THE FOUNDATION FOR DEVELOPMENT COOPERATION

20 October 2008

October 2008
Committee Secretary
Senate Foreign Affairs, Defence and Trade Committee
PO Box 6100
Parliament House ACT 2600

Via email: fadt.sen@aph.gov.au

Dear Ms Dermody

Re: Inquiry into the economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific

The Foundation for Development Cooperation is an independent, not-for-profit international development organisation. Established in Brisbane, Australia, in 1990, the mandate of FDC calls for it to conduct policy-oriented research, foster public awareness, mobilise broader Australian and overseas development cooperation, and support non-governmental development efforts. Through partnerships and alliances, FDC undertakes a range of initiatives which seek to improve the lives of poor people in developing countries, foster innovative approaches to development, and connect policy work to self-help efforts at the grass roots level. FDC's work includes economic development and assessment, policy analysis, grass-roots community-based initiatives, strategic research, partnerships and leverage, advocacy, consulting and advisory services, project design and implementation, secretariat and network management, and training and capacity building. FDC's headquarters is in Brisbane, Australia. FDC has an Asia regional office in Singapore and a Pacific regional office in Fiji.

FDC hereby makes a submission to this inquiry and would be happy to appear as a witness before the Committee should this be considered of assistance.

Yours sincerely,

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The Foundation for Development Cooperation Submission:

Senate Foreign Affairs, Defence and Trade Committee

Inquiry into economic and security challenges facing Papua New Guinea and the island states of the Southwest Pacific

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Introduction

It is central to Australia's national interests to seek to increase the nation's influence in the rapidly evolving global order. An essential component of this task is for Australia to improve its relations with other actors in the Asia-Pacific region. As a key player in the region, Australia is in a unique position to help meet the economic and security challenges currently unfolding in the Pacific.

According to the Pacific Survey 2008, economic performance in emerging Asia remains excellent and Africa has sustained 5 per cent growth in recent years. However, the Pacific region is missing out on much of this growth. Economies in the region grew by 3.1 per cent in 2006[1] and the global financial crisis presently unfolding is likely to stifle growth even more.

Within this context the security and economic prospects for Papua New Guinea and the island states of the Southwest Pacific (Solomon Islands, Vanuatu and Fiji) are bleak but not inevitable. We think that there are a number of areas in which Australia can continue to make a valuable contribution to the prevention of further conflict and the promotion of economic growth within these countries.

Our submission highlights the benefits of labour mobility, remittances and microfinance. We make a number of recommendations on the basis of our research findings, our experience with industry partners and studies done elsewhere that we believe are relevant and can assist the Committee in finding solutions to the challenges facing our neighbours. The scope of our submission is therefore set by our expertise in the above mentioned fields.

Recommendations

1. FDC commends the implementation of a pilot seasonal labour migration program for Pacific workers in Australia, as we see provision of regional employment opportunities as key part of meeting economic challenges for PNG, Solomon Islands, Vanuatu and Fiji[2].

2. Funding should be provided to conduct ongoing studies and reviews of the pilot seasonal worker program to ensure the benchmarking of appropriate standards and monitoring of outcomes.

3. The selection process of seasonal workers for the Australian seasonal pilot program must be equitable and aware of local power disparities in the sending countries. The program must avoid facilitating a brain or talent drain from Pacific Island countries and it must try to ensure that work opportunities in Australia will be provided to those who need it most.

4. The federal government should ensure further analysis is conducted of the flows of remittances directed to PNG and the countries of the Southwest Pacific and their impact in local economies. This analysis must include an examination of the regulatory changes, technologies, products and market structures that could help lower transaction costs of remittances in Australia and abroad.

5. That the federal government support, through its overseas aid program, the development of pilot programs to stimulate competition amongst remittance receiving companies and banks within the region.

6. That the federal government assist to achieve the following:
   - develop awareness and education on issues related to microfinance;
   - analyse specific practices of microfinance institutions regarding the use of remittances;
   - assist the relevant countries in capacity and infrastructure building to enable microfinance to achieve its best results;
   - provide technical assistance for developing an overall policy framework for microfinance.
   - facilitate research, monitoring and evaluation of microfinance in the region;
   - assist in policy and programme development of models with key players.

7. That the federal government pay special attention to:
   - promotion of employment opportunities for young people.
   - formulation of policies that recognise the contribution of the informal sector.
   - policies that address the lack of jobs for women and their low wages.
   - finding solutions to skill mismatches and expanding training.
   - promotion of key industries, such as tourism.

The problem

The labour force in most Pacific island developing economies has a large unskilled component, reflecting the dual nature of labour markets there. Most rural employment is informal or based on subsistence production and cash cropping. Formal sector employment, concentrated in urban areas, is dominated by the public sector. In the larger economies, there is substantial formal and informal employment in the private sector. The informal sector, often ignored, absorbs the unemployed and many who leave the rural agricultural sector[3].

Formal sector employment prospects are poor, owing to the moderate economic growth expected. A 20% increase in employment in Fiji between 2004 and 2015 is plausible if tourism growth continues. Public sector employment is not likely to grow much further against a backdrop of repeated political upheaval, declining aid and public sector reforms, while private sector activity is limited. Formal sector employment growth will continue to be slow in Papua New Guinea, Solomon Islands and Vanuatu. Without substantial improvements in the investment environment in these countries, the prospects for private sector growth will remain slight[4].

Population growth in the Pacific will be rapid for the foreseeable future, except in countries with significant emigration. The populations of Papua New Guinea, Solomon Islands, Vanuatu, Kiribati and the Marshall Islands are forecasted to grow significantly by 2029. The implication will be more pressure on fragile ecosystems and the limited available land, as well as on infrastructure such as water supply and on public services such as education and health. There will also be greater difficulty in finding employment for the growing number of young and educated people with aspirations beyond village-based and family-oriented agriculture and fishing. These problems are of particular concern in the more populous countries of Melanesia, which, unlike most Micronesian and Polynesian countries and territories, do not enjoy historical migration outlets to other countries[5].

In 1995 AusAid commissioned a study titled *South Pacific Migration: New Zealand Experience and Implications for Australia*. In it Appleyard and Stahl argue for the introduction of a concessionary migration policy toward resource poor countries in the Pacific such as Kiribati, Tuvalu and Tokelau. However, they argued against the application of such a policy toward PNG, Solomon Islands, Vanuatu and Fiji on the basis that their resources endowment, if properly managed, should be able to provide economic opportunities (albeit in the subsistence sector). In their own words:

> With regard to PNG, Fiji, Solomon Islands and Vanuatu, we do not see a need to introduce any type of concessionary migration program. Traditionally, these countries have not engaged in international migration anyway. Their resource base has been sufficient to provide for current conventional subsistence requirements. However, their continued rapid population growth and resource exploitation will have to be brought rapidly under control if they are to achieve sustainable development over the longer term[6].

Since the publication of that report (whose important recommendations were never adopted) we have witnessed a number of political upheavals and natural disasters that have curtailed the capacity of those countries to take advantage of their resource rich status. FDC would like the Committee to review that report and argue for the establishment of a concessionary migration policy toward the Pacific Island Countries which should include a labour scheme for workers in PNG, Solomon Islands, Vanuatu and Fiji. Furthermore we believe that those workers from PNG and Solomon Islands should originate from areas that have experienced recent armed conflict. The reasons for this argument are explained below.

Labour mobility in the South Pacific and its impact on Australia

In recent decades labour mobility has increased throughout the Pacific region. This has been largely the result of the persistent high rates of unemployment caused by high population growth and an inability for local economies to maintain sufficient economic and employment growth to meet the high proportion of people of working age. According to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), unemployment in Pacific Island countries is approaching alarming proportions[7]. The Commission's *2008 Social and Economic Survey* notes that "[w]ith 45 per cent of the population in the 15-24 age groups the labour force in most Pacific island developing countries is young. Unemployment in this age group is widespread, and many youths are underemployed in subsistence work"[8].

In search for better employment opportunities, workers from the South Pacific have a tendency to move to countries with former or existing economic ties such as the United States, Australia, New Zealand and New Caledonia[9]. Legal entry into these countries has become more selective and dependant on a migrant's level of skills.[10] However, the movement of unskilled and sometimes unauthorised foreign labour, particularly into high seasonal demand sectors such as agriculture and horticulture, has been steadily growing over the last two decades[11].

The influx of foreign labour into these sectors has a multiplier effect on Australia's regional economies. This translates into increased benefits for local towns and regions in the form of spending by seasonal workers for daily necessities, consumption of food and provisions, entertainment, housing and accommodation, as well as the need for banking and financial facilities, just to name a few[12]. The gainful employment of foreign workers also benefits the sending countries in the form of transfer of remittances, the repatriation of skills and education, the promotion of tourism and the seeding of funds for small business development[13]. In many cases, the benefits are so clear that island governments are promoting emigration of labour out of their nations to other countries in the Pacific region and beyond[14].

In light of this, FDC welcomes the Federal government's recent announcement regarding the establishment of a seasonal worker pilot scheme for Pacific Islanders because we believe that apart from fostering closer human ties with the Pacific region, this scheme will benefit both Australia's regional economies and those of the sending countries[15]. As part of ensuring this scheme is implemented effectively, we draw the Committee's attention to the Canadian Seasonal Agricultural Workers Program (CSAWP). This program is one of the most effective existing seasonal agricultural workers scheme. It has been in operation for sufficient time for Australia to consider it as a model, while learning lessons from its shortcomings. In particular, the Committee should take into consideration the challenges that the CSAWP has encountered despite its 'world's best practice status' in order to produce better outcomes for both Australia and to ensure better protection for seasonal workers.

Both Mares and Maclellan have conducted considerable research in regards to the challenges facing the CSAWP scheme and FDC echoes some of their concerns in this submission[16].

In elaborating the following list we wish to give particular emphasis to the need to protect labour labour rights and ensure equitable working conditions, as we believe this is essential in preventing the exploitation of seasonal workers. Such schemes are usually weighted in favour of the employers and the Canadian experience suggests that problems arise when there are:

- no occupational health and safety laws and regulations in place for representation of seasonal workers in potentially hazardous industries like mining, farming and agriculture;
- no collective voice or union representation for seasonal workers to referral of disputes or complaints, or migrant organisations to represent the unique needs of particular migrant groups;
- no government policy or legislation to support the financial needs of migrant worker such as encouraging remittances (this is further detailed under the heading of remittances below);
- no provision of information or community support for seasonal workers. It has been documented that seasonal workers often arrive at their destinations with little or no information about their host countries and without any preparation for life in the relevant communities;
- no assessment of social impacts on families of seasonal workers. Governments and employers must assist in facilitating communication between seasonal workers and their families in the form of phone cards, provision of telephones and computer terminals with internet and email access at convenient locations such as community centres. Access to hardware has to be accompanied by training in the basics of computer use.
- no equitable sharing of costs associated with the scheme. Any pilot program or seasonal worker scheme will involve costs. The Canadian scheme (while weighted in favour of employers) provides a reasonable model of cost sharing. We recommend that the Australian scheme be based on a model of cost sharing between growers, workers and governments that sacrifices neither equity nor efficiency.
- no training is received to handle materials or machinery associated with their jobs.

The importance of Remittances

An associated development to labour mobility is the increase of remittance flows into the migrant-sending countries[17]. Driven by a wide array of reasons migrants transfer currency and goods, mostly to their families, and, also to other institutions and organizations, such as churches or local charities[18]. The nexus between migration and remittances has become so significant that the term 'MIRAB' state – migration, remittance, aid and bureaucracy - designates those economies where migration stimulates remittance and where foreign aid is a major component of national income[19]. Estimates suggest that Asia and Oceania receive more than US$113 billion in remittances annually[20].

Remittances are bi-directional because social networks continue to be significant. As long as migrants and their kin build and maintain these networks, remittances are likely to be sustained beyond what economic principles might suggest. They respond to an implicit social contract, contribute to human capital formation, and can be seen as a form of intergenerational transfer. Brown and Connell[21] and subsequently Mulaina[22] have posited that remittances in the Pacific currently continue at high levels for very long periods except when close kin die or when families reunite in the host country. Second generation migrants however, are likely to send smaller amounts only on demand. Maintaining remittance flows at high levels therefore requires a steady flow of new migrants.

There is considerable evidence that in many countries, migrants' remittances are a significant part of disposable income; especially in the Pacific Island nations of Samoa, Tonga, and smaller states such as Cook Islands, Kiribati, Tuvalu, and Wallis and Futuna[23]. In some of these countries they often represent the single most prominent component of national incomes, reaching levels rarely found elsewhere[24]. The same cannot be said for countries of the South West Pacific, in large part because international migration has not featured in their national trajectories. Any labour scheme implemented in Australia for workers from these countries must be accompanied by both macro economic and social impact research in the area of remittance so that policy makers can be better informed about the benefits to the families and economies involved.

In the rest of the Pacific and beyond remittances are used in specific ways by migrant families and we expect people from the South West Pacific to follow these trends. A study done by

ACCION found that the majority of remittance funds are used to pay for basic household and living expenses such as food, health and basic services, although remittance senders note that because of the unpredictable needs of the families back home, it is difficult to give detailed breakdown of their uses. Funds are also sent to attend to social commitments that arise from emigration, such as when families take responsibility for raising children left behind or caring for elderly parents. Some of the funds are therefore sent to cover education or medical expenses. The key developmental role played by the funding of education costs merits particular recognition[25].

The participants in the ACCION study revealed that when a family member emigrates they usually rely on loans from family, friends or a financial entity to pay for the trip abroad. The remittance money then is first used to pay outstanding debts or mortgages or replace property sold to finance the move. At the same time it is crucial to increase the financial security of their families at home. This means helping to move their families toward economic independence and away from dependence on remittances. Many participants mentioned that they face unstable employment in their home country, so that they could not guarantee the financial security of their families on the basis of the continued stream of remittances. The family member abroad sends money to start businesses with their families back home, to help them launch a business on their own, or to support the expansion or improvement of an existing family owned businesses.

For immigrants who plan to return home, saving and investing in their countries of origin is a priority. There is also an interest in saving and investing back home to diversify assets, plan for retirement, or as a back-up investment.

An added dimension to the benefits of remittances is that they contribute to economic recovery in areas afflicted by conflict and natural disasters as demonstrated in a report titled *Remittances in Conflict and Crisis: How Remittances Sustain Livelihoods in War, Crises, and Transitions to Peace.* According to the authors, conflict almost always generates massive forced displacement. Its impacts go beyond areas of actual fighting and pose sometimes insurmountable problems and enormous material loss. Remittances support people who cannot or do not choose to leave because leaving carries the prospect of losing everything and being stranded in miserable conditions in an unfamiliar place. Those who stay are highly vulnerable and, more often than not, economically dependent. Conflict tends to undermine both general economic stability and personal livelihoods. Coping strategies, where possible, include economic support from relatives who have migrated[26].

Forced migration and immigrant flows tend to merge. Both are important generators of remittances. Refugee migrations—i.e., those driven by conflict and repression—often build on previously existing immigration communities. The refugees then open the way for post-conflict or post-crisis labor migration from the same countries. Remittances from both labour migrants and political refugees are critically important to countries in conflict or crisis, but increased immigration and labour restrictions in both developed and developing countries have made migrating and sending remittances more difficult[27].

Remedies enacted to address the problem of remittances being used to support conflict and crime should be refined. Some money transfer systems may mix genuine and much needed support for families with funds destined for conflict support or crime, but regulatory measures taken to prevent this from occurring have become relatively blunt instruments that pose greater problems for the former than the latter, and cause legitimate operations to close their doors[28].

In summary, there is no question that remittances have contributed to development in various ways. They meet real needs in small islands economies, in remote and isolated regions and in countries affected by conflict and natural disasters. Remittance flows have become an important resource of finance in the migrants' states and should receive continued policy attention given their impact in the local economies. Therefore, FDC supports the view that remittances represent an important 'resource transfer from rich to poor and politically unstable areas' and can be an alternative source for financing development and peace making interventions.

How Microfinance can assist

Due to their practical impact in development, some studies have explored the link between remittance and microfinance institutions[29]. According to AusAID, microfinance attempts to address the lack of access to financial markets. It focuses on providing financial services – usually small, collateral-free loans - to the very poor for self employment[30]. Microfinance fosters expansion of the financial sector and financial inclusion of the poor and assists communities in addressing issues of poverty. With less interest to repay, more profitable businesses and autonomy, poor people have been able to reduce debt burdens and break the cycle of poverty. Studies of the impact of microfinance in more than 24 countries have found dramatic improvements in household income levels[31]. These improvements take place mainly through growth in the borrower's business. Access to microfinance allows the borrower to reduce costs with lower interest rates and bulk purchasing of raw materials. Income increases as the number of goods or services offered is expanded and reduced product costs increase sales.

A common model is for small groups to form a collective and use a start up grant to provide an initial pool of money, which is augmented with regular savings and interest members pay on their small loans. One or two members take loans to develop small businesses, and, when they have repaid their loan, others are able to draw on the collective fund. They may be supported with business and other training to help make these micro-enterprises successful. The outside support and group pressure leads to a low default on repayments. This how the Grameen Bank in Bangladesh started but there are other models that are more institution-based such as the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand and the Village Banks (Unit Desas) of Bank Rakyat Indonesia (BRI).
Promising rural financial programmes have emerged during recent years and are continuing to develop according to the needs of communities. Below are several existing examples:

Philippines

A phenomenon that has developed in the urban areas of the Philippines is the extension of banking services by a few formal financial intermediaries through moneyshops. This is facilitated by the Philippine Commercial and Industrial Bank (PCIB) which has been running this "bridge-building" banking mechanism since 1973. The PCIB moneyshop occupies one of the many market stalls in public markets and offers working capital to the market vendors. Similar to the Grameen Bank in Bangladesh, a positive feature of the moneyshop is the easy access to established on-site banking facilities where money can be borrowed easily and conveniently. The convenience is reflected in the fact that the moneyshop has adjusted its operations to the business patterns in the market place. For example, unlike ordinary banks, moneyshops open in the early hours of the morning. Also, daily collections restrain the market vendor from diverting repayment funds to other needs. Collectors go to the borrower instead of awaiting payment at the moneyshop window.

A more recent area of microcredit in the Philippines has been in the area of telecommunications and the development of "G-Cash" by Globe Telecom. This scheme was born from a simple goal of transforming a mobile phone into a wallet enabling its telecommunication subscribers to access a cashless and cardless method of conducting commerce via a text message. The scheme was implemented in 2004 to expand the access of microfinancing and remittances to lower income Filipinos who have limited or no access to banks. It provides low income people and overseas workers access to services such as:

- Domestic and international remittances;
- Micro-Payments which allows for payments for purchases with selected commercial partners as well as major governmental institutions to enable payments for taxation purposes, education, health and transport to name a few;
- Micro-Credit payments which allow for the disbursement of loans to consumers with limited access to banks;
- Bill payments for utilities;
- Donations to various institutions.

West Africa

In the larger marketplaces of West African countries, "mobile bankers" frequently carry out deposit and credit operations amongst vendors. Mobile bankers are often agents for large businessmen, moneylenders, or other economically powerful individuals.

A mobile banker's activity consists of making regular - often daily - visits to market vendors and collecting their deposits from them. His fee usually amounts to one deposit per time period (one month, for example) at the end of which the lump sum less the fee is returned to the depositor. Mobile bankers also extend credit; some of the larger traders in Abidjan, for instance, may get advances of up to six times their deposits.

For the market vendor, mobile bankers offer the convenience of bringing banking services directly to their place of activity, during working hours - which is also the time when banks operate - and the possibility of opening a line of credit under better conditions than a formal bank. Moreover, a survey of 44 market women in Abidjan showed that the interviewees preferred mobile bankers over savings and loan associations because with the latter there are "too many disputes" whereas with the former they negotiate only with one individual and not several. Finally, market vendors see little risk in depositing their money with someone who comes around daily.

This regularity of transactions is also appreciated by the mobile bankers themselves, as it is one of the ways they may assess the creditworthiness of their clients. Indeed, their daily visits put pressure on vendors to make deposits, which are usually always of the same amount so that accounting may be made easier.

Sri Lanka

The Women's Bank emerged out of a pilot project of women's mutual help groups initiated by the National Housing Development Authority (NHDA) of Sri Lanka in 1989. The project was based on the traditional system of savings and credit, known in Sri Lanka as *seettu.* The participants in such a group contribute an agreed sum of money to a pool on a daily, weekly, two-weekly or monthly basis. The pooled amount is awarded to one member of the group at a time, either in an agreed order or by drawing lots. *Seettu* enables people who find it difficult to save to gain access to a lump sum of money which they would otherwise not be able to acquire. By using the concept of *seettu*, the project was able to make the women feel quickly familiar with the concept of the women's mutual help group.

The women's Bank has produced positive results which are visible in the low-income settlements. The members of the Bank no longer need to run after money lenders for a loan and they have settled their old debts. The members will not starve if they fail to make any earnings during a day. They can withdraw their savings or take an emergency loan from the group to feed the children and meet the daily requirements. At the beginning of the new school year, they can give their children what they need for school and as a result the rate of drop-outs in the settlements is gradually going down. For funerals and other emergencies, members can get donations from the group and soft loans from the Bank. Small-scale producers can now pay for their raw materials with cash and are in a stronger position to bargain.

Microfinance in Pacific Island Countries

There has been an increase in the number of microfinance programs in Pacific Island Countries in recent years, with the most common programs being development bank schemes, revolving funds, credit unions, and most recently Grameen replications. However, most of these schemes have been unsuccessful, or are still at a very early stage of development. In the larger countries in the region in particular, microfinance schemes have very limited outreach, and most disadvantaged people and people in rural areas have little access to financial services.

FDC commissioned a paper on Microfinancing by Paul McGuire in 1996 which provided an overall review of microfinance in nine countries in the region, namely Cook Islands, Fiji, Kiribati, Papua New Guinea (PNG), Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa[32]. According to a Pacific Islands Forum Secretariat Economic Ministers Meeting in Honiara a decade later in 2006, not much has changed although gradual improvements have shown promise[33]. McGuire's paper suggested recommendations for the whole region but these are equally applicable to the countries covered in this submission. We believe that these recommendations are still relevant and will assist the committee in gaining an understanding of the issues and challenges facing microfinance development in these countries:

Performance and capacity of microfinance programs in PICs

- Outreach to the disadvantaged

While there is a need for a dramatic increase in the outreach of microfinance, it is important that existing programs be expanded gradually, at a pace consistent with improvements in institutional capacity. Major microfinance programs in the Pacific do not focus strongly on targeting the most disadvantaged borrowers. Microfinance programs should establish effective means tests to ensure that they target the most disadvantaged people in the community, and refine their strategies for reaching such people.

The so-called 'minimalist' model, which holds that it is not necessary to provide general technical and business training to borrowers, is inappropriate in the Pacific. Programs should provide business and technical training for their clients, or coordinate their activities with other programs that provide such training.

Savings facilities are at least as important as loan facilities. All programs should require compulsory saving as a precondition for borrowing, and should provide voluntary savings facilities, with voluntary savings able to be withdrawn on call.

- Viability and sustainability

There are a number of major and unavoidable impediments which work against microfinance programs achieving self-sufficiency in the Pacific. These include high cost structures, shortages of qualified workers, low population density and remoteness, and difficulties in achieving high repayment rates. The indicative 'timetables' for achieving self-sufficiency in the Guiding Principles[34] agreed by donor agencies (three to seven years for operational self-sufficiency, five to ten years for financial self-sufficiency) are unrealistic in the Pacific. All programs are currently operating at low levels of self-sufficiency. While this partly reflects the fact that they are relatively new, all programs should develop strategies to improve their operational and financial self-sufficiency.

Programs in the Pacific generally have effective interest rates between 8 and 13 per cent. These are far too low for sustainability, and should be increased substantially. This need not require large increases in nominal interest rates. Programs tend to have small numbers of borrowers spread over large areas, significantly increasing unit costs. Programs should establish themselves far more intensively with more borrowers in smaller areas. Ideally, programs should restrict themselves to a small number of districts. Within districts, programs should establish themselves intensively in a small number of contiguous villages.

While repayment rates for most of the programs included in McGuire' study are relatively high by Pacific standards, they are low by most standards. Programs should continuously monitor their repayment rates, and should adhere to the key features of the Grameen Bank model, such as compulsory savings requirements, group guarantees, and intensive training and motivation of borrowers, as much as possible.

Financial management and reporting requires considerable improvement. All programs should regularly produce at least the minimum reporting information set out in the Guiding Principles agreed by donor agencies.

Program management is a critical issue. It is important that managers have much greater exposure to core concepts of microfinance provision and international best practice if programs are to be developed systematically to maximise outreach on a sustainable basis.

Programs should focus on training as an integral component of addressing issues such as lending policies and procedures, means testing, financial management, and information systems.

- Resource mobilisation

As noted above it will be difficult for microfinance programs to achieve self-sufficiency, and they may need access to funds from donor agencies and governments for a considerable period of time. Donors and governments should be realistic about the time frames necessary for programs to reach sustainability, and should be prepared to make long term commitments to fund them. Funding will be necessary for administrative expenses, institutional strengthening and loanable funds. Programs should work towards accessing commercial funds, from commercial banks or other sources, over the medium term.

- Policy and macro factors

Governments and central banks should consider how they can best support the development of microfinance and rural financial services on a sustainable basis. This includes developing overall strategies for the provision of financial services to disadvantaged people, and establishing supportive arrangements for monitoring and supervising microfinance programs.

Small grants schemes should only be available to community groups for genuine community projects. Donor agencies and governments should not provide grants to individuals, or for income-generating projects. They should not support small loan schemes unless they are established on a rigorous basis with mechanisms to ensure high repayment rates.

- Institutional strengthening and capacity building

Microfinance programs require technical assistance in a variety of areas. These include training staff and clients, improving lending policies and procedures, developing effective means tests to target disadvantaged people, developing strategies for improving self-sufficiency, improving financial management, developing effective financial and management information systems, and establishing effective and independent governance structures.

Governments and central banks may also require technical assistance for developing an overall policy framework for microfinance. Donor agencies and governments supporting microfinance programs should incorporate assistance for institutional strengthening in all microfinance projects.

In addition, donor agencies should consider flexible, cost effective ways of supporting capacity building, such as funding national workshops on microfinance, establishing a small unit for providing short term technical assistance, and establishing a regional training program.

- Alternative models of microfinance

It is unlikely that one model of microfinance would be appropriate throughout the Pacific, given differences in population density, infrastructure, existing institutional arrangements, and other factors. Grameen replications have a number of advantages over other models, but are expensive. They are most likely to be feasible in those areas with relatively large populations and population densities, and reasonable infrastructure. Where the Grameen model is used, it would seem appropriate to follow it as closely as possible unless there are strong reasons for modifying it.

The structure of development banks makes it difficult for them to reach the most disadvantaged borrowers, while the use of traditional banking practices designed for much larger loans leads to high transaction costs. If development banks are to engage in microfinance, they should consider innovative approaches to lending, such as lending through local communities, NGOs and self-help groups. Such groups will need capacity-building assistance for this purpose.

Credit unions are likely to be particularly appropriate in more isolated communities and on small islands, where intensive monitoring and supervision of borrowers is not feasible. They have a number of attractive features as microfinance institutions. To fully realise their potential, however, they will need to establish specific programs or targets for providing services to disadvantaged people, and allow members to borrow sufficient sums for income-generating activities. As a general rule, revolving funds are likely to be less effective than credit unions. However, they are most likely to operate successfully where they impose a savings requirement before people are eligible to borrow, where there is an effective apex body to provide training, and monitoring and supervision, and where there is a means test to ensure they benefit the genuinely disadvantaged.

In conclusion, even though Australian development institutions understand the relevant role microfinance plays in economic growth, much more can be done to increase their participation in microfinance projects in the region. It is clear that microfinance in the Pacific is growing and developing, and the possibilities for microfinance to play a significant role in economic development in the region are increasing. All participants and donors have a role to play in establishing the conditions for this to occur.

Further relevant information

For the further information of the committee, FDC would like to refer our previous work on Remittances and Microfinance which may be of assistance:

- FDC published a study authored by Judith Shaw titled '*Remittance, Microfinance and Development*' a summary of which can be accessed through this link to our website http://www.fdc.org.au/remittances-vol1.html;
- FDC has been involved with RMIT University in conducting research on remittance and microfinance linkages in the Asia region, a project sponsored by the Australian Research Council. FDC provided project management and research support services for three out of the six case studies earmarked for detailed investigation (Indonesia, Sri Lanka and Fiji). The reports can be downloaded free of charge from our website http://www.fdc.org.au/fdc-resources.html#Remittances

- FDC currently manages and supports the Microfinance Pasifika Network. The Network is an alliance of institutions committed to the provision of inclusive and sustainable financial services such as savings, credit, remittances and payment services and insurance. The Network was formally launched on 16 and 17 of June 2006 in Port Vila, Vanuatu following over a year of consultation led by FDC and it is the only one of its kind in the Pacific. More information can be found on the Network's website http://www.microfinance-pasifika.org/about-us.html

Notes

[1] AUSAID, 2007. *Pacific Survey 2008* Australian Agency for International Development, Canberra, viewed 27 August 2008, <http://www.ausaid.gov.au/publications/pdf/pacificsurvey08.pdf>
[2] In his 2006 submission to the Senate, Mares recommends that a skills and training component should be part of Australia's labour scheme because this will assist in the development of a skill base in the worker's home countries. In the New Zealand guest workers' scheme for Vanuatu fruit pickers receive training in motor mechanics, pesticide handling and other skills that are useful in their home country.
[3] UNESCAP, 2008. *Economic and Social Survey of Asia and the Pacific*. United Nations Economic and Social Commission for Asia and the Pacific, Bangkok, viewed 15 October 2008 < http://www.unescap.org/survey2008/press/country/pacific.asp>
[4] UNESCAP, 2008. *Economic and Social Survey of Asia and the Pacific*.
[5] UNESCAP, 2008. *Economic and Social Survey of Asia and the Pacific*.
[6] R.T. Appleyard and Charles W. Stahl 1995.*South Pacific Migration: New Zealand Experience and Implications for Australia*. AusAid, Canberra.
[7] UNESCAP, 2007. *UN meeting addresses high unemployment in Pacific Island countries* United Nations Economic and Social Commission for Asia and the Pacific, Bangkok, viewed 27 August 2008, <http://intranet.unescap.org/unis/press/2007/jun/g23.asp>
[8] UNESCAP, 2008. *Economic and Social Survey of Asia and the Pacific*.
[9] Brown, R. P. and Connell, J. "Migration, Remittances and The South Pacific: Towards investment against vulnerability". In J. Shaw (Ed.) 2006, *Remittances, Microfinance and Development: building the links. Volume 1: a global view* (pp. 17-25). The Foundation for Development Cooperation, Brisbane.
[10] Dolman, B. 2006. *Migration, trade and investment,* Productivity Commission Staff Working Paper, Canberra, 49.
[11] United Nations Department of Economic and Social Affairs: *World Economic and Social Survey 2004*, part ii, International Migration. Bangkok.
[12] Examples abound. Stilwell studied the multiplier effect of the much publicised Afghan workers at the Burrangong Meat Processor plant in Young, NSW over an 18-month period from 2001-2003. A brief report can be found at: http://workers.labor.net.au/features/200405/c_historicalfeature_frank.html

[13] Maclellan, N. and Mares, P. “Labour Mobility in the Pacific: Creating seasonal work programs in Australia” as cited in - Brown, R. 1998. ‘Do Migrants’ remittances decline over time? Evidence from Tongans and Western Samoans in Australia.’ *The Contemporary Pacific* 10 (1) 107-51.
[14] Asian Development Bank. *Remittances in the Pacific: an overview*, March 2005. ADB, Manila.
[15] Australian Government. *Australia 2020 Summit – Final Report,* Australian Government, Canberra, viewed 27 August 2008, http://www.australia2020.gov.au/docs/final_report/2020_summit_report_10_world.doc
[16] Mares, P. 2006. *Submission to the Senate Employment Workplace Relations and Education References Committee – Inquiry into Pacific Region Seasonal contract labour*. Maclellan, N and Mares, P. "Labor Mobility in the Pacific: Creating seasonal work programs in Australia". Paper for conference on *Globalisation, Governance and the Pacific Islands*. Australian National University, Canberra, 25 - 27 October 2005.
[17] Brown and Ahlburg 1999. ‘Remittance in the South Pacific’. *International Journal of Social Economics*. Bradford. Vol. 26, Iss. 1/2/3; pg. 325-325.
[18] For further analysis on the reasons for remittance, please see Brown and Ahlburg ‘Remittance in the South Pacific’, 326-328.
[19] Van Fossen, A 2005. *South Pacific Futures: Oceania toward 2050.* The Foundation for Development Cooperation, Brisbane, p. 57.
[20] IFAD 2006, *Sending money home. Worldwide remittance flows to developing and transition countries*, International Fund for Agricultural Development, viewed 8 August 2008, <http://www.ifad.org/events/remittances/maps/brochure.pdf.>
[21] Brown R, Connell J, (2005). *Migration, Remittances and The South Pacific*.
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[24] ADB, *Remittances in the Pacific: an overview*, Chapter 2.
[25] ACCION International, *Leveraging the Impact of Remittances through Microfinance Products*, ACCION Insight Series No.10 pg 4, 2004 (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=771996) accessed on 1 October 2008.
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[29] J. Shaw (Ed.) 2006. *Remittances, Microfinance and Development: building the links. Vol. 1: a global view*. The Foundation for Development Cooperation, Brisbane. See also: http://www.fdc.org.au/Publications/ARC/FDC%20-%20ARC%20Project%20-%20Final%20County%20Report%20Samoa.pdf
[30] AUSAID 2008 *Microfinance and Enterprise Development.* Australian Agency for International Development, Canberra, viewed 27 August 2008, <http://www.ausaid.gov.au/keyaid/growth_microfinance.cfm>
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[33] www.microfinance-pasifika.org/Documents/FEMM%20Paper%20(John%20Conroy).pdf

[34] Details about the Guiding Principles can be found at: <http://www.developmentgateway.com.au/jahia/Jahia/pid/2886>