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# **The Development Impact of Workers’ Remittances in Fiji**

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# Abstract

Remittances by international migrants have become an important source of finance for livelihood development amongst the households in Fiji. This is substantiated by the country's rising migrant stock as a result of unstable political environment and the increasing economic opportunities for skilled manpower. It has been noted that the flow of remittances to Fiji excelled the amount of other capital inflows such as foreign aid and foreign direct investment and have surpassed commodity export earnings in the recent years. This has made remittances the second largest foreign exchange earner in Fiji after tourism.

This thesis examines the developmental impact of workers' remittances in Fiji, particularly its impact on economic growth, financial sector development, welfare development of the recipient households and an examination of the sustainability of remittance flows. Using an extended neoclassical framework, the empirical evidence finds a positive impact of remittances on economic growth and financial sector development. The welfare development hypothesis is tested using the Household Income and Expenditure Survey (HIES) data. This is analyzed first, by examining the expenditure patterns of the remittance-recipient households, the poverty and inequality effects followed by an assessment of human capital development impact of remittances.

The empirical results show that households which receive remittances do not only expend their remittance income on basic consumption but have other substantive uses such as that on education of children, housing and expenditure on durables and non-durables. The poverty and inequality reducing effects of remittances, employ two counterfactual methodologies to estimate first, what the poverty and inequality indicators would be in a scenario where remittances are treated as an exogenous addition to household income. Second, it tests the effect in a scenario without migration and remittances, which treats remittances as a substitute for migrants' foregone earnings. The results show strong poverty reducing effects of remittances irrespective of the methodology used while the effects on income distribution are not unambiguous. The results obtained for the human capital development analysis indicate the positive

role of remittances in providing education opportunities for children in the recipient households.

In noting these positive effects of remittances, it must however be acknowledged that the flow of remittances has to be sustainable overtime for households to benefit from human development. From a survey of Fijian-New Zealander migrant households, this study examines the remittance-sustainability debate. The results suggest that a combination of factors such as income of migrants, acquisition of higher education prior to migration and the intention to inherit assets from families in Fiji contribute to continued flow of remittances. These results do not support the hypothesis of remittance decay amongst Fijian migrants in New Zealand but reflect a strong altruistic motive of remittances sent to households in Fiji as insurance against economic shocks. This highlights the importance of development policy in facilitating the flows of migrant remittances for the socio-economic progress of Fiji.

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# List of Abbreviations

<b>ADB</b>	Asian Development Bank
<b>ADF</b>	Augmented Dickey Fuller
<b>ALTA</b>	Agricultural Landlord and Tenant Act
<b>ANZ</b>	Australia and New Zealand Banking Group Limited
<b>ARDL</b>	Autoregressive Distributed Lag
<b>ATM</b>	Automatic Teller Machine
<b>AUSAID</b>	Australian Agency for International Development
<b>BAF</b>	British Armed Forces
<b>BNPL</b>	Basic Needs Poverty Line
<b>EU</b>	European Union
<b>ECM</b>	Error Correction Model
<b>FIBOS</b>	Fiji Islands Bureau of Statistics
<b>FDI</b>	Foreign Direct Investment
<b>FTIB</b>	Fiji Islands Trade and Investment Bureau
<b>GDP</b>	Gross Domestic Product
<b>HDI</b>	Human Development Index
<b>HIES</b>	Households Income and Expenditure Survey
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IFAD</b>	International Fund for Agricultural Development
<b>IMF</b>	International Monetary Fund
<b>MFNP</b>	Ministry of Finance and National Planning
<b>MSG</b>	Melanesian Spearhead Group
<b>NELM</b>	New Economics of Labour Migration
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OLS</b>	Ordinary Least Squares
<b>PACER</b>	Pacific Closer Economic Relations
<b>PICS</b>	Pacific Island Countries
<b>PICTA</b>	Pacific Island Countries Trade Agreement
<b>RBF</b>	Reserve Bank of Fiji
<b>RDH</b>	Remittance Decay Hypothesis
<b>SPARTECA</b>	South Pacific Regional Trade and Economic Cooperation Agreement

<b>UNDESA</b>	United Nations Department of Economic and Social Affairs
<b>UNDP</b>	United Nations Development Programme
<b>WTO</b>	World Trade Organisation