THE FOUNDATION FOR
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Policy and Regulatory Framework for Remittance - Fiji

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Preface

This report provides a brief overview of the policy and regulatory framework for remittances in the Fiji. In particular, the report provides an overview of the foreign exchange licencing rules and regulations; rules relating to mobilisation of deposits by non-bank institutions; prudential regulations affecting non-bank sector growth; tax treatment; and incentives relating to migration and remittances.

This report was prepared as part of a wider Australian Research Council (ARC) funded research project on 'Leveraging Remittances with Microfinance: A Cross-country study'. The six-country study involves Sri Lanka, Philippines, Indonesia, Samoa, Fiji and Timor Leste.

This project is currently on-going. Further work and subsequent findings on this important and growing field is envisaged to be published for dissemination in mid-2007.

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Preparation of the country report on Fiji's policy and regulatory framework for remittance was led by Associate Professor Biman Chand of the School of Economics, University of the South Pacific (USP) in Fiji Islands. Research assistance provided by Rajiv Naidu, also of the School of Economics at USP is also acknowledged.

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EXECUTIVE SUMMARY

Following a number of coups in Fiji in the last two decades, an unprecedented outward level of migration to countries such as Australia, New Zealand, the United Kingdom, Canada and the United States has taken place. Most of these people who have left are skilled/unskilled workers and professionals such as nurses, mechanics, academics, teachers, lawyers, and technical personnel. Conservative estimates are that over 80,000 have left since 1987 and the outflow has now steadied at a rate of about 5,000/6,000 per annum.

People who have left Fiji since 1987 have turned out to be an important resource. In 2004, personal remittances from overseas workers were more than earnings from garments, textiles & footwear and were also more than sugar, gold, fish and mineral water export earnings combined. Fiji received about US$130 million in remittances in 2004, representing about 6.2 percent of GDP and 8.3 percent of exports (World Bank, 2006). A substantial volume of personal remittances is transferred to Fiji informally and these transfers together with formal remittances is estimated around F$ 450-500 million per annum.

The Reserve Bank of Fiji (RBF) is responsible for ensuring Fiji's currency production, fiscal stability, and maintaining a sound financial system including monitoring and regulating activities related to remittances. This is mainly related to protecting internally floating monies from leaving the country and to discourage money laundering, fraudulent activities and other financial crimes. The RBF's functions, powers and responsibilities are specified in the Reserve Bank of Fiji Act 1983 and this includes the supervision of both banking and non-banking financial institutions.

Non-banking financial institutions (NBFIs) in Fiji include credit institutions, insurance companies and provident funds collectively account for 63% of the total financial assets in the country. Currently, the climate for both banking and NBFIs is restricted and difficult to operate, primarily due to the recent political crisis. The relevance of these NBFIs for remittance transfer is ye to be fully investigated.

Despite the existence of a regulatory framework for remittances, much of the regulations have focused on outward remittances and the ability to prevent the flow of money out of the country. Some areas of remittance policy such as tax affairs still remain unexplored and needs further investigation.

There are a number of incentives on offer to Fijians to migrate overseas. For instance, Fiji has a signed a number of agreements on temporary worker schemes with New Zealand; as well as short-term and medium-term incentives such as student scholarships and placement of sporting personalities. Further, the Pacific Access Programme of New Zealand provides a quota for migration by residents of Pacific Island Countries including Fiji. However, there are various disincentives when it comes to foreign exchange controls and the delegated amounts for migrant's travel allowance.

Unlike incentives to migrate, there are no specific incentives to promote the inflow to remittances to Fiji. Given the significance of this issue to Fiji's economy and general well-being, this is an area where the policy makers should pay particular attention.

1. Introduction

Fiji suffers from chronic problems faced by many small island developing countries. Problems range from weak internal socio-economic environments, small labour markets, brain drain, sluggish economic growth, fluctuating political environment, to external problems of dependency and competition. Further compounding the problems, Fiji has undergone its fourth coup in under 20 years and this in itself has become a regressive catalyst for human and socio-economic development. The four coups in Fiji's young democracy have left behind a fractured society and immense socio-economic setbacks. Each coup saw the country effectively grind to a standstill with vital industries as well key socio-economic sectors essentially shutting down.

Consequently, an unprecedented number of people have left Fiji for countries such as Australia, New Zealand, the United Kingdom, Canada and the United States. The outward migration has increased over the years. Most of these people who are leaving or have left are skilled/unskilled workers and professionals such as nurses, mechanics, academics, teachers, lawyers, and technical personnel. The loss of such intellectual labour and resources that Fiji can ill afford.

In the strangest twist of fate however, the people who have left Fiji since the first two coups in 1987 to the latest coup last year (December 5 2006) have turned out to be an importance resource, injecting millions of dollars annually into the national economy, boosting consumerism which has its subsequent benefits as well as giving Fiji's foreign reserves a healthy balance. Although it is difficult to gauge exactly how many people have left Fiji's shores due to conflicts, conservative estimates state that over 80,000 have left since 1987 (see table 1). Emigration had been an important population dynamic, at least for the Indo-Fijian population and increased dramatically in the years following the 1987 coup, with about 44,000 people leaving the country between 1987 and 1990. The outflow has now steadied at about 5,000/6,000 per annum[1].

Table 1: Emigration of Fiji Citizens by Ethnic Group and Professional Workers During 1987 – 2004

Year	Fijians	Indo-Fijians	Others	Total	Annual Average Emigration Rate	Professionals**	
						Total	Annual Average
1987-1999	3,926	57,159	3,124	64,209	4,939	6,869	528
2000-2004*	2,373	23, 585	1,126	27,066	5,413	3, 826	765
1987-2004*	**6, 299**	**80,744**	**4, 250**	**91, 275**	**5, 070**	**10, 695**	**594**

Source: Prepared by Author based on Fiji Bureau of Statistics, *Tourism and Migration Statistics and Statistical News,* 1987 -2004.
* The figure is for January-September.
** Includes professional, technical and related workers.

1 See for example Gani and Ward (1995) Gani (1998), Gani (2000), Narayan and Smyth (2003) for analysis of Fiji's emigration to Australia and New Zealand.

Ironically, the emigrants have cushioned the projected impacts of the socio-political upheavals by injecting desperately needed millions of dollars into the economy after the international community had ceased or completely shut off aid or relations and imposed sanctions. Even after a return to normalcy, these monies continued to flow in, aiding the reconstruction and rehabilitation of the economy. The World Bank has officially estimated that migrants from developing countries in developed countries had sent home more than $223 billion to their families in developing countries in 2005 – a figure more than twice the level of international aid. Evidently, remittances are playing an increasingly larger role in the economies of many countries.

With respect to previous and current socio-political upheavals, it may come as little surprise that the remittances (counting both formal and informal transfers) coming into Fiji as an unofficial direct foreign investment may actually outstrip Fiji's official number one revenue earner tourism, which contributes an estimated $400m per year. In fact, due the high volume of the remittances, its durability and retention within the economy, some commentators have already labeled Fiji as a remittance-reliant economy.

During the early 1990's, remittances was an unknown financial entity in the national economy contributing only F$36 million (1993) and this was mainly in terms of financial gifts, maintenance, and other forms of assistance. Since the late 1990s, Fiji has been generating remittances mainly through personal receipts from new labour migrants especially peacekeeping forces. Personal remittances accounted for about 97% of the total remittances to the country in 2004 (see table 2). Some commentators state that besides the formal transfers, a substantial volume of personal remittances is transferred to Fiji informally and these transfers together total is estimated around F$ 450-500 million. This is more than contribution of either the sugar or the tourism sectors (Mohanty, 2005).

Table 2: Trends in Personal Remittances in Fiji, 1993-2004

Period	Total Personal Remittances (F$ million)	Annual average Rate (F$ million)	% Change
1993- 1999	344.32	49. 2	+ 38. 4
2000- 2004	1,023. 50	204.7	+ 218. 3
1993- 2004	1,367.82	114. 0	+726. 2

Source: Reserve Bank of Fiji, 2005

As Table 3 indicates, the income generated through personal remittances in Fiji is now next to the foreign exchange earnings through tourism. In 2004, personal remittances were more than earnings from garments, textiles & footwear and were also more than sugar, gold, fish and mineral water export earnings combined (Table 2).

Table 3: Sectoral Foreign Exchange Earnings and Remittances in Fiji, 1999-2004

Item	Foreign Exchange Earnings in F$ Million		% Growth 1999-2004
	1999	2004	
Tourism	559.0	727.0	+30. 0
Garments, Textiles & Footwear	365.9	291.0	-20. 5
Sugar & Molasses	275.6	188.4	- 31. 6
Gold	76.4	88.5	+15. 8
Fish	57.5	85.0	+47. 8
Mineral Water	5.9	53.0	+798. 3
Personal Remittance	49. 8	297.4	+ 497.2

Source: Government of Fiji, Reserve Bank of Fiji and Trade Release, 2005.

2. Foreign Exchange Licencing Rules and Regulations

With the remit monies flowing into the country, there is a need to have properly legislated monitoring and regulation of the inflow and outflow of remit monies to protect internal floating monies from leaving the country and to keep bad monies out in order to ensure that Fiji does not become a safe haven for money laundering, fraudulent activities, and other financial crimes. Currently, remittances remain largely unregulated in Fiji's fiscal and policy environment.

The Reserve Bank of Fiji (RBF) is responsible for ensuring Fiji's currency production, fiscal stability, and maintaining a sound financial system. The RBF's functions, powers, and responsibilities are specified in the Reserve Bank of Fiji Act, 1983 which states :"*The principal purposes of the Bank as stated in Part ll, Section 4 of the Reserve Bank Act are as follows: 'to regulate the issue of currency, and the supply, availability and international exchange of money; To promote monetary stability; To promote a sound financial structure; and To foster credit and exchange conditions conducive to the orderly and balanced economic development of the country*.'

The Act does not allow full independence of the RBF operations in that there is some ministerial input, but in reality, it has effective autonomy. The RBF is empowered to do the prudential supervision of the banking and insurance sectors, and this role was further enhanced in the 2003 budget to the immediate supervision of the FNPF and the superannuation sector (IMF Country Report, 2004). The RBF announced (No. 26/06 – 6/12/2006) that it has put in place various strict policy measures to protect Fiji's foreign exchange reserves in light of the current political situation and these will only be relaxed after careful review of national stability. The measures are:

a) The tightening of capital controls on foreign exchange transactions. Transaction limits have been reduced in several categories, documentary requirements have been increased, and some delegations to commercial banks to approve certain foreign exchange transactions have been rescinded.

b) The introduction of a credit ceiling on individual banks. Commercial banks' loans and advances to the private sector must be held at or below levels prevailing on 30 November 2006. The credit limit is an aggregate limit, not a limit on lending to individual commercial banks' customers. Commercial banks are free to lend to individual customers, as long as they manage their total lending within the overall limit. The ceiling on bank lending applies to their average lending over one month.

c) An increase in interest rates charged to banks that use RBF lending facilities:

- Repurchase Facility Rate: The latest weighted average overnight inter-bank rate plus 10 percentage points.
- Secured Advances: The latest weighted average overnight inter-bank rate plus 10.5 percentage points.
- Unsecured Advances: The latest weighted average overnight inter-bank rate plus 15 percentage points.
- Rediscount Facility: The Reserve Bank will rediscount RBF Notes and Treasury Bills with a 10-percentage points margin above the current market yield on the remaining term to maturity of the security. The Reserve Bank however is also mindful of the practical implications of the credit ceiling. To ensure that genuine transactions are not affected, deserving cases can be referred by commercial banks to the Reserve Bank of Fiji for consideration and approval.

The current foreign exchange rules and restrictions as implemented by the RBF (effective December 6, 2006) have been due the monetary problems created following December 5, 2006 coup. The RBF was concerned about the stability of funds floating in the national economic system as well as attempts to curb the massive outflow of those funds from Fiji. This was also done during the previous coups (2000 and 1987) which saw the departure of huge amounts of funds via banks, persons, and offshore accounts mainly through the processes of migration. After the exodus of people from Fiji during the 1987 coup, the RBF and policy makers realised that there were serious loopholes in the monetary and fiscal laws and policies, which governed Fiji's bank and non-bank sectors. The measures instituted now are in direct response to the socio-economic as well as political instability caused by the current coup.

RBF controls on foreign exchange were swift and issued a day after the 2006 coup. These measures were instituted to stop the haemorrhaging of funds by businesses or persons to offshore banks. The immediate move was to reduce the powers of delegation that had been previously given to the banking and non-banking sector. The banks now work within the new guidelines as stipulated by the RBF. All dealings that contradict or are in conflict with the newly introduced regulations must be re-directed to the RBF, which will then issue directives. According to the RBF, these sweeping changes are necessary for the protection of the national economy and to ultimately cushion the impacts of the coup. It is also a move to protect foreign reserves in order to offset any future fiscal issues.

All emigration allowances, advance payments/pre-payment of imports, payment for merchandise imports, offset of foreign exchange earnings against foreign currency payables other than payment of imports already landed in Fiji, foreign currency accounts – for local individuals and locally registered business entities, mortgage of Fiji registered assets to secure transactions held outside Fiji, and local borrowing by Non-Resident individuals will have to seek RBF permission before any facilitation can be allowed. The RBF is now the sole authority in these specific sections, which to a large extent also govern foreign exchange rules and restrictions. These restrictions do not only apply strictly to the banking sector only but also apply to non-banking sector made up of exchange bureaus and Non-Bank Financial Institutions (NBFIs).

3. Rules Relating to Mobilisation of Deposits by Non-bank Financial Institutions

NBFIs include credit institutions, insurance companies as well as the Fiji National Provident Fund. Collectively, they account for 63 percent of the total financial systems assets in Fiji. The largest single NBFI in the financial system as measured by asset size is the FNPF. It administers a superannuation fund to which employers and employees contribute, thus ensuring that workers have money when they retire at the age of 60. The FNPF accounts for more than $2.8 billion or 42 percent of total financial system's assets and helps finance major projects and other business activities (RBF Economic Focus). The Capital Markets Development Authority (CMDA), formed in 1998, is responsible for the development of capital markets and regulation of market participants. As a result, a capital market is strongly emerging, with over 16 companies listed on the Suva Stock Exchange.

With the effects the coup and the subsequent emergency measures put in place by the RBF, the NBFI sector has also been affected by the binding across- the-board overarching regulations and restrictions. This only happens in extraordinary circumstances, and is to ensure that the flow of monies to and from the country is strictly monitored and that monies are unnecessarily not filtered overseas.

Promotion and emphasis is given towards the phenomena of remit monies, which in such times plays a crucial role in the socio-economic dynamics of the country. Investment is encouraged from internal as well as external sources and all is being done to secure these investments by the relevant authorities that contribute a fair portion in the formal remittances such as by the FTIB and the FVB. The Exchange Control Restrictions imposed by the RBF impacts on mobilisation by NBFIs, particularly with regards to suspension of delegation. Profit remittances and withdrawal of investments now require RBF permission and directives, and cannot proceed with the satisfaction of strict compliance of the set regulations.

Travel allowances before the coup was lax but now have to be followed in strict compliance to the newly delegated limits by the RBF. A person (emigrant status) in 2004 could transfer $150,000 per family/single applicant per annum and this was increased to $200,000 per annum under the same conditions; now any emigration transfer or traveller (visitor status) is only allowed to carry Fiji currency notes up to $500 and foreign currency $5000 equivalent of Fiji dollars. These measures are aimed at stabilising as well as recovering any monies that may leave the country due to the political crisis.

4. Interest Rates and Prudential Regulations Affecting Non-Bank Sector Growth and Competitiveness

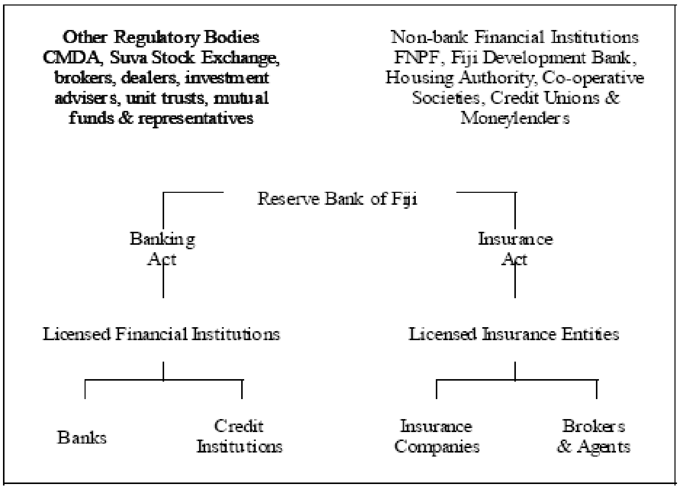
The banking and non-banking sector in Fiji operates within a competitive environment with the RBF acting as the overall supervisory and regulatory body. The RBF only intervenes in the market to extend or impose its role when there are extraordinary circumstances such as socio-political crises and when there is a need for prudential regulations to counter or stabilise the effects of any such occurrence.

Generally, activities pertaining to the banking as well as the NBFI's are governed by Reserve Bank of Fiji Act 1985, Reserve Bank of Fiji Act Cap210, Cap210 Subsidiary Legislation, Cap210 Amendments, and Banking Act 1995, Insurance Act 1998, and the Exchange Control Act Rev. 1985. This legislation gives the RBF the right to establish and regulate the said sectors within the competitive environment as well as have prudential supervision over all the stakeholders involved. According to the RBF, its functions, powers, and responsibilities are specified in the Reserve Bank of Fiji (RBF) Act. "*The principal purposes of the Bank as stated in Part II, Section 4 of the RBF Act are as follows: –*

- to regulate the issue of currency, and the supply, availability and international exchange of money;
- to promote monetary stability;
- to promote a sound financial structure; and
- to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country."

The function of promoting a sound market-based financial system is the responsibility of the Financial Institutions Department. The RBF is the supervisory authority for commercial banks, credit institutions, and the insurance industry in Fiji. Currently, the climate for NBFIs and the banking sector is very restricted and difficult to operate due to the recent political crisis prompting each institute to apply and adapt strategies that offset the effects of these socio-economic problems.

The RBF has set a new interest rate ceiling to govern the market. However, banks are free to charge whatever the competition levels dictate. The current weighted average inter-bank interest rate is 8.95% and the official interest rate is up from 2.25% to 3.25%. Inflation was 2.3 percent in January 2006 and official foreign reserve levels stood at $850.1 million as at 23 February 2006, sufficient to cover four months of imports.



STRUCTURE OF THE FINANCIAL INSTITUTIONS DEPARTMENT AND ITS FUNCTIONS

(Source: RBF, Regulatory Framework, Supervisory Responsibilities Brochure)

Fiji has a relatively strong and well-developed banking and finance sector and many of the banks and NBFIs have remained committed to the county even after four crippling coups in less then two decades. Apart from imposing harsh conditions which now require RBF approval on previously 'free-decision' remit sections such as local borrowing & guarantees, travel allowance, credit card/debit card facility, Fijian dollar credits into external accounts, Foreign Exchange earnings, etc, under the prerogative of commercial banks and NBFIs, the Bank has also placed sanctions against what it classes as "Other Remittances". These sanctions as listed in its latest Exchange Control Restrictions are:

- *New delegated limit of F$50,000 per application for the following transactions:*
  - *- trade-related transactions*
  - *- foreign currency loan repayments*
  - *- office expenses and other foreign currency bills payable*
  - *- education (if paid directly to the education institution)*
  - *- medical expenses (if paid directly to the medical institution)*
  - *- alimony and other payments required under court order*

  [Exception: Payment for import of goods already received in Fiji is still fully delegated]

- *New delegated limit of F$500 per application for the following transactions:*
  - *- gifts*
  - *- maintenance*
  - *- education allowance if not paid directly to the education institution*
  - *- medical expenses if not paid directly to the medical institution*
  - *- miscellaneous expenses/ transactions*
  - *- cancelled hotel bookings*
  - *- subscriptions*
  - *- wages to foreign crew*

5. Tax Treatment of Remittances

In Fiji, there are limited studies investigating the implications of tax on remittances. It is something that is hard to track as far as the real values of remit monies are concerned. The RBF collects some data on remittances that they receive from commercial banks and from foreign exchange dealers. Remittances also move from NBFIs and this movement is not captured as it is received by a multitude of sources. However, the RBF has recently set regulations in place to monitor this. This is done to ascertain the level of exodus of internal monies and from which sectors or from how many individuals. The RBF has directed that all commercial banks and NBFIs report on:

a) Foreign Exchange Transactions

- Commercial Banks to continue to report individual transactions above F$50,000 on a daily basis to the External Markets Unit of the Reserve Bank
- Commercial Banks to submit summary reports on a weekly basis to the Exchange Control Unit of the Reserve Bank

b) Local Borrowing & Guarantees

- Commercial banks to submit outstanding credits to non-resident individuals and non-resident controlled business entities on a quarterly basis to the Exchange Control Unit of the Reserve Bank.

c) Foreign Currency Accounts

- Commercial banks to continue to submit balances of accounts held by local individuals and locally registered business/entities on a quarterly basis to the Exchange Control Unit of the Reserve Bank.

Regulatory and legislated tax treatments on remittances per se do not exist and the RBF itself does not have the available resources or the systems in place to monitor and supervise this. The Income Tax Act 1974: Part VII – Returns and Information (Return of Income) has some reference to remit monies in the form of income. The relevant section states: *44.—(5) If any income, other than income to which subsection (3) or (4) applies, is derived by a taxpayer from a country other than Fiji, that income and any foreign tax paid in that other country in respect of that income, shall be expressed in Fiji currency at the exchange rate applying—*

(a) if all of the income is remitted to Fiji – on the day it is remitted;
(b) if part of the income is remitted to Fiji – on the day it is remitted; or
(c) in any other case – at the end of the relevant year of income.
(6) For the purposes of subsections (3), (4) and (5)—
(a) the day an amount is remitted is the day that it is received in Fiji; and
(b) "exchange rate" means the telegraphic transfer buying rate issued by a financial institution licensed under the Banking Act 1995.

Even this legislation seems archaic and inappropriate given the fluidity of remit monies and the methods via which it flows to and from countries. The Fiji Islands Revenue and Customs Authority (FIRCA) have certain non-specific regulations towards remittances but these must not be confused as tax treatments per se on remittances. Remit monies that are directly credited into a person's account has to be declared as income in accordance to FIRCA's tax policies but again, this is an inadequate form of monitoring and regulation as remit monies demand much more detailed and complex tax treatments. This is certainly a difficult area which requires further attention.

6. Other Incentives Relating to Migration and Remittances

Fiji's economy is increasingly becoming integrated both regionally and globally. Labor migration and brain-drain are two incessant issues that plague most Pacific Island Countries (PICs) such as Fiji and were previously thought to be detrimental in all aspects. With the increased understanding of labour migration and particularly the benefits in the form of remittances, labour migration on a temporary scale is seen as a great way to bolster the national economy as well as foreign reserves.

Currently, New Zealand, Australia, U.S.A, Canada, and Britain are popular destinations for emigrants from Fiji. Some of these countries have a temporary worker scheme agreement with Fiji that works well in terms of incentives for migration, atleast on a temporary scale. Fiji is still reluctant to let go of its human capital permanently just for the sake of remittance dollars, but the incentives for migration are significant such that the outflow has not reduced.

Remittances in recent years have become one of the biggest sources of foreign exchange for Fiji. Apart from emigration, remittances from temporary workers such as those in UN peacekeeping duties continue to contribute to remittances to Fiji.

New Zealand's Pacific Access Programme has a quota system for people from the PICs who can apply for residency in New Zealand, thus filling shortages in the New Zealand labour market. The Fiji government has some internal short-term and medium-term migration incentives such as student scholarships for overseas studies as well as sporting agreements with overseas training institutions that absorb local talents.

7. Conclusion

The potential benefits of emigration have only recently been realised in Fiji. Emigration on a large scale started after the military coups in 1987. Since then, on average about 4000--5000 people have left Fiji on a permanent basis. In addition, temporary and seasonal workers also leave Fiji and send remittances to their families. Fiji received about US$130 million in remittances in 2004 (World Bank, 2006). This represents about 6.2 percent of GDP and 8.3 percent of exports. The World Bank (2006) in its report on 'expanding job opportunities in the Pacific Islands' argues strongly for labour mobility in the Pacific region. Political leaders have also strongly lobbied for seasonal worker schemes which could allow skilled and unskilled workers to Australia and New Zealand. While Australian Government is not fully supportive of this idea, Zealand has already adopted a scheme which will allow workers for its horticulture industry.

Fiji's economic performance over the last five years has been sluggish. The impact of the December 5 2006 coup is further going to cause the economy to decline and result in employment down turn. Remittances, therefore is likely to become a major contributor to household incomes in Fiji. However, Fiji government over the years has not paid significant attention to support labour mobility and put in policies to facilitate remittances from overseas Fijians. This, however, is likely to change as the government realises the potential benefits from emigration.

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