FIJI COUNTRY REPORT

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1.0 INTRODUCTION

Like other Pacific Island states, Fiji is experiencing high population growth and a significant youth bulge, with half of the population under the age of 21. The country's economic prospects have been damaged by periodic crises of governance, and a return to a politically stable status quo is necessary to restore investor confidence. However, it is beyond the power of governments to solve the problems of high costs and weak markets that are a consequence of geographic isolation. With appropriate policy incentives and governance reforms, limited opportunities for expansion exist in key sectors such as tourism and cash-cropping, but the domestic economy on the whole is unable to generate enough jobs to keep pace with the growing labour force, and the mismatch between labour supply and demand is likely to intensify in the foreseeable future.

Fijians have responded to the lack of domestic opportunities by seeking work overseas, and offshore labour markets have come to assume a central role in Fiji's economy and society. Around 6,000 Fijians leave the country annually for employment abroad. Most leave permanently, although there has been a recent increase in short-term contract migration, often associated with military employment. About a third of Fijian households receive remittances, which make an aggregate contribution of about 10 per cent of GDP. In addition to supporting routine household consumption needs in the cash economy and financing savings and asset purchases for better-off recipients, remittances play an important role in financing local infrastructure and welfare through contributions to community funds.

Despite the centrality of remittances in the Fijian economy, there is no coherent policy framework or incentive system in place to encourage migration or remittances, or to harness remittances for savings and investment. Only one commercial bank, the ANZ Bank, has a substantial presence in rural Fiji, and since the establishment of its rural mobile banking program has recruited about 60,000 previously unbanked clients, a commendable achievement. However, within Fiji's commercial banking sector the technology supporting international funds transfers remains underdeveloped, and bank-based transfer options are uncompetitive. As a result, remittance transfers are expensive, at around 10 per cent, and the market is overwhelmingly dominated by a single player, Western Union. Due in part to a lack of connectivity between Western Union and the banks, most remittances are taken in cash and do not enter the banking system. The creation of accessible and affordable direct deposit facilities for remittances should be a policy priority, as savings vastly enhance the development impacts of remittances.

This report investigates the economic and financial behaviour of remittance-receiving households in Fiji. The following section provides an overview of the political, economic and financial environment and discusses recent trends in migration and remittances. The third section presents the findings of a survey of 65 remittance-receiving households, discussing the socioeconomic status of remittance recipients, migration patterns, remitting behaviour and remittance usage, savings and expenditure, and use of financial services. Policy issues emerging from the research are discussed in the final section.

2.0 COUNTRY BACKGROUND AND CONTEXT

With a population of approximately 850,000, Fiji is the largest of the Pacific island states. Three quarters of the population live on Viti Levu, the largest island in the Fiji archipelago. The population is composed of two main ethnic groups, indigenous Fijians (55 per cent) and Indo-Fijians, primarily the descendants of Indian indentured labourers brought to Fiji by the British colonisers in the 19th century (41 per cent). Fiji is relatively urbanised, with approximately 46 per cent of the population living in urban areas. A little less than a quarter of the total population live in the suburbs around the capital, Suva.

Fiji is classified by the by the UNDP in the 'medium human development' category, ranking 90th among 177 countries (UNDP 2006). It performs above its Pacific island neighbours and above the developing country average on most human development indicators, with a per capita GDP of around $3,280, life expectancy of 68 years, low maternal, infant and child mortality rates and a 93 per cent adult literacy rate. Primary school enrolment is almost universal and approximately 40 per cent of children remain at school until the age of 18 (Pacific Islands Forum (PIF) 2004). About 70 per cent of the population have access to safe water and sanitation.

However, recent adverse political, economic and social developments have raised serious questions regarding Fiji's future stability and prosperity. Military coups in 1987, 2000 and most recently in 2006 have polarised Fijian society, isolated the country internationally and accelerated the flight of capital and skills. Economic performance has been weak, with average GDP growth of 2.1 per cent between 1996 and 2006. GDP is projected to fall by 3.1 per cent in 2007 following the coup of December 2006 and consequent downturns in key sectors such as tourism and sugarcane production (Reserve Bank 2007). Inflation stood at 7.1 per cent in June 2007 and inflationary pressures are likely to intensify, driven by falling local food production and rising global fuel prices. Declining export revenues and foreign investment have more than offset a growth in remittances from Fijians working abroad, and since 2004 foreign exchange reserves have fallen by 30 per cent to around $800 million in 2007 (Reserve Bank 2007).

Fijian living standards remain high relative to their Pacific neighbours, but increasing wealth disparities, political instability, ethnic tensions, rising crime rates and a weakening of traditional community structures all signify an erosion of the social fabric which over the last decade has diminished the quality of life for many Fijians. Poverty is a significant and growing problem, exacerbated by falling real wages and rising unemployment. The percentage of the population living below the poverty line has increased dramatically, from 15 per cent in 1977 to 25.5 per cent in 1991 and 34.4 per cent in 2002 (PIF 2004, Chand 2007). Traditionally, Pacific island nations have enjoyed high levels of food security, supported by subsistence production and egalitarian social structures. However, there are signs that food poverty is on the increase in Fiji. In 1991, the incomes of 9.9 per cent of the population were insufficient to meet basic nutrition requirements. The 2002/03 Household Income and Expenditure Survey (HIES) does not provide data on the food poverty incidence; however, it is likely to have increased with the growth in the 1990s of landless urban squatter communities which lack access to subsistence resources (PIF 2004).

Unemployment and underemployment are significant problems, with less than one third of the labour force in full-time paid employment (FIBS 2007a), and job growth is well below the levels needed to accommodate new labour force entrants. The labour market is under pressure from growing demand for cash incomes and a significant youth bulge, with half of the Fijian population aged under 21. In addition the sugar industry, which employs around 13 per cent of the labour force, is under strain from reduced investment and the exit of experienced operators due to uncertainty regarding future farm lease tenure arrangements.

2.1 Migration

As the Fiji Islands Bureau of Statistics (FIBS) has not collected systematic migration data since 2003, accurate up to date national migration statistics are unavailable. In 2003, over 11,000 resident Fijians permanently emigrated or departed for the purpose of employment abroad (FIBS 2007b). A recent World Bank study found that 35 per cent of Fijian households had at least one member overseas, and 43 per cent of households received remittances (Luthria et al 2006). It is estimated that around 15 per cent of Fijians live overseas.

Most studies conclude that decisions to migrate are primarily economic, motivated by high local and overseas wage differentials, poor working conditions and limited career prospects at home and uncertainty regarding the future (Connell 2004, Chandra 2004). There is also considerable evidence, reinforced by sharp increases in emigration following the coups of 1987 and 2001, that political instability is a significant push factor, particularly for Indo-Fijians alarmed by the rise of indigenous Fijian nationalism and the willingness of successive governments to discriminate in favour of the indigenous population (Reddy et al 2004, Narayan et al 2003). Between 1987 and 2002, Indo-Fijians accounted for 89 per cent of officially recorded departures.

Since the 1970s, most migrants have been skilled and professional workers who migrate with their families to take up permanent residence in Australia or New Zealand. However, recent years have seen the emergence of important new categories of Fijian migrant workers. There has been a shift in migration patterns away from families who settle permanently in their destination countries towards single men and women who leave their families at home. Although permanent migration remains the norm, there has been an increase in the number of migrants taking up short-term overseas employment, and increasing numbers of unskilled and semi-skilled workers are migrating. Anecdotal evidence indicates an increase in undocumented migration, particularly of unskilled workers to the US, although the numbers involved are unclear as many migrants in this category are undocumented (Voigt-Graf et al 2007).

There has been a notable increase in the number of Fijian males in military and quasi-military employment overseas, often in hazardous conditions. Since the invasion of Iraq in 2003, private military contractors have become a significant employer of Fijian males, and several firms have opened recruiting offices in Suva. An estimated 3,000 Fijians are currently working for private security firms in Iraq as drivers and security guards (Voigt-Graf et al 2007, MacLellan 2006). In addition, since 2000 the British Ministry of Defence, responding to difficulties recruiting its own nationals for the British armed forces, has expanded the Commonwealth Soldiers program which recruits personnel from Commonwealth countries. With highly attractive rates of pay and conditions, including eligibility for permanent residence in the UK for members and their families on expiry of their service contracts, around 2,000 Fijians are currently employed as Commonwealth soldiers in the UK, Europe and the Middle East, and since 1998 more than 15,000 Fijians have applied (BBC (Daily Mail 2007, BBC 2006, 2007).

2.2 Remittances

In 2006, remittances contributed nearly 10 per cent of GDP and a third of Fiji's foreign exchange reserves (Reserve Bank 2007). The value of remittances transferred through formal channels has increased dramatically since the beginning of the century, from an estimated $30 million in 2002 to $130 million in 2004, $200 million in 2005 and $300 million in 2006 (Luthria et al 2006, FIBS 2006). In addition, one estimate puts unrecorded remittances at $150 million, which would lift foreign earnings above tourist receipts as the country's main source of foreign exchange (Narube 2005). It is likely that remittances from Iraq account for much of the post-2003 increase, given the relatively high salaries of Fijians working in the Middle East and their high propensity to remit. There is a report that 250 Fijians working for a single security company remitted $3 million to bank accounts in Fiji between October 2004 and April 2005 (Fiji Times 2005). Recent findings indicate that remittances also make a significant contribution at the household level, accounting for an estimated 16 per cent of total household income in 2003 (FIBS 2006). In 2005, 43 per cent of households received remittances (Luthria et al 2006).

2.3 The financial sector

Five commercial banks and one state-owned development bank operate in Fiji. The commercial banking sector is highly concentrated, with the Australian-owned ANZ and Westpac banks accounting for a joint market share of 80 per cent. The state-owned Fiji National Provident Fund (FNPF) is Fiji's major pension fund and the country's largest financial institution, holding about a third of total assets and liabilities. With a membership of two thirds of the adult population, the FNPF is the country's most important repository of household savings.

Most of the commercial banks confine their operations to the urban sector, and there is a marked disparity in rural and urban access to banking services, with the unbanked rural population estimated at between 300,000 and 400,000 in 2004 (Blacklock 2006). A 2002 policy paper by the Reserve Bank of Fiji (RBF) recommended the establishment of a banking infrastructure development fund supported by the major banks and the government, to finance rural development projects, examine options for the design of banking products for rural customers, and install shared ATMs in strategic rural locations (World Bank 2005). However, the RBF's recommendations have not been acted upon. About one third of Fiji's rural post offices and agencies offer basic deposit and withdrawal services for existing Colonial National Bank (CNB) passbook holders but cannot open new accounts. The most promising recent rural banking init is the rural initiative is the mobile banking service introduced by the ANZ Bank in 2004, which in its first two years of operation has performed impressively, resulting in the opening of 54,000 new passbook accounts, 90 per cent of which are first-time accounts, with a total savings base of $2 million. At present the rural banking service is confined to the island of Viti Levu, but there are plans to expand it to the smaller Fiji islands and to other Pacific Island states.

Apart from the ANZ, the commercial banks have demonstrated little interest in developing a low-end or rural customer base. A parliamentary report by the 1999 Committee of Enquiry into Financial Services found that the Fijian commercial banking sector was highly profitable and highly liquid, with little competition between banks, and that bank profits were derived principally from high interest rate spreads and high fees and charges (World Bank 2005). The committee's criticisms remain valid today, with continuing high liquidity and high interest rate spreads, and all Fijian banks have moved to 'user pays' service provision, raising routine transaction costs, particularly on passbook accounts. The ANZ bank, for example, charges a $3 per month 'account servicing' fee and a $20 passbook replacement fee on the standard passbook accounts operated by rural banking customers. The standard zero or negative real interest rate on routine savings accounts, combined with raised transaction costs, creates a disincentive to save among low-end customers.

In addition to the five commerical banks, ten foreign exchange dealers are authorised by the Reserve Bank to handle foreign currency transactions including remittance transfers. Most remittance transfer agencies have limited rural outreach, with the exceptions of the ANZ Bank and Western Union. The latter has established an exclusive partnership with the Fiji postal service and operates from post offices throughout the country. Although banking services are accessible to most rural households on Viti Levu via its mobile banking program, the ANZ's remittance transfer service is not cost-competitive in rural areas and Western Union remains overwhelmingly the dominant player in the remittance transfer market.

3.0 RESULTS AND FINDINGS

3.1 Methodology

Staff from the ANZ Bank administered a structured questionnaire to 64 respondents who were clients of the ANZ mobile banking program and were receiving remittances from a household member abroad. The survey locations were villages along the route taken by the mobile banking team on its fortnightly circuit of the south-western region of Viti Levu, incorporating villages within a 50-kilometre radius of Suva. As the principal intention of the survey was to provide data on remitting patterns and usage among rural ANZ Bank clients, the sampling frame is not nationally representative. In particular, Indo-Fijian and urban households (which comprise 45 and 56 per cent respectively of the national population) are under-represented.

3.2 Characteristics of remitters

Of the 64 respondent households, 61 were receiving payments from a single remitter and three were receiving payments from two remitters. Nearly two thirds of the remitters had some secondary school education and a further 18 per cent held a post-secondary qualification. A third were employed in semi-skilled and unskilled occupations (Table 1). Within the semi-skilled/unskilled group domestic service was the largest single job category, with 11 employed in private houses as housekeepers or nannies, and others as labourers, drivers and hotel and hospital attendants. Military and paramilitary occupations accounted for another third: 19 were serving in the British armed forces, and four were employed as private security contractors. In the professional and skilled category, the health professions were the largest occupational group, accounting for six remitters. The gender distribution reflects occupational gender segmentation: due to their numerical dominance in the health and domestic service occupations, women outnumber men in the professional and unskilled categories, while the majority of military and para-military employees are male. Australia, New Zealand and the US are the main destinations for civilian workers, while those in the military are stationed in the UK and in the Middle East (Table 2).

Table 1: Remitter occupational categories by gender

Occupational category	Male	Female	Total
Professional, skilled and white collar workers	8	11	19
Unskilled	9	13	22
Military/para-military	21	2	23
Other n.e.s.	3	-	3
Total	**40**	**27**	**67**

Table 2: Remitter occupational categories by destination

	Destination				
Occupational category	**Australia**	**NZ**	**USA**	**UK**	**Other***
Professional, skilled and white collar workers	8	-	3	2	4
Unskilled	6	5	7	1	5
Military/para-military	-	-	1	12	10
Other n.e.s.	1	2	-	-	-
Total	**15**	**7**	**11**	**15**	**19**

*Europe, Asia, Middle East, other Pacific

Remitters were aged between 21 and 60, with a median age of 32, and nearly two thirds were aged under 35 (Table 3). Professional workers tend to be older than other categories, and military employees are the youngest, with a median age of 26. Over half of the remitters were sons or daughters sending money home to their parents, 16 per cent were spouses and 18 per cent were siblings. For most, the migration is relatively recent: around 60 per cent of remitters had been away for less than 5 years, including 26 per cent who had left in the previous two years, while only 20 per cent had been away for more than 10 years. On average, professional workers have been away longer than others, with a median departure date six year prior to the survey, in comparison with a median three years for unskilled workers (Table 3).

Only 30 per cent of remitters planned to return to live in Fiji. Not surprisingly, spouses were the most likely to report planning to return (72 per cent), while the majority of sons/daughters and siblings intend to settle overseas. Women were more likely than men to report an intention to return, at 38 and 24 per cent respectively. Unskilled workers were significantly more likely than professional or military workers to report an intention to return, although few nominated a firm return date.

Slightly fewer than half of the civilian remitters had migrated with other family members or reunited their families overseas post-departure. Those in semi-skilled and unskilled occupations were significantly less likely than professional workers to have migrated with their families, reflecting their younger average age and their generally more precarious employment status. Only 13 per cent of military remitters had other family members abroad, but several commonwealth soldiers planned to reunite their families overseas after obtaining British citizenship on the expiry of their five-year period of military service.

Table 3: Remitter occupational categories by age

Occupational category	Median age	Median years since departure	Per cent with family overseas	Per cent intending to return
Professional, skilled and white collar	37	6	53	26
Unskilled	32	3	40	50
Military/para-military	26	4.5	14	50
Total	**32**	**5**	**36**	**42**

3.3 Remitting behaviour

There was a wide variation between the sample households in the value of remittance receipts, which ranged from less than $50 to more than $3,000 per month, with a median value of $335 (Table 4). Professional and military workers send significantly more money home than unskilled workers (Table 5). Men remit more than women, at $330 and $268 respectively, and senders in the US and Iraq remit the largest median sums, at $787and $590 respectively.

Table 4: Remittance distribution by size

Monthly remittances*	Frequency (per cent)
Less than $250	38
$251-500	34
$501-1,000	15
More than $1,000	13
Total	**100**

* Averaged over 12 months to take account of irregular remittances

Table 5: Remittances to family by occupational category*

Occupational category	Median remittance ($US per month)
Professional, skilled and white collar workers	355
Unskilled	204
Military/para-military	335
Total	**335**

* Remittances calculated on a monthly equivalent basis

Nearly two thirds of remitters send money home every month or nearly every month, around 10 per cent remit three or four times a year, and about 20 per cent send money home less than three times a year. Remittance frequency is linked to migration duration: more than 85 per cent of recent migrants with a departure date of up to two years prior to the survey sent money home on a monthly or near-monthly basis, compared with only 50 per cent of those who had been away for five years or more. Rather than setting aside a regular portion of their income, infrequent remitters typically send money only in response to a request from the recipient for cash for a particular purpose such as the payment of school fees, the retirement of a debt, purchase of land or a contribution to a community project. 'Request remittances' are typically large lump sums of $1,000 or more. In one case, a hospital worker who had settled with her family in New Zealand in the 1960s sent $58,000 to her brother to finance a land purchase for the extended family.

Two thirds of the respondents reported that the overall value of their remittances had remained stable since the migrant's departure, and one third reported an increase value. Only one respondent reported a decline in the value of remittances. This finding is supported by a slight upward trend in the mean value of remittances by longer-term migrants, calling into question the 'remittance decay' hypothesis which predicts a decline in remittance values over time.

3.4 Remittances in the household economy

The head of a remittance-receiving household is typically a middle-aged or elderly man receiving payments from adult children or siblings overseas. Remittance-receiving households are smaller than average, with a mean household size of 3.9 in comparison with the national average of 5.3. Their smaller size is attributable at least in part to the migration itself, including the emigration of dependent family members, and also to their relatively late stage in the household life-cycle: children under 16 were present in just over one half of the respondent households. In some cases, grandparents were caring for the children of migrant workers.

On average, remittance recipients are better off than other rural Fijian households, with median monthly cash incomes of $597 and $500 respectively (FIBS 2006). A recent World Bank study calculated that the 'subjective deprivation line' for rural Fijian households, representing the minimum cash income required 'just to get by' was $415 per month. Sixty per cent of the sample households received cash incomes above the relative deprivation line, including 30 per cent who received $1,000 or more a month, placing them well within the top rural income decile (FIBS 2006). About 40 per cent of remittance-receiving households remain below the subjective poverty line, however.

The composition of the household economy varies with household income level (Table 6). Remittance dependence declines as income rises, with remittances contributing two thirds of household income in the lowest income category and 55 per cent in the highest. Seventeen per cent of households had no local source of cash income and depended entirely on remittances, and in a further 23 per cent, low-value semi-subsistence farming was the only economic activity engaged in by household members at home. The remaining 54 per cent supplemented remittances with local non-farm employment. Low-income households were more likely than others to have no local sources of cash income or to rely on government transfers or farming for their local income, while in middle- and high-income non-farm wage employment makes a substantial contribution to the household economy. Only six of the sample households reported operating microenterprises.

Table 6: Composition of household income sources by income category

Household income category	Farming	Wage employment	Microenterprise	State transfers	Remittances
Less than $415	11.1	6.6	2.6	13.4	66.4
$415-999	5.9	28.6	3.8	-	61.1
$1,000 or more	2.8	37.0	2.9	2.0	55.4
All	**7.0**	**22.8**	**3 .0**	**5.9**	**61.4**

3.5 Household savings and expenditure

As the largest and in many cases the only source of cash income, remittances are used primarily for routine consumption needs that cannot be met from the subsistence economy. Most of the respondent households meet between a third and a half of their food requirements from subsistence production, but use cash to purchase packaged food and routine non-food items such as transport, education, clothing and health-related expenses. These were the main expenditure items, accounting for about 50 per cent of cash expenditures in the sample households. Land purchases and housing improvements absorbed about 15 per cent of total expenditures, and were typically financed by lump sum 'request' remittances. About a third of the respondents reported having used remittances for housing-related capital improvements, and 60 per cent were saving for this purpose.

3.6 Community obligations

Church-related and communal obligations are significant expenditure items in rural communities. Most households reported setting aside around 5 per cent of their income for church-related donations. The collection of funds for community purposes, known as soli, is a well-established indigenous Fijian tradition. Migrant remittances finance soli indirectly via contributions from receiving households, which typically allocate around 10 per cent of their income for communal expenditures. In addition, nearly half of the respondents reported that the migrants make direct contributions to soli, usually through fund-raising drives organised by expatriate associations which maintain regular contact with community organizations at home. Direct soli contributions accounted for about 4 per cent of total remittances.

3.7 Savings

The savings profile of respondents is broadly consistent with census data which highlights socio-economic differences in savings behaviour, with a high propensity to save in the upper 50 per cent of rural households, but a more modest savings rate of around 5 per cent of income in the third and fourth deciles, and dis-saving among the poorest 20 per cent (FIBS 2006). The survey findings lend some support to a widely held view that poorer indigenous Fijians lack a strong savings culture (World Bank 2005, Marino 1996). Although the respondents are more likely than other rural households to be ‘banked’ via the ANZ rural banking program, there is little evidence that this has translated into higher savings rates for low- and middle-income households. As Table 7 indicates, only one third of low- and middle-income households, and a half of high-income households, deposited a share of their last remittance in a bank account. Respondents who used bank-based remittance transfer services were significantly more likely to deposit part of their remittance than those who used Western Union, at 69 and 29 per cent respectively, suggesting that the choice of transfer method is a strong influence on savings behaviour.

Table 7: Share of most recent remittance allocated to savings*

Household income category	Households depositing a share of the most recent remittance in a bank account (per cent)	Median amount deposited by households making a deposit
Less than $415	33	84
$415-999	35	335
$1,000 or more	50	469
All	**38**	**310**

* Using recent remittance deposits as a proxy for savings behaviour probably overstates the number of savers and amount saved, as several respondents are likely to withdraw part or all of their deposit before the arrival of the next payment.

Most households hold a positive savings balance, as Table 8 indicates, but fewer than half had held savings above $5,000, equivalent to about eight months’ income for the average rural family. The average savings balance of low-income households is equivalent to about three months of household income. Most savings consist of compulsory contributions by middle- and high-income households to the Fiji National Provident Fund (FNPF), the national state-owned pension fund, which accounted for nearly three quarters of household savings. Around 17 per cent of savings were held in joint accounts maintained by the migrant and a relative at home, or by household members at home, and 10 per cent were held in migrants’ personal savings accounts.

Table 8: Household savings

Savings balance	Frequency (per cent)
Zero	9
Less than $1,000	19
$1,000-4,999	28
$5,000 or more	44
Total	**100**

FNPF contributions of 8 per cent of salary plus an 8 per cent employer contribution are compulsory for the 108,000 workers employed in the formal sector (approximately a third of the labour force). Employee contributions are limited to a maximum of 8 per cent. Although informal sector workers may make voluntary FNPF contributions, labour force data indicates that few do so in practice.[1] Overall, three quarters of household savings are held in the FNPF, but there are wide disparities between income groups in the percentage of households participating in the FNPF scheme (Table 9), reflecting socioeconomic inequalities of access to sought-after formal sector jobs. In many cases FNPF balances represent past rather than current savings: only those who were working in the formal sector at the time of the survey were currently making FNPF contributions, and some retired respondents had begun to draw down their FNPF accounts as pensions.

Table 9: Mean distribution of household savings

Household income category	Migrant's savings account	Recipient household savings accounts	FNPF	Per cent of FNPF contributors by income category	Total
Less than $415	665	595	705	29	1965
$415-999	670	1986	8197	65	10853
$1,000 or more	1875	2944	15540	72	20539
All	**1037**	**1744**	**7771**	**54**	**10552**

In assessing the contribution of remittances to savings it is important to note that initial migration costs may cause dis-saving in the short term. More importantly, the withdrawal of bank savings and FNPF contributions by permanent migrants may create a longer-term dis-saving effect. It is reported that in the first quarter of 2007, permanent emigrants withdrew $7.4 million from the FNPF (Fiji Times 22 May 2007). In Fiji, the loss of skills and capital through skilled permanent migration is a significant concern and must be taken into account by policy-makers seeking to enhance the development impacts of remittances.

Unsettled economic conditions since the coup of December 2006, including a 5 per cent pay cut imposed on civil servants by the military government in March 2007, have contributed to a decline in savings among the general population and an increase in distress-based partial withdrawals from the FNPF (Fiji Times 22 may 2007). A dramatic increase in the number of loans written off by the ANZ's micro-loans program in 2007 provides further evidence of the adverse effects of economic and political turbulence on household-level financial well-being. Significantly, none of the respondents reported an increase in debt or in loan arrears, or a withdrawal of FNPF contributions in the twelve

[1] A direct breakdown of FNPF contributions by employment status is not available; however, existing statistics provide a reasonable approximation. In 2004-05 134,252 workers were making current contributions to the FNPF (FIBS 2007a), and in 2003 108,184 workers were employed in the formal sector (FIBS 2006). As formal sector employees are by definition FNPF contributors, the data suggests that approximately 25,000 informal sector workers are making FNPF contributions, representing about 13 per cent of all informal sector workers.

months prior to the survey, suggesting that remittances have helped to cushion them against recent economic shocks.

Among respondents who reported saving, there was little difference across income levels in terms of savings objectives. The most common savings objective was the education of children or grandchildren, widely viewed as an essential prerequisite for an eventual overseas job (62 per cent). School education is largely state-funded, requiring annual household contributions of around $100 per child; but post-secondary education costs are significantly higher, at around $5,000 per annum. Housing improvements and consumer goods were widely reported savings objectives, at 60 per cent, and 40 per cent of respondents reported that they were saving for retirement. Only 11 per cent indicated that they were saving to invest in a business, a reflection of the generally hostile contemporary environment for rural microenterprise development.

3.8 Use of financial services

All respondents were ANZ clients. Fifty-two respondents (81 per cent of the total) participated in the rural banking program and maintained passbook-based savings or at-call accounts, and the remaining 12 respondents lived on the outskirts of Suva and maintained ATM-based accounts. Five respondents maintained accounts with other banks in addition to the ANZ. The ANZ's transfer facilities for rural passbook holders are restricted to SWIFT telegraphic transfers and paper drafts, which involve high costs for both senders and recipients (Table 9). Internet-based transfers between electronic accounts are available to holders of ATM accounts. Internet transfers are faster and more convenient for both senders and recipients, as they do not require a visit to the bank, but are costly, representing more than 7 per cent of an average remittance transfer.

Table 9: Remittance transfer costs ($US)

Method/agency	Cost (sender)	Cost (recipient)	Maximum duration
Western Union	$18 –39*	Nil**	15 minutes
ANZ Bank			
Telegraphic transfer	$29	$7	48 hours
Paper draft	$23 plus postage	$7	10 days
Internet transfer	$25	Nil	15 minutes
Westpac Bank			
Telegraphic transfer	$27	$7	48 hours
Paper draft	$23 plus postage	$7	10 days
Internet transfer	$18	Nil	15 minutes

* Western Union transfer costs vary according to the size of the transfer: $18 for transfers below $75; $20 for transfers of $75-150, $32 for transfers of $150 -1,500; $39 for transfers above $1,500.
** Although Western Union states that its policy is not to charge recipients, some recipients reported paying a fee of $7 at the point of collection.

Although all respondents had access to bank-based remittance transfer services, banks are not the preferred channel for most (Table 9). Western Union is by far the most popular transfer vehicle for rural respondents due to advantages of cost (discussed below) and proximity. The Western Union partnership with Fiji post allows transfers to be collected at any post office or postal agency. With over 130 branches located throughout the islands, most households are within 10 kilometers of a postal agency, and among the sample the mean distance of a Western Union service from a respondent's house was 6.8 kilometers.

Table 10: Preferred remittance transfer service

Transfer agency	Per cent (N=64)
Western Union	74
ANZ Bank	17
Other bank	5
Cash brought home	2
Postal money order	2
Total	**100**

As commercial banks in Fiji do not possess the infrastructure to support low-cost direct international electronic transfers, most bank-based transfers were conducted through the SWIFT telegraphic system, while three respondents reported using slightly lower-cost internet transfers. All bank-based transfers are deposited directly into the respondent's account rather than collected in cash. Non-bank transfers, which are taken as cash, are less likely to be banked, due in part to a lack of connectivity between the transfer agency and the banking system. Among respondents who used Western Union, fewer than a third reported depositing a portion of their last remittance in a bank account.

Rural respondents make fewer deposits than their peri-urban counterparts; they also make fewer cash withdrawals. Those who possess ATM accounts typically make 5-10 cash withdrawals per month, while for rural clients, transaction frequency is constrained by the schedule of the mobile banking team, which visits each village on its route once a fortnight. About half of the rural respondents reported making one or two cash withdrawals in the previous month, while the other half made no cash withdrawals. Thus, most rural households take their remittances in cash and make infrequent deposits and withdrawals, suggesting that a significant proportion of rural remittances do not enter the banking system, but are instead used to supply the everyday cash requirements of recipients.

4.0 POLICY ISSUES

4.1 Remittance transfers

Survey respondents who use bank-based transfer methods are more likely to save than those who receive cash transfers via Western Union. In addition, there is considerable international evidence that direct deposit facilities for remittances support development, by reducing the safety risks and potential for leakage associated with holding cash, and by encouraging savings which in turn reduce vulnerability to shocks, support asset-building, build creditworthiness and can be mobilised for rural investment, generating local economic growth (Carling 2004, Shaw 2007). Given that about a third of Fijian households are receiving remittances, it is reasonable to assume that 15,000-20,000 of the 54,000 new clients participating in the ANZ mobile banking program are remittance recipients. Their remittances alone represent potential deposits of more than $5 million per month. As the only banking institution with a substantial rural presence, and with extensive networks in the major destination countries Australia and new Zealand, the ANZ is well-positioned to enter the remittance transfer market with an accessible, affordable product which allows remittances to be transferred directly to recipient accounts, thereby expanding its rural deposit base and promoting savings behaviour among remittance clients.

As passbook accounts do not permit electronic transfers, the passbook accounts used by most rural clients will need to be replaced by electronic accounts. Many rural clients prefer passbook accounts because of distance from ATMs, difficulties with delivery of mailed statements to remote areas, and suspicion of the PIN system. In shifting to electronic accounts, the ANZ will need to address these issues. In the short-term, mobile ATM facilities used by the rural banking program can assist in addressing the problem of distance from ATMs. In the longer term, the installation of ATM machines in strategic rural locations will enable rural clients to access electronic banking at times of their own choosing rather than being constrained are they currently are by the fortnightly visits of the rural banking team. In expanding the rural ATM network, consideration should be given to the feasibility of a joint investment by the government and major commercial banks in the installation of shared ATMs.

The cost of electronic transfers is the other key issue to be addressed. Currently, internet-based electronic transfers are only slightly cheaper than traditional telegraphic and paper-based methods. The ANZ Bank has the great advantage of extensive networks both in Fiji and in the major Australasian destination countries. In the Americas, banks which operate in sending and receiving destinations have devised highly efficient intra- and interbank electronic transfer arrangements which cost as little as $6 per transaction (WB 2006). The technology to support low-cost electronic transfers exists, and there is no reason why it could not be readily adapted for the Fiji environment.

4.2 Remittance investment in microenterprises

A third of Fijian workers are self-employed or unpaid family workers on household microenterprises (FIBS 2007a). Farming and fisheries account for 50 per cent of microenterprise workers, followed by the retail and tourism sectors (20 per cent) and manufacturing (8 per cent). As a large proportion of microenterprise production is for the subsistence economy, average microenterprise cash incomes are well below the wages of comparable workers in the formal sector (FIBS 2007a). In addition, as in other developing countries, microrenterprise productivity is low: the informal sector (which consists largely of microenterprises) contributes only 13 per cent of GDP (FIBS 2007b). While nearly half of the respondent households reported operating a microenterprise, most were low-value semi-subsistence farming activities: only three households earned more than $250 per month from their businesses, and only one, a cattle farmer, earned more than $1,000. Fewer than 10 per cent of respondents reported saving for business investment or were interested in expanding their businesses.

As in other Pacific Island states, the prospects for small business development in Fiji are constrained by geographical remoteness, small domestic markets. The primary function of most microenterprises is to absorb unemployment rather than contribute to growth, and this is unlikely to change. However, with Fiji's well-educated workforce and abundant natural resource base, there is capacity for small business expansion in certain sectors such as tourism, agriculture and plantation forestry. Urban population growth and export markets present opportunities for farm-based enterprises: Fijian horticulture exports, for example, are still estimated to be well below market saturation point although they have grown from less than 5 tonnes in 2996 to 650 tonnes in 2004 (AusAID 2006). Tourism remains a major direct employer, and in addition offers considerable scope for linkages with the microenterprise sector through ancillary industries such as tour guiding, restaurants and handicrafts production, and the replacement of imported food with local produce.

However, further policy and governance reforms are needed to address over-arching impediments to small business development. Fiji's farm sector faces significant constraints which have contributed to a stagnation since the late 1990s. The challenges include traditional communal farming and land tenure systems, which continue to provide an important social safety net but impede diversification into cash crops and prevent the use of land as collateral. Land reclamations by traditional owners on the expiry of sugar-cane leases have led many highly productive sugar producers to abandon their farms, with adverse impacts on exports and local demand. Farm-based enterprises face further constraints in the form of high transportation costs, limited access to technology and market information and deteriorating soil fertility (AusAID 2006).

Fiji's 2008 ranking of 36th of 178 countries on the World Bank's 'ease of doing business' indicator represents a decline of two points from the previous year. Fiji, beset by periodic crises of governance over the last two decades, faces additional problems of declining investment, political uncertainty and the flight of highly educated and skilled workers, particularly from the Indo-Fijian population. Corruption and a weak rule of law are ongoing problems. Regulatory constraints such as restrictive town ordinances are unnecessary impediments to microenterprise development. The tourism-linked hospitality and handicrafts industries are highly sensitive to political conditions and are struggling to cope with the downturn in tourist arrivals since the 2006 coup.

Fiji's small microfinance sector includes ten or twelve thrift and credit cooperatives and a small number of NGOs and village banks. Outreach is limited: in 2004, non-bank MFIs disbursed approximately 3,200 loans totaling $620,000 to 1,600 microenterprises (Kinivuwai 2005). The ANZ Bank's micro-loans program, the only microfinance initiative administered by a commercial bank, was launched in 2004. Loan eligibility is tied to previous savings history, creating an incentive for remittance clients to save. At its peak the micro-loans program had 900 clients, but the economic downturn following the December 2006 coup has resulted in extensive layoffs and salary cuts, and the consequent writing-off of several loans. As at October 2007 the program had approximately 600 loans outstanding, with an arrears rate of around 25 per cent. In the current political environment, with limited demand for investment finance, only 25 per cent of micro-loans issued are for business development purposes.

4.3 Supporting community-based remittances

The practice of soli, or community fund-raising, is of considerable social and economic importance in rural communities, functioning both as a social safety net and a significant contributor to local economic development. Soli is used for a variety of purposes including festivals, the construction or rehabilitation of local infrastructure such as school buildings, local roads and sports grounds, and assistance for individual members: for example, and the payment of annual school fees for the community's children through soli contributions. A quarter of the sample households reported financing all or part of the migrant's pre-departure expenses through soli, representing a community investment based on the expectation of future soli contributions from the migrant's overseas earnings.

Soli remittance contributions are significant, accounting for between 10 and 20 per cent of total remittances from the sample migrants. In addition to contributing indirectly to soli and to church-based community programs through allocations by recipients, nearly half of the migrants also made direct contributions, often through fund-raising drives conducted by expatriate associations in destination countries. Indirect contributions accounted for about 15 per cent of respondents' cash income, while direct contributions represented 4 per cent of total remittances.

The existence of a strong communal ethos and a well-established social infrastructure capable of channeling overseas earnings for local development is a significant resource for policy-makers seeking to leverage the development potential of remittances in rural Fiji. The high-profile 'three for one' multiplier model introduced by the Mexican government in 2001 leverages the social capital represented by informal migrant networks to encourage migrants to invest in their home regions. Each dollar contributed to a local community development project by a migrant home town association (HTA) in the US is matched by an additional $3, one each from the federal, state and local governments. The Fijian government should consider the feasibility of a co-contribution to remittance-supported soli, based on the Mexican model. In addition, as soli contribute to rural economic development, which in turn facilitates the expansion of business activity and rural financial deepening, commercial banks have an interest in supporting remittance contributions to community projects, and should consider the adoption of savings incentives such as interest premiums on dedicated soli accounts.

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