.3: Recognised Seasonal Employer Scheme, Number of Tongan employees 2007- 2017**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
<b>Tonga</b>	805	1355	1142	1411	1398	1573	1538	1563	1687	1822

*Source: New Zealand Immigration Statistics, RSE Workers*

After the success of New Zealand’s RSE scheme Australia launched a similar venture, the Seasonal Workers Program (SWP). Australian employers were able to recruit Tongan workers directly or from a work-ready pool preselected and screened by district and town officers and church and community leaders. The SWP has seen more limited progress than that of the RSE but numbers are increasing annually. In terms of country of origin of SWP workers (shown in table 2.4) Tonga

has dominated since the program’s inception and in 2015-2016 had more than twice as many workers as the next represented country, Vanuatu.

**Table 2.4: Seasonal Workers Program, Country of Origin 2012/13 to 2015/16**

Country of Origin	2012/13	2013/14	2014/15	2015/16
Fiji	0	0	5	160
Kiribati	34	14	11	20
Nauru	10	0	0	17
PNG	26	26	35	42
Samoa	22	162	184	140
Solomon Islands	42	9	21	61
Timor-Leste	21	74	168	224
Tonga	1199	1497	2179	2624
Tuvalu	0	20	7	5
Vanuatu	119	212	567	1198
Total	1473	2014	3177	4490

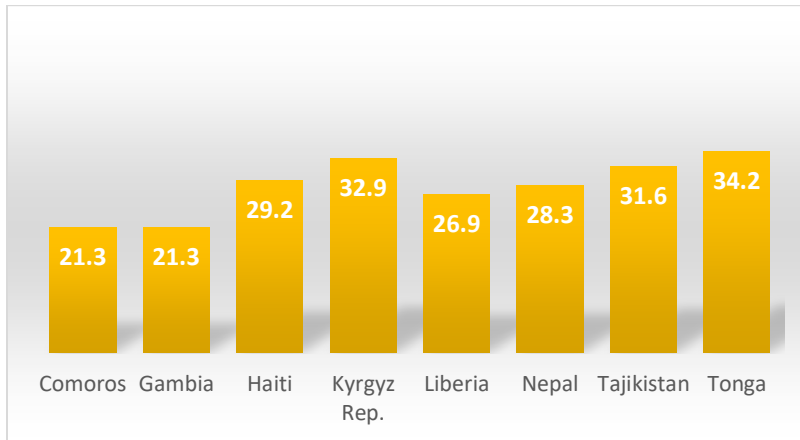
*Source: DevPolicyBlog, 2017*

The data presented demonstrate the rate of outbound migration from Tonga, the different methods of migration and the dominant migration destinations. Not only has outbound migration from Tonga circumvented potential population problems and the social issues that arise from overpopulation it has also become central to the economic and social fabric of contemporary Tongan society.

## 2.5 Migrant Remittances

In dollar terms countries with large populations and large labour exporting abilities dominate global remittances. For example, in 2017 the highest remittance recipients in US\$ were India (\$70 billion), China (\$63.9 billion) and the Philippines (\$32.8 billion) (RemitSCOPE, 2018). However, in terms of remittances as a percentage of GDP it is smaller nations that dominate. Figure 2.3 illustrates the most remittance reliant countries in the world in 2017, according to remittances as a percentage of GDP. In 2017 Tonga which received just US\$149 million in remittances was the most remittance reliant country in the world, with remittances accounting for 34.24% of the Tongan GDP (Data.worldbank.org. 2018).

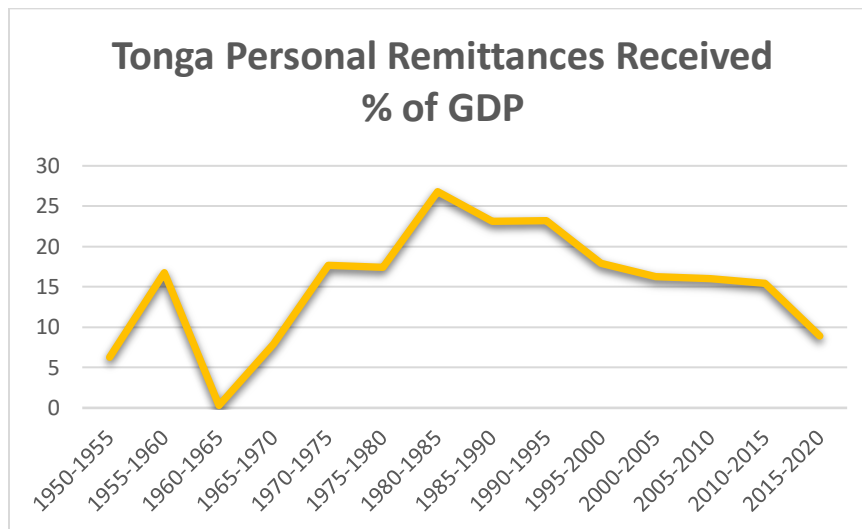
**Figure 2.3: Top Remittance Reliant countries (% of GDP), 2017**



Source: World Bank Data, 2018.

Data from the World Bank shows that by 1975 remittances already accounted for 20% of the Tongan GDP. Despite falling as low as 12.2 percent in 1981 the relationship between remittances and the Tongan economy has remained strong over the past forty years ([data.worldbank.org](http://data.worldbank.org). 2018). As demonstrated in figure 2.4 remittances have surpassed 30 percent of GDP 5 times in the past fifteen years in 2002, 2004, 2007, 2015 and 2017.

**Figure 2.4: Personal Remittances Received (% of GDP)**



Source: World Bank Data, 2018.



An estimated 68 percent of Tongan households report having at least one remittance sending international migrant (Brown and Jimenez, 2008). However, almost 90 percent of all Tongan households' report receiving remittances from overseas. This makes remittances not only the single most widespread source of income in Tonga (Brown and Jimenez, 2008) but also the second largest national income source after "wages and salaries" (Small and Dixon, 2004). Households without a migrant relative commonly receive remittances through family ties or combined diaspora remittances to churches or community organisations. This is important to note as comparisons drawn between households with or without a migrant may not provide accurate information where remittances are concerned. In 2016 Australia, New Zealand and the U.S. were the highest remittance sending countries to Tonga sending US\$15 million, US\$30 million and US\$31 million respectively in official remittances. (Pew Research Center, 2016).

Since the inception of the SWP Tonga has gained AU\$99.4 million in net income, more than double the annual bilateral aid budget from the Australian Government (Doyle and Sharma, 2018). Tongan participants in Australia's SWP remit, on average, TOP\$607 per month, which based on the 4.7 months average contract length equates to TOP\$2,850 from each seasonal worker. Interestingly, this does not account for the bulk of remittances (app. 70%) from seasonal workers that are taken home with the migrant upon their return in order to avoid costly transaction fees. In their research on New Zealand's RSE scheme McKenzie and Gibson (2010) found that semi-annual household income per capita increased from a baseline of TOP\$979 to between TOP\$1279 and TOP\$1309 for participating households (McKenzie and Gibson, 2010).

How remittances are spent or reinvested is the focus of many studies on migration and remittances. Conventional wisdom suggests that remittances are mainly used for consumption or unproductive means although it is important to note that unproductive does not equate to unimportant. Unproductive refers to remittances that are spent on both durable and non-durable goods that provide no income as a return on the expenditure. Traditionally unproductive consumption includes construction or home renovation, spending on food, household items, debt repayment, healthcare and education (Rampel, et al. 1978; Costa, 2007; Yu, et al. 2014). Despite being labelled unproductive these categories represent the majority of where remittances funds are channelled. In the majority of cases it is only after family consumptive needs are met that remittances are saved

or invested, usually in farming enterprises or small businesses. Most participants in the RSE scheme are from subsistence households and are generally poorer than the average non-RSE household, thus investment scores low among their list of priorities (McKenzie and Gibson, 2010). While consumption has historically been considered unproductive this paper argues that wellbeing indicators such as housing, health and education are directly improved by increased consumption as a result of migrant remittances.

## 2.6 Timor-Leste: Country Summary

Figure 2.5: Map of Timor-Leste



Source: World Atlas, 2018.

Timor-Leste is a newly independent country located in South-East Asia (Shuaib, 2007). The island country is comprised of 14,609 square kilometres and includes the eastern half of the Timor Island, the Oecussi enclave, and the islands of Atauro and Jaco (Shuaib, 2007). Unlike Tonga, which maintained autonomous authority during its tenure as a British protectorate, Timor-Leste experienced the full effect of Portuguese colonisation and the resultant loss of both cultural and autonomous authority. With the exclusion of a three-year occupation by the Japanese during WWII Timor-Leste experienced 400 years of Portuguese colonisation up until 28 November 1975 when East Timor declared its independence (Hamilton, 2004). This independence was short lived, and 9 days later Indonesian forces invaded, incorporating the east island into Indonesia as the province of Timor Timur (East Timor) (Shuaib, 2007). Over the next two decades Indonesia carried out an

unsuccessful campaign of pacification during which an estimated 100,000 to 250,000 people died (CIA, 2018). After these atrocities the UN supervised a popular referendum in 1999 where a majority of Timorese voted for independence from Indonesian rule (Hamilton, 2004). Upon hearing the result of the referendum Timorese militias - organised and supported by the Indonesian military - commenced a large-scale, campaign of retribution in the three weeks following the vote, killing as many as 1,400 Timorese and forcefully displacing 300,000 others to western Timor and elsewhere (CIA, 2018). During this scorched earth campaign most of the country's infrastructure including irrigation systems, schools and the electrical grid were destroyed. (CIA, 2018) On 20 September 1999, Australian-led peacekeeping troops deployed to the country bringing the violence to an end and following UNATET administration from 1999-2002, on 20 May 2002 Timor-Leste was internationally recognised as an independent state (Hamilton, 2004).

Despite ongoing economic improvements and a GDP growth of approximately 4 percent per year over the past five years, Timor-Leste's economy remains reliant on three critical industries agriculture, tourism and petroleum (UNDP, 2018). Just 10- 12 percent of domestic revenue derives from non-oil sources and oil revenues provide 90 percent of Government spending (UNDP, 2018). With estimations that the oil fields could be depleted by 2022, diversifying the economy is of utmost importance to Government leaders and development partners in order to ensure the country's fiscal sustainability (IMF, 2017 in UNDP, 2018). For Timor-Leste, still newly independent with a rapidly growing youth population and high unemployment, international migration and the resultant remittances may provide a solution to future challenges by bolstering family economies.

## **2.7 Overview of Social and Economic Well-Being Indicators**

Given its tumultuous history and newness as a state Timor-Leste faces many challenges in regard to improving the social and economic livelihoods of its population. Despite being classified as a middle-income country due to considerable oil profits Timor-Leste is ranked at 132 out of 188 countries in terms of human development (UNDP, 2018). Timor-Leste is considered to have a medium level of human development and has achieved an increase from an HDI index value of 0.507 in 2000 to 0.625 in 2017 and over the same period improved life expectancy at birth by ten years. Table 2.5 provides an overview of key development indicators within the country.

**Table 2.5: Key Development Indicators, Timor-Leste 2017**

Indicator	
HDI Rank	132
Adult Literacy Rate	67.5
Life Expectancy at Birth (Male)	67.4
Life Expectancy at Birth (Female)	71.1
Infant Mortality Rate (per 1,000 live births)	44.7
Gross Primary Enrolment Ratio %	137
Gross Secondary Enrolment Ratio %	73

Source: UNDP HDR Timor-Leste, 2016

The key indicators shown above demonstrate an adult literacy rate below 70 percent and life expectancy of just 67.5 compared to an average of 77.5 for South-East Asia and Tonga's average of 73.2 (UNDP, 2016). Although in decline the infant mortality rate is still close to 5 percent of live births. Gross primary enrolment exceeds 100 percent indicating that there may be a high level of students repeating years. Net enrolment ratios indicate that the percentage of school aged children enrolled in their correct year may be lower, at 80 percent in 2016 ([data.worldbank.org](http://data.worldbank.org), 2018). McWilliam's (2015) study on Rural–Urban Inequalities reported a lack of, or inadequate access to, social and economic services (e.g. access to schooling) especially in the poorer rural districts for many residents (McWilliam, 2015). Despite all this the lack of remunerative employment and unemployment may be the country's biggest challenge (Brites-Soares, 2015). The average national unemployment rate was 3.43 percent in 2017 with a labour force participation rate (% ages 15 and older) of 38.8 percent. Youth unemployment is considerably higher accounting for 37% of the 20-24-year labour force (ILO estimates in [data.worldbank.org](http://data.worldbank.org), 2018).

Like Tonga, Timor-Leste also committed to the Millennium Development Goals. However, Timor-Leste's performance in meeting the Millennium Development goals and targets was less successful than Tonga's as summarised in table 2.6. Timor-Leste achieved some success in reaching MDG targets and goals, specifically Goal 3: Promote gender equality and empower women, targets A, B and C and Goal 4: Reduce child mortality, targets A and B (Ministry of Finance, 2016).

**Table 2.6: Timor-Leste's Final Status on the MDG Targets, 2016**

	<b>Indicator A</b>	<b>Indicator B</b>	<b>Indicator C</b>	<b>Indicator D</b>
<b>Goal 1: Eradicate extreme poverty and hunger</b>	Proportion of population below the national poverty line	Prevalence of under-weight children under five years of age		
<b>Goal 2: Achieve universal primary education</b>	Net enrolment ratio in primary education	Proportion of children who reached fifth grade		
<b>Goal 3: Promote gender equality and empower women</b>	Proportion of seats held by women in Parliament	Ratio of girls to boys in primary	Ratio of girls to boys in secondary	
<b>Goal 4: Reduce child mortality</b>	Under 5 years mortality rate	Infant mortality rate		
<b>Goal 5: Improve maternal health</b>	Maternal mortality ratio	Proportion of births attended by skilled health personnel	Contraceptive prevalence rate	Antenatal care coverage at least one visit
<b>Goal 6: Combat HIV/AIDS and NCDs</b>	Proportion of population aged 15-24 with comprehensive correct knowledge of HIV/AIDS	Incidence associated with malaria	Incidence rates associated with TB	Proportion of children under 5 sleeping under insecticide treated bet nets
<b>Goal 7: Ensure environmental sustainability</b>	Proportion of land covered by forest	Proportion of population using an improved drinking water source	Proportion of population using an improved sanitation facility	
<b>Goal 8: Develop a global partnership for development</b>	Cellular subscribers per 100 population			
<i>Not Achieved</i>		<i>Achieved</i>		<i>Not Available</i>

*Source: Timor-Leste Ministry of Finance, (2016) Millennium Development Goals 2015*

While many of the targets were not reached it does not mean that progress was not made. Child malnutrition and maternal mortality rates have decreased significantly since independence but remain high compared to other countries in the region (Ministry of Finance, 2016). The incidence of Tuberculosis increased during the MDG period, but this is likely due to an improvement in detection meaning that more people may soon be accessing treatment (Ministry of Finance, 2016). Despite not meeting MDG goal 7 indicators B or C both the proportion of the population using an improved drinking source and an improved sanitation facilitation improved (Ministry of Finance, 2016). Failure to meet this goal is potentially due to urban-rural inequalities in access to drinking water discussed below. The performance of Timor-Leste in reaching the MDGs demonstrates that there is still much work to be done to improve the livelihoods and well-being of the Timorese population. However, the improvements that were made demonstrate the governments' willingness to invest in strategies that improve people's lives.

A research report published in 2015 measuring poverty and well-being in Timor-Leste using multi-dimensional poverty indicators reported levels of multi-dimensional poverty that exceeded previous poverty estimates based on consumptive poverty measures. The study reported an MPI rating of 68% - the highest value of all countries in Asia and the Pacific (Cornwell, Inder, and Datt, 2015). Rates of malnutrition deprivation were found to be three times the average across a sampling of 95 developing countries while living standards indicators showed that 66% of households do not own more than one of the following assets: bicycle, motorbike, radio, fridge, phone, TV, and does not own a car or a truck ranking the country 97/101 (Cornwell et. al., 2015). Rural urban inequalities were also pronounced as demonstrated by Figure 2.6. While the national rate of no access to clean drinking water was 42% there was steep inequality between rural areas Baucau and Ainaro where the rate is 61% and 65% respectively compared to the urban capital of Dili where the rate is just 4% (Cornwell et. al., 2015). This is illustrated in figure 2.6 where blue represents the lowest incidences of no access to clean drinking water and dark red the highest incidences.

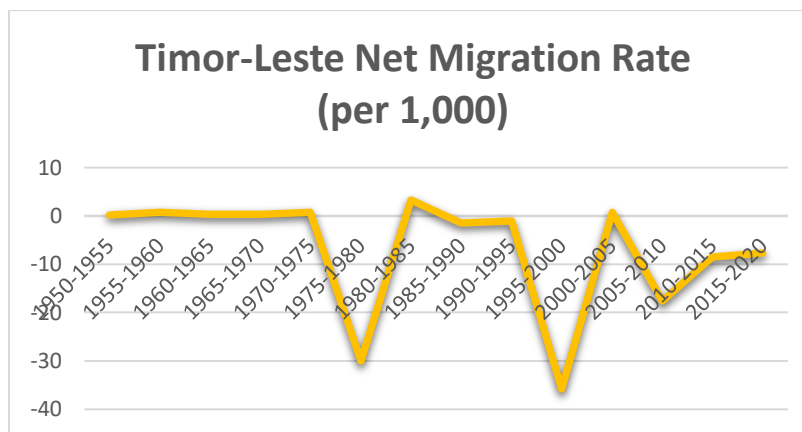
*Figure 2.6: MPI Indicator: No Access to Clean Drinking Water has been removed due to copyright restrictions*

Timor-Leste's 2018 National Human Development report examined youth well-being in the country across eight domains. Among the eight wellbeing indicators examined education (88%), community vitality (90.3%) and standard of living (32.7%) were three domains of life where a considerable percentage of Timorese youth self-reported not achieving wellbeing. Thirty percent of survey respondents reported that a family member had discontinued medical treatment in the past two years because of a lack of financing; 20 percent had discontinued studies for the same reason (UNDP, 2018). The report's findings on food consumption indicated a high rate of food insecurity within the country. One third of youth responded that their households have two meals a day every day of the year, however, 37 percent stated that their households have two meals a day every day for only one month a year (UNDP, 2018). The study also provides valuable data on the rates of dependency within Timor-Leste, reporting that among youth who are employed, 50 percent each have one or two others dependant on their income, the remaining 50 percent are each responsible for three to nine dependants. The high rate of dependents illustrates a heavy burden borne by Timor-Leste's youth and strongly relates to the potential for the role of migration and remittances.

## 2.8 Timor-Leste's Migration History

Waves of emigration from Timor-Leste can be categorised under political, social and economic motivations. In World War II, during the Japanese occupation the forced emigration of many Timorese occurred. Data from Australia's refugee centre at the time estimated that 600 Portuguese Timorese arrived in 1945. Thirty years later in 1975 and following the Indonesian invasion the refugee centre reported the arrival of about 1,645 Timorese in Darwin (Ribeiro, 2009 in Brites-Soares, 2015). The next substantial wave of outward migration occurred in 1995 following the referendum and Indonesia's violent response. These two waves of emigration can be seen in the figure below where net migration rates reached -30 in 1975, post- Indonesian invasion and -35.8 in 1995 when the referendum was held, and Indonesian led violence multiplied. A smaller dip observed in 2007, is more likely motivated by poverty and the weak social and economic state of the country post-independence. Aspirations of better living conditions and opportunities to be found in other countries were prevalent.

**Figure 2.7: Timor-Leste Net Migration Rate (per 1,000)**



*Source: World Bank Data, 2018.*

Following independence, the government of Timor-Leste worked to establish bilateral government agreements with neighbouring countries and former colonial power Portugal (Brites-Soares, 2015). These agreements improved the ease of transnational movement for Timorese people and have contributed to a continuing negative net migration rate. The bilateral agreements entered into by the Timorese government included seasonal worker and employment schemes with South Korea and Australia as well as an avenue for Portuguese citizenship. As with Tongan migration to



the U.S., rates of Timorese migration to Indonesia are also very high although as this migration is mostly linked to tertiary education and not labour migration the Timor-Leste - Indonesia migration corridor will not be discussed in this thesis.

In 2009 South Korea invited Timor-Leste to join 15 other countries in accessing its Employment Permit System (EPS). In Timor-Leste the EPS is supported through the Secretariat of State for Professional Training and Employment Policy (SEPFOPE) who encourage and support young people aged 18-39 to seek employment in South Korea. Despite high rates of unemployment at home and a booming youth population SEPFOPE has struggled to fulfil the number of employees requested by South Korea. In 2011 South Korea's quota was 2,500 workers and Timor-Leste sent 400; South Korea raised the quota to 2,750 workers in 2012, and received 500 Timorese (Wigglesworth and Fonseca, 2016). In 2013 South Korea raised the quota again, to 3,500 workers but received just 280 (Wigglesworth and Fonseca, 2016). As a percentage of the total EPS program Timorese workers are a very small contribution to the 50,000 workers South Korea receives annually from the 15 participating countries (Wigglesworth and Fonseca, 2016). Between October 2009 and June 2015, the total number of Timorese workers was just 1,886 (SEPFOPE, 2015). Table 2.7 shows the gendered breakdown of these 1,886 workers as well as the industries in which they were employed. Fishing clearly dominated with almost 60% of the workers, all male while agriculture accounted for the least, although this was the only sector in which females were dominant.

**Table 2.7: Industry Distribution of Timorese Workers in South Korea 2009-2015**

No. Workers	Fishing	Manufacturing	Agriculture	Total
Male	1,117	621	50	1,788
Female	0	25	73	98
Total	1,117	646	123	1,886

*Source: SEPFOPE, 2015.*

In a survey of 30 returned workers who participated in South Korea's EPS program half of the workers (50%) stayed four or more years (the initial contract is for three years and they can extend to four years and 10 months) (Wigglesworth and Fonseca, 2016). Only one worker stayed less than a year, seven (23%) stayed 1-2 years, six (20%) stayed 2-3 years and one stayed 3-4 years

(Wigglesworth and Fonseca, 2016). This reflects a higher drop-out rate during the initial contract period, but greater stability for those that extended their contract beyond 3 years.

Like Tonga, Timor-Leste is also included in Australia’s Seasonal Worker Program. However, while Tongan immigrants dominated in terms of country of origin Timor-Leste’s participation in the program has been much more modest. Despite this, rates of participation more than tripled in the first two years and then doubled in the subsequent two. Uptake may be slower than the South Korean initiative due to the more seasonal nature of the program through which jobs are only available for 3 to 6 months or because of a perceived higher living cost in Australia. The table below shows the steady increase in Timorese program participants which has grown from just 21 in 2012/13 to 224 in 2015/16. In 2017 the number of Timorese participants in the SWP increased again to 477 workers at a ratio of 124 female to 353 male, accounting for the highest proportion of women in the SWP compared to other participating countries (Howes, 2018).

**Table 2.8: Seasonal Workers Program, Country of Origin 2012/13 to 2015/16**

Country of Origin	2012/13	2013/14	2014/15	2015/16
Fiji	0	0	5	160
Kiribati	34	14	11	20
Nauru	10	0	0	17
PNG	26	26	35	42
Samoa	22	162	184	140
Solomon Islands	42	9	21	61
Timor-Leste	21	74	168	224
Tonga	1199	1497	2179	2624
Tuvalu	0	20	7	5
Vanuatu	119	212	567	1198
Total	1473	2014	3177	4490

Source: Source: *DevPolicyBlog*, 2017

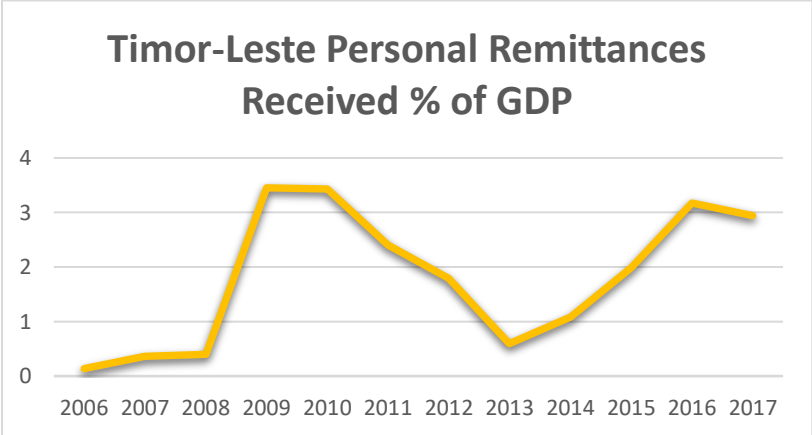
Much greater in terms of remittances than the two official country programs the UK represents a third major avenue of international migration for Timorese people. All Timorese born before 20 May 2002 are entitled to Portuguese citizenship (McWilliams, 2015) through which many Timorese have used their Portuguese passport as a corridor to the rest of Europe and in particular the United Kingdom. Data from SEPFPOPE estimates that in 2014 there was a diaspora population of over 15 thousand Timorese migrants in the United Kingdom and Northern Ireland (SEPFPOPE, 2014).

The data presented demonstrates that while international migration may be a relatively new phenomena for Timor-Leste multiple avenues are being opened up through bilateral agreements to improve, ease and encourage the transnational movement of people from Timor-Leste. With a bulging youth population and high unemployment Timor-Leste is perfectly suited to meet labour market needs in already developed countries with ageing workforces. If Timor-Leste is able to embrace international labour migration they will in turn have an opportunity to further diversify their economy and increase human development through remittances.

**2.9 Migrant Remittances**

In 2017 overseas Timorese remitted US\$87 million (RemitSCOPE, 2018). While this may seem like a high number it is equivalent to just 4.5% of GDP (RemitSCOPE, 2018). In 2016, the previous year, Indonesia, Australia, and Portugal were the highest remittance sending countries to Timor-Leste sending US\$41million, US\$33 million and US\$5million respectively through official channels (Pew Research Center, 2016). Remittance inflows to Timor-Leste have a growth rate of 79.3 percent over the past ten years and it is estimated that 67,160 people or 5% of the population are remittance reliant (RemitSCOPE, 2018). The trend of personal remittances in Timor-Leste are shown in Figure 2.8. After a rapid increase in remittances post GFC from 2008 to 2010, remittances to Timor-Leste declined to 0.6% of GDP in 2013 before recovering to the current level of 2.9% or US\$87 million according to World Bank estimates.

**Figure 2.8: Personal Remittances Received (% of GDP)**



Source: World Bank Data, 2018.

Richard Curtain (2017) has stated that “[official] remittances were Timor-Leste’s largest source of foreign revenue after oil and aid in 2017 at an estimated USD\$43.78 million” (Curtain, 2018). Currently the value of inward remittances to Timor-Leste makes labour the country’s second largest export after coffee.

Participants in Australia’s Seasonal Worker Program remitted an average of AU\$3,200 over the work period. Many of the workers brought home the majority of their savings at the end of the program to avoid costly transaction fees meaning that workers returned from Australia with substantial savings, with agriculture and accommodation workers saving and remitting an average total of AU\$8,900 and AU\$11,143 respectively (World Bank, 2017). SEPFOPE estimates are that the EPS program has realised approximately US\$2 million a year for Timor-Leste in remittances while the SWP has resulted in net income gains of AU\$5.5 million for Timor-Leste since the start of their participation. Table 2.9 shows that almost half of the workers in the EPS remitted \$6,000 or more a year to parents, spouses, other relatives and friends in Timor-Leste.

**Table 2.9: Average Yearly amount Remitted by EPS workers**

Remittance in USD	Male	Female	All Respondents
Less than 200	0	0	0
200-500	1	1	2
501-1000	1	0	1
1001-2000	3	2	5
2001-3000	0	0	0
3001-4000	1	2	3
4001-5000	2	1	3
5001-6000	1	1	2
6000+	10	4	14
<b>Total Respondents</b>	19	11	30

*Source: Wigglesworth and Fonseca (2016). Experiences of Timorese as migrant workers in Korea.*

Remittances from the Timorese diaspora have significantly influenced the consumptive patterns of receiving households. As in Tonga many of these households utilise remittances to meet daily

consumptive needs. Brites-Soares (2015) study of 30 household participants, including some labour migrants overseas, found that many of the participants spend remittances on not only food, clothes and other non-durable goods but that most intend for at least a proportion of the funds remitted be used to build a home or buy land as an investment for the future or renovate the existing family home (Brites-Soares, 2015). The use and investment of remittances will be further examined in the next chapter and their impact on wellbeing and sustainable livelihoods will be discussed.

## **CHAPTER 3**

### **DISCUSSION AND ANALYSIS**

#### **3.1 Introduction**

This chapter will analyse and discuss data presented in the previous chapter in order to assess the role of remittances in improving family wellbeing and supporting the transition to sustainable livelihoods in recipient households in Tonga and Timor-Leste. The relationship between remittances and well-being will be examined first, in particular the impact of remittances on three main wellbeing indicators, health, education, and standard of living. The function of remittances in increasing recipients' capacity to build sustainable livelihoods will then be examined through two main elements of the SL approach:

- 1) the ability to cope with and recover from stresses and shocks, and
- 2) the ability to maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base (DFID, 1999).

Before beginning the analysis, I will reiterate that the stance of this paper is that the previously accepted dichotomy between wasteful consumption and productive investment is misplaced especially in the case of the chosen country studies, where there are essentially no formal systems of social protection and (in the case of Timor-Leste) high levels of consumption poverty. Instead this paper argues that poverty as measured by wellbeing indicators is reduced by consumptive spending which in turn serves as an investment in human capital.

#### **3.1.2 Investment and Consumption of Remittances in Tonga and Timor-Leste**

Part of the growing interest in remittances is in how they are spent or invested and what this means for the development outcomes of recipient households. The following section will provide information on the breakdown of remittance spending for households in both Timor-Leste and Tonga. One report by the FAO on *Migration, Remittance and Development in Tonga* reports the following breakdown (Table 3.1) on remittance expenditure by households with a migrant in New Zealand's Recognised Seasonal employer program. For reference it was mentioned earlier that the

semi-annual household income per capita of RSE households was between TOP\$1279 and TOP\$1309.

**Table 3.1: Breakdown of household remittance expenditure in Tonga**

Home Consumption	Housing / Vehicle	School Expenses	Loan Payment	Farm Expenses	Family Expenses	Church Expenses	Total
23	10.9	10.7	8.5	13	15.9	17.7	100

*Source: Taufatofua, (2011) Migration, Remittance and Development in Tonga.*

Family expenses (15.9%) include cultural and other obligations to relatives and others, as well as feasts, weddings, funerals, and birthdays which are important features of Tongan life (Taufatofua, 2011). Spending on housing and vehicles (11%) refer to the building of new dwellings and purchase of new vehicles; spending on petrol for vehicles and maintenance are included under home consumption although the dominant expenditure under this category is on food (Taufatofua, 2011). Spending on schooling for children averaged 10.7 percent reflecting an investment in education despite Tonga’s provision of eight years of free compulsory education (Taufatofua, 2011).

While spending on health is not reflected in the table and not explicitly mentioned as a subsection of family expenses in the study, one survey respondent in a similar study noted that when a member of the remittance receiving household fell ill they would increase the rate of the remittance in order to cover any related medical costs (Connell, 2015). Another study reported that in the case of Tonga the presence of a household member with a medically-related incapacity lasting 30 days or more increased remittances by US\$300 (Brown, 2008).

As mentioned earlier communal remittances from the overseas diaspora account for a considerable component of remittances to Tonga. In Tongan culture supporting the community and donating to the church are considered part of one’s civic duty. The money remitted by overseas Tongan’s to local institutions and villages are regularly used for the purpose of underwriting public ceremonial events and for financing practical communal projects, such as the purchase of a new village water pump or construction of a public building (Small and Dixon, 2004). The sending of remittances to community projects can be motivated by altruism, self-interest or as a sign of status within the

community. Cultural expenditure also plays a significant role in remittance utilisation in Timor-Leste, remittances are regularly used to fund cultural events such as funerals, traditional house building, weddings, birthdays, and baptisms.

Brites-Soares study on remittances in Timor-Leste reported reinvestment of remittances in small and medium businesses at a rate of 17/30 (Brites-Soares, 2015). Brites-Soares also reported that in at least one household surveyed migrant remittances were contributing positively to the enhancement of agricultural production through the purchase of agricultural equipment that enabled the family to mill excess rice for sale at the local market (Brites-Soares, 2015). This finding is in opposition to studies by Ferran and Pessar (1996) and Jokisch (2002) who claimed that substituting remittances for agricultural income and agricultural activity might result in lower agriculture production.

A study by Andrew McWilliam found the following breakdown of remittance spending by recipient households in Timor-Leste: 45 percent of respondents reported that remittances were used for daily routine expenses, while 41 percent used them for housing improvements (McWilliam, 2015). School fees were the next most common expenditure at 30 percent. Over a third also reported funnelling at least some of their remittance payments into business expansion or investment (McWilliam, 2015). An earlier study by Shuaib (2007) on remittance spending behaviour provided results almost identical to McWilliam's. Of those receiving remittances, some 45 percent of households used the transfers to support daily household consumption, 41 percent for housing improvements, 30 percent for school fees, and 10 percent for loan repayments (Shuaib, 2007). Most were also saving a portion of these funds for the purpose of education expenses (75 percent), housing improvements (35 percent), weddings and funerals (18 percent), and business investment (10 percent) (Shuaib, 2007).

In Brites-Soares survey investment in education was even higher than expected. As demonstrated by Table 3.2 all 30 participants were supporting at least one family member to continue studying. 90 percent of the participants used remittances to support their members to continue studying at the university level, while the remaining 10 percent were supporting family members at vocational



schools. In addition to this all of the participants acknowledged using remittances to purchase school materials for their children (Brites-Soares, 2015).

**Table 3.2: Number of household members whose Education is Supported by a Remittance Fund.**

Education Level	No. Supported
Primary School	5
Secondary School	4
Tertiary	20
Vocational Training	1

*Source: Brites Soares, B., (2015). Transnationalism and Development: The Impact of Remittances to Timor-Leste*

This data demonstrates that the investment of remittances in human capital is significant and continues all the way to university level. It also shows that in most cases remittances expenditure follows a pattern, first it is used to meet basic and immediate daily consumption needs, followed by house construction or improvements to the home, then human capital investment mostly in the form of education and lastly for business investment and expansion, loan repayment and savings.

## **3.2 Well-Being**

Money sent home by international labour migrants in the form of remittances impacts both economic and non-economic dimensions of recipient households. Although these are often examined exclusively they are in fact involved in a reciprocal relationship; investment of remittances in health and education improves outcomes and enhances the welfare of household members which in turn increases their capacity for productivity. In Timor-Leste and Tonga, the main areas where improved well-being as a result of remittance investment is observed are health, education and standard of living.

### **3.2.1 Health and Education**

This paper argues that the impacts of remittances on the health and educational attainments of recipient household members are some of the most important and observable effects of migration

and remittances. Good health and high levels of education have flow on effects that can influence many aspects of a person's quality of life. While several country case studies in different areas of the world have examined the relationships between remittances and educational attainment the impact of remittances on health outcomes is less studied and thus the findings of this report are based on assumptions that can be made with what evidence is available.

Data from the previous chapter shows that an average remittance expenditure of 10-11 percent is on school expenses (Taufatofua, 2011). This is in spite of the provision of free compulsory primary education between the ages of 6 and 14 in Tonga and 9 years of free compulsory education in Timor-Leste. School expenses include books, stationary, uniforms, transport, lunches, and in some cases, private fees. The following trends are true of a number of the households receiving remittances in both country studies:

- The likelihood of more than one child being in school increases.
- Remittances raise the education investment in girls more than in boys.
- Migrant households were found to have higher education levels than non-migrant households.

(Azizi, 2018; Brites Soares, 2015; Housen, Hopkins & Earnest, 2012).

A similar study of remittance usage in Ethiopia also found that remittance receiving households that had a female head showed improved educational outcomes for girls, even when the mother had no formal education (Zewdu, 2014). In remittance receiving households it is common for the mother to be in charge of finances while the father works overseas a change that could be affecting the rate at which girls are accessing schooling. In Tonga the investment of remittances in education is reflected in the high literacy level of 98.4 percent sustained among the 15-24 year-old population (Statistics Dept. Census 2006).

In Brites-Soares study of remittance spending behaviour in Timor-Leste all 30 participants were using remittance funds to support at least one family member in their studies, including 20 family members all the way through to tertiary level (Brites Soares, 2015). This is especially important in Timor-Leste where there is just one national university, capable of accepting just one third of the annual number of students who wish to pursue tertiary education. For the remainder of students,

private universities in Timor-Leste and neighbouring Indonesia are the most popular alternative but are offered at a much higher personal expense. Of the 20 family members being supported at the tertiary level in Brites-Soares study the majority were in private universities, 9 in Timor-Leste and the remaining 6 at private universities in Indonesia (Brites Soares, 2015). High aspirations to emigrate are shown to influence increased educational attainment (De Haas, 2011). This is even more true in remittance reliant households where younger family members are encouraged to gain higher skills and knowledge to improve their own employability in an increasingly international labour market. In Tonga this has been taken to extreme lengths where education and vocational training is being shaped to encourage the study of trades that meet labour market shortages in popular destination countries or that have high mobility potential internationally. This has led to many young Tongan's pursuing careers in nursing and IT with the express intention of filling labour market shortages in nearby countries (Connell and Brown, 2004). In Australia where an ageing population and higher participation of mothers in the workforce has led to a growing care industry, employment opportunities for South-East Asian and Pacific Islander migrants is on the rise (Curtain, et. al., 2016).

As mentioned earlier data examining the remittance-healthcare relationship is not as well documented as the relationship between remittances and education. Timor-Leste's National Human Development Report 2018 noted that 20 percent of respondents had at some point discontinued medical treatment due to a lack of financing (UNDP, 2018). In remittance receiving households there is evidence to support that the presence of an ill household member increased the amount of remittances received (Brown, 2008). The conclusion can be drawn that members of remittance receiving households have a better chance of affording medicine and accessing medical care than those in non-migrant households. Another study of the effect of remittances on health outcomes found them to be both positive and significant for life expectancy and negative and significant on infant mortality. The study reported that a 1 percent increase in real remittances per capita was seen to result in a 0.03 percent increase in life expectancy and a 0.15 percent reduction in infant mortality (Zhunio, M., Vishwasrao, S., and Chiang, E. 2012). Other evidence to support the positive relationship between remittances, education, and health outcomes is found in the Brites-Soares study where one respondent said:

I have used money that my husband sends to build this house and also to buy our kids school materials and pay for the medicine if the children are sick (Brites Soares, 2015 p. 102 Interview 25th June 2014).

The evidence presented shows that in the case of Timor-Leste and Tonga, two countries with insufficient systems of social protection, remittances fill the role of informal health insurance and education funds, human capital investments that ultimately improve the wellbeing of household members.

### **3.2.3 Standard of Living**

While efforts are being made to divorce measures of poverty from purely economic indicators like wealth and income they are still a valuable gauge when used in the company of more multidimensional measures. While multidimensional indicators provide a holistic account of poverty the impact that a stable income can have on access, capabilities and mental and physical health should not be ignored.

As mentioned in the previous chapter almost 90 percent of Tongan households report receiving overseas remittances, making it the most widespread source of income in the Kingdom (Brown and Jimenez, 2008). Tongan households with a member participant in the SWP saw a semi-annual household income increase of 30 percent (McKenzie and Gibson, 2010). In Timor-Leste where the majority of households, especially in rural areas rely on irregular agricultural income remittances provide a valuable and at times much needed safety net. One father whose son migrated from Timor-Leste to the UK explains the role remittances play in family finances:

I don't have a permanent job, I am only a father who cultivates corn and nuts every season. My wife and I don't get much money out of every harvest time. Therefore, I decided to send my son to the United Kingdom of Great Britain to work and send money home to support the family economy. (Brites Soares, 2015 p. 83 Interview, 11<sup>th</sup> July 2014).

He goes on to explain that in his household remittance money is saved during the harvest time and then used to substitute their agricultural earnings during the off season. In Tonga with its long

history of remittances and the high penetration of remittance funds into the vast majority of households it can be difficult to ascertain what is directly the result of remittances. What can be said for sure is that remittances have relieved the pressure on smallholder agriculture by enabling an economy shift directed more towards industry and services (including tourism) (Brown et. al., 2006). Certainly, without remittances the pressure on the islands agricultural land would be much more destructive, unemployment rates would be higher and the relatively prosperous island lifestyle would be enjoyed by a much more restricted section of the population.

Remittances are rarely used for ‘antisocial’ spending, spending that includes alcohol drugs and gambling. Instead households that receive remittances demonstrate great restraint with the funds and often have clear long term and short-term investment goals that aim to meet both their immediate and future needs. The vast majority is spent on home construction and improvement, food, loan repayments, education and investment in small businesses and entrepreneurial start-ups (Brites Soares, 2015; McWilliam, 2015; Shuaib, 2007). Remittances are utilised by approximately 40-45% of households for the purpose of house construction or renovation which is considered an unproductive use of remittances due to the lack of economic return on the investment. While there is no immediate economic benefit, household investment can produce positive effects in relation to improving family well-being, especially through its ability to improve the standard of living. Dirt floors, access to clean drinking water, dirty cooking fuel and access to electricity have all been used as indicators for determining standard of living and well-being. Home construction or improvement has the potential to improve all of the above as well as providing modernised kitchens and additional bedrooms that improve usability and privacy for family members. In Tonga remittance funded home improvements have led to a very westernized perception of home and design evidenced by big overseas style houses that can be seen on every street. Taufatofua found that when you ask the locals who the owner of these houses are the answer is invariably, “it is so and so who returned from overseas and built it” (Taufatofua, 2011 p. 19). An example of this style of home can be seen in Figure 3.1 below which was built using materials that suggest a western origin including classical columns, aluminium window frames and steel roofing. These materials are often a form of ‘in kind’ remittances where Tongans abroad are given leftover materials by their employers for free or at a discounted price that the worker then ships home to the family (Talei, C. 2011).

**Figure 3.1: House in Tonga built using western style materials**



Photo by: Charmaine 'Ilaiu Talei

In Timor-Leste a number of villages also show evidence of remittance funded building projects. In one neighbourhood a construction worker returned from employment in the UK is building a new home on recently purchased land (Figure 3.2), while in another family a woman is using remittances sent home by her husband to add an extension on to their existing home (Brites Soares, 2015).

**Figure 3.2: New house construction in Urban Oecusse, Timor-Leste by returned labourer**



Photo by: Brigida Soares, 2014

While house construction and household improvements are considered by the pessimists to represent an unproductive use of remittance funds they are clearly a high priority for the majority of remittance receiving households as well as for those sending the money home.

My first priority as head of the family is to build a proper house to accommodate my family, I have many kids and I want them to have their own rooms. (Brites Soares, 2015 p. 88 Interview, 12<sup>th</sup> July 2014).

While consumptive patterns can be considered unproductive increased consumption is seen to have a positive effect on wellbeing. Food expenses account for the majority of daily household consumption which in turn accounts for between 25 - 45 percent of remittances. In Timor-Leste a country with high malnourishment and stunting present in over 50 percent of the under 5 years population adequate food consumption is extremely important (UNDP, 2016). Better nutrition and consumptive habits improve health which is directly linked to school performance and productivity. In Timor-Leste many agricultural families do not have a stable income for the whole year. In Timor-Leste's 2018 Human Development Report 'one third of youth reported that their households have two meals a day every day of the year, 37 percent stated that their households have two meals a day every day for only one month a year' (UNDP, 2018, p. 39). This demonstrates the direct effect of household income on food consumption. In Tonga remittances have funded a large food import sector, relieving pressure on local agriculture that is insufficient to feed the growing population. Without remittances imported foods may have been too expensive for the majority of people and diets would have been restricted to what could be produced locally. Tonga's imported food sector has however led to some health issues that will be discussed later.

### **3.3 Sustainable livelihoods**

'A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base' (DFID, 1999). Remittances can be a valuable means through which families can create sustainable livelihoods. First remittances are a way for families to diversify their income streams. Remittances invested in health and education are an example of enhancing capabilities while remittance investment in business and house construction demonstrates

enhancement of assets. The idea of creating a sustainable livelihood without undermining the natural resource base is important for both countries- in Tonga this is due to the narrow amount of land mass for agriculture and impending climate issues and in Timor-Leste where dwindling oil reserves make livelihoods in the petroleum sector unsustainable in the long term. Livelihoods that are supported by remittances can be considered to successfully withstand shocks as evidenced by the relative stability of remittances during the GFC. Remittances are also seen to increase during times of ill health and lead to improved household savings. They are also responsive to natural disasters and crises at home. Remittances do not undermine the natural resource base as they are located internationally and relieve employment stress in unsustainable sectors (petroleum and agriculture). Remittances are also seen to enhance capabilities and assets through human capital investment, savings and investment in farming equipment, and business start-up or expansion.

The utilisation of remittances tends to be in line with a ‘hierarchy of needs’ strategy. Most households first meet daily consumption needs before investing in education and building assets (housing, land, consumer durables) followed by business investment and savings. This is supported by evidence that shows remittance utilisation transitions from daily subsistence and social events to investment over time. As this transition occurs it is often reflected by a diminished reliance on remittances long term. In Tonga this is seen where each additional US dollar received increases household income from other non-remittances sources by US\$1.30 (Brown, Connell, and Leeves, 2006). This additional income is predominantly the result of investment of remittances in business.

The long history of remittances in Tonga has seen a transition from micro changes in family consumption to macro-economic changes including the transition from reliance on subsistence agriculture to an industry and services sector that employs the majority of the working population. Much of the industry and services sector revolves around tourism such as tourist shops and charter boats that represent some of the many small businesses financed, at least in part by remittances. This productive investment has made the livelihoods of Tongan people more sustainable than had they remained reliant on agribusiness.

McWilliam’s (2015) study of Timorese remittance receiving households noted that more than 30 percent of the respondents had invested a percentage of their most recent remittance payment in



business expansion or start-up. In Timor-Leste business investment of remittances occurs mainly in the following categories: agriculture, public transport, construction, groceries and loans (Brites Soares, 2015). Owner operated businesses contribute to alternative sources of income for households and are evidence of income diversification and household goals to become less remittance reliant in future. In Brites-Soares study public transport businesses were the primary business invested in by remittance receiving households (Brites Soares, 2015). Transport businesses provide dual benefits for households, first a regular income source because many people use them to get around, but few Timorese families own a vehicle and secondly, the vehicle can be used for other business requirements and improves personal mobility.

Another common microenterprise funded by remittances are *kios* or small grocery shops. One woman whose husband sends money home while working in Northern Ireland stated:

When he sent money the first time I opened a small Kios. I sold groceries like coffee, sugar, candles and other small things people usually need to buy. Since then he has sent it every month and I have invested all the money into my business and you can see how the small business is growing. (Brites Soares, 2015, p. 107, Interview 14 of July 2014).

A common thread among these microenterprises is that once income is being generated by the business, that money begins to subsidise daily consumption and the remittances transition to capital for business reinvestment or savings. This again provides evidence that remittances support the transition of livelihoods from subsistence to sustainable through income diversification. This research also support previous findings that ‘households in communities with a long history of migration and more permanent, high levels of remittances are better able to restructure their income-generating activities away from traditional sources of income’ like agriculture and toward business activities (Brown and Leeves, 2007).

In terms of recovery from shocks and withstanding stresses remittances have been proven to be particularly reliable. During the Global Financial Crisis remittances dropped just 5.2 percent between 2008-2009 compared to FDI which plummeted 39.7 percent over the same period (Carling, 2008). Remittances are also shown to increase in response to natural disasters in home

countries as evidenced by the Tongan diasporas response to cyclone Ian, where remittances spiked in order to counteract the loss of livelihoods and decline in income. International remittance senders are often readily able to respond to stresses and shocks experienced by the household as their geographical separation means they are unlikely to be affected in the same way.

This responsiveness of remittances to stresses and shock at home is evidence that supports J. Edward Taylor's summation of the NELM theory as one where migration decisions are part of family strategies to insure against the risks of agricultural production (Taylor, 1999). By diversifying their income streams through international labour migration families are able to minimise risk while maximising the potential for income.

### **3.4 Wider impacts**

It is clear that the impact of remittances is not contained within the immediate family, in Tonga the majority of households that have no internationally employed relatives still receive some form of remittances, in part due to strong extended familial and community ties. However even those not in direct receipt of remittances reap some benefits. Spending of remittances on non-durable goods can stimulate the local economy, this is explained by Magnusson who found that, "Remittances allow households to purchase goods they would otherwise need to produce which increases the market for even basic household goods and the available labour supply, as individuals are able to focus on outside employment rather than household production" (Magnusson, 2010 p. 6 in Brites-Soares, 2015). As remittance families begin to purchase the goods they once had to produce for themselves they put that money into the pockets of others in their community while freeing up their own time to be reinvested in activities that may produce better economic results for themselves.

Another impact on the wider community are the skills and knowledge that migrants bring back with them. Skills relating to best practice farming and knowledge of agriculture as well as access to new ideas and materials for house construction. In Tonga this is evidenced by the popularity of big overseas style houses featuring columns and other western architectural trends. Household construction is another means through which the local economy is stimulated through both the purchase of building materials and the requirement for local labour.

New business and microenterprises established through remittance funds can provide far reaching benefits, first through the provision of goods or services that may have previously been inaccessible for the community and secondly through employment opportunities in medium businesses, for example in the Brites-Soares study the 7 households in Timor-Leste that had started public transport businesses permanently employed 14 local people as drivers and co-drivers.

Chain migration opportunities are also seen where the establishment of transnational communities both ease and encourage further international migration. This is especially true in the case of Tonga where transnational communities have been established in Australia, New Zealand the US among other parts of the world. The existence of a strong international support system stimulates further migration. It is also common for a family member to sponsor others from their household, village or community to migrate.

Returning migrants also engage in a transfer of skills and knowledge that ‘qualify’ other members of the community for international opportunities. This is seen in the RSE and SWP where more members of the same communities participate in consecutive years. The skills and knowledge are not just for the purpose of growing the international labour migrant stock but also spread at home. Best practice in agriculture, tourism and construction sectors are commonly brought home and reproduced. While the return and exchange of skills by migrants may be difficult to measure it is undoubtedly a valuable by-product of the international labour migration and remittance process.

### **3.5 Negative impacts**

Despite listing and exploring many of the positive impacts that remittances can have in improving wellbeing and shaping sustainable livelihoods it must be said that some negative impacts can also result from the practice. These include increased inequality between remittance and non-remittance households, the adoption of unhealthy lifestyles and social and family tensions alongside increased gender inequality.

Increased income for some in the community through remittances can lead to inequality between families. While this has not been the case in Tonga where an egalitarian society has seen that

almost all have benefited from remittances the same cannot be said of everywhere. In some communities' remittances are a sign of status and can antagonise class tensions. While remittance spending on consumable goods has the potential to stimulate the local economy as mentioned above it also runs the risk of causing local inflation leading to basic goods becoming unaffordable for the majority of people.

While in Timor-Leste greater spending on nutritious food could lead to much needed reduction in the high number of malnourished children, in Tonga remittance income has stimulated a thriving market for the import of highly processed wheats and cereals as well as animal products like meat and milk. The rise of imports is partly to blame for an epidemic of NCD's including heart disease and diabetes. The situation is so dire that Tonga has the highest level of obesity in the world and has dedicated clinics to treat rampant Type 2 diabetes among the local population (Evans, Sinclair, Fusimalohi and Liava'a, 2001).

Another negative effect of labour migration can be increased gender inequality. The SWP, RSE, and EPS schemes are all dominated by male workers. Over a five-year period just 5 percent of EPS workers were women while in 2016-2017 the Australian seasonal worker program employed 353 men compared to just 124 women from Timor-Leste. At a rate of 32% Timor-Leste's female representation was still more than twice the average representation of women in the SWP which has stubbornly remained at 14% (Howes, 2018). While this is most likely explained by a combination of the type of work on offer and existing gendered notions and traditions in the home countries more could be done to decrease the gendered inequality during the hiring phase. The concern is that such gendered difference could be creating a widening disparity in skills between men and women. Female migrant workers are also more often employed in sectors that lack adequate legal frameworks or involve work in private homes making workplaces difficult to inspect and posing some risk to female workers personal safety (Kagan, 2014). This discussion illustrates that while many of the effects of remittances are positive they are not wholly beneficial, shared or equal.

### **3.6 Conclusion**

In conclusion this chapter has found that the impact of remittances on well-being and sustainable livelihoods in recipient households in Tonga and Timor-Leste are mostly positive and range from investment in human capital in the form of health and education, improved standard of living by the construction and improvement of family homes all the way through to investment in small businesses that diversify the family income and diminish remittance reliance in the long term. Remittances are shown to be responsive to stresses and shocks in the sense that they increase in response to hardships like natural disaster and illness and that they remain relatively stable despite global economic issues. There is also sufficient evidence to support the assumption that the benefits of remittances are not enjoyed only within the recipient household but that instead the benefits impact the wider community through stimulation of the local economy, skills exchange and job creation. While some negative impacts were discussed the research concludes that the majority of impacts are beneficial to a majority of people and that remittances are indeed a vital tool in improving the wellbeing of Tongan and Timorese people while enabling them to transition to sustainable livelihoods.

## **CHAPTER 4**

### **CONCLUSION**

#### **4.1 Introduction**

This final chapter brings together the conclusions of the study and summarises the findings of the research. After acknowledging the limitations of the study, the final section discusses implications for both policy and future research. The main research question was how do remittances influence well-being and sustainable livelihoods in recipient households in Tonga and Timor-Leste?

Through the research question mentioned above the study aimed to explore:

- How remittances are spent and invested by recipient households.
- The effect of remittances on three main well-being indicators, namely health, education and standard of living.
- The potential of remittances to assist poor households to transition to sustainable livelihoods.

The research approach was mixed-method, using both qualitative and quantitative macro and micro level data to provide detailed information, contextualized to the country case studies. Data was predominantly collected through secondary access to household surveys, UNDP reports and the RemitSCOPE and World Bank data systems.

#### **4.2 Implications for Theory**

The use of the new economics of labour migration (NELM) and sustainable livelihood approach (SLA) to analyse the findings of this study proved relevant in discussing the causes and consequences of migration and remittances at the household level. NELM considers the household to be the unit of analysis in the migration decision-making process and posits that migrants are not only motivated by the potential to improve their singular income but are also driven by the idea that remittances will diversify the income of the entire household and insure against risks and shocks to sources of income like subsistence agriculture. The study confirmed this idea as many Tongan and Timorese migrants related that the decision for them to work overseas and send money

home was made as a family unit. The investment of the money in human capital and microenterprises when examined through a sustainable livelihood approach shows how families use remittances as a bridge to diversify their incomes. The ‘household’ discussed in NELM is usually defined in these studies as ‘people who all eat from the same pot’. This study demonstrates that in some cases the decision to migrate goes beyond the household unit and is instead negotiated by other members of the community. In the case of Tonga local leaders within the community were engaged to select people to participate in programs like the SWP and RSE. The involvement of the community in the decision-making process can then be at least partly responsible for the regularity of communal remittances from the diaspora, a practice that helps reduce inequality between remittance and non-remittance receiving households. The study finds that while NELM is an appropriate theory for examining the migration decision-making process it is perhaps too economically deterministic and is best used in the company of a sociological theory like the sustainable livelihoods approach that recognizes the broader social dimensions of migration.

### **4.3 Findings Summary**

The major findings of this study relate to three areas of analysis: how remittances are spent, how this impacts wellbeing, (specifically health, education and standard of living) and lastly how remittances can support the transition to sustainable livelihoods.

#### **4.3.1 The investment and consumption of remittances**

Remittances are used for a number of purposes that change based on the characteristics of the household, level of poverty and the amount and frequency of remittances sent. How remittances are consumed and invested may also change over time as household priorities shift. It was found that the use of remittances generally adhered to a similar pattern between the two country studies. Remittances were first used to meet immediate and daily consumption needs, then house construction and improvement, followed by education and family expenses and finally, investment in business and loan repayment.

Family subsistence can be expensive and often accounts for the majority of remittance utilisation, especially in poorer households. After daily needs were met funds were then predominantly spent on house construction or home improvements. While this is considered unproductive spending due

to the lack of economic return, for many of the migrants surveyed it was a main goal and for some a contributing factor to their decision to seek employment overseas. Household improvement can also be directly linked to improved standards of living. Contributions to the church, community projects and family expenses like weddings and funerals were also a considerably large area of remittance expenditure. While these are not considered to be ‘productive’ either they do contribute to a strong sense of family and communal ties that not only influence well-being but can also help to retain remittances long term and prevent remittance decay. The investment of remittances in health and education produces returns in human capital while investment in business produces an economic return.

#### **4.3.2 Impact of remittances on wellbeing**

Despite government provision of free education in both countries approximately 10 percent of remittances were directed towards schooling expenses. This covers basics like books, stationary and uniforms but is also being used to support household members all the way through to tertiary level. This is vital in Timor-Leste where public university positions are limited and private universities expensive. In the majority of households receiving remittances at least one of the following was found to be the case in relation to education:

- The number of children who completed secondary schooling was higher in remittance receiving households.
- The likelihood of more than one child being in school increased.
- Gender disparity of girls to boys in secondary school decreased.

In terms of health impacts remittances were reported to increase in response to the presence of a medical issue in the recipient household. Remittances were seen to have the ability to both increase life expectancy and reduce rates of infant mortality while acting as an informal type of health insurance. The direct relationship between remittances and improved access to education and healthcare demonstrates the power of human capital investment in building capabilities while improving wellbeing.

Evidence of a positive relationship between remittances and standard of living was also found in the research. Remittances greatly contributed to household income, in Tonga it was the most



widespread source of income and in SWP households in Tonga income increased by 30 percent. Households receiving remittances in Timor-Leste regularly used it to substitute agricultural income during the off season. Spending of remittances was found to influence standard of living through the modernisation of kitchens which prevents the use of dirty cooking fuel and through improved access to clean drinking water and sanitation. Food consumption was another area where remittances expenditure improved well-being by improving the access to regular, nutritious meals.

#### **4.3.3 Impact of remittances on sustainable livelihoods**

The research found that livelihoods that are supported by remittances can be more sustainable than in non-remittance households. Remittances proved to be able to withstand shocks as evidenced by the relative stability of remittances during the GFC. Remittances were also shown to be responsive to both natural disasters and medical crises at home. They do not undermine the natural resource base as they are located internationally and can in fact relieve employment stress in unsustainable sectors (petroleum and agriculture). Remittances are also seen to enhance capabilities and assets through human capital investment, savings and investment in farming equipment, and business start-up or expansion. The long history of remittances in Tonga has seen a transition from micro changes in family consumption to macro-economic changes including the transition from reliance on subsistence agriculture to an industry and services sector that employs the majority of the working population. The research found that remittance utilisation transitioned from daily subsistence and social events to investment over time. As this transition occurred it was reflected by a diminished reliance on remittances long term. In Tonga this is seen where each additional US dollar received increases household income from other non-remittances sources by US\$1.30 (Brown, Connell, and Leeves, 2006). This is evidence of the power of remittances to fund the transition of households from unreliable and sometimes damaging subsistence livelihoods to livelihoods that are diversified, able to withstand shocks and stresses and most important, sustainable.

#### **4.3.4 Wider Impacts and Negative impacts**

While the majority of the paper examined the positive relationship between remittances, wellbeing and sustainable livelihoods it would be remiss to not mention some of the potential negative impacts that were encountered. Gender disparity in the SWP, RSE and EPS schemes may be

contributing to a widening disparity in skills between men and women. Remittance incomes in Tonga have contributed to an epidemic of NCD's including heart disease and diabetes as a result of imported foods. Remittances also have the potential to increase inequality between remittance and non-remittance households and can cause local inflation.

Despite this, remittances were also found to benefit the wider community through chain migration opportunities, employment in new businesses, provision of goods or services that may have previously been inaccessible and the transfer of skills and knowledge.

#### **4.4 Limitations**

This research has collated previously disconnected data in order to contribute to an understanding of the impact that remittances can have on wellbeing and sustainable livelihoods. While it has provided insight into a neglected study in the case of Tonga and an under-researched phenomenon in Timor-Leste the study is not without limitations which will now be discussed. The time constraint of the project made it too difficult to seek primary data in the form of household surveys conducted by the researcher, thus I had to rely on household sampling completed by other researchers meaning I did not have access to all of their data but instead only what had been published.

Migration data also poses a challenge as country level statistics are not always completely accurate. Much of the data available was also not disaggregated by gender making it difficult to draw conclusions about the different experiences of men and women in the migration process. Remittances themselves also pose a challenge in data collection as they go through multiple official and non-official channels. In order to address this challenge, the study used remittance estimates from both RemitSCOPE and the World Bank.

#### **4.5 Implications for Policy**

While the Tongan government is aware of the vital contribution of remittances to their country's economy Timor-Leste has yet to officially recognize the potential value of remittances for development. Labour migration can relieve the pressures of unemployment and help Timor-Leste to shift its labour population out of the petroleum sector prior to the dwindling of their oil reserves.

The findings indicate that policy makers should work to maximise the development potential of migrants and their remittances while minimizing the potential for negative effects. For example, making use of human capital in the form of skills transfer from returned migrants to others in the community.

The findings demonstrated strong intentions on the behalf of migrants to start businesses upon their return however they also indicated a lack of business knowledge. Reintegration workshops could support workers whose goals are to establish businesses through information provision. Special attention should be given to new businesses that would support the agriculture and tourism sectors. The sustainability of remittances could be addressed through promoting savings and enhancing entrepreneurship skills while easing the bureaucracy around accessing business loans. Efforts to engage the diaspora, especially highly qualified ones, including second generation immigrants could help to avoid brain drain instead encouraging brain circulation. This could be achieved through promoting temporary return or providing incentives like leadership positions within the community.

Australia has also recently introduced a microstate visa category that assists workers from Kiribati, Tuvalu and Nauru to come to Australia to work in the tourism and hospitality industries and in the Northern Territory the SWP has been extended to include these sectors. If the microstate visa category is extended to include more Pacific Island and South-East Asian nations it may provide an avenue to improve gender equality in seasonal labour migration from Tonga and Timor-Leste to Australia.

Australia also has three further agricultural visa proposals on the table that are apparently being reviewed in order to meet growing demands for up to 100,000 seasonal workers. It is likely that if a new skilled worker agricultural visa is introduced the majority of workers will be sourced from China and India's great reserves of skilled labourers, a move that could potentially edge out Pacific Island nations and smaller Asian countries.

Making the transfer of remittances cheaper is a vital policy implication that could encourage more people to remit higher amounts more regularly. This is already included in Sustainable

Development Goal no. 10 where target 10c is to reduce to less than 3 percent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 percent by 2030.

#### **4.6 Implications for Research**

This research has begun to uncover some of the connections between migration, remittances, wellbeing and sustainable livelihoods. However what this study brings out is the need for further research to provide a more in depth understanding. This is especially true in relation to the implications for health and education as well as more gendered research that looks at addressing inequalities in the migration process. This would significantly improve the understanding of the role of remittances in development.

It would be useful if in future research examined the decision-making process undertaken by households that decide to engage in international labour for remittances. How is the decision made, and what were their expectations before the process? This will help to establish if the experience meets goals made at the outset. It could also assist in establishing if households use remittances as a long term or permanent source of income or if it seen as a stepping stone or windfall that will assist them in achieving more long-term goals.

Further research is recommended to fully capture the extent of emigration and remittance flows, especially in Timor-Leste. A large-scale household survey could provide a more accurate estimate of the scale of emigration and the volume of both official and unofficial remittances. Household surveys could also provide a comparison of how the standard of living in households receiving remittances compares to those who do not receive remittances.

#### **4.7 Conclusion**

This study has demonstrated that in both Tonga and Timor-Leste the money sent home by migrants has the potential to significantly improve the wellbeing of their families. Remittances invested in education and health improve human capital while investment in micro-enterprises are helping families diversify their incomes and create more sustainable livelihoods. While the study found some negative effects of migration and remittances it also found that when invested into positive avenues the effects are mostly positive. Thus, it is recommended that the governments of Tonga

and Timor-Leste seriously consider the potential of remittances as tools for development and that they work to engage their respective diasporas, encourage households to invest remittance funds carefully, and focus on the return and retention of skilled migrants.

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