



International
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Improving labour market outcomes in the Pacific

POLICY CHALLENGES AND PRIORITIES





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**ILO Country Office for Pacific Island Countries
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FOREWORD

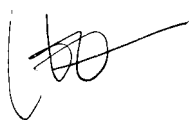
Labour markets in the Pacific Island countries are characterized by underemployment, high levels of informality, gender disparities in employment outcomes, and a large and growing share of young people not in education, employment or training. Considering that formal sector job creation remains limited, the objective of creating decent and productive employment for all, as outlined by Sustainable Development Goal (SDG) 8 ("to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all") poses a serious challenge to countries in the Pacific. Furthermore, the global mega trends, such as climate change and technological innovation, add further complexities to the circumstances surrounding the Pacific Island countries.

In 2012, the President of the Asian Development Bank (ADB) and the Director-General of the International Labour Organization (ILO) reiterated their pledge to strengthen their partnership to create decent work and address poverty, vulnerability, informality and gender disparities in Asia and the Pacific. In light of the labour market challenges in the Pacific, the ADB and the ILO worked together to prepare labour market action plans for three member countries – Fiji, Palau and Papua New Guinea – with a view to making policies more evidence-based, collaboratively determined and gender focused. This report is a synthesis of the analytical and research work that was carried out under this ADB-funded project in the Pacific.

This report shows how size and remoteness have hindered economic growth and limited positive labour market outcomes throughout the Pacific Island countries. Development in the industrial sector has been uneven, but there are promising signs in the region's growing tourism industry and niche agriculture and fishing sectors. A young and growing population is both an opportunity and a concern: Pacific Island countries stand to benefit from a demographic dividend, but labour markets are simply not producing enough jobs for all the young women and men entering the workforce each year. This report takes an in-depth look at public employment services and proposes measures to target disadvantaged jobseekers and meet the needs of employers.

Persistent labour market challenges have pushed Pacific Islanders to migrate in high numbers. Enacting migration policies that lead to positive labour market outcomes requires a careful balance. While migration can contribute to positive development in sending countries, there is also a real risk of skills shortages as educated workers leave. The challenge in building good migration policy, then, is aiming for a "triple-win" scenario that benefits the receiving country, the sending country and the migrants themselves.

This report concludes with policy guidelines to improve labour market outcomes in the Pacific. Several countries in the Pacific have expressed interest in building National Employment Policies aimed at achieving SDG8 – we hope this publication contributes to this effort. Lastly, we believe that this collaboration between the ADB and the ILO lays a solid foundation for further engagement between the two institutions.



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EXECUTIVE SUMMARY

Small economies and vast distances have hindered growth in the Pacific Islands...

Geography is key to understanding labour market challenges in the Pacific Islands, where small economies and large distances have complicated efforts to maintain economic growth. The Pacific Island countries (PICs) are generally small island states dotted across vast stretches of ocean. When considering transportation costs and market access in addition to physical distance, PICs rank among the most remote in the world – a consequence that has a negative impact on growth throughout the region. PICs have struggled to sustain economic growth, despite an expanding young workforce and generally sound economic policies. This points to an unfulfilled potential. With some key exceptions, industry has stalled in its early stages, with businesses struggling to diversify production or build economies of scale. At the same time, poor infrastructure has limited interconnectivity, further constraining successful outcomes.

There are nevertheless clear opportunities for growth. The expanding service sector is fuelling employment throughout the region. Tourism in particular has been a job catalyst and represents an important opportunity for growth and poverty alleviation. An underdeveloped agriculture sector and fisheries are still key sources of employment and income. However, the Pacific's young workforce must be equipped with the skills and training necessary to fill new jobs – already a crucial issue holding back jobseekers in today's labour market.

... and limited positive labour market outcomes.

Populations in the Pacific Islands are young and growing, which underscores the urgency of improving labour market outcomes. PIC economies are simply not producing enough jobs to accommodate the young workforce, and demographic trends will exacerbate this problem if this imbalance is not addressed. Today's young Pacific Islanders face high levels of unemployment – particularly young women. Unemployment rates among people aged 15 to 24 are much higher than for the overall active population, and countries like Kiribati, the Marshall Islands, Nauru and Tuvalu have youth unemployment rates that exceed 50 per cent. Women, meanwhile, are less likely to participate in the labour market and more likely to take up vulnerable jobs.

Populations across the PICs are becoming increasingly urbanized, while existing poverty levels are troublesome. Moving forward, this shift toward urban centres could exacerbate existing problems as former rural dwellers struggle to find decent work, shelter and social services. Meanwhile, large informal economies have deepened vulnerabilities and further challenged economic growth. This problematic cycle will continue if left unchecked: With limited vacancies and an ever-growing number of jobseekers, new entrants will be steered to more precarious work in the informal economy, worsening the effects of a dual labour market.

Large informal economies have restricted the reach of employment protection regulations.

Levels of employment protection legislation (EPL) vary throughout the PICs, but they are generally not strict (see Chapter 2). An analysis of redundancy costs shows a low correlation with unemployment rates in the region, even if the strictness of such laws has often been among the more controversial aspects of EPL reforms. Rules on minimum wage tend to have a greater impact on both workers and employers in developing economies. An analysis shows no statistical association between the current ratio of minimum wage to value added per worker and unemployment rates in the PICs. In other words, current minimum wage levels appear not to affect unemployment, although the available data are scarce. Most PICs have a legislated

minimum wage but key exceptions are widespread, which could lead to problems with labour law enforcement.

All Pacific Island countries formally allow trade unions, but the effectiveness of social dialogue has been uneven.

The key to effective labour market reforms is a committed social dialogue between the state, employers and workers themselves. When it comes to labour organizations in the Pacific, colonial ties have influenced the impact of trade unions today. In Fiji, for example, the colonial period produced a British-style industrial relations system. Since then, trade unions have been closely linked with ethnicity and politics. In Papua New Guinea, the system of tripartism was essentially imported from Australia. The framework for social dialogue is active today in Papua New Guinea, but it is limited by the country's oversized informal economy. In Palau, the institutional framework for tripartism has been almost non-existent until recently. These legacies are important because they inform how the key labour market institutions interact today. Successful policy requires ensuring predictability and enforceability throughout the labour market – and this is best accomplished through meaningful social dialogue.

Public employment services in Fiji and Papua New Guinea are basic and often ineffective.

Intermediaries can fill a crucial role in the labour market, preparing jobseekers for work and helping employers fill vacant positions. The role of labour market intermediaries could be especially important in PICs, where there are signs that a skills mismatch is leaving many young Pacific Islanders poorly equipped. Both Fiji and Papua New Guinea have government-run employment services, but both have faced significant challenges (see Chapter 3). Fiji's National Employment Centre offers basic job-matching services, but only a small number of employers make use of this. Skills training for the unemployed do not meet the needs of either jobseekers or employers. Comparable job-placement services in Papua New Guinea are also extremely limited, although a donor-funded programme targeting unemployed, disadvantaged youth has shown promising signs. Overall, the uneven results suggest public employment services should concentrate on key underserved groups: the employers who supply jobs for low- and mid-skill workers, and the disadvantaged jobseekers who stand to benefit the most from a well-functioning employment and training service.

Poor labour market outcomes have sent Pacific Islanders overseas in search of better job opportunities...

Given the labour market challenges in the Pacific Islands, many workers have looked elsewhere for new opportunities. More than 460,000 Pacific Islanders live overseas – a number that has almost doubled over the last quarter-century (see Chapter 4). The majority of migrants – 83 per cent – live in three primary destination countries: Australia, New Zealand and the United States. Much of the Pacific's outflow happens during migrants' most productive years – three of every four PIC migrants are between the ages of 25 and 64. Compared to migrants from other parts of the world, however, Pacific Islanders tend to have poor employment outcomes abroad. This underscores not only the need to boost integration efforts in destination countries, but also the importance of improving and streamlining education and accreditation throughout the region.

High levels of migration have a cost; however, carefully considered policies can produce more equitable results.

Emigration rates for skilled Pacific Islanders are among the world's highest, leading to fears of a "brain drain" in many of the labour-sending countries. However, remittances sent by overseas migrants are extremely important; studies have shown these remittances help

alleviate poverty back home. The challenge moving forward will be determining how to leverage the benefits of migration while mitigating its negative consequences. Destination countries have a crucial role to play in encouraging outcomes that benefit sending countries, destination countries and migrants themselves: creating opportunities for low-skilled workers. Temporary seasonal migration schemes could be a step in the right direction. Evaluations of the Recognized Seasonal Employer programme in New Zealand have shown positive results. Notably, however, relatively few workers from the PICs' two largest labour markets – Fiji and Papua New Guinea – have taken part. This could be a missed opportunity when considering the positive results in other parts of the region.

Climate change is a crucial concern for Pacific Island countries.

Looking ahead, the looming impacts of climate change and rapidly evolving technology pose a major challenge to Pacific Island economies (see Chapter 5). Climate change will increase pressures on key industries, while the technologies of tomorrow could profoundly reshape the jobs upon which Pacific Islanders depend today. A diminished agriculture sector could displace workers and increase vulnerabilities. The tourism and fisheries sectors – both key earners and job creators in today's economies – stand to be impacted by sea-level rises, more frequent natural disasters, ocean acidification and other hazards. Climate change could shrink fish yields and threaten food supplies – an especially crucial issue given Pacific Islanders consume fish in greater quantities than the global average. These challenges could intensify migration pressures on Pacific Islanders, although most households lack the means to take part, and there are limited migration opportunities for the most vulnerable. Evolving technologies, meanwhile, could replace the low-skill jobs that are prevalent in the garment and mining sectors.

Looking ahead, there are five key policy areas to improve labour market outcomes in the Pacific.

First, countries should foster job growth while directing investments toward underserved areas and tackling informality.

PICs should strive for pro-employment policies that create decent work options for a growing workforce. Policy-makers should encourage sustainable investments in job creation by providing an environment that contributes to a robust private sector. Governments can improve legal and financial systems to create a more positive business environment. Upgrading infrastructure and increasing interconnectivity will help lower the costs of doing business, while efforts to tackle corruption could raise investor confidence. Policy-makers can enhance economic opportunities by directing domestic and foreign investment to underserved rural areas. Providing more secure land tenure could empower farmers to invest in their land and adopt more sustainable farming practices. Additionally, governments should help micro, small and medium-sized enterprises (MSMEs) access crucial capital by working closely with banks and community leaders to identify opportunities to extend financial services. Looking ahead, policy-makers should promote sectors that have the potential to support sustainable and inclusive growth, including sustainable agriculture and tourism.

Large informal economies leave workers unprotected and discourage investments. Policy-makers should create income-generating opportunities for those at most risk: people who rely on subsistence activities. Microfinance options for subsistence workers can be strengthened, but the focus should be on encouraging savings ahead of low-interest loans. Enhancing agricultural productivity may also help subsistence and informal workers save money. Policy-makers should also help informal workers build market-relevant skills through short-term training. Skills in entrepreneurship, financial literacy and management could all be beneficial; however, it will be essential to first identify realistic economic opportunities for micro enterprises and self-employment.

Second, it will be important to strengthen labour market institutions and leverage information for better job-matching.

Labour market reforms are not a trade-off between worker protection and economic growth. PICs can insist on a collectively negotiated level of protection that safeguards workers without sacrificing growth. Reforms should be negotiated through an effective social dialogue among employers, workers and the state. Any moves to relax labour market regulations should be accompanied by countermeasures that offset their impacts. For example, if redundancy protection is lowered, policy-makers could also improve the overall enforcement of labour laws – extending safeguards to the region’s large informal economies. Policy-makers can take steps to increase certainty around minimum wage setting. Governments should aim to eliminate exceptions to the minimum wage where possible, while at the same time expanding the prevalence of sector-wide collective bargaining.

Evidence-based policy requires reliable and timely labour market data. Countries in the Pacific could consider establishing labour market information systems. These would be fuelled by comprehensive surveys of the formal and informal economies, annual surveys of higher education graduates and regular industry surveys of business needs. At the same time, however, policy-makers can take advantage of already available sources of labour market information. In Fiji, this would include the Employment and Unemployment Survey conducted by the Fiji Bureau of Statistics, which could point to fast-growing jobs, their locations and training requirements. In Papua New Guinea, policy-makers can use existing data from work permit processing and recruiters to address the reliance on foreign workers.

Fiji and Papua New Guinea both have Public Employment Services, but they have faced significant challenges in providing effective job-matching services. If public funds are to be spent on employment services, policy-makers should refocus these efforts on key groups that stand to benefit the most: employers with lower-skilled job vacancies and disadvantaged jobseekers. Governments could retool or design public employment services to provide a basic service for employers with low-skill job vacancies. At the same time, more efforts are needed to help disadvantaged jobseekers prepare for work. Both efforts will require coordinated strategies, resources and capacity building.

Third, countries should push for migration policies that increase opportunities for low-skilled workers and improve regional integration.

Governments should increase options for facilitated migration while capitalizing on existing opportunities for low-skilled workers. Seasonal work schemes offered by Australia and New Zealand provide an opportunity for Pacific Islanders to earn income. However, officials in sending countries can boost the chances of successful outcomes by improving the recruitment process and providing more robust pre-departure preparation. Policy-makers should also explore new opportunities for facilitated migration schemes beyond the main destination countries. Increasing the quality and accreditation of education will help migrants take advantage of their skills when overseas, while policy-makers can also provide a stronger incentive for workers to return home. At the same time, destination countries should recognize that they can prioritize development-oriented migration policies to benefit the sending country, the receiving country and the workers themselves.

One key obstacle for many PICs is the small size of most labour markets. Increasing cooperation, however, can help individual countries leverage the collective strengths of the larger region. This could create more opportunities for Pacific Islanders and build a regional defence against skills shortages, unemployment and brain drain caused by international migration. Policy-makers can start by creating a basic legal framework to extend the reach of migration programmes across the region as a whole – effectively expanding the size of national labour markets. This framework should help facilitate visas, seasonal employment, and

the recognition of qualifications. Policy-makers should take steps to implement homogenous training and formal education across the Pacific Islands. Finally, regional labour integration will depend on relaxing restrictions on workers from other PICs.

Fourth, inequalities affecting youth and women must be addressed.

Pacific Island policy-makers should target policies toward groups that face particular challenges in the labour market. Young Pacific Islanders – especially young women – have high levels of unemployment. Efforts should be taken to help young Pacific Islanders upgrade their skillsets by accessing quality technical and vocational education and training (TVET). Policy-makers can support opportunities for self-employment through entrepreneurship training and better access to credit and savings. The rights of women in the workforce should be enshrined in law. This includes the implementation and monitoring of equal employment policies in the workplace. Policy-makers could also consider prioritizing the hiring of women in government departments and increasing access to more versatile training options.

Finally, skills training must meet the demands of today's labour market while also preparing for tomorrow's challenges.

There are major challenges ahead for the Pacific Islands. However, there are also opportunities in constructing policies that anticipate and adapt to the implications of climate change and evolving technologies. There could be new opportunities in the growing fields of sustainable agriculture and sustainable tourism. Green jobs could be found in building climate-resilient infrastructure and producing environmentally conscious products and services. Similarly, the same technology that renders obsolete some low-skill jobs could also create new positions that require added skills and training. The Pacific's workers, then, must be prepared to fill these new roles. For this, countries must recognize the coming trends and ensure education and training systems are in sync with the needs of tomorrow's economy. Policy-makers can align skills development to labour market needs by increasing industry involvement in TVET curriculum development and quality assurance.

Despite the challenges, Pacific Island policy-makers have the power to influence positive developments in their labour markets. Strong and inclusive policies will help PICs strive for the objectives of the 2030 Agenda for Sustainable Development, which include the 17 Sustainable Development Goals (SDGs) meant to plan and measure progress. In particular, SDG 8 targets inclusive and sustainable economic growth, with full and productive employment and decent work for all. Improving labour market outcomes go hand in hand with the ambitious but achievable SDGs. Solutions will require careful consideration, properly resourced implementation and strong political will among multiple stakeholders. Ultimately, policy-makers can build policies that encourage more equitable and prosperous labour markets, where the benefits of growth reach throughout the economy.

ABBREVIATIONS

ADB	Asian Development Bank
CMT	cut, make and trim production
CPIA	Country Policy and Institutional Assessment
CV	curriculum vitae
DAC	Development Assistance Committee
DAI	Digital Adoption Index
EPL	employment protection legislation
FJD	Fijian dollars
FLP	Fiji Labour Party
GDP	gross domestic product
GNI	gross national income
HHI	Herfindahl-Hirschman Index
IBBM	Institute of Banking and Business Management
ICT	information and communication technology
IMF	International Monetary Fund
JPP	Job Placement Programme
KILM	Key Indicators of the Labour Market
LDC	least developed country
LNG	liquefied natural gas
MOU	memorandum of understanding
MSME	micro, small and medium-sized enterprises
NCD	National Capital District
NEC	National Employment Centre
NEET	youth not in employment, education or training
NES	National Employment Services
NTPC	National Training and Productivity Centre
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PGK	Papua New Guinean kina
PIC	Pacific Island country
RCA	revealed comparative advantage
RSE	Recognized Seasonal Employer
SDG	Sustainable Development Goals
SIDS	small island developing states
SITC	Standard International Trade Classification
SME	small and medium-sized enterprises
SMS	short message service
SPARTECA	South Pacific Regional Trade and Economic Co-operation Agreement
SPC	Secretariat of the Pacific Community
TCF	textiles, clothing and footwear
TVET	technical and vocational education and training
UYEP	Urban Youth Employment Project
WESO	World Employment and Social Outlook
WTTC	World Travel and Tourism Council
YJC	Youth Job Corps



CHAPTER 1

EMPLOYMENT AND SOCIAL TRENDS

Introduction

The Pacific Island countries, or PICs, are mostly small, remote island nations spread across a vast stretch of ocean. These countries are usually divided into three groups: Micronesia in the north, Melanesia in the south-west, and Polynesia in the east.¹ These unique and diverse nations span archipelagos and atolls, small islands and larger territories, volcanic zones and mountain ranges. What joins them are a shared set of characteristics and challenges that have played a crucial role in how each economy has developed.

Many of the countries have limited access to natural resources and are vulnerable to external shocks beyond their control. The vast distances that separate the economies from each other, and from the rest of the world, continue to pose a challenge to economic growth and development. In most countries, industry has stalled in its early stages, as businesses face trouble building economies of scale and diversifying production. There is a crucial shortage of interconnectivity, which has thwarted development and limited positive outcomes in the labour market. Many of the countries struggle with widespread poverty and an oversized informal economy, which curbs opportunities for decent work. The future, as well, brings with it the threats of climate change, even as continuing natural disasters take a toll on some of the world's most vulnerable countries.

It is clear that challenges lie ahead for small states in the Pacific. Consequently, policy-makers must chart new paths toward inclusive and sustainable growth. This chapter lays the foundations for such an approach, outlining current conditions in today's economies and labour markets, as well as pointing toward possible new challenges and solutions. Section A looks at macroeconomic developments in the PICs, highlighting problems that have constrained growth. Section B explores labour market outcomes, underscoring how size and remoteness have limited job creation and dispersed Pacific Islanders across the globe. Finally, section C will summarize these key points and outline the way forward through the remainder of this report.

A. Macroeconomic developments

When it comes to economic growth, geography is key in the Pacific...

Small economies face a specific set of challenges that complicate growth. This is especially relevant for small Pacific Island states, which are among the most remote nations in the world. A 2007 study estimated a comprehensive measure of each country's "remoteness" using bilateral distances between each country.² Ranking remoteness out of 219 countries, with 1 being the most accessible and 219 the most remote, the average rank of Pacific Island nations came to 197. In comparison, the average rank for Caribbean island countries was 100 (Gibson, 2007).³

¹ Unless otherwise stated, calculations for PIC regional figures in this chapter refer to information on 12 Pacific Island states: Fiji, Kiribati, the Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

² The author considers the 19 countries and territories of the Pacific Islands with available data in relation to the other 218 countries in the world, weighted by GDP or the population of each of those 218 countries.

³ This is the distance rank weighted by GDP. When weighted by population, the distance rank of the Pacific Islands decreases, and is the same as Caribbean Islands on average.

Remoteness, of course, is a relative concept. Transportation costs, ease of access to other societies and other markets: These are concrete issues that challenge remote labour markets and complicate growth in small island states throughout the Pacific. When considering remoteness in terms of the cost of airfare, the remoteness of Pacific Island nations substantially increases. In fact, statistical analyses show that remoteness has a negative impact on growth in the PICs (Gibson, 2007; Gibson and Nero, 2008). At the same time, Gibson (2007) finds that the growth of any individual Pacific Island nation crucially depends on the economic growth of its neighbours.

... but individual economies have unique characteristics.

Large distances are an obstacle for all PICs; however, each nation has unique attributes that have shaped the individual economies. Varying population sizes, levels of natural resources and degrees of economic success mean that unique solutions are also required to address the region's challenges.

The vast majority of Pacific Islanders live in three countries: Fiji, Papua New Guinea and Solomon Islands, which together are home to 91 per cent of the total population in the PICs. In a diverse region composed of small island states, Papua New Guinea is the outlier. The country has the region's largest economy, its largest population and a land area that is seven times greater than all the other islands combined (see table 1.1). There is also tremendous variation in living standards across the islands. Per capita gross domestic product (GDP) ranges from 1,820 international dollars in Kiribati to 9,353 international dollars in Fiji, using purchasing power parity conversion rates. The average per capita gross national income (GNI) for the region is US\$3,020 (in 2005 US dollars), which would place most of the PICs in lower-middle or upper-middle income categories (World Bank classification, December 2016). Generally, production is highly concentrated, dominated by a few large industries. Kiribati and Federated States of Micronesia, for example, only export about ten different types of products (ILO, 2017a). Individual economies have specialized in fields where they enjoy a comparative advantage – mostly in agriculture or the export of endemic or tropical crops. Papua New Guinea and Fiji are exceptions; both countries have a large export basket and significant industry. Papua New Guinea, for instance, has a strong mining and gas sector and is the region's largest commodities exporter. Industry in Papua New Guinea represented 27 per cent of its GDP in 2013 – far higher than the regional average of 6.3 per cent. However, most economies in the Pacific are still heavily reliant on food and fuel imports. This makes them dependent on global markets, and thus vulnerable to price fluctuations and global factors that complicate growth.

Table 1.1: Key summary statistics for the PICs, 2016

	Land area (sq. km)	Population (‘000)	Inflation (%)	GDP per capita (dollars PPP)	GDP growth (annual change %)
Tuvalu	30	10	3.5	3 566.8	4.0
Marshall Islands	180	53	0.7	3 239.7	1.7
Palau	460	21	2.0	15 260.4	0
Micronesia (Federated States)	700	104	2.0	n.a	3.7*
Tonga	720	106	0.1	5 332.2	2.7
Kiribati	810	112	1.5	1 820.8	3.1
Samoa	2 830	193	0.3	5 368.5	3.0
Vanuatu	12 190	265	2.2	2 631.4	4.0
Fiji	18 270	892	3.3	9 353.4	2.5
Solomon Islands	27 990	584	2.4	1 995.7	3.0
Papua New Guinea	462 840	7 619	6.9	3 542.1	2.5
Averages					
with Papua New Guinea			2.3	5 211.1	2.8
without Papua New Guinea			1.8	5 396.5	2.8

* Data for Federated States of Micronesia is for 2015 and from ADB (2016b).

Source: Data on land area from World Bank (2016). Data on population from United Nations, (2015). Data on growth and inflation from International Monetary Fund (IMF, 2016), *World Economic Outlook*.

Pacific Island countries have struggled to sustain economic growth.

Growth in the Pacific has been uneven and disappointing. Despite favourable natural resources, a burgeoning workforce and sound economic policies, the GDP growth rate among PICs averaged 2.2 per cent from 2001 to 2008, and 2.4 per cent from 2009 to 2016. This puzzlingly poor outcome has been labelled the “Pacific Paradox” (World Bank, 1993), underscoring missed opportunities as PICs fail to fulfil their potential. Growth performances in 2016 are in line with this assessment, particularly when compared to other developing countries in the Asia and the Pacific region. GDP growth reached 2.6 per cent on average in 2016 – down from 3.5 per cent the year before. This is mainly due to a deceleration in Papua New Guinea. Formerly one of the fastest growing economies in the region, Papua New Guinea has witnessed a critical downturn due to falling commodity prices. Growth is also projected to remain moderate in the coming years, as Papua New Guinea, the Pacific’s largest economy, reached peak extraction in its crucial liquefied natural gas (LNG) sector in 2016. Growth is expected to reach 2.4 per cent for the region in 2021, based on projections from the International Monetary Fund.

However, the relatively low growth rates of the recent past may also be a problem of measurement. Part of the wealth in PICs, such as traditional systems of non-monetized production and food distribution, does not easily fit into standard frameworks for evaluating the market economy (Gibson and Nero, 2008). This suggests that wealth and income in the Pacific may be underestimated.

In the short term, economies will rely on public spending and donor-funded investments to help fuel growth...

In the coming years, economic stimulus is most likely to come from public spending, donor-funded investments and reconstruction from recent natural disasters. Strong public investment in infrastructure has helped small states strengthen their economic performance. In Tonga, for example, growth during 2016 was projected to be the highest in five years. Fiscal consolidation – especially tax recovery – will be a key challenge, as restoring growth will require the replacement of outdated infrastructure. In countries like Fiji and Tuvalu, positive outcomes will depend on the speed of recovery from the devastating effects of recent storms, such as Tropical Cyclone Winston in 2016. The Pacific is also still reeling from the effects of the El Niño drought. Water shortages in Vanuatu, for example, curtailed production of cocoa, kava and beef. In tiny Palau, the drought affected the vital tourism sector and reverberated through the economy (ADB, 2016b).

... while external factors will both foster growth and challenge it.

In the meantime, the continued strength of the tourism sector and remittances from overseas workers will help to promote growth, notably by supporting domestic demand. Inflation is likely to remain subdued, thanks to the fall in commodity prices. Countries like Kiribati, meanwhile, will enjoy substantial additional revenues from new fishing licenses and the South Pacific Tuna Treaty, which is expected to be successfully renewed. Still, growth may slow in the coming years as tuna prices have fallen since reaching a peak in 2013.

Economic and political developments elsewhere could also pose challenges in the Pacific. A sharper-than-expected slowdown in the People’s Republic of China, for example, would adversely impact Australia and New Zealand, spilling over to Pacific tourism and exports. Deceleration in the People’s Republic of China’s economy could have direct negative impacts on Palau, where Chinese tourists account for almost half of all tourist arrivals,⁴ or on Solomon

⁴ There were 64,685 tourist visits from the People’s Republic of China in 2016, out of a total of 136,572 tourist visits. See: <http://palaugov.pw/immigration-tourism-statistics/>.

Islands, which relies on the People's Republic of China as a key timber export market. Finally, the result of the 2016 United States presidential election is also likely to affect the Pacific, as increased protectionism could lead to cuts in overseas aid and the end of partnerships. It must be stressed that agreements like the Compact of Free Association – between the United States and Palau, the Marshall Islands and Federated States of Micronesia – play a critical geostrategic and economic role in the Pacific. As the PICs are particularly vulnerable to global stresses on the economy, boosting resilience to external shocks will be one of the key challenges to ensure steady growth in the coming years – particularly in a time when the frequency of climate change-related natural disasters is likely to increase.

Exports have skyrocketed, but poor infrastructure and other trade costs have restrained development...

Exports from PICs have significantly increased over the last decade, mainly due to tourism. However, prohibitive transportation and trade costs have also impeded the development of a proper export-led growth model – a framework that has successfully driven growth in other developing countries in East Asia and the Pacific. Exports from PICs reached US\$9.6 billion in 2013 – up from less than US\$4 billion at the beginning of the millennium. Despite the growth, however, this figure accounted for only 0.5 per cent of the world's exports (Radoc, 2016); the total is also inflated by Papua New Guinea, which accounted for 70 per cent on its own.

The region's main exports are food and live animals – representing 38 per cent of total exports in 2013 – crude materials and mineral fuels. Australia, New Zealand and the United States are still the major destination countries, while demand is growing in Asian markets, including the People's Republic of China and Thailand. Trade is mostly regulated through bilateral and multilateral pacts, such as the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA). The agreement, which includes most PICs except for Palau, allows duty-free exports to the Australian and New Zealand markets for certain types of exports. However, there is no comprehensive intra-regional free trade agreement among the Pacific's small island states. In terms of production, most countries in the region have started to specialize in niche markets where they can have a strong comparative advantage (see table 1.2). For example, Fiji has found success in the production of Fiji Water, a bottled mineral water marketed internationally. Consequently, non-alcoholic drinks represented 11.4 per cent of Fiji's total exports in 2015 (ILO, 2017a) – compared with almost nothing just 20 years earlier. Combined with a strong tourism sector, Fiji managed a surplus current and capital account balance of US\$40.4 million in September 2016.

Table 1.2: Changes in revealed comparative advantages (RCA), 2002–13

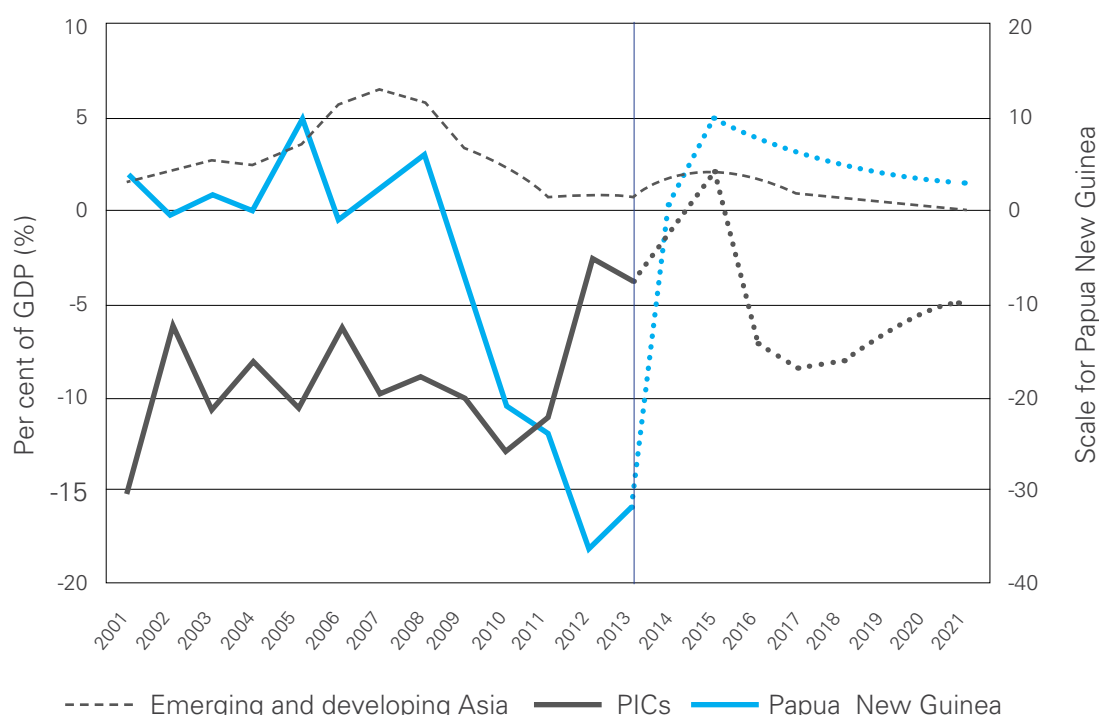
Exporter	Stronger RCA (2013 vs 2002)	Weaker RCA (2013 vs 2002)
Fiji	Fish and crustaceans, vegetables/roots/tubers, sugar, beverages, wood, pearls	Apparel/knitted
Palau	Fish and crustaceans	Apparel/knitted
Papua New Guinea	Fish and crustaceans, coffee/tea/spices, cocoa, ores/slag/ash, mineral fuels, pearls	Sugar, copper
Samoa	Vegetables/fruit/nuts, beverages, machinery/equip	Fish and crustaceans, apparel/knitted
Solomon Islands	Fish and crustaceans, animal/vegetables fats/oils, prep of meat/fish, cocoa, wood, pearls	
Tonga	Tanning/dyeing, iron and steel	Fish and crustaceans, vegetables/roots/tubers, coffee/tea/spices
Tuvalu	Fish and crustaceans	Vegetables/fruit/nuts, rubber, apparel
Vanuatu	Fish and crustaceans, cocoa	Animal/vegetables fats/oils

Source: Radoc (2016).

... while a dependency on fuel and food imports is a concern...

Even so, PICs rely heavily on food and fuel imports, which significantly deteriorates their current account balances (see figure 1.1). On average, fuel imports are worth 10 per cent of the GDP, reaching as high as 14 per cent for Fiji (Juswanto and Ali, 2016b). The recent global drop in commodity prices has resulted in low inflation and helped the region's countries to stabilize. However, this trend could still have adverse effects on Papua New Guinea, although LNG prices are forecast to increase slightly in the coming years. Furthermore, exchange rate systems in the Pacific – a mix of pegging to a basket of currencies and dollarization – make small states vulnerable to global monetary fluctuations.

Figure 1.1: Current account balance in PICs, 2001–21



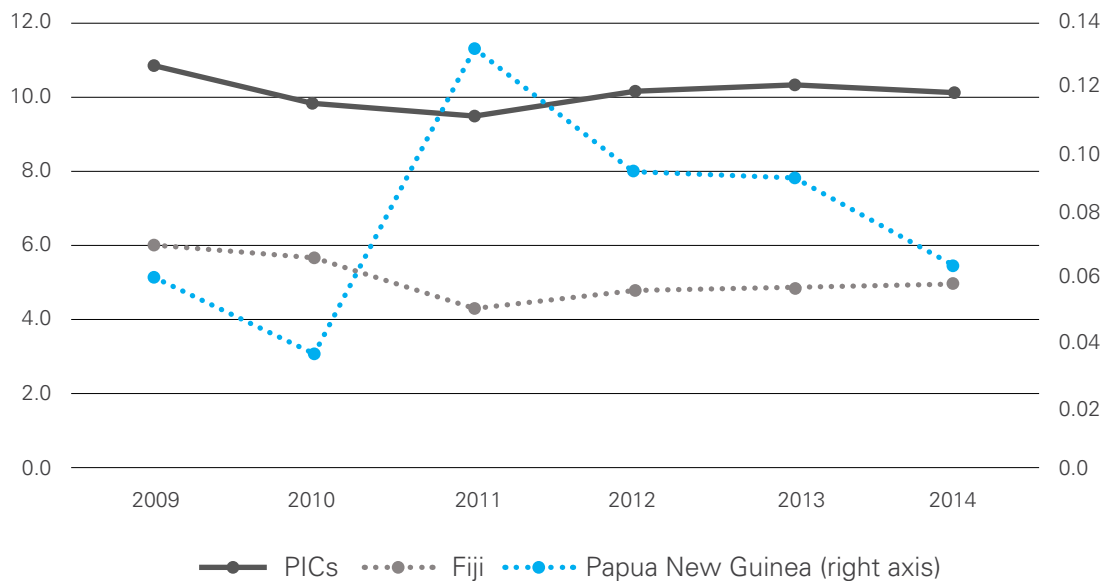
Source: International Monetary Fund (IMF, 2016), *World Economic Outlook*.

Note: Figures after 2013 are estimates.

... as is a reliance on overseas aid and remittances.

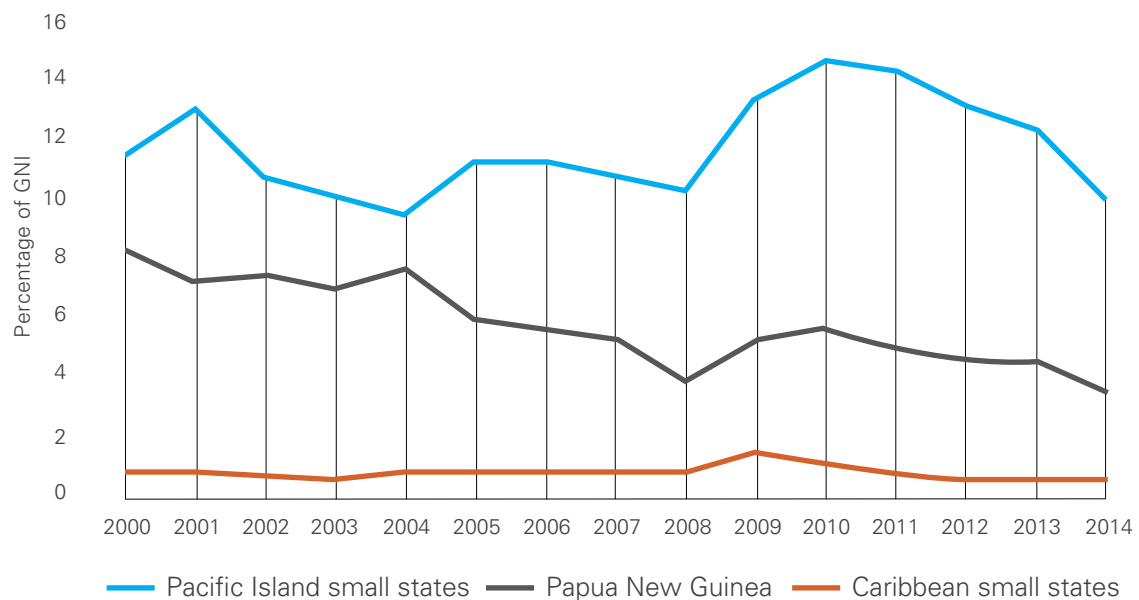
Economies in the Pacific Islands have become heavily dependent on money sent home by overseas migrants, with remittances representing 10 per cent of GDP on average in 2014 (see figure 1.2). In fact, the equivalent of roughly half of the populations of Samoa and Tonga now live abroad – 46.2 per cent and 50.6 per cent, respectively, according to recent estimates (Curtain et al., 2016). In addition, PICs also depend on overseas development aid to boost their economies. The region’s countries receive among the highest per capita amount of aid in the world, especially compared to similar small islands states in the Caribbean (see figure 1.3). This is especially true for Palau, the Marshall Islands and Federated States of Micronesia, which enjoy relatively open access to the United States via the Compact of Free Association. Per capita overseas assistance in these countries reached US\$1,000 per year in 2014. Together, remittances and foreign aid have helped increase purchasing power and domestic demand in the Pacific’s small island states. However, they have also led to an increase in imports, widening current account deficits. As the agreement is set to end in 2023, there are concerns about how to phase out an income source that has become so integral to each country’s economy and labour market. In any case, the amount of foreign capital in the Pacific does not counterbalance a problematic lack of local investment. Total foreign direct investment inflows in the region dropped by half between 2010 and 2014 (ILO, 2017a).

Figure 1.2: Personal remittances (per cent of GDP) in PICs



Source: World Bank staff estimates based on IMF balance of payments data.

Figure 1.3: Net official development assistance (ODA) as percentage of GNI in the Pacific Islands, 2000–14



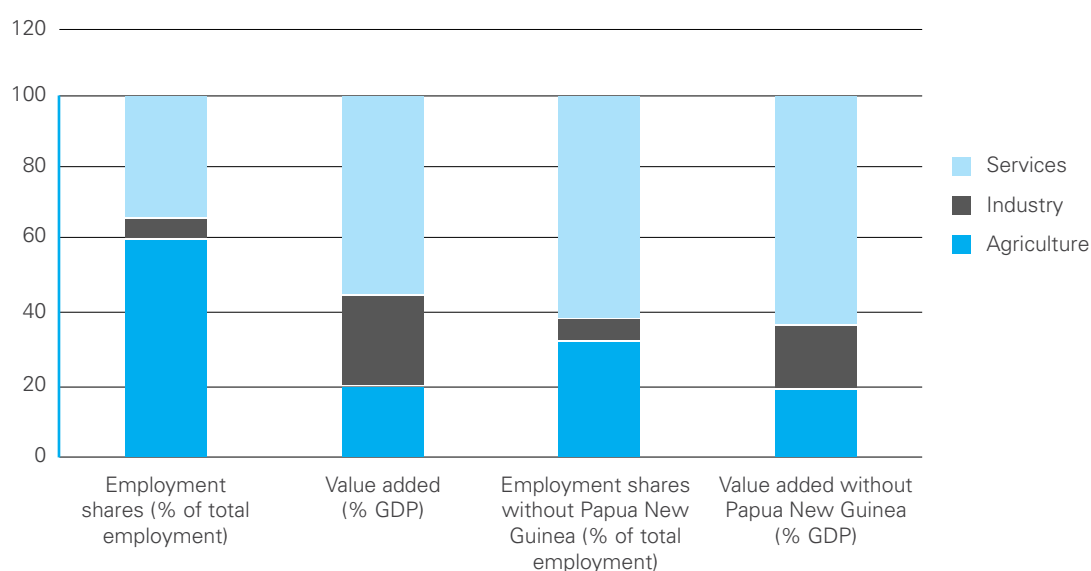
Source: World Bank (2017).

Note: Net ODA consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries, to promote economic development and welfare in countries and territories in the DAC list of ODA recipients. It includes loans with a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

The service sector is fuelling employment in Pacific Island countries...

Economies in the Pacific Islands have witnessed a substantial shift, powered by an expanding service sector. As in many developing countries across Asia and the Pacific, the service sector – particularly tourism – is growing and now represents 61 per cent of the region’s total employment and 64 per cent of the value added (see figure 1.4).⁵ Agriculture is still an important part of the region’s economies. The industrial sector in most of the region is still at an early stage – aside from Papua New Guinea and Fiji – and extremely concentrated, dominated by a few key products (see table 1.3). Difficulties in developing large-scale manufacturing, low private sector investment and outdated transportation infrastructure are all key burdens hampering economic growth. Policy-makers will need to boost workforce skills and address funding shortages in order to nurture growth in promising sectors like tourism and sustainable agriculture. These investments will prove even more essential as the far-reaching effects of climate change become a reality for Pacific economies.

Figure 1.4: Value added and employment shares in PICs, weighted mean, latest figures available



Source: Data on employment is from ILO (2016) and ILO (2017b). Data on value-added is from ADB (2016b), World Bank national accounts data, and the Organisation for Economic Co-operation and Development’s (OECD) National Accounts data files.

Notes: Regional weighted average according to population figures for 2013, latest year available for value-added data. Only Fiji, Kiribati, the Marshall Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu are represented.

⁵ Calculation does not include Papua New Guinea.

Table 1.3: Economic diversification in the Pacific Islands, 2014

	Number of products	Concentration index
Fiji	168	0.26
Kiribati	7	0.90
Marshall Islands	17	0.76
Micronesia (Federated States)	9	0.43
Nauru	15	0.82
Palau	22	0.85
Papua New Guinea	135	0.28
Samoa	39	0.28
Solomon Islands	28	0.52
Tonga	27	0.30
Tuvalu	17	0.75
Vanuatu	25	0.64
Developed economies	260	0.07
Developing economies	260	0.12
Developing economies: Caribbean	246	0.16

Source: (ILO (2017a).

Note: Number of products is the number of products exported at the three-digit Standard International Trade Classification (SITC), Rev. 3 level. The concentration index, also named Herfindahl-Hirschman Index (Product HHI), is a measure of the degree of product concentration. The normalized HHI is used in order to obtain values between 0 and 1. An index value closer to 1 indicates a country's exports are highly concentrated on a few products. On the contrary, values closer to 0 reflect exports that are more homogeneously distributed among a series of products.

... particularly tourism, which is driving export earnings and creating jobs.

Tourism is booming. The crystal clear seas and pristine beaches of the Pacific's archipelagos and atolls are drawing in more than 1.5 million visitors each year (Pacific Islands Centre, 2013). Most tourist arrivals are from Australia and New Zealand, but the United States and, more recently, the People's Republic of China, are growing markets. Overall, the growth of tourist arrivals in the region has been positive for more than a decade (see figure 1.5), though natural disasters and political instability have often offset this trend in the short term. The tourism sector represents a large share of exports from PICs, accounting for more than 40 per cent of total export earnings in countries that are well connected to main international airports such as Fiji, Palau and Samoa. Tourism is also a key job creator for many Pacific labour markets; 14 per cent of total employment in Vanuatu came from tourism in 2016 (see table 1.4). Fiji is still the region's number one tourism destination. It had more visitors in 2013 than all the other island countries combined, aided by its internationally competitive airline carrier, Fiji Airways (Juswanto and Ali, 2016a; Perrottet and Garcia, 2016).

Looking ahead, this vital sector could help reduce poverty throughout the region.

As a major source of income and jobs throughout the Pacific, continued efforts to grow tourism in the region could help reduce poverty. Already, tourism has played an essential role in Samoa, which graduated from Least Developed Countries (LDC) status in 2014 with the help of a profitable tourism sector (UNWTO, 2014). The development of tourism can also have positive spillover effects on other sectors. For example, well-regulated ecotourism can stimulate demand for local agricultural products.

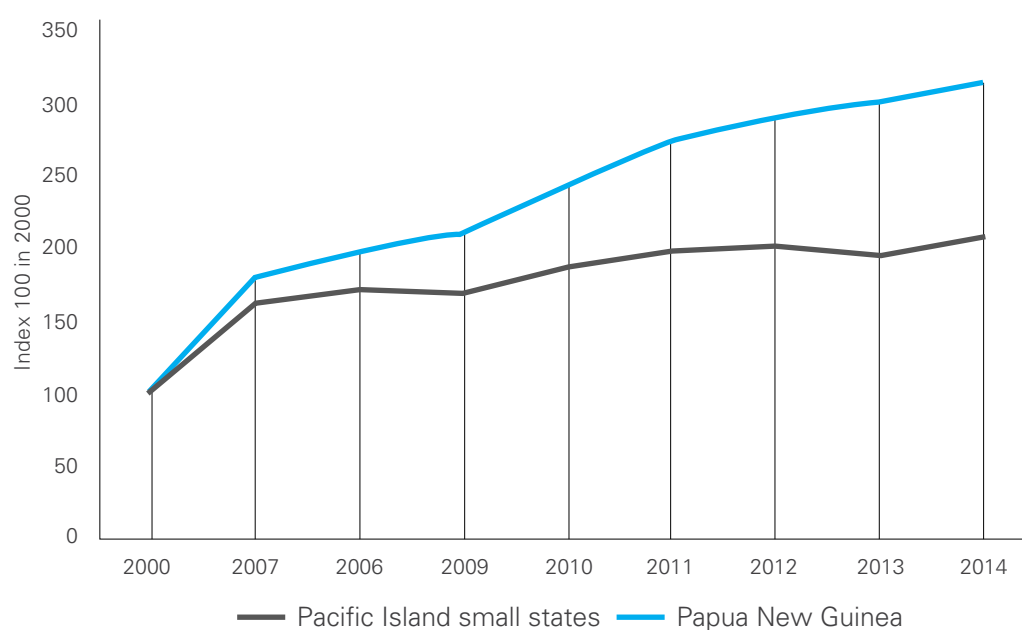
Despite recent success, there is ample room for improvement. A lack of connectivity and transportation infrastructure has impeded development, especially when it comes to creating infrastructure catering to higher-end, upmarket tourists. Consequently, tourism in the overall Oceania region accounted for just 1.2 per cent of the world's market in 2014, according to a recent World Bank briefing. This represents a valuable missed opportunity. Careful planning to sustainably develop emerging tourism markets could help Pacific Island nations earn up to US\$1.8 billion in additional revenue each year and create roughly 128,000 new jobs by 2040 (Perrottet and Garcia, 2016). Four main opportunities are identified: focusing on the growing Chinese market; attracting cruise ship companies to base large ships in the region; expanding the high-end resort market, as has been accomplished in Palau; and capturing the retiree market, particularly in Australia and New Zealand.

Table 1.4: Tourism's direct contribution to GDP and employment, 2016

	Share of GDP (%)	Share of total direct employment (%)
Fiji	13	12
Kiribati	9	8
Papua New Guinea	1	0.4
Solomon Islands	3	3
Tonga	6	6
Vanuatu	18	14

Source: Data is collected from various World Travel and Tourism Council (WTTC) country reports that may be accessed at: <https://www.wttc.org/research/economic-research/economic-impact-analysis/country-reports/>.

Figure 1.5: Changes in tourist arrivals in PICs, with 2000 as the base year, 2000–14



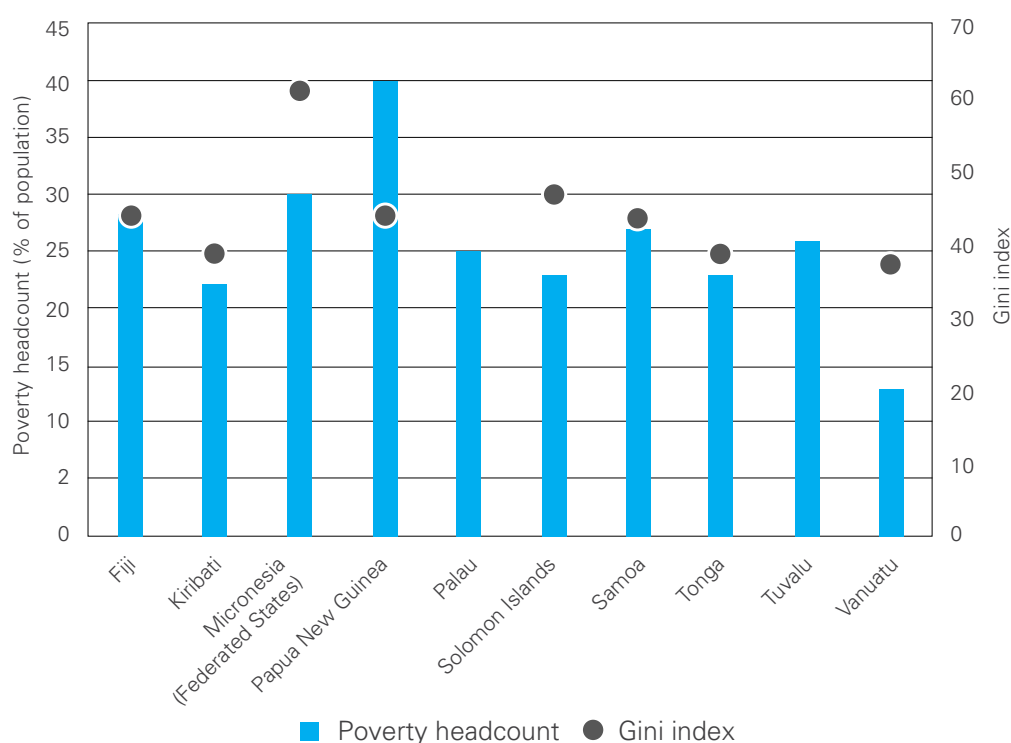
Source: UNWTO (2016), *Yearbook of tourism statistics: Compendium of tourism Statistics* and data files.

Box 1.1

Poverty: More than an economic indicator

Countries in the Pacific Islands are among the largest aid recipients in the world, yet one fifth of the region's population also struggle to meet their basic food needs. According to the World Bank, more than 20 per cent of people in the PICs live in hardship, meaning that they are unable to meet their basic needs, including food (World Bank, 2014). The percentage of people living at or below national poverty lines is high, ranging from 13 per cent in Vanuatu to 40 per cent of the total population in Papua New Guinea (see figure 1.6).⁶ However, poverty rates are lower when measured in terms of people's ability to meet their basic needs. Using the World Bank's consumption poverty line, poverty rates stand at 2.2 per cent and 26.5 per cent of the total population for Vanuatu and Papua New Guinea, respectively (World Bank, 2014).

Figure 1.6: Poverty headcount at national poverty lines and Gini index in PICs, latest figures available



Source: World Bank (2017) and FBOS (2015).

Note: Bars refer to poverty headcount (left-hand side) and dots refer to Gini index (right-hand side).

Households in the Pacific are also intensely exposed to global shocks, both environmental and economic. The region is particularly vulnerable to natural disasters, which pose a continual disruptive threat to living conditions. Furthermore, a dependence on global commodity markets to meet basic needs and income leaves families vulnerable to price fluctuations. For example, a drop in agricultural prices would generally benefit the urban poor – but this would come at the expense of net food producers among

⁶ It should be noted that there is a tremendous lack of data on this subject. For some countries, the latest estimates are more than a decade old; figure 1.6, for instance, uses 2005 figures for Solomon Islands.

the rural poor. In Papua New Guinea, microsimulation analysis suggests that a 10 per cent decline in food prices would reduce urban poverty by almost 2 per cent, but rural poverty by less than 1 per cent (World Bank, 2016b).

Notably, poverty appears to be as high or higher in urban areas as it is in rural areas – particularly among young people (Curtain et al. 2011). The Pacific Islands have witnessed a rapid rise in the proliferation of “urban villages” in recent years, as poverty and climate change-induced migration push rural dwellers toward city areas that often lack basic social services (Jones, 2016). Residents of these peri-urban settlements often face low-quality housing and stigmatization while heavily relying on the informal economy for income. Half the population of Papua New Guinea’s capital, Port Moresby, live in these urban villages; throughout the Pacific, more than 1 million people call these settlements home. This is a reminder that poverty is not simply an economic measure, but a multidimensional phenomenon that seeps into all aspects of life: health, education, segregation and integration. Health, for example, is inextricably linked to poverty. Non-communicable diseases are becoming a real burden in the Pacific, which is home to seven of the world’s ten most high-prevalence countries for diabetes. This burden has already impacted the region’s growth potential. The economic losses due to mortality related to non-communicable diseases could reach a regional average of 12 per cent of GDP by 2040, according to estimates (Hou et al. 2016). A lack of health services and social protection schemes in the PICs can push residents into a poverty trap. Government-led social insurance is minimal, while traditional social safety nets only go so far.

Understanding the true scope of poverty – and enacting appropriate policy solutions – will require investments in producing accurate data. Governments should take steps to set up targeted cash transfer schemes. Comprehensive measures must be put in place to offer basic health, education and sanitation infrastructure in order to deal with the surge in urbanization and informal work in these environments. Finally, policy-makers must look ahead to anticipate and plan for risks that could worsen conditions for people living in poverty.

Agriculture remains an important, if underdeveloped, part of the economy.

Agriculture accounts for a large share of employment in the Pacific – as much as 61 per cent in Vanuatu – and almost 20 per cent of the region’s GDP. However, the sector is largely underdeveloped, with most of the activity consisting of small-scale and subsistence farming. Generally, countries in the Pacific have been unable to leverage the sector into larger-scale production. Even so, traditional food self-production is typically underestimated in national accounts (Bammann, 2007). It has been identified as the Pacific’s “hidden strength”. For example, in 2003, the volume of subsistence and domestically marketed food in Papua New Guinea was 11 times greater than the volume of imported food. This ensured food security for a large part of the population.

While previous attempts at export-oriented agricultural development programs were a failure, sustainable agriculture and niche markets could be a more promising fit for the region’s climactic and geographic distinctiveness. Marketing products based on rarity or exoticness, the region’s small states have successfully invested in high-value plantations like timber, coconut oil, natural cosmetics, organic and tropical fruits and vegetables, spices, cocoa, vanilla and pearls. The cocoa industry, for example, is already a source of income for one fifth

of households in Solomon Islands, while the vanilla industry is the core part of a fair-trade development project in Tonga and already an asset in Papua New Guinea's economy (ILO, 2017a). From this perspective, linking ecotourism and agri-tourism with overall tourism could be a valuable boon for the agricultural sector.

However, some of the key barriers that hamper growth in the overall economy also present a challenge for the agriculture sector. Reducing transportation costs and improving infrastructure will help encourage agricultural development. Unlocking access to finance and facilitating equitable land leases would allow plantations to expand.

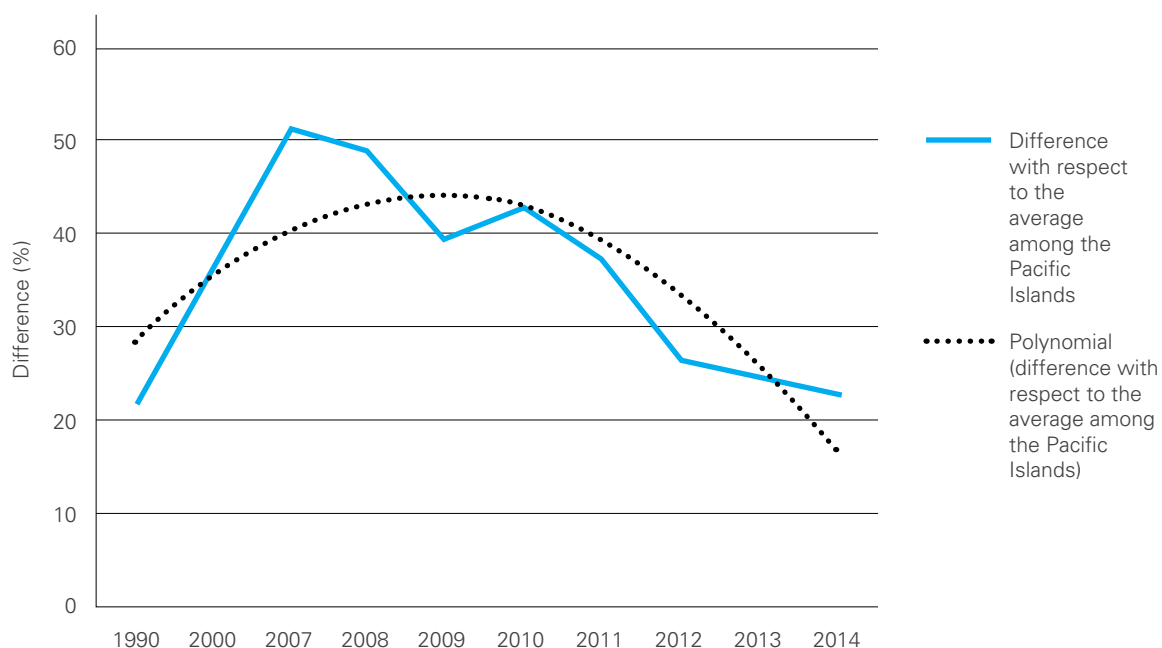
Similarly, well-regulated fisheries can be a crucial revenue source.

The vital fisheries sector can continue to be a major source of revenue in the Pacific; however, this will require careful and sustainable management. In Kiribati, recently released fisheries licenses under the regional Vessel Day Scheme – where boat owners can buy and trade daily fishing licenses – have helped to widen the country's current account surplus from 44.7 per cent of GDP in 2014 to 77.2 per cent in 2015 (Juswanto and Ali, 2016a). In fact, fishery licence fees are the largest source of public revenue in Kiribati, as well as several other countries including Tuvalu and Federated States of Micronesia (World Bank, 2016b). However, drastic measures must be taken to preserve fish stocks, marine ecosystems and biodiversity – a task that is all the more crucial given that many Pacific Islanders also rely on fish as a main source of protein. A recent ADB paper highlighted the need to carefully manage trade liberalization while also reducing the risks of exploitation to sensitive natural resources (Juswanto and Ali, 2016a).

Growth in the industrial sector has been lacklustre with some notable exceptions: Fiji and Papua New Guinea.

Industry in the Pacific accounts for a large share of the value added, but only a small portion of employment. As figure 1.4 shows, the industrial sector contributes almost one quarter of the value added in the region, but less than 6 per cent of all jobs. Here again, high transportation costs and the failure to create economies of scale have been obstacles to development. Manufacturing has been small-scale, essentially targeting domestic demand. Nevertheless, it is important to note the sizeable differences between Papua New Guinea and the rest of the PICs. Figure 1.7 shows the difference in total resource rents – the income created by exploiting natural resources – as a percentage of GDP. Compared to the average for other countries in the region, income from natural resources in Papua New Guinea has contributed as much as 50 per cent more to its GDP. In other words, Papua New Guinea relies much more heavily on the exploitation and export of natural resources to fuel its economy – particularly the mining and petroleum sectors. Production in LNG escalated after 2014, with the commencement of the “PNG LNG Project”, led by ExxonMobil. The following year, Papua New Guinea's resource sector contributed an estimated 8.1 percentage points to overall growth (World Bank, 2016b). However, as LNG extraction reaches its peak, there could be reason for concern for the sustainability of this resource-dependent growth strategy.

Figure 1.7: Total resource rents as a percentage of GDP in the Pacific Islands, difference of Papua New Guinea with respect to the regional mean, 1990–2014



Source: World Bank (2017).

Note: The dotted line is the polynomial approximation for the difference in total rents.

The success of Fiji’s garment sector is another exception. The garment industry began following the 1987 coup. Its rapid expansion was fuelled in part by improved access to the Australian and New Zealand markets thanks to the SPARTECA trade scheme. Garment exports continued to gain momentum before declining at the end of the 1990s as tax incentives and trade preferences were phased out. The industry then shifted toward the specialized high-value, low-volume segment, in which Fiji enjoys a greater comparative advantage (Kumar, 2015) compared to industries in Bangladesh and the People's Republic of China, which generally target low-cost buyers. Apart from these two specific cases, however, the region’s industrial sector is in its infancy.

High costs of doing business have held back development...

While the naturally small consumer bases in the Pacific have made it difficult for the region’s industries to develop, there are also key issues that policy-makers can address to help encourage growth. Access to finance, skills mismatches and corruption are all problems that deter entrepreneurs from investing. According to the World Bank’s 2016 enterprise survey, almost two-thirds of entrepreneurs in Solomon Islands identified corruption as a major constraint to growth (see table 1.5). Problems with infrastructure are a frequent complaint; a lack of continued access to electricity was identified by 45.5 per cent of firms in Papua New Guinea.

Table 1.5: Major constraints to growth according to entrepreneurs in the Pacific, latest figures available

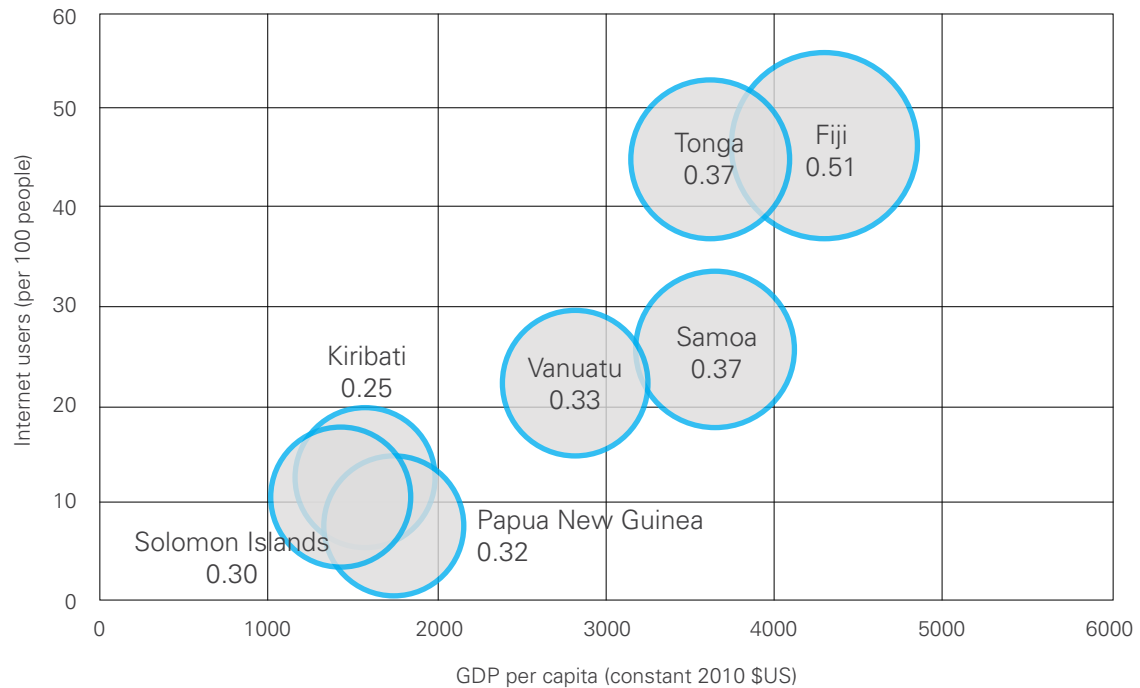
Firms identifying as a major constraint...(%)	Fiji	Papua New Guinea	Samoa	Solomon Islands	Vanuatu
Access to finance	6.7	3.2	16.1	5.8	29.0
Inadequately educated workforce	13.9	18.9	27.4	30.5	29.6
Corruption	35.1	26.1	21.8	65.2	42.4
Crime, theft and disorder	17.6	38.7	23.0	22.0	35.6
Customs and trade regulations	10.5	24.7	18.9	29.2	13.5
Labour regulations	19.2	8.4	2.7	17.1	18.3
Business licensing and permits	6.0	40.2	3.8	18.3	13.3
Courts system	11.8	10.8	8.9	17.4	6.5
Practices of competitors in the informal economy	15.1	31.9	16.3	16.4	9.7
Tax administration	16.1	22.4	19.7	39.5	9.8
Tax rates	26.6	35.2	33.5	54.2	26.5
Electricity	25.1	45.5	44.1	13.1	28.7
Transportation	8.4	27.7	28.5	19.4	20.8

Source: World Bank Enterprise Survey. See: <http://www.enterprisesurveys.org/>.

Note: Data for Fiji, Samoa and Vanuatu are from 2009. Data for Papua New Guinea and Solomon Islands are from 2016.

Access to information and communication technologies (ICTs) is still problematic, while vital computer skills are also missing among the region's workforce. A national survey in the Marshall Islands reported that 85.7 per cent of employers with hard-to-fill job vacancies cited applicants' skills as the main cause of the problem (Republic of the Marshall Islands, 2015). Internet use is particularly low in countries with low per capita GDP, such as Kiribati, Papua New Guinea and Solomon Islands. Here, the number of Internet users comes to an average of less than 20 for every 100 people (see figure 1.8).

Figure 1.8: Key digital statistics in PICs: Digital Adoption Index (DAI) and number of Internet users



Source: World Bank (2016), World development report 2016: Digital dividends; International Telecommunication Union; World Telecommunication/ICT Development Report and database; and World Bank estimates.

Notes: The DAI is represented by the size of the bubble. It ranges from 0 (worst situation) to 1 (best situation). GDP figures are from 2015, except for Papua New Guinea (2014).

Accumulation of capital is a difficult proposition in the Pacific and firms are credit constrained. Indeed, financial institutions tend to believe that lending is risky in parts of the region because loans may not be repaid. Governments have a key role to play in tackling this issue. Policy-makers can take measures to encourage credit by reforming the secure transactions framework – the regulations that cover lending (Dayrit et al., 2014). Importantly, a recent ADB report underscores the need to reform state-owned enterprises in the Pacific Islands. These entities are often poorly managed and their oversized presence serves to discourage private sector investments (ADB, 2016a). The study shows that only one out of ten state-owned enterprises produces a return sufficient to cover capital costs.

... while environmental factors are a real threat to future growth...

Climate change is also a crucial factor that could impact growth and economic outcomes throughout the region. Countries in the Pacific Island are among the most vulnerable to the impacts of a changing climate and the region is already susceptible to natural disasters. Climate change is likely to increase the intensity of extreme weather events, while raising average ocean and land temperatures and altering the timing and duration of rainfall (see table 1.6).

Table 1.6: Projected effects of climate change in the Pacific Islands

Climate change-related events	Projected trends
Extreme rainfall	- Increases in annual mean rainfall near the South Pacific Convergence Zone and Intertropical Convergence Zone - Increase in variability of rainfall - Increased frequency, duration, and intensity of droughts and floods - Widespread increase in the number of heavy and extreme rain days
Sea-level rise	- Sea-level rise expected to be between 0.9 metres and 1.6 metres by the end of this century, depending on current and projected rates of polar ice and glacial melt - Sea-level rise in the Western Pacific at 10 millimetres per year continues through 2030 - For the region overall, total sea-level rise until 2030 similar to the global average (2–3 millimetres per year)
Evaporation	- Ratio of annual average rainfall to potential evaporation decreases in most areas (increased aridity) - Smaller changes in potential evaporation near equator due to relatively large projected rainfall increases
Extreme high temperature	- Warming over the region of about 0.5°C to 1.0°C by 2030 (70 per cent as large as the global average warming) for all emission scenarios - Greatest regional warming near the equator - Large increases in the incidence of extremely hot days and warm nights.
Strong winds and cyclone	- Decrease in surface wind speed in the equatorial and northern parts of the region - Increase in surface wind speed in the south - Overall changes relatively small in most locations - Number of cyclones in the Pacific region to decrease, but the proportion of strong cyclones will increase

Source: ADB (2013).

In February 2016, for instance, Tropical Cyclone Winston became the strongest cyclone ever recorded in the region. Fiji was severely impacted. The storm devastated the country's agriculture sector, causing losses of US\$245 million (see table 1.7); overall losses amounted to one fifth of the country's GDP. Just as worrisome are rising sea levels, which threaten the very existence of atoll nations like Kiribati, the Marshall Islands and Tuvalu. This has grave implications for the future of displacement and migration in the region. The consequences of global climate change for the Pacific Islands are a key focus of Chapter 5. For now, it is important to keep in mind that climate change is likely to have significant, disruptive impacts on every section of economic and social life in the region.

Table 1.7: Estimated costs to the agriculture sector of selected extreme weather events

Country	Event	Year	Estimated cost to agriculture sector (US\$ million)	GDP that year (US\$ million)	Cost as % of GDP	Source
Fiji	Floods	2012	21.4	3 978	0.5%	National Disaster Management Office 2012
Samoa	Cyclone Evan	2012	28.5	804	3.5%	PDNA Govt of Samoa 2013
Vanuatu	Cyclone Pam	2015	57	449	8%	PDNA Govt of Vanuatu
Tuvalu*	Cyclone Pam	2015	2.9	31	6.7%	WB internal DALA
Fiji	Cyclone Winston	2016	245	4 530	5%	PDNA Govt of Fiji

* Figures for Tuvalu are in Australian dollars.

Source: World Bank (2016b).

... but preparing for these consequences could also bring new opportunities.

The money governments spend on post-disaster reconstruction is a serious drain to public budgets, while it also detracts from vital investments in infrastructure and other social benefits that foster growth. In Vanuatu, for example, natural disasters trigger an annual average loss of 6.6 per cent of GDP; in Tonga, the figure is 4.3 per cent (World Bank, 2016a). Rising sea levels, unpredictable floods and tropical storms will force Pacific Island nations to invest in coastal protection and resilient infrastructure. An Oxfam report released after the 2015 United Nations Climate Change Conference underscores the need for wealthier nations to provide access to climate financing in smaller states (Maclellan and Meads, 2016). The authors emphasize that the international community – particularly Australia and New Zealand – has an obligation to help the Pacific's smaller states cope with the direct impacts of climate change.

Recognizing these challenges while moving to mitigate their impacts requires a profound shift toward a green economy. This transition could both protect citizens by improving resilience, as well as introduce new opportunities and markets for economic growth. Sustainable tourism, socially and environmentally responsible agriculture and fisheries, and green tourism: These are all promising sectors that could unlock new jobs and new pathways to growth. It is up to the Pacific's policy-makers to recognize the looming problems and turn the challenges into new opportunities.

B. Labour market trends

Populations in Pacific Island countries are growing...

The basic framework of any labour market is its population. When it comes to small countries in the Pacific Islands, populations are expanding. Table 1.8 shows that in select PICs, the overall population has grown from almost 7.2 million people in 2000 to more than 10.5 million in 2015. This represents a 47.5 per cent increase in 15 years.

However, this aggregate result hides the variance among individual countries. Using the table 1.8 data, figure 1.9 presents population growth rates from 2000 to 2015. The countries with the highest increases are Papua New Guinea (58.5 per cent), Vanuatu (44.8 per cent) and Solomon Islands (41.6 per cent). At the other end of the scale, two countries had a decreasing population over the same period: Palau (-6.9 per cent) and Federated States of Micronesia (-4.4 per cent).

Among the three main countries on which this study focuses, there are three very different trends. Papua New Guinea shows the highest population growth during this period (58.5 per cent), Fiji has a much smoother increase (8.4 per cent), and Palau presents the highest decrease in the region (-6.9 per cent).

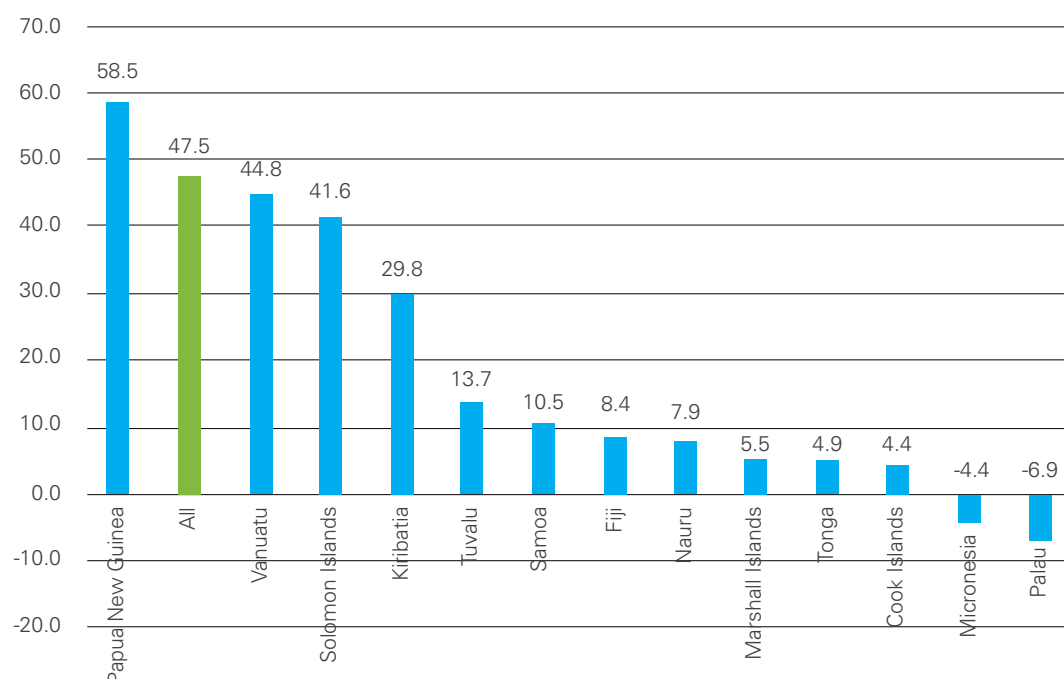
Thanks to high fertility rates – 3.3 children per woman on average – the working-age population among the PICs has continued to rise over the last quarter-century, from 55.8 per cent of the population in 1990 to 61.1 per cent in 2015. In Papua New Guinea, the Pacific Islands' largest labour market, the working-age population rose from 55.4 per cent to 59.8 per cent over the same period (World Bank, 2017).

Table 1.8: Population (in thousands) in PICs

	2000	2005	2010	2015
All	7 176.7	8 156.9	9 290.3	10 587.1
Cook Islands	18.0	21.5	23.7	18.8
Fiji	802.0	827.0	850.7	869.5
Kiribati	84.5	92.5	103.1	109.7
Marshall Islands	51.2	51.2	52.9	54.0
Micronesia (Federated States)	107.0	105.6	102.8	102.3
Nauru	10.1	9.5	9.7	10.9
Palau	18.9	19.8	18.3	17.6
Papua New Guinea	5 190.8	6 051.7	7 055.4	8 225.6
Samoa	175.1	178.7	186.4	193.5
Solomon Islands	418.6	470.1	528.0	592.9
Tonga	99.1	101.2	102.8	104.0
Tuvalu	9.5	10.3	11.1	10.8
Vanuatu	191.7	217.8	245.4	277.5

Source: ADB (2016); UN (2015).

Figure 1.9: Population growth rates in PICs, by percentage (2000–15)



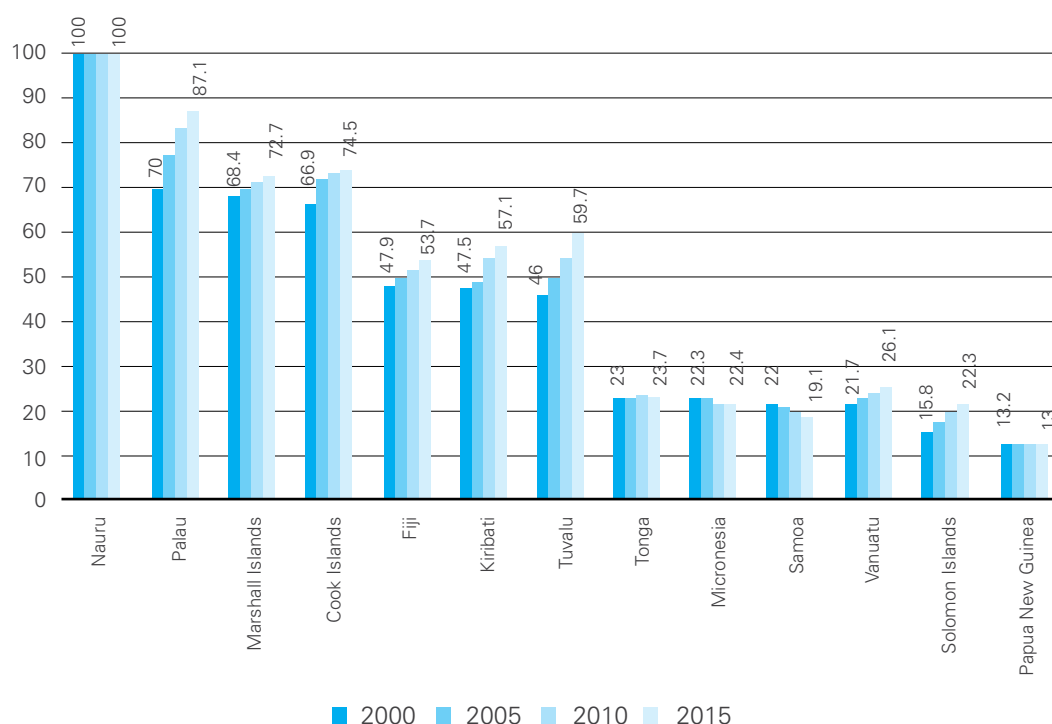
Source: Calculations with figures from table 1.8.

... and becoming increasingly urbanized...

In most PICs, populations are shifting away from rural areas toward urban centres. Figure 1.10 shows that from 2000 to 2015, the percentage of the population living in urban areas has generally been increasing, with the exceptions of Tonga, Federated States of Micronesia and Papua New Guinea, which have stagnated at around 23 per cent, 22 per cent and 13 per cent, respectively.

The only country with a decrease in its urbanization rate is Samoa. Nauru is a special case, always reporting 100 per cent of its population living in urban areas. Palau is the country with the largest increase (17 percentage points); it also has the highest percentage of its population living in urban areas, apart from Nauru. Fiji had a moderate-low increase (almost 6 percentage points); now, more than half of Fiji's population lives in urban areas.

Figure 1.10: Urban population as a percentage of total population



Source: ADB (2016); UN (2014).

... while available data suggest a general pattern of decreasing labour force participation.

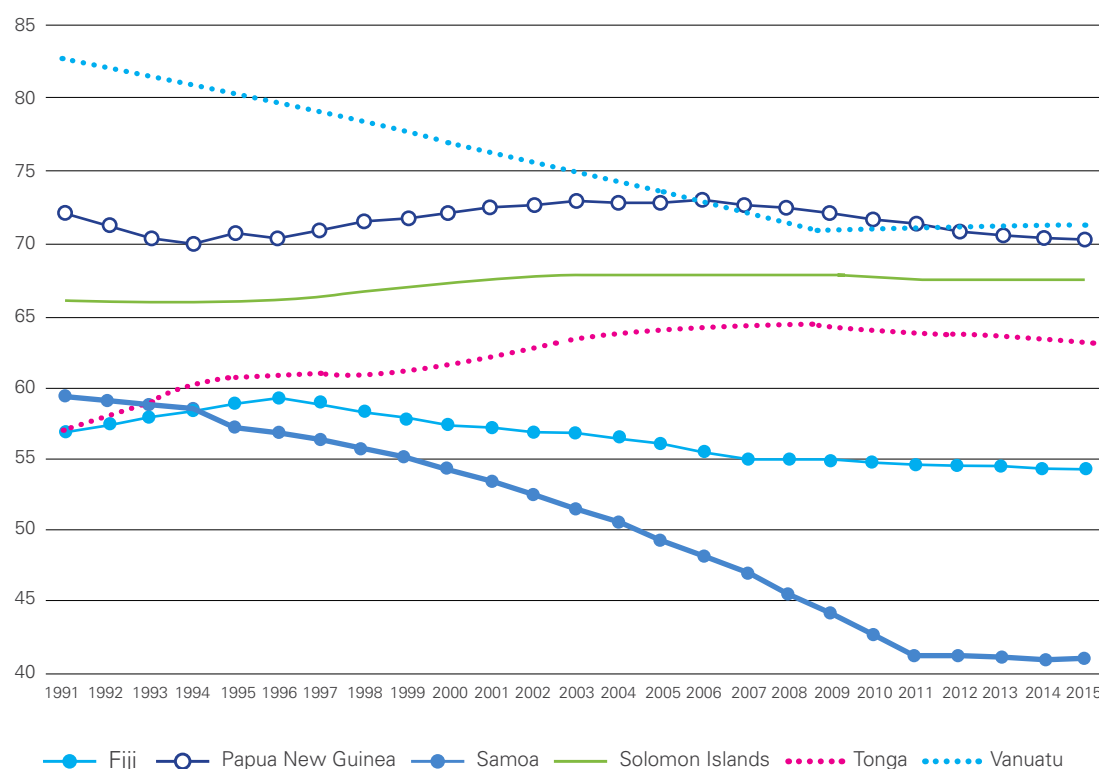
Reliable data on labour force participation and unemployment in small PICs are scarce and often inconsistent. The available information on labour force participation rates is summarized in table A1.1 in the appendix.⁷ The countries with the longest series of original data are Fiji and Vanuatu, which both show a somewhat steady labour force participation rate – around 55 per cent for Fiji and 71 per cent for Vanuatu.

Data for the other countries, however, refer to different years and are clearly outdated, making for a difficult comparison. Nevertheless, there is a grouping of countries that hover around a 70 per cent labour force participation rate – Cook Islands, Palau, Papua New Guinea and Vanuatu – as well as a grouping at around 50 per cent – Fiji, Federated States of Micronesia, Samoa, Solomon Islands and Tuvalu. Kiribati has an extreme decreasing pattern. Finally, there is no information for the Marshall Islands, Nauru or Tonga.

⁷ The data for table A1.1 in the appendix come from the ADB (2016), compiling different sources, including the KILM database (compiled by the ILO, <http://www.ilo.org/kilm>) and the NDMI (National Minimum Development Indicators, version 2.0, http://www.spc.int/nmdi/labour_force). The original sources correspond to household surveys, sometimes restricted to formal and/or urban employment, and censuses.

Generally, there is a regional pattern of decreasing labour force participation. Using the country data from ILO (2016b), figure 1.11 shows a reconstructed series for Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu.⁸ There is a clear pattern showing decreasing rates, although two countries – Solomon Islands and Tonga – have sustained stability. This trend may be because population growth rates have been higher than the growth of labour forces in some countries, such as Papua New Guinea and Samoa.

Figure 1.11: Evolution of labour force participation rates in PICs (1991–2015)



Source: ILO (2017b).

⁸ In order to fill in the information gaps, this analysis uses country data from the report ILO (2017b). This source includes estimates. Due to the small amount of original information, some estimates for small countries are only reliable to show trends and to build regional aggregates. For more information on the methodological technicalities of the WESO country data, refer to the following note: <http://www.ilo.org/ilostat-files/Documents/ILO%20estimates%20and%20projections%20methodological%20note.pdf>

Unemployment varies, but is generally stable...

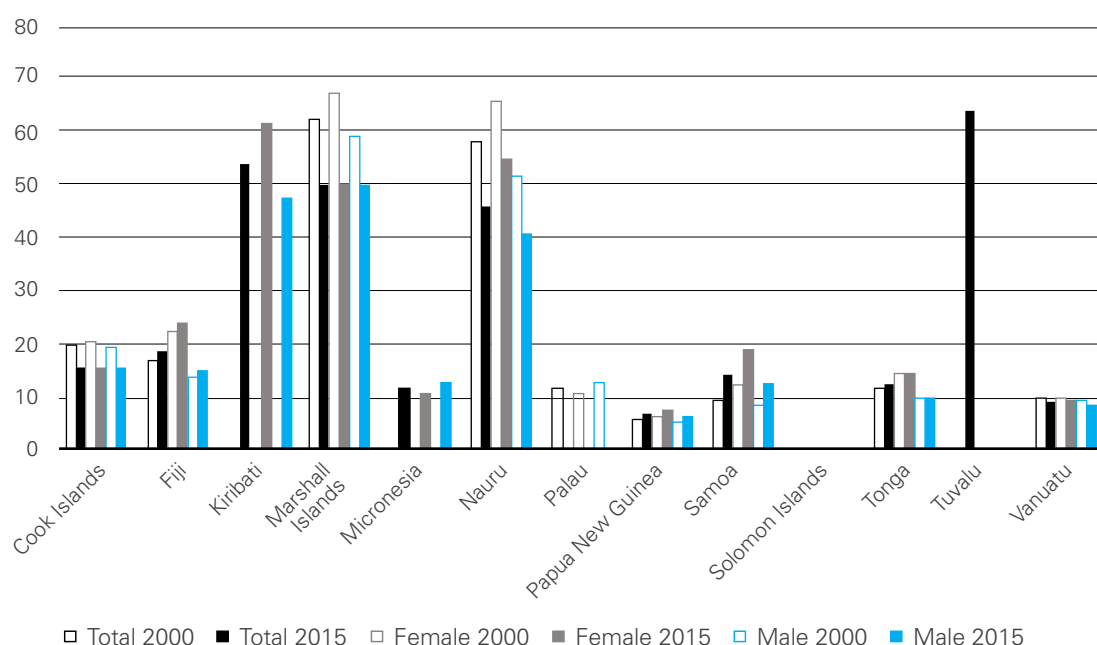
Unemployment rates vary throughout the region. On one hand, the Marshall Islands, Kiribati and Tuvalu report unemployment rates that top 30 per cent in the latest available year. On the other end are Palau, Tonga and Vanuatu, which all report unemployment rates below 7 per cent, and Papua New Guinea, with only a 1.4 per cent unemployment rate. Fiji may be included in this last group, although the unemployment rate has usually hovered above 7 per cent. Like information on the labour force participation rate, Fiji and Vanuatu are the only countries with a long series of available data for unemployment rates. In Fiji, the evolution roughly follows the period of the global economic downturn in the late 2000s, while the pattern in Vanuatu is fairly stable, holding at around 4.3 per cent since 2011 (ADB, 2016c).

Again, it is difficult to follow a clear pattern beyond the effects of the recession. However, using country data from ILO (2017b), it is possible to reconstruct data for Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu. There is no clear trend beyond increases in unemployment rates in Fiji and Samoa during the recession. In most countries, the unemployment rate is somewhat stable.

... but youth unemployment is high, especially for females.

However, levels of youth unemployment are high in small PICs. Figure 1.12⁹ shows that the unemployment rates among people aged 15 to 24 are much higher than for the overall active population. Countries like Kiribati, the Marshall Islands, Nauru and Tuvalu have youth unemployment rates that rise above 50 per cent. This problem is most severe for females. There is no clear trend showing changes to the differences in unemployment rates between females and males between 2000 and 2015.

Figure 1.12: Unemployment rates for young people (15–24 years old) in PICs, by gender (2000 and 2015)



Source: ADB (2016); ILO (2016); data for Cook Islands, Kiribati, the Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga and Tuvalu from Secretariat of the Pacific Community (SPC, 2017).

⁹ The data used in figure 1.12 come from table A1.2 in the appendix.

For Pacific policy-makers, this represents both a crisis and an opportunity.

Populations in the Pacific Islands are young and growing. In most of the PICs, more than half the population is younger than 24 years of age (see table 1.9). At the same time, countries in the region have a rate of natural increase¹⁰ of 19.5 per cent throughout 2010–2015 (see table 1.10); in comparison, this rate was 6.8 per cent over the same period in Australia and New Zealand.

This “youth bulge” could be a significant comparative advantage with respect to ageing countries like Australia and New Zealand, where the share of the population aged 60 and older is more than double than in the average Pacific Island nation (see table 1.9). However, to take advantage of this demographic dividend, policy-makers need to address what is a crisis in youth unemployment by creating job opportunities for the Pacific’s young workers.

Table 1.9: Shares of young and ageing people in the population in the Pacific, estimates and projections

	Population aged 0–24 (%)		Population aged 60 and above (%)	
	2015	2050	2015	2050
Oceania	38.4	33.3	16.5	23.3
Australia/New Zealand	32.3	28.9	20.4	28.5
Melanesia	55.4	43.9	5.8	11.1
Fiji	45.9	35.7	9.3	19.9
Papua New Guinea	56.9	44.8	5.1	10.0
Solomon Islands	59.2	45.5	5.2	10.8
Vanuatu	54.9	42.2	6.5	14.2
Micronesia	48.0	36.6	9.7	19.3
Kiribati	54.8	44.7	6.1	12.0
Micronesia (Federated States)	57.8	40.7	7.5	12.2
Polynesia	48.3	36.7	9.8	20.4
Samoa	56.7	45.2	7.9	14.1
Tonga	56.6	45.1	8.2	12.9

Source: UN (2015).

¹⁰ The rate of natural increase is the crude birth rate minus the crude death rate. It is an indication of the degree to which a population is naturally growing, without taking migration into account.

Table 1.10: Key statistics on population structure in the Pacific: Old-age dependency ratio and rate of natural increase

Old-age dependency ratio	2000	2005	2010	2015
Australia - New Zealand	23.1	24.0	25.2	28.5
PICs	9.8	10.3	10.6	11.4

Rate of natural increase (%)	2000–05	2005–10	2010–15
Australia - New Zealand	6.2	7.3	6.8
PICs	22.6	21.2	19.5

Source: UN (2015).

Demographic trends will see youth unemployment persist...

The inclusion of youth in the labour market is a critical issue. Already disadvantaged, the Pacific's young workers face high levels of unemployment and few career opportunities. Each year, the number of new entrants in the labour market outpaces the number of new jobs created in the formal sector. There are simply not enough new jobs to employ young Pacific Islanders entering the workforce.

According to the report *State of Pacific Youth 2011* (Curtain et al., 2011), two distinct sets of problems must be addressed: Even educated youth have difficulty finding available jobs, and other youth lack the skills and literacy required to compete.

On one hand, young educated people lack employment opportunities, while there are few services in place to help connect them with these rare jobs. The frictions in the labour market make it difficult to transition from education to employment. There is little career counselling in school, leaving young jobseekers to rely on their own limited networks to find work. Hence, the share of youth not in employment, education or training – a broad measure of untapped youth potential known as the NEET rate – is still high. In Samoa, for example, 41.1 per cent of people between the ages of 15 and 24 were in this category (ILO, 2017b). It is known that long periods of inactivity or unemployment seriously hinder the future employability of young workers.

On the other hand, a large proportion of youth in the Pacific find themselves excluded from formal jobs due to a lack of literacy. Many are school-leavers who have not learned the required skills to be competitive in a labour market where jobs are already scarce. In Papua New Guinea in 2015, an estimated one in three people aged 15 to 24 were illiterate.¹¹ This is a major barrier to escaping poverty and moving up the social ladder.

¹¹ In 2015, there were an estimated 501,511 people considered to be illiterate among people aged 15–24, out of an estimated 1,504,000 people in this age group (UNESCO-UIS, 2017).

... which raises important questions for tomorrow's societies.

Given estimates of population size and formal employment, the PICs are likely to face a persistent excess labour supply in the coming years. This is particularly true in the Melanesian countries, apart from Fiji, and in the Marshall Islands (Duncan and Voigt-Graf, 2008). As the average age of Pacific Islanders rises, governments will have to enact reforms to address the needs of an increasingly elderly population. However, high unemployment rates pose pressing questions about social protection and intergenerational solidarity. Governments, donors and regional agencies must work hand in hand to find comprehensive solutions. They should start seeing youth-related problems not as isolated issues, but matters that concern society as a whole. From this perspective, the State of Pacific Youth report suggests that regional organizations like the Secretariat of the Pacific Community (SPC) set up a regional fund to finance investments in education and health. Career guidance and enhanced training for school-leavers will also help young people escape inactivity.

The region has made little progress on reducing gender inequality.

Gender inequality is a critical issue in the Pacific Islands, where there has been little progress in reducing inequities in labour markets – or societies as a whole. In the World Bank's Country Policy and Institutional Assessment index (CPIA) on gender equality, most countries in the region score at or below the global average (see table 1.11). Results are similarly disappointing in the Economist Intelligence Unit's Women's Economic Opportunity Index, which considers a set of legislation, practices and customs that enable women to participate equally in the labour market. With the exception of Fiji, Pacific countries ranked very poorly in the 2012 index, when six countries in the region were considered for the first time. Solomon Islands and Papua New Guinea ranked 125th and 126th, respectively, out of 128 total countries – lower than all sub-Saharan countries except Sudan. The situation is especially worrying in Papua New Guinea, which ranked second-worst in the world on education, with an expectancy of 5.2 years of formal education for girls. According to Human Rights Watch (HRW, 2017), the country is among the most dangerous places in the world to be woman.

Table 1.11: Key gender legislation in the Pacific Islands, latest survey available

Country	CPIA gender equality rating (1=low to 6=high)	Law mandates equal remuneration for females and males for work of equal value	Mothers are guaranteed an equivalent position after maternity leave	Law mandates non-discrimination based on gender in hiring	Legislation exists on domestic violence	Non-pregnant and non-nursing women can do the same jobs as men
Fiji	n.a	yes	yes	no	yes	no
Kiribati	2.5	yes	no	no	yes	no
Marshall Islands	3	no	no	no	yes	yes
Micronesia (Federated States)	2.5	no	no	no	no	yes
Palau	n.a	no	no	no	yes	yes
Papua New Guinea	2.5	no	no	no	yes	no
Samoa	3.5	yes	yes	no	yes	yes
Solomon Islands	3	no	no	no	yes	no
Tonga	3	no	n.a	no	yes	yes
Vanuatu	3.5	no	yes	no	yes	yes
Percentage of countries having the required laws		30	30	0	90	60

Source: World Bank (2015).

This imbalance extends to the labour market.

The numbers show that women face discrimination in the Pacific labour market, where women are less likely to participate, more likely to take up vulnerable jobs and more likely to be poorly protected. Women's participation in the labour market is significantly lower than men's, with a gender gap eclipsing 34 per cent in Fiji and Samoa (see table 1.12). Likewise, they are more exposed to vulnerable employment, leading to inadequate earnings, lack of social protection, low productivity and difficult working conditions (see figure 1.13). At the same time, cultural and legal barriers deny women the same career opportunities as men. None of the PICs have legislation that prohibits gender discrimination in hiring, and only Fiji, Kiribati and Samoa have laws that stipulate equal pay for men and women (see table 1.11).

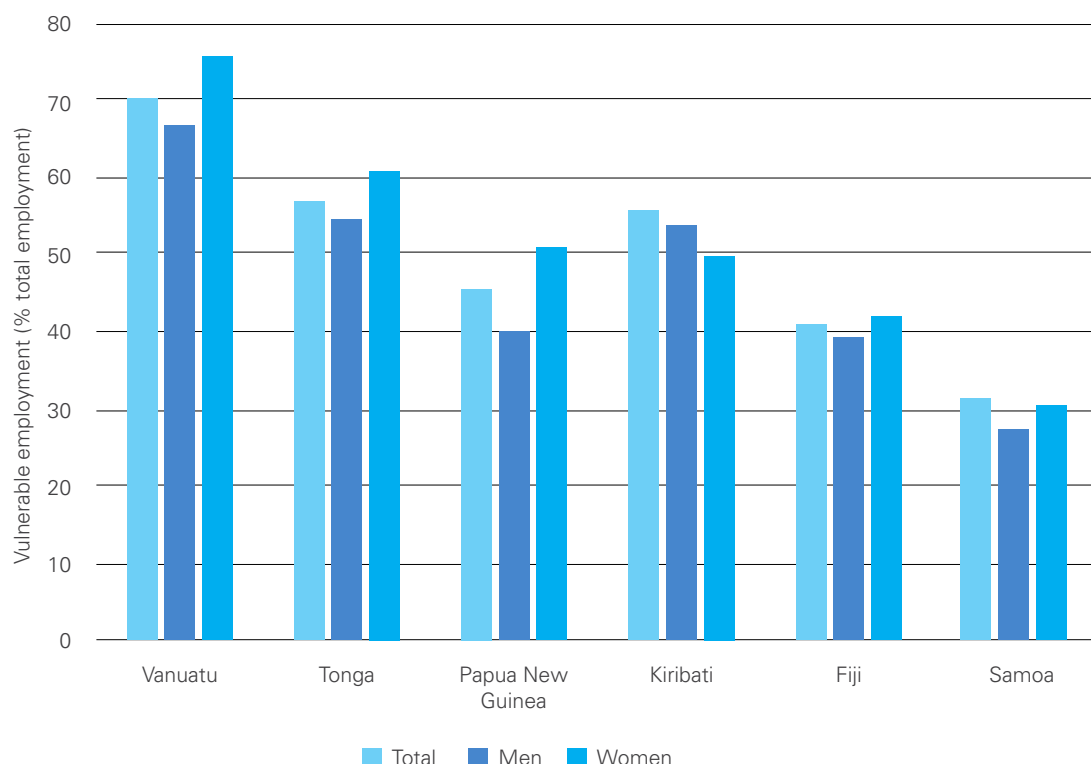
In most countries, there are few provisions for women to combine pregnancy and motherhood with work. It is also harder for women to start their own businesses, as they have limited access to finance. Women are also poorly represented when it comes to management and decision-making positions. Men still hold most higher-level positions in the civil service – the region's largest employer – as well as in the political sphere (Duncan and Voigt-Graf, 2008). For instance, the proportion of seats held by women in national parliaments only averages 5.7 per cent in the region (World Bank, 2017). Young women are also more likely to drop out of school, especially during secondary schooling. This is particularly true for Melanesian countries like Papua New Guinea, Solomon Islands and Vanuatu. It should be stressed that women still endure severe domestic violence and sexual harassment throughout the Pacific Islands (Jalal, 2009), as well as harmful practices like imprisonment for adultery (in Papua New Guinea) or forced marriage as a dispute settlement (in parts of the Melanesia region). Achieving the Pacific's development goals will require improving educational attainments for young women while creating legislation that facilitates women's equal access to the labour market.

Table 1.12: Labour force participation rates and gender gap, selected countries, 2016 (%)

	Total	Men	Women	Gender gap
Fiji	54.3	71.2	37.0	34.2
Papua New Guinea	70.4	71.1	69.6	1.5
Samoa	41.2	58.1	23.2	34.9
Solomon Islands	67.3	73.5	61.1	12.4
Vanuatu	71.0	80.5	61.7	18.8

Source: ILO (2017b).

Figure 1.13: Share of vulnerable employment by gender, selected countries, latest estimates available



Source: ILO (2016).

Notes: Vulnerable employment is defined as the sum of own account and contributing family workers. Estimates for Tonga and Papua New Guinea are for 2016, 2014 for Samoa, 2010 for Kiribati and 2009 for Fiji and Vanuatu.

Pacific Island countries generally have large informal economies.

Informality is, by definition, difficult to quantify. What is clear is that the formal sector in the Pacific Islands represents only a small share of the economy, mainly in public employment. A large informal economy hinders job opportunities and the potential for growth. In most PICs, there are very limited job options in the formal economy for an ever-growing number of jobseekers. This means that new entrants will be steered to the informal economy, worsening the effects of a dual labour market.

Table 1.13: Key labour market statistics, latest figures available

	Working-age population ('000)	Labour force participation rate (%)	Informal employment (%)
Fiji	588	54	60
Kiribati	62	59	n.a.
Marshall Islands	31	41	n.a.
Papua New Guinea	4 678	70	84 (2014)
Samoa	117	41	68 (2012)
Solomon Islands	342	67	85
Tonga	63	64	10
Vanuatu	143	71	40

Source: ILO (2017a); ILO (2017b).

Note: Data on informal employment is from ILO (2017c). Data for working-age population the Marshall Islands is from the 2011 census.

These informal economies leave workers unprotected and discourage businesses from investing in the formal sector.

Workers' protection is weak in the informal economy. Informal enterprises are unable to offer training or educational programs to their employees, while regulations that protect workers in the formal sector do not extend to the informal economy. In short, workers in the informal economy have little in the way of a social safety net or even basic protections.

Additionally, the presence of a large informal economy deters private sector businesses from investing and expanding – it is a strong disincentive to firms that might otherwise help create scarce jobs in the formal sector. According to the World Bank's 2016 enterprise survey, 72.3 per cent of surveyed firms in Papua New Guinea claim to compete against the informal economy (see table 1.14).

Table 1.14: Percentage of firms competing against the informal economy, latest estimates available

Firms competing against unregistered or informal firms	
Fiji	39.6
Papua New Guinea	72.3
Vanuatu	39.9
Samoa	63.6
Solomon Islands	59.7

Source: World Bank Enterprise Survey. See: <http://www.enterprisesurveys.org/>.

Note: Data for Fiji, Samoa and Vanuatu are from 2009. Data for Papua New Guinea and Solomon Islands are from 2015.

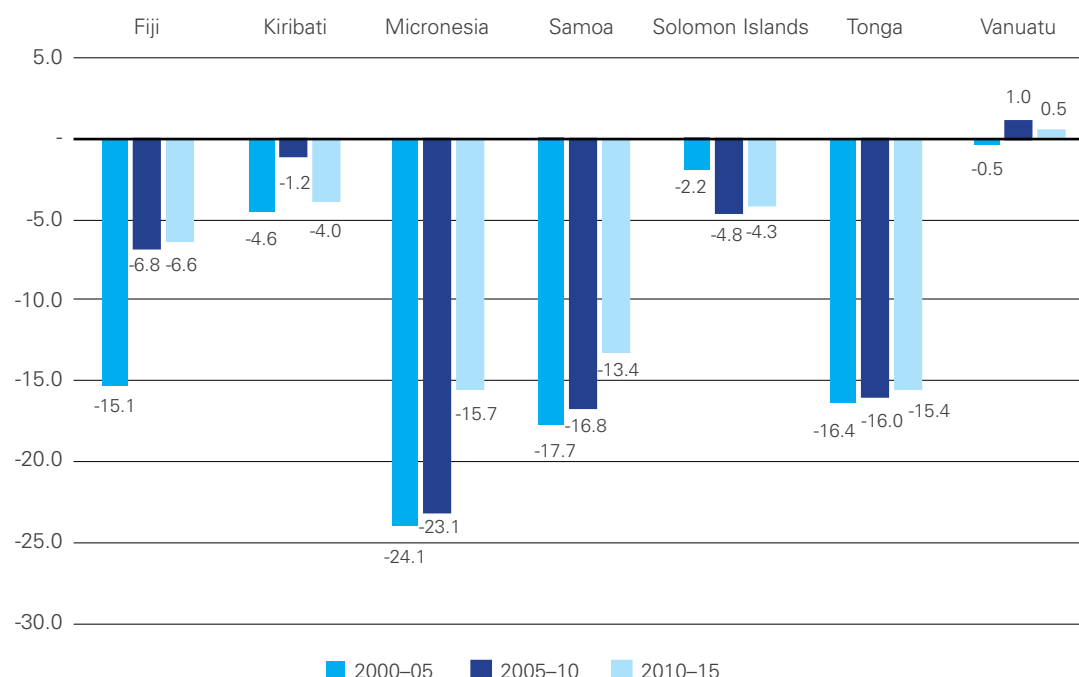
Given the limited number of jobs available in the formal sector, as well as the region's high population growth, it is likely that the informal economy will remain a key source of income for many households in the Pacific Islands. Governments, then, should pursue policies that help workers to build market-relevant skills by accessing short-term training. The goal is to equip workers with the skills needed to join the formal sector.

High migration rates are a distinctive feature of small Pacific Island countries.

Migration has long been a concern for policy-makers in the Pacific. Figure 1.14 shows the net international migration rate for countries that have information available. Almost all the countries listed have negative flows, with the exception of Vanuatu. Therefore, the broader picture for the region is a predominant pattern of emigration. In fact, negative net migration rates among these countries are the largest in the entire Asia and the Pacific region (ADB, 2016b).

Among the countries shown in figure 1.14, Federated States of Micronesia has the largest migration rates, with a peak in 2000–2005 reaching -24.1 per 1,000 people. However, there is a clear decreasing trend for most countries, with lower figures registered in 2005–2010 and 2010–2015. Samoa is the exception, showing an increase in its net rate of international migration, while Vanuatu turned a small negative net rate to a positive net rate.

Figure 1.14: Net international migration rate (annual averages per 1,000 population), for 2000–05, 2005–10 and 2010–15



Source: ADB (2016b); UN (2015); UN (2014); and data query at <https://esa.un.org/unpd/wup/DataQuery/>.

Migration is critically linked to the small size of Pacific Island labour markets...

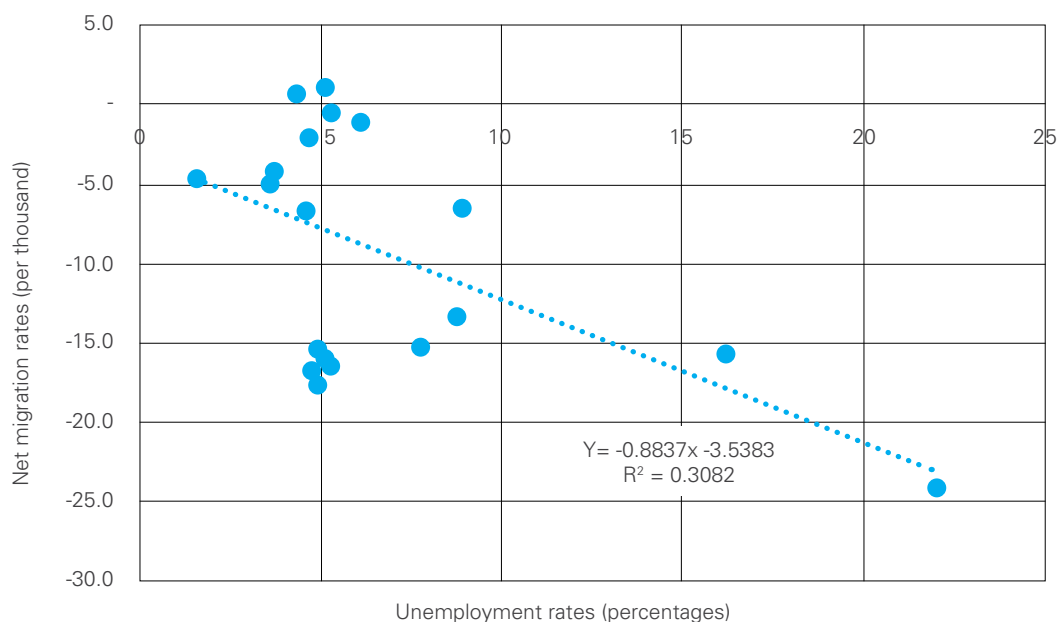
Migration represents a major challenge for labour markets in PICs. There are both positive and negative aspects: Remittances can benefit local economies, but “brain drain” caused by the departure of skilled and educated workers is a detriment. Increasingly, migration is also linked to the consequences of climate change. In subsequent chapters, this report will examine the impacts of climate change and migration in greater detail. However, there is one important element to note here: the role of migration amid the size of Pacific labour markets.

For many nations in the region, their very nature is the biggest obstacle: size. A small island country is usually home to a small economy, which comprises a small labour market. The size of a labour market is important, because it becomes more difficult to match jobs and skills in a smaller market. Additionally, these are labour markets situated amid sets of islands. There is a high cost to moving across a fragmented territory in search of the optimal job. Sometimes, these costs will be high enough that the cost of a worker moving to an entirely different country can be comparable.

... because small labour markets lead to skills mismatches and higher unemployment...

A small labour market often means fewer opportunities for workers, but also higher costs for firms, who struggle to fill job vacancies amid a market's skills shortage. The impacts of a skills mismatch in the labour market are twofold. It results in poor productivity due to the low quality of job matching between jobseekers and vacancies. A mismatch also results in higher unemployment, because of the lack of suitable jobs on one side, and a shortage of qualified workers on the other. Figure 1.15 shows how there is a significant association between net migration rates and unemployment rates. For example, an increase of 5 percentage points in the unemployment rate is associated with an increase of 4.4 in net international migration (per thousand people).

Figure 1.15: Unemployment rates (per cent) and net international migration rates (per cent) for small PICs with available information (Fiji, Kiribati, Federated States of Micronesia, Samoa, Solomon Islands, Tonga and Vanuatu)



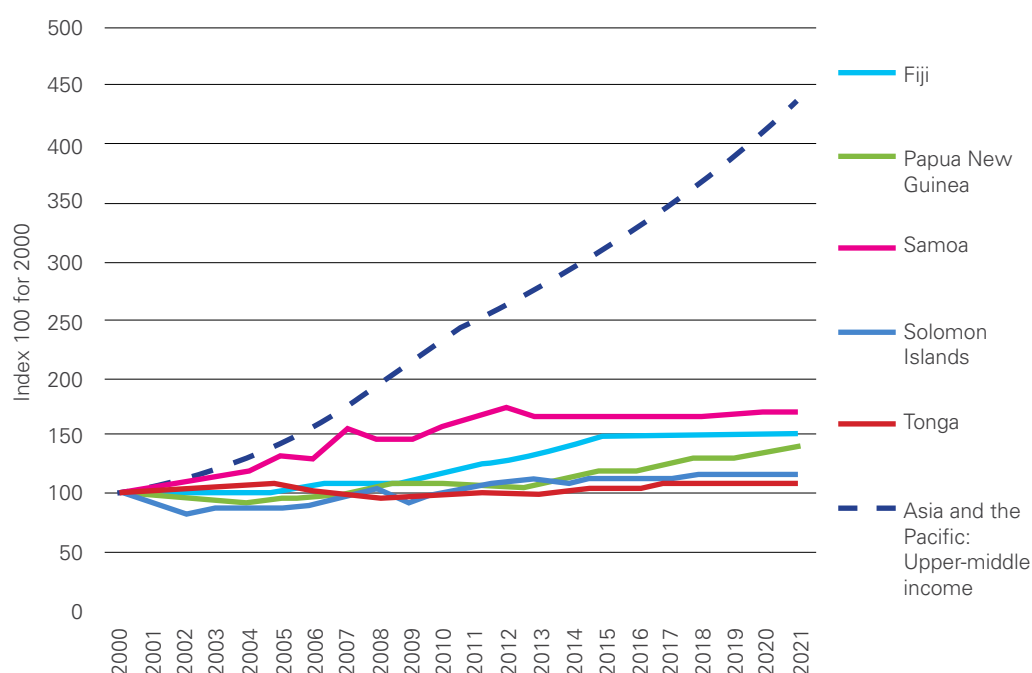
Note: Unemployment rates refer to 2000, 2005 and 2010, while the net international migration rates correspond to 2000–2005, 2005–2010 and 2010–2015. Countries with available information: Fiji, Kiribati, Federated States of Micronesia, Samoa, Solomon Islands, Tonga and Vanuatu. Data for unemployment rates come from: ADB (2016) for Fiji, Kiribati, Federated States of Micronesia, Samoa (2000) and Vanuatu; from ILO (2017b) for Samoa (2005 and 2010) and Tonga; and from ILO (2016) for Solomon Islands. Data for the net international migration rates are those of figure 1.14.

Box 1.2

Exploring the links between education, skills and foreign workers

Adequate education and skills can improve the employability of workers, the productivity of firms and the inclusiveness of economic growth. In the Pacific Islands, there is a pervasive skills mismatch, which can be partly attributed to education issues among its workforce. In most countries of the region, there is a shortage of skilled workers and an oversupply of unskilled ones. Productivity – as measured by output per worker – is low, while gains in productivity have been very modest, especially compared to upper-middle income countries in Asia and the Pacific (see figure 1.16).

Figure 1.16: Changes in labour productivity in PICs, estimates and projections



Source: ILO, 2017b.

Note: Labour productivity is defined as output per worker (GDP constant 2005 US\$).

Table 1.15: Net enrolment rates for primary and secondary education in PICs, 2000–14

Net enrolment rate, both sexes (%)

Primary	2000	2007	2008	2009	2010	2011	2012	2013	2014
Samoa	89.3	98.4		98.3	95.4	93.8	94.8		96.1
Fiji	92.7	96.3	96.8	97.0		96.6	96.6	95.1	
Secondary									
Samoa	64.5			79.9	80.5	80.0	79.7		79.5
Fiji	72.3	81.4		80.6		84.7	83.4		
Solomon Islands	18.9	31.0			43.0	41.4	42.2		

Source: UNESCO-UIS (2017).

Government expenditures are substantial – between 3.5 and 6 per cent of GDP is spent on education. Enrolment in primary education is high, but improvements are needed in secondary and tertiary education (see table 1.15). In some countries, the proportion of adolescents out of school is high. In Tuvalu, for instance, out-of-school adolescents accounted for 13.5 per cent of people at a lower-secondary school age in 2014; this proportion reached 18.9 per cent for males (World Bank, 2017). In the Marshall Islands in 2011, only 3.7 per cent of the population aged 25 and older had attained or completed a bachelor's degree or equivalent – this dropped to 2.7 per cent for women – while less than 1 per cent had attained a master's degree or equivalent. In Kiribati, Solomon Islands and Vanuatu, the share of workers with post-school qualifications stands at less than 5 per cent in the formal sector (see table 1.16). This can be partly explained by difficulties in accessing university and training institutions in this region, as it can be hard for students living in remote islands to move to urban centres.

Table 1.16: Education and employment distribution in PICs, latest figures available

Country	Share of formal sector labour force with post-school qualification (%)	Year	Total number in formal sector
Fiji	23.5	2011	314 382
Kiribati	4.2	2010	28 747
Marshall Islands	14.2	2011	1 2312
Papua New Guinea	28.2	2011	360 732
Samoa	45.7	2011	22 274
Solomon Islands	4.4	2009	91 282
Tonga	20.9	2011	27 799
Tuvalu	25	2012	2 763
Vanuatu	5	2009	64 929

Source: Curtain et al. (2016).

Consequently, businesses turn to foreign workers to fill jobs when they fail to find the requisite qualifications among the local labour force. Furthermore, a lack of job opportunities for graduates in the formal sector fuels brain drain, reinforcing the skills mismatch. Recent estimates show that 58 per cent of workers in Samoa considered themselves overeducated for the occupations available. Tonga and Federated States of Micronesia are among the countries with the highest rates of brain drain in the world (Gibson and McKenzie, 2012).

... which, in turn, lead to migration: a short-term solution to a larger problem.

Migration becomes an immediate answer to workers faced with the prospects of unemployment in their home countries. The short-term benefits are obvious: income for workers, and an alleviation of pressures on local labour market mismatches and unemployment. From a broader social perspective, however, migration is not a definitive solution to the problem of skills mismatches.

The reality is that the impacts of labour migration are not a new issue in the region. Various approaches have often focused on how to guarantee the safe movement of people across borders, and to properly manage the flow of remittances. However, the prospects of brain drain are a common worry in regional discussions on migration. This chapter so far has linked the small sizes of Pacific Island labour markets with skills shortages, unemployment and, eventually, out-migration. Following the above reasoning, brain drain is also a result of a small labour market, because a rational individual facing a lack of adequate jobs matching her training or educational level is likely to move to another country where she can find suitable work (see Chapter 4).

This section has shown that discussions on migration must be connected to the small sizes of individual labour markets across the South Pacific. Pacific migration, then, is not only a movement of workers toward a handful of net receiving countries like Australia, New Zealand and Republic of Korea. Migration is also the product of gross inflows and outflows among the Pacific Island nations themselves. These flows represent individual workers looking for better opportunities, as well as businesses trying to find the right worker for a vacancy. Small size is a key feature of these labour markets and must be considered as part of any labour market strategy for the region – including labour market reforms.

C. Concluding remarks

This chapter has shown how size and remoteness have obstructed economic growth and limited positive labour market outcomes in many PICs. The region has struggled to sustain growth, while individual countries have stumbled in trying to leverage existing resources and strengths into a proper export-led growth model. A heavy dependence on fuel and food imports, as well as overseas aid and remittances, means that countries are vulnerable to short-term fluctuations across the globe, whether market-based or political. While development in the industrial sector has been uneven, the region's booming tourism industry has been a jobs catalyst and represents a clear opportunity for future growth and poverty alleviation. Successfully targeting key agricultural niches could also unlock new market opportunities, while crucial improvements to transportation infrastructure will boost connectivity and give the region's industries a better chance to thrive.

Meanwhile, a very young and growing population is both an opportunity and a concern: countries in the Pacific stand to benefit from a demographic dividend, but labour markets are simply not producing enough jobs to accommodate all the young people entering the workforce each year. This has pivotal repercussions for the future, as current trends already foreshadow a high degree of unemployment among this disadvantaged demographic – particularly young women. Similarly, gender inequality persists throughout the region. This imbalance extends to the labour market, where women are more likely to take up vulnerable work and less likely to participate fully in the first place. The prevalence of the informal economy is a particular worry, and with it a shortage of decent jobs and social safety nets. These labour market challenges have pushed Pacific Islanders to migrate in high numbers. While migration can have short-term benefits, it also points to the larger problem of skills mismatches and job shortages.

The remainder of this report spotlights specific institutions and policies that play a crucial role in labour market outcomes, before looking ahead to broader issues that will pose challenges to the region's economies. Labour market institutions are important tools that guide the relationship between workers and employers. Chapter 2 explores how countries have adapted three main pillars – employment protection legislation, minimum wage and labour organization – into their labour markets, underscoring the importance of careful consideration when it comes to reforms.

Public employment services, meanwhile, are intermediaries that help connect jobseekers with employment opportunities. These services can also help build market-relevant skills among a young and untrained workforce. This introductory chapter has already shown how skills mismatches in Pacific labour markets have made it difficult for young workers to find appropriate jobs, and for employers to fill open positions. Chapter 3, then, takes an in-depth look at public employment services in two key countries – Fiji and Papua New Guinea – before proposing measures to target disadvantaged jobseekers and meet the needs of employers.

Chapter 4 explores the important issue of migration from a policy perspective. It underscores the principle that migration policy can be used to benefit all participants, and that sending countries have the power to better capitalize on overseas migration and to mitigate its long-term costs. Chapter 5 then looks ahead to the transformations unfolding in labour markets throughout the world, examining their profound implications for the very future of work in PICs. With this in mind, Chapter 6 offers policy considerations aimed at improving labour market outcomes and striving for the ambitious targets of the Sustainable Development Goals (SDGs). In many ways, the challenges facing Pacific Island economies are enormous. With careful consideration, however, policy-makers have the power to lay the foundations for more inclusive and sustainable labour markets.

Appendix

Table A1.1. Labour force participation and unemployment rates in PICs

Labour force participation rate	2000		2005		2010		2011	2012	2013	2014	2015
Cook Islands	69.0	(2001)	70.2	(2006)	...		71.0	...	...	...	...
Fiji	57.4		56.2		54.9		54.8	54.7	54.6	54.4	54.3
Kiribati	80.9		63.6		59.3		...	...	...	...	...
Marshall Islands	...		...		...		...	...	...	...	...
Micronesia (Federated States)	58.6		...		57.3		...	...	...	...	...
Nauru	...		...		...		...	...	...	...	...
Palau	67.5		69.1		...		...	68.1	...	...	77.4
Papua New Guinea	72.2		72.9		71.7		71.3	70.8	70.6	70.3	70.3
Samoa	50.6	(2001)	49.8	(2006)	...		41.3	...	...	...	...
Solomon Islands	...		...		62.7	(2009)	...	...	...	...	...
Tonga	...		...		...		...	...	...	...	...
Tuvalu	58.2	(2002)	...		...		...	59.4	...	...	...
Vanuatu	77.0		73.6		71.0		71.1	71.1	71.1	71.0	71.0
Unemployment rate	2000		2005		2010		2011	2012	2013	2014	2015
Cook Islands	13.1	(2001)	8.9	(2006)	...		8.2	...	...	...	...
Fiji	7.8		4.6		8.9		9.0	9.0	9.4	8.3	7.7
Kiribati	1.6		6.1		30.6		...	...	...	...	...
Marshall Islands	30.9		30.9		...		*	32.6	...	...	...
Micronesia (Federated States)	22.0		...		16.2		...	...	...	...	...
Nauru	22.7	(2002)	...		...		22.9	...	...	...	...
Palau	2.3		4.2		...		...	4.1	...	...	...
Papua New Guinea	...		...		...		1.4	...	...	...	...
Samoa	4.9	(2001)	...		...		5.7	...	...	...	...
Solomon Islands	...		...		6.3	(2009)	...	...	...	...	...
Tonga	...		...		...		6.4	...	...	...	...
Tuvalu	6.5	(2002)	6.5		...		...	39.6	...	...	...
Vanuatu	5.3		5.1		4.3		4.3	4.3	4.3	4.5	4.3

* In ADB (2016), the figure reported for the Marshall Islands in 2011 is 3.2, which is clearly inconsistent with the rest of the years.

Source: ADB (2016b); economy sources; ILO (2016); for the Cook Islands, Kiribati, the Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Tuvalu: SPC (2017).

Table A1.2. Youth unemployment rates (15–24 years old) in PICs

	Total		Female		Male	
	2000	2015	2000	2015	2000	2015
Cook Islands	19.9 (2006)	15.5 (2011)	20.4 (2006)	15.3 (2011)	19.4 (2006)	15.6 (2011)
Fiji	17.0	18.2	22.4	23.9	14.0	14.8
Kiribati	...	54.0 (2010)	...	61.8 (2010)	...	47.6 (2010)
Marshall Islands	62.6 (1999)	50.0 (2011)	67.0 (1999)	50.0 (2011)	59.8 (1999)	50.0 (2011)
Micronesia (Federated States)	...	11.3 (2010)	...	10.4 (2010)	...	12.2 (2010)
Nauru	58.2 (2006)	45.5 (2011)	65.9 (2006)	54.4 (2011)	51.7 (2006)	40.7 (2011)
Palau	11.9 (2005)	...	10.5 (2005)		12.8 (2005)	
Papua New Guinea	5.8	6.7	6.3	7.1	5.3	6.2
Samoa	9.5	14.1	12.4	18.7	8.3	12.4
Solomon Islands	...	...	...	...	...	...
Tonga	11.4	11.7	14.6	14.6	9.6	9.7
Tuvalu	...	63.7 (2012)	...	...	...	...
Vanuatu	9.7	8.8	10.1	9.4	9.3	8.3

Source: ADB (2016b); ILO (2016); SPC (2017); SPC (2004).

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CHAPTER 2

LABOUR MARKET INSTITUTIONS IN THE PACIFIC

Introduction

Low economic growth rates and soaring debt burdens continue to challenge countries around the world, particularly in the aftermath of the financial and economic crisis. For some policy-makers, deregulating the labour market was seen as one way of stimulating job creation and growth. Some countries, particularly developing economies, have also been tempted to weaken labour standards as part of a competition to entice lucrative foreign direct investment. However, labour market institutions form the backbone of how workers are protected and their rights to advocate for themselves. Labour market reforms have often been framed as a trade-off between worker protection and economic growth. However, there is another path forward: emphasizing a collectively negotiated level of regulation that protects workers without impeding economic efficiency and growth.

This chapter focuses on three of the main pillars of labour market institutions: employment protection legislation, minimum wage and labour organization. The analysis begins in Section A, which explores existing levels of employment protection legislation and their impacts. Section B examines minimum wage, which has become the cornerstone of labour market institutions in many PICs. Section C looks at the uneven role of labour organization in the region. In small Pacific Island nations, the scope and effectiveness of these institutions has been shaped by unique histories. An understanding of this history is crucial when considering policy changes. In this light, Section D offers recommendations while underlining the importance of assessing potential reforms through the lens of a meaningful social partnership.

A. Employment protection legislation (EPL)

Employment protection legislation, or EPL, includes regulatory tools policy-makers can use to safeguard workers' rights. They are rules covering how employees are hired and dismissed. As such, EPL is also arguably the most divisive aspect of the debate over labour market reforms. Well-functioning EPL balances the need to provide income security and fair treatment to workers, while also giving businesses the flexibility to adjust employment levels based on market fluctuations and demand.

Levels of employment protection legislation are generally not strict, but this varies through the region.

Tables A2.1 to A2.3 in the appendix present a comparison of available indicators on labour market regulations, taken from the *Doing Business* report, which is prepared annually by the World Bank. The data correspond to the service sector and to the main city of each country.¹ The fields of labour market regulation covered are: hiring, redundancy rules, redundancy costs, working hours and job quality.

¹ According to the methodology of the *Doing Business* report, the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and the worker is not member of a trade union (unless membership is mandatory). The business is a limited liability company (or equivalent) with 60 employees, operating in the economy's largest business city. It is subject to collective agreements when agreements cover at least half the food retail sector. It abides by every law and regulation but does not grant more benefits than those mandated by law or collective agreements. These considerations are intended to make the data comparable across economies.

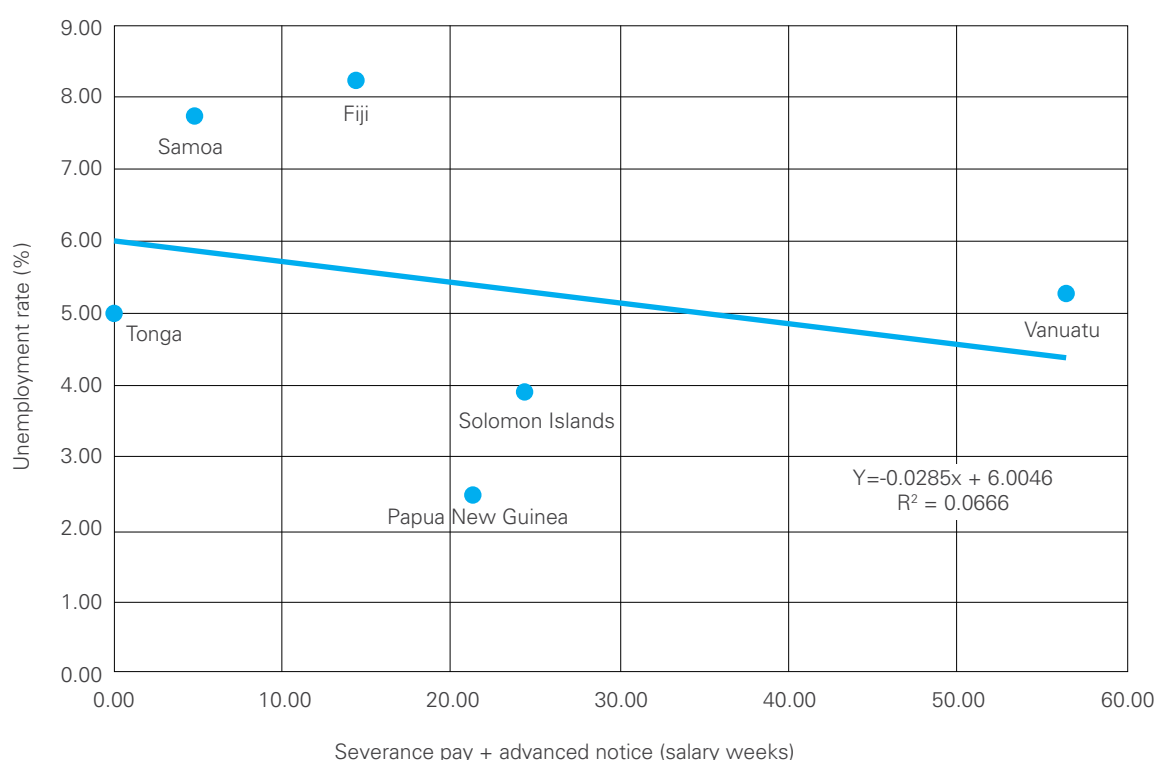
Redundancy regulations have long been the most controversial aspect of EPL. Table A2.1 in the appendix compiles rules on redundancy and severance payments in selected PICs. Generally speaking, neither redundancy rules nor redundancy payments are particularly stringent in these countries.

Redundancy rules and severance payments are not burdensome to most Pacific employers...

As Jones and McGavin (2015) remark, some employer surveys show that EPL does not represent a pressing concern for employers in these countries. In addition, these rules and payments apply to the formal sector; they are not enforced in the informal economy.

Combined with extremely loose regulations on the use of temporary contracts, the costs and rules on redundancies appear not to be overly burdensome for the average business in PICs. Using data, it is possible to explore the correlation between redundancy costs, including advance notice periods and severance pay, as well as the unemployment rate. Figure 2.1 shows that this association is rather low and, although inverse, hardly significant.

Figure 2.1: Adjustment costs (severance pay plus advance notice) for workers with ten or more years of seniority, and unemployment rates in PICs



Source: Adjustment cost data are taken from table A2.1 (which is a summary of data from *Doing Business* 2017). Unemployment rate data, with the exception of Solomon Islands, come from country data found in ILO (2017). These figures may include estimates. See methodological notes in the following link: <http://www.ilo.org/ilostat-files/Documents/ILO%20estimates%20and%20projections%20methodological%20note.pdf>. The unemployment rates for the Solomon Islands have been taken from ILO (2016).

... but they could be restrictive in certain countries if applied to the whole economy.

Although the data show that there is no relationship between adjustment costs and an economy's unemployment rate, these costs may still represent a burden in specific cases.

For workers with ten or more years of seniority in Papua New Guinea (as in figure 2.1), the total adjustment costs, including severance pay plus the costs of advance notice, reaches 21.3 salary weeks. In Solomon Islands, adjustments costs for a similar worker add to 24.3 salary weeks, or about six months' pay. In Vanuatu, the figure is 56.3 salary weeks – more than an entire year of salary. By comparison, adjustment costs in Vanuatu are similar to the maximum severance payments for fair dismissals in a high-income economy like Spain (Malo, 2015). These costs may well be affordable in the formal sector, but they are unlikely to be realistic if applied to the informal economy, particularly in small and medium-sized businesses.

Among the three main countries of this study, Fiji has the most detailed regulations on redundancy rules, while Palau and Papua New Guinea merely allow redundancy dismissals but do not cover other associated issues with legal regulations. Palau has no provisions for severance payments, while Fiji and Papua New Guinea do. Please refer to table A2.1 in the appendix for more detailed information.

There are few limitations on the use of temporary contracts...

There are almost no limitations on the use of fixed-term contracts throughout the region. In particular, no country prohibits the use of fixed-term contracts for permanent tasks, and there is no limit to the maximum length of renewed temporary contracts. Among the nine countries analysed in table 2.1, the only difference in contract policies relates to the maximum length of a single temporary contract. Palau regulations cap these fixed-term contracts at 24 months, while Papua New Guinea allows for 24- and 36-month contracts.² In Vanuatu, the limit is 36 months. However, these legislated caps are essentially irrelevant, as there are no limits on the number of times a temporary contract can be renewed.

Table 2.1: Labour market regulations on fixed-term contracts in PICs

	Fiji	Kiribati	Marshall Islands	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Vanuatu
Fixed-term contracts prohibited for permanent tasks?	No	No	No	No	No	No	No	No	No
Maximum length of a single fixed-term contract (months)	No limit	No limit	No limit	24	24 / 36	No limit	No limit	No limit	36
Maximum length of fixed-term contracts (including renewals)	No limit	No limit	No limit	No limit	No limit	No limit	No limit	No limit	No limit

Source: World Bank (2017).

Note: According to the methodology of the report, the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and the worker is not member of a trade union (unless membership is mandatory). The business is a limited liability company (or equivalent) with 60 employees, operating in the economy's largest business city. It is subject to collective agreements when agreements cover at least half the food retail sector. It abides by every law and regulation but does not grant more benefits than those mandated by law or collective agreements. These considerations are intended to make the data comparable across economies.

² In Papua New Guinea, the maximum length for written contracts is 24 months when the employee has no dependents. It is 36 months if the employee has dependents. For more information, see: http://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=en&p_isn=54778.

... while rules on working hours are lax...

Most small PICs have a standard work day consisting of eight hours, with the exception of Solomon Islands, which considers nine hours to be standard. Most countries listed in table A2.2 in the appendix allow six maximum working days per week, but Kiribati, the Marshall Islands and Palau allow seven.

Apart from overtime work, it is not common to have regulations covering mandatory extra pay for work performed outside standard hours. Only Fiji has a mandated premium for night work – 4 per cent on top of hourly pay. Samoa and Vanuatu mandate 100 per cent and 50 per cent on top of hourly pay, respectively, for working on the weekly rest day. Only Samoa and Tonga have restrictions on weekly holiday work. These restrictions on working hours can be considered “soft regulations”, since they are not at all restrictive.

... and gender equality is not a major consideration.

PICs have a mixed record on including gender issues as part of their legal regulations on labour markets. None of the countries surveyed in table A2.3 in the appendix have regulations that explicitly cover gender discrimination in the hiring process. Only three countries – Fiji, Kiribati and Samoa – have explicitly regulated equal pay for work of equal value. At the same time, most countries surveyed have laws that mandate paid or unpaid maternity leave; the Marshall Islands, Palau and Tonga do not. Fiji, Kiribati and Vanuatu mandate 84 days as a minimum length for maternity leave – the highest among the countries surveyed.

In terms of job quality, around half of the selected countries have five fully paid days of sick leave a year: Fiji, Papua New Guinea, Samoa, Solomon Islands, and Vanuatu. The same set of countries have different paid annual leaves for workers with at least one year of tenure, starting from ten working days.

Finally, none of the selected countries have unemployment protection after one year of employment.

Box 2.1

EPL and labour market reforms in developing economies: A review of empirical evidence

The most debated field in labour market reforms may well be the subject of EPL. A review of academic literature on this subject provides little evidence that EPL has a substantial effect on employment and unemployment rates. However, there is more convincing evidence about its impacts on employment and unemployment flows (Messina and Vallanti, 2007). Less stringent EPL tended to increase flows from employment to unemployment and vice versa. At the same time, some reforms increased flexibility at the margins of the labour market. For example, policies that facilitated the use of temporary contracts allowed new entrants into the labour market, which created a sort of dual labour market (Saint-Paul, 1996).

More recent research has examined the effects of EPL in developing economies. Djankov and Ramalho (2009) found that countries with more stringent employment laws tended to have a larger informal economy and higher unemployment, especially among young people. Feldmann (2009) also found negative impacts on unemployment. However, others have reached different conclusions. Campos and Nugent (2012) found that changes to EPL do help to reduce income inequality while not affecting economic growth. These seemingly contradictory findings show that there are still unsolved

puzzles when it comes to finding empirical evidence about the impacts of strict labour market regulations. Adascalitei and Pignatti (2016) focused research on labour market reforms related to the Great Recession, from 2008 to 2014. They found that labour market reforms tended to increase workers' protection in developing economies. They also found that both increasing and decreasing the strictness of labour market regulations did not affect unemployment rates in the short term, although deregulatory interventions have a negative short-term effect when implemented in times of crisis.

In developing economies, policy-makers have been tempted to weaken labour standards – and workers' rights – in a race to attract foreign direct investment. Davies and Vadlamannati (2013) have found evidence that both developing and developed countries will compete to relax labour standards, as part of a "race to the bottom". Examining data on 148 developing countries over 18 years, the authors found that weakening labour standards in other countries resulted in reduced labour standards in the country being examined – a sort of global competition to attract investment, where this rivalry is most aggressive in countries with already low standards. Furthermore, the authors found that the impact of these changes was more clearly focused on enforcement of laws rather than the laws themselves. This is a disturbing result, suggesting that countries may well be instituting protective laws, then "simply turning a blind eye towards violations of those laws" in order to compete for foreign investment (Davies and Vadlamannati, 2013). Similarly, Vadlamannati (2013) examined the impacts of globalization on freedom of association and collective bargaining in developing countries, finding mixed results. On one hand, social globalization, or the act of connecting people across the globe, was associated with an improvement in laws and the enforcement of freedom of association and collective bargaining rights. However, this was not the case when examining political globalization, which includes political ties with other governments and international organizations.

A review of the academic literature, then, suggests two types of results. Firstly, stringent employment protection laws are associated with a larger informal economy, and likely more unemployment among specific groups, including young people. Secondly, the competition for foreign direct investment may weaken labour standards and workers' rights. These results call for a cautious and counterbalanced approach to labour market reforms. Policy-makers should carefully weigh the costs and benefits of reforms, and not expect miraculous results from changes to EPLs. In addition, any changes should be made with an awareness of the potential impacts on other institutions in the labour market, while also paying careful attention to how such laws are enforced.

B. Minimum wage

Minimum wage has a greater impact on protecting workers and a larger effect on businesses.

The presence of a large informal economy is a key feature of many small PICs. EPL may offer safeguards to workers, but the reach of these benefits is limited if they are not enforced in the informal economy. Comparatively, minimum wage usually has more impact on workers' welfare and firms' performance. It is usually more important than EPL in terms of understanding how a labour market functions in a developing economy. This is not restricted to only the formal sector. Empirical evidence shows that wages in the informal economy increase when the overall minimum wage rises – the so-called “lighthouse effect” (Boeri et al., 2011).

Just as minimum wage plays a greater role in protecting workers than EPL, so too does it have a larger impact on employers. For example, a survey of employers in Papua New Guinea found that protection rules were not the principle concern; rather, employers were more worried about costs and uncertainties associated with a mandated minimum wage (Jones and McGavin, 2015).

Setting minimum wage levels in developing countries presents some complications, because the minimum wage is used as a policy instrument to reach too many ends, such as benchmarking during wage negotiations and fighting high inflation (Saget, 2008). For this reason, an analysis of possible reforms to minimum wage levels should include two aspects: an overall comparison of minimum wage levels and an analysis of the institutional contexts behind minimum wage determination. This section will compare minimum wages in Pacific Island nations, before showing how minimum wage setting has played a pivotal role in the evolution of workers' organizations.

Most countries have minimum wages by law, but key exceptions are widespread.

Most small PICs legislate a minimum wage, although exceptions are common. Figure 2.2 shows minimum wage levels in various countries as published by the World Bank (2017).³ Only two of the listed countries – Kiribati and Tonga – do not have minimum wage by law.⁴ For the rest, minimum wage ranges from US\$116.23 per month in Solomon Islands, to US\$634.54 in Palau. Fiji and Papua New Guinea fall somewhere in the middle, at US\$311.97 and US\$231.41 per month, respectively.

There are key exceptions to minimum wage laws in PICs, which can exempt young workers, apprenticeships or specific sectors. In Fiji, for example, there are ten sectors that are exempt from the national minimum wage, although there is a sector-wide minimum wage within each industry.⁵ Otherwise, Fiji's national minimum wage applies to workers not covered by specific sectoral minimum wages, including workers in the informal economy.

³ The data for *Doing Business* 2017 were collected in 2016.

⁴ In Kiribati, there is a provision for a minimum wage at the discretion of the Ministry of Labour, but it has never been implemented. Tonga does not have a minimum wage, but has proposed to introduce one (Table 1 in Government of the Cook Islands, 2015).

⁵ There are ten sectors with a sectoral minimum wage rate, stipulated in the 2015 Wages Regulations. These sectors are: printing trades, wholesale and retail trades, hotel and catering trades, the garment industry, the sawmilling and logging industry, road transport, building and civil and electrical engineering trades, manufacturing industry, mining and quarrying industry, and security services.

In Palau, minimum wage regulations allow for exceptions related to sector, employer-type and employee age.⁶ In Papua New Guinea, exemptions for young people (aged 16–21 years) existed until 2008. There are different minimum wages for rural and urban workers – a clear product of exceptions for the agricultural sector.

There is little correlation between current minimum wage levels and unemployment.

Minimum wage laws have been shown to benefit workers, including vulnerable workers in the informal economy. At the same time, employers are acutely concerned about the costs that come with a mandated minimum wage. In setting minimum wage laws, then, it is important for policy-makers to find the right balance between protecting workers and levying onerous costs on businesses. Do current minimum wage levels in Pacific Island nations have a detrimental impact on employment outcomes?

Figure 2.2 presents the ratio of minimum wage in selected countries to value added per worker. The highest ratio corresponds to Papua New Guinea, at 0.79; Samoa has the lowest, at 0.37. Fiji and Palau hover in the middle, at 0.51 and 0.46, respectively. Essentially, this is a rough measure of an economy's competitiveness: The higher the ratio, the "worse" it is for the economy. However, this is only true assuming that the mandated minimum wage is widely enforced.

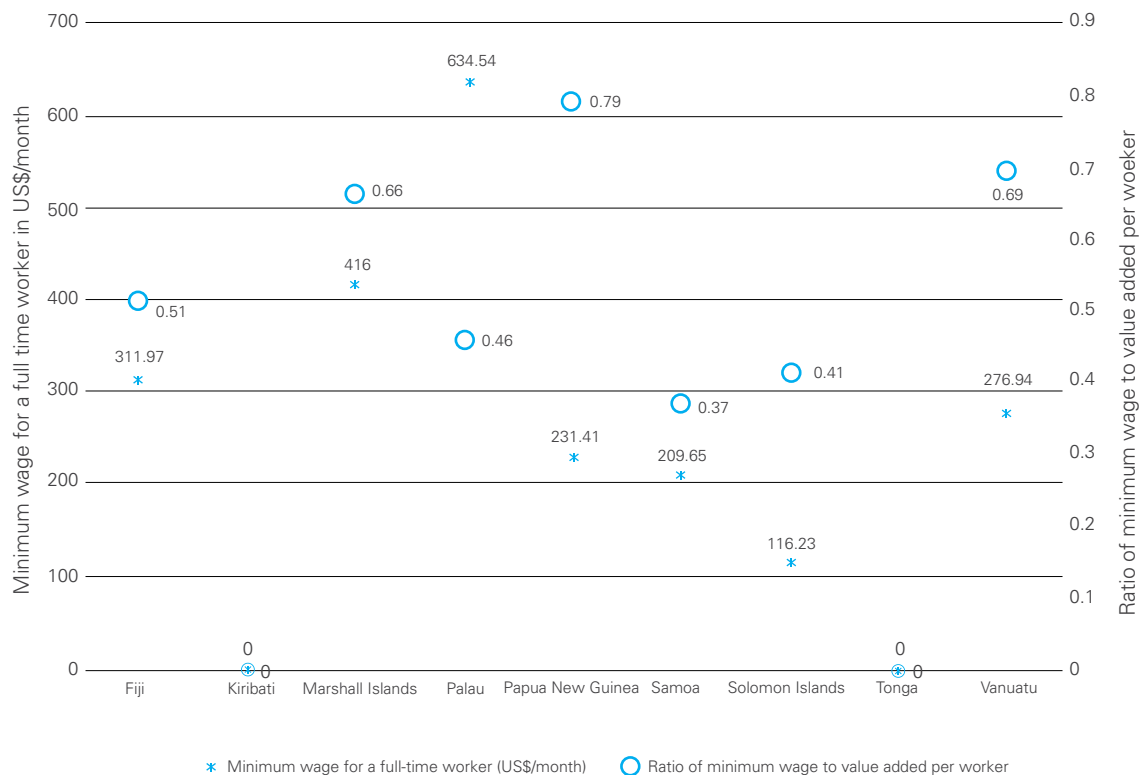
In addition, figure 2.3 shows the evolution of this ratio of the minimum wage to value added per worker. Here, there is a break in the series. Until 2013, the data correspond to the manufacturing sector; from 2014, the data correspond to the service sector. With a few exceptions, the evolution along this break is more or less smooth, likely showing that the evolution of the region's minimum wage is similar for the manufacturing and service sectors. After the break in the series, only Papua New Guinea shows a significant increase in this ratio, jumping from 0.70 in 2014 to 0.87 in 2015, likely pointing to a pattern of increase for the minimum wage in the service sector.

Finally, figure 2.4 looks at the association between the ratio of the minimum wage to value added per worker, and the unemployment rate. Here, the countries considered are Fiji, Kiribati, the Marshall Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu. There is not any association at all. This analysis shows that, at these countries' current minimum wage levels (related to value added per worker), there is no relationship with the unemployment rate – or the association between both variables is mediated by other factors.⁷ In other words, the current minimum wage levels appear not to affect unemployment, at least according to the scarce data available.

⁶ The exceptions are workers employed as farmers by a single employer, domestic helpers, caretakers, babysitters or houseboys, student employee, non-government organization employees, and employees 20 years old or younger and hired on a probationary basis for a period not exceeding 90 days.

⁷ For example, the enforcement of minimum wage laws or the predictability of minimum wage changes.

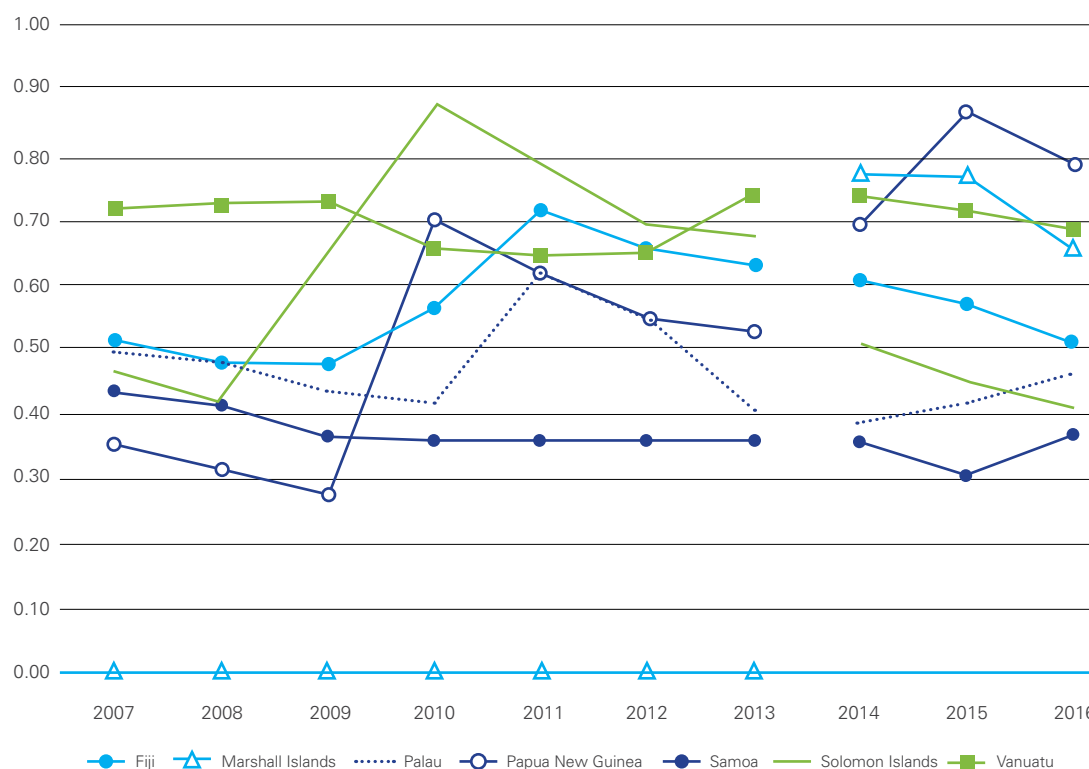
Figure 2.2: Minimum wage in PICs in 2016: Levels in US\$ per month and ratios of minimum wage to value added per worker



Source: World Bank (2017).

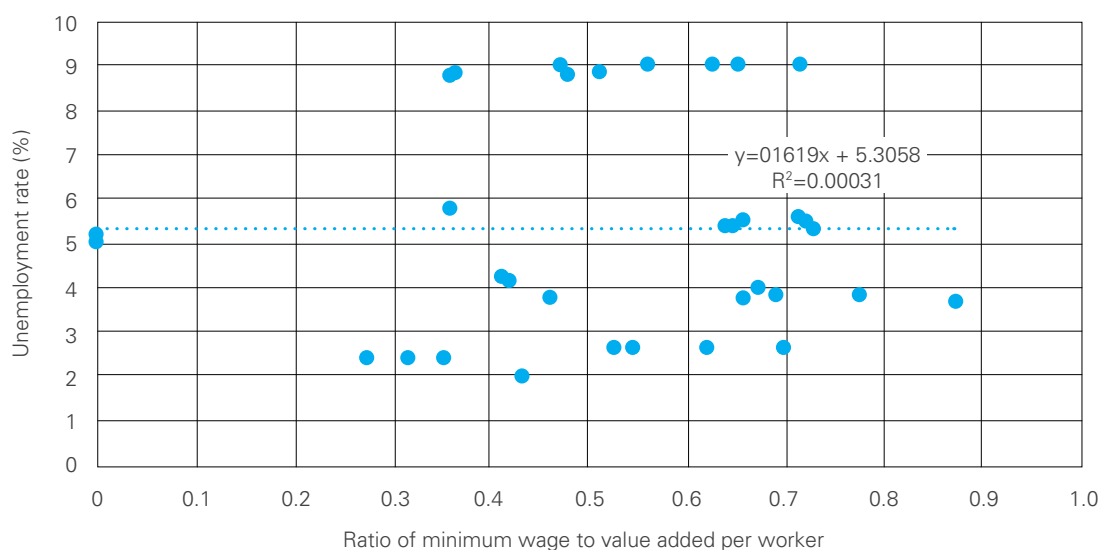
Note: According to the methodology of the report, the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and the worker is not member of a trade union (unless membership is mandatory). The business is a limited liability company (or equivalent) with 60 employees, operating in the economy's largest business city. It is subject to collective agreements when agreements cover at least half the food retail sector. It abides by every law and regulation but does not grant more benefits than those mandated by law or collective agreements. These considerations are intended to make the data comparable across economies.

Figure 2.3: Evolution of the ratio of minimum wage to value added per worker in PICs (2007–16)



Source: World Bank (2017). Until 2013, the information corresponds to a worker in the manufacturing sector. From 2014 onwards, the information corresponds to a worker in the service sector.

Figure 2.4: Ratio of minimum wage to value added per worker and unemployment rate by country



Source: For the ratios: World Bank (2017). Until 2013, the ratios correspond to a worker in the manufacturing sector. From 2014 onwards, the ratios correspond to a worker in the service sector. For the unemployment rate: ILO (2017), with the exception of Solomon Islands. These figures may include estimates. See methodological notes in the following link: <http://www.ilo.org/ilostat-files/Documents/ILO%20estimates%20and%20projections%20methodological%20note.pdf>. The unemployment rates for Solomon Islands have been taken from the ILO (2016). The data corresponds to 2007 to 2013 for the ratio and from 2008 to 2014 for the unemployment rate.

Box 2.2

Institutional change: The case of the labour market

Labour market regulations are a valuable tool that policy-makers can use to correct market failures and provide protection to workers. However, the challenge is how to effectively institute these protections without imposing large costs on businesses or hurting economic efficiency.

There has been a lengthy and heated academic and political debate about labour market regulation, particularly over EPL. However, a review of literature on the subject suggests the impacts are relatively small, on the whole, and depend on the unique contexts of each country (Cazes et al., 2012).

Nevertheless, labour regulations can have entirely unintended consequences. Minimum wage and EPL can have an equalizing effect among covered workers, helping to reduce income inequality. However, some research has also shown a negative effect on employment for people not covered by these protections – mainly youth, women and people with fewer skills (Betcherman, 2015). Therefore, even though changes to labour market regulations may have a modest overall effect on average, this does not mean that these reforms do not matter. Labour market regulations are intended to correct market failures, but they may also have indirect costs for some groups of workers.

Labour market reforms can affect employers' and workers' behaviour – often in unexpected ways. This is why designing effective reforms requires a careful understanding of the practical impacts these changes will instigate. Even small changes to the wording of a law can result in uncertainty among workers and employers, potentially creating conflict or affecting employment or investment decisions. Reforms that are made in consultation with all the social partners – including businesses, workers and the state – can minimize this type of uncertainty and avoid conflict. On the other hand, reforms that are unilaterally implemented by governments may introduce more uncertainty.

C. Labour organization

In any economy, labour organization forms the key element of how workers assert their rights and advocate for their interests. Along with employers and the state itself, labour organization is one of the three key pillars of social dialogue. Together, these pillars are the foundation for effective social industrial relations and equitable employment outcomes that benefit workers, employers and labour markets as a whole. This concept of tripartism – the social partnership between all three pillars – is integral to promoting better wages, working conditions and the formation of a stable and prosperous economy. Analysing the effectiveness of labour organization in Pacific labour markets, then, requires an understanding of the level of social dialogue or tripartism that exists today. But these structures are the products of unique histories.

Box 2.3

Tripartism and social dialogue

Effective and equitable labour market policies are the product of a healthy relationship among the key participants: employers, workers and the state. In order to promote better wages and positive working conditions, then, it is important to foster cooperation through sound industrial relations and social dialogue.

Social dialogue and tripartism covers:

- Negotiation, consultation and information exchange between and among the different actors;
- Collective bargaining;
- Dispute prevention and resolution; and
- Other elements, including corporate social responsibility and international framework agreements.

A conducive environment for effective social dialogue includes:

- Strong, independent workers' and employers' organizations with the capacity to participate in social dialogue;
- Political will and commitment to engage in social dialogue on the part of all the parties;
- Respect for the fundamental rights of freedom of association and collective bargaining; and
- An enabling legal and institutional framework.

Source: ILO (2013).

All Pacific Island countries formally allow trade unions...

All developing countries in the Pacific Islands have legislation that explicitly allows trade unions, according to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, 2007). Fiji, Papua New Guinea and Solomon Islands, where trade unions have played an important role, probably have the most developed industrial relations systems. Even in countries such as Tonga, where there were no formal industrial relations before the 1990s (UNESCAP, 2007), there have been efforts to enact different pieces of legislation with the support of the ILO (Leckie, 1992). In the last decade, there has been a push toward ratifying ILO Conventions in countries throughout the region, building the base for more solid industrial relations systems.

Table 2.2 shows ILO core Conventions and their ratification status by country, including Australia and New Zealand. For the most part, ratifications among PICs have occurred in the 21st century. Today, Fiji, Kiribati, Papua New Guinea, Samoa and Solomon Islands have ratified the most Conventions. On the other hand, the Marshall Islands, Palau, Tonga and Tuvalu have not ratified any of the listed ILO Conventions. However, the ILO is taking an active role in efforts to prepare for ratifications of these key Conventions and to help build a solid industrial relations system – including Palau.

Table 2.2: Ratifications of ILO Conventions (as of December 2016)

	Freedom of association		Forced labour		Discrimination		Child labour		Number ratified
	C87	C98	C29	C105	C100	C111	C138	C182	
Australia	1973	1973	1932	1960	1974	1973	...	2006	7
New Zealand	...	2003	1938	1968	1983	1983	...	2001	6
Cook Islands	..	...	2015	2015	...	...	...	...	2
Fiji	2002	1974	1974	1974	2002	2002	2003	2002	8
Kiribati	2000	2000	2000	2000	2009	2009	2009	2009	8
Marshall Islands	...	...	...	...	...	...	...	...	0
Palau	...	...	...	...	...	...	...	...	0
Papua New Guinea	2000	1976	1976	1976	2000	2000	2000	2000	8
Samoa	2008	2008	2008	2008	2008	2008	2008	2008	8
Solomon Islands	2012	2012	1985	2012	2012	2012	2013	2012	8
Tonga	...	...	...	...	...	...	...	...	0
Tuvalu	...	...	...	...	...	...	...	...	0
Vanuatu	2006	2006	2006	2006	2006	2006	...	2006	7

Source: NORMLEX, Information System on International Labour Standards (ILO). Link: See: <http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:1:0::NO>.

... but effective social dialogue is generally weak.

Economic and social patterns in small PICs are extremely diverse, but the countries do share some common features. One key aspect is how colonial histories have impacted the development of labour market institutions. In particular, the paternalistic approach taken in British territories has left a recognizable imprint.

For example, there was a strong, state-driven push in British territories to encourage unions and labour legislation. The most well-known case is likely Papua New Guinea, but countries like Samoa also share this characteristic (Leckie, 1992). However, these institutions were state-driven and not adapted to the social context of the day – as was the case in most developing economies. As a result, these institutions weakened and focused their efforts on formal employment, particularly in the public sector (UNESCAP, 2007; ILO, 2014).

The development of trade unions has sometimes mirrored the social problems and divisions of the day – as was the case in Fiji. At the same time, trade union movements in the South Pacific have strained to balance the “two faces” of unionism: the wider goal of social justice in general, and their more direct interests in advocating for their members through collective bargaining (Prasad and Snell, 2007). Especially in times of political upheaval, trade unions have had to make difficult choices to preserve their own interests. As a result, trade unions in countries like Fiji, Papua New Guinea and Solomon Islands have played an important role in promoting good governance and democracy. But this has come at the cost of their effectiveness in the workplace (Prasad and Snell, 2007). Tripartism is generally weak throughout many small PICs, which is one explanation for why there has traditionally been a poor record of consultations between managers and employees. However, social dialogue has nevertheless played a role in the evolution of minimum wages in countries where effective tripartism exists.

In order to provide a more detailed overview of labour organization and the performance of the region’s industrial relations systems, this section will now focus on three key countries: Fiji, Palau and Papua New Guinea.

In Fiji, unions have been closely linked to politics...

Trade unions were first established in Fiji in the 1930s. In the ensuing years, however, the evolution of the movement has been impacted by restrictions to union freedoms under British colonial rule, tensions that divided unions along ethnic lines, and political uncertainties created by a series of coups in the late 20th and early 21st centuries.

There are some key institutions that have a tripartite structure. Fiji’s ten industry-based wage councils, for example, consist of representatives from industry employers, workers and independent members. Similarly, other institutions play a role in a form of sectoral or thematic tripartism: the Employment Relations Advisory Board (formerly the Labour Advisory Board, created in 1965 by the Employment Act); the Training and Productivity Authority (formerly the Fiji National Training Council); the Fiji National Provident Fund, and the National Occupational Health and Safety Advisory Board. However, the effectiveness of these institutions has been questioned in different periods (Narsey, 2006).

Today, union membership is mainly concentrated among urban workers in the formal sector, especially white-collar workers in the public sector (Naidu, 2009). Unionization is very low in the informal economy, and rural sector chiefs are very important among indigenous Fijians. In the rural sector, only sugarcane growers are properly unionized (Naidu, 2009). Essentially, Fiji’s limited union membership means that the country’s labour force is mostly unorganized (Naidu, 2009), and still hampered by deep ethnic and occupational divisions.

Box 2.4

Examining the history of trade unions in Fiji

To understand Fijian trade unions today, it is important to understand how they have been shaped by the country's history.

1930s: Originally, the British government urged all its colonies to promote legislation allowing trade union activities. In Fiji, this saw the establishment of trade unions in the 1930s. However, the legislation did not implement the compulsory recognition of unions, which undermined collective bargaining. At the same time, employers and authorities used ethnic divisions between indigenous Fijians and Fijian Indians to weaken attempts to organize labour. In fact, the very makeup of trade unions was largely based on ethnicity, reflecting equally segmented employment practices (Gauder, 2010). Over the long term, however, the trend has moved toward more unified unions.

1959: Riots in the capital, Suva, became a landmark for cooperation between indigenous Fijian and Indo-Fijian workers.

1960: Employers organized themselves as a reaction to the growing strength of the union movement, creating the Fiji Employers' Consultative Association.

1964: The Trade Disputes Ordinance was launched. One of the first frictions was the recognition of unions in collective bargaining.

1976: The full legal recognition of unions for collective bargaining arrived with the Recognition Act – several years after political independence in 1970. A Tripartite Forum was created at the end of 1976. Although the forum had no statutory authority, it began to develop a key role in labour relations in Fiji within a year. This had a stabilizing effect on labour relations and the economy for several years (Gauder, 2010).

1984: Union interests became more aligned with urban workers than with the rest of the economy. Fiji's Government imposed a wage freeze in 1984. As a response, the union movement promoted the formation of a new political party, the Fiji Labour Party (FLP), which was focused on urban workers in formal employment (Gauder, 2010).

1987: The year 1987 saw the overthrow of the labour-led coalition government in a military coup. This and subsequent political instability weakened tripartism and the labour movement in general (Leckie, 1993).

2006: In the aftermath of the 2006 coup, the labour movement was mostly divided and lost capacity to defend workers' interests.

2007: The Employment Relations Promulgation, launched in 2007, guaranteed freedom of association and protected workers against anti-union discrimination. In 2009, however, the Government began instituting different decrees that restricted trade union activities and labour rights.

2011: With little consultation, the Government introduced key changes to the Employment Relations Act of 2007. These changes included the derogation of existing collective agreements and the obligation to bargain a new agreement in only 60 days, the designation of new non-union bargaining agents, the imposition of compulsory arbitration and new limits on the right to strike. The Essential Industries Decree of 2011 severely restricted union rights in the financial sector, telecommunications, civil aviation and public services. In 2012, the Governing Body of the ILO declared Fiji as one of five countries in the world with the worst records on freedom of association.

2014: Democratic elections in Fiji marked a turning point for labour organization. The following year, the government, employers' groups and workers' groups agreed to jointly review labour laws and employment relations.⁸ In 2016, the Government, employers and the Fiji Trades Union Congress reached an agreement to review labour laws according to ILO Conventions, especially on freedom of association. However, this agreement was not endorsed by another major labour organization, the Fiji Islands Council of Trade Unions.

... whereas in Palau, the institutional framework for tripartism was almost non-existent until recently.

There is no formal setup for tripartism in Palau. The country's small size, even compared to most other Pacific Island nations, has been a limitation for the development of workers' organizations. However, Palau's mid-20th century history as a protectorate of the United States also provides an explanation of why there has been no tradition of formal tripartism. The United States, which was in charge of the territory beginning after the Second World War, did not promote the organization of tripartism, following its own industrial relations system. Palau gained independence in 1978, but the long period until the Compact of Free Association came into effect at the end of 1994 – allowing Palau open labour market access – was not beneficial in developing a new institutional framework for the labour market.

Although unionism was not explicitly prohibited, there were no operating trade unions until recently. Therefore, labour organization in Palau is rather weak and in need of a consistent legal framework. Ratifying and regulating fundamental conventions that uphold international labour standards will be an important step.

On the employers' side, the Palau Chamber of Commerce fills the role of an employers' organization. The chamber may be more organized than its labour counterparts, although one of its explicit objectives is to increase membership.

Despite the lack of a formal tripartite system in Palau, there exist the beginnings of an institutional framework for social dialogue. The ILO works with the Bureau of Labour, the Palau Chamber of Commerce, and workers' organizations including the Nurses Association and the Bangladesh Workers Association. Among other activities, Palau's government has sought technical assistance from the ILO to help strengthen employers' and workers' organizations. A medium-term objective should be to continue bolstering workers' organizations. The large

⁸ For more information, see: <https://glosssheffield.wordpress.com/2015/05/13/non-observance-by-fiji-of-the-freedom-of-association-and-protection-of-the-right-to-organise-convention/>

presence of foreign workers in the total workforce – and their importance to Palau’s labour market – complicates this task, as they are highly mobile.

Palau’s Government sets the minimum wage without formal input from other social partners – a key difference compared to Fiji and Papua New Guinea. In Palau, the Government decides not only the minimum wage level, but also sets a schedule for increases in subsequent years. When the mandated maximum is reached, the Government repeats the process. This model may not be reflective of an ideal tripartite system, but the public wage schedule does reduce uncertainty for employers.

Papua New Guinea has an inherited system of tripartism...

As a former Australian protectorate, the form of labour organization that exists in Papua New Guinea is linked to the country’s colonial ties. Papua New Guinea has inherited some of the characteristics of Australian industrial regulation, such as the system of compulsory conciliation and arbitration. Trade unions were a cornerstone in this system, and were thus promoted by Australian authorities. The Industrial Relations Ordinance and the Industrial Organization Ordinance made provisions for industry councils, boards of inquiry and direct negotiations, along with compulsory conciliation and arbitration (Hess and Gissua, 1992).

This system was imported from Australia, despite the vast differences in Papua New Guinea’s economic and institutional development (Plowman, 1979). In other words, the system was the result of international pressure and Australian domestic politics – not because local workers’ unrest led them to organize themselves into unions (Imbun, 2016). This system performed poorly when Papua New Guinea became independent in 1975. Unions struggled to adequately represent workers’ interests (Imbun, 2008), while the industrial dispute settlement mechanisms also performed poorly (Hess and Gissua, 1992). Similarly, the minimum wage system in Papua New Guinea inherited the characteristics of the Australian wage-setting system, even after the colonial years.

... but this has been limited by a large informal economy.

After independence, Papua New Guinea’s industrial relations system was characterized by a dualistic economy – in which an active informal economy runs parallel to the primary market – and a small but emerging working class. Trade unionism weakened over this period. Some authors (Hess, 1986) believed this situation to be a legacy of the previous colonial period, but also a product of other factors, including tribalism, subsistence farming, the presence of a limited enclave economy,⁹ and weak state institutions. Again, although there was a formal tripartite industrial relations system, it lacked adequate union organization in practice. At the same time, this period nonetheless saw some successful cases of membership, leadership and effective operations in compulsory conciliation and arbitration (Imbun, 2008).

In Papua New Guinea, state intervention did not effectively fill the void created by relatively weak trade unions and employers’ organizations – unlike other developing economies. In fact, the Government’s intervention was also weak (Daley, 1987).¹⁰ Instead, the Government appealed to businesses to respect workers’ rights, linking it to the promotion of economic growth (Hess, 1986).

⁹ Enclave economies are often driven by export-based industries funded by non-local capital.

¹⁰ Quoted in Imbun (2008).

Tripartism in Papua New Guinea today has three weak components. However, this inherited legacy has still allowed independent unions and employers' organizations to interact in a relatively open environment (Imbun, 2008). The problem is that the scope of this tripartism is limited by the size of the country's informal economy.

In Papua New Guinea, unions have the right to organize and bargain collectively, the right to strike is legally protected, and discrimination against union activity is illegal. According to Imbun (2016), Papua New Guinea has a mostly deregulated collective bargaining system, with a sort of centralized institution – the Minimum Wage Board. In this system, social participation goes beyond the traditional tripartite setup to include broader elements of civil society – for example, the board now includes representatives from churches, women and youth. However, minimum wage changes are not predictable, which causes uncertainty for employers. The Minimum Wage Board's decisions do not follow a regular schedule, while adjustments and exceptions have been complex since the 1970s (Jones and McGavin, 2015). Employers claim that this unpredictability harms business performance.

Through the Minimum Wage Board, the Government plays a crucial role in implementing wage standards across the country. In spite of this level of control, however, the Government has a very weak influence on other parts of the industrial relations system, including conciliation and arbitration, labour inspections and occupational health and safety regulations (Imbun, 2016).

Box 2.5

The legacy of colonialism

The colonial history of the Pacific Island nations is integral to understanding the institutional and legal frameworks of today's labour markets and, crucially, the possibilities for realistic reforms. In countries throughout the region, traditional values have interacted with imported institutions to form the basis of the labour market institutions that exist today.

The most common form of industrial relations in the region is based on a labour code that includes legal instruments for enforcement, such as labour inspectors, courts, and conciliation and arbitration. But how does this structure accommodate traditional values? Only with great difficulty, the evidence suggests.

In many countries in the Pacific Islands, traditional avenues for dispute settlement were centred in villages. But this system has largely not been reflected in legislation. Trade unions are an illustrative example of the challenges countries face in adapting imported institution (Brooks, 1996). Trade unions, which stem from the British tradition, are legally permitted, in general, throughout the South Pacific. However, the process for adopting trade unions varies greatly. In Palau, for example, there was no promotion of trade unionism at all until very recently. In Fiji, there was a lengthy process of adaptation, which saw unions become entangled in key social divides and conflicts. Papua New Guinea inherited a system of tripartism, with collective bargaining as the key institution for wage-setting. Even so, the minimum wage is effectively the cornerstone of the labour market institutions, as it is in many countries in the region. This is largely due to the prominence of a large informal economy. This reality means that the state often plays a very important role, because approving changes to the minimum wage is ultimately the Government's responsibility, even where tripartite bodies exist (such as Papua New Guinea's Minimum Wage Board).

- **Fiji:** In Fiji, the colonial period resulted in a British-style industrial relations system. However, the full recognition of the role of unions in collective bargaining was not regulated until 1976 – much later than political independence in 1970. Crucially, the large informal economy also imposes limits on unions' reach; this is a key reason why minimum wage-setting, as in many Pacific countries, is so important to the institutional framework of the Fijian labour market. Legislative changes to employment protection only cover the formal sector; the rest of Fiji's workers in the informal economy essentially exist in a labour market that has no employment protection. It is crucial, then, that any changes in overall EPL be backed by credible enforcement of the laws. Otherwise, legal reforms will only deepen the divide between the formal and informal economies.
- **Palau:** Compared to other Pacific countries, there is no legacy of institutionalized tripartism in Palau. While a protectorate of the United States, Palau's labour market essentially followed US-style regulations. This system recognized the right to free unions, but it did not promote them. After political independence, the country has taken early steps to formalize labour market institutions. Nevertheless, the government-determined minimum wage remains the key component of these institutions, as it affects the entire economy either directly or indirectly.
- **Papua New Guinea:** Before independence, the Australian administration in Papua New Guinea implemented policies that slowed urbanization and industrialization. Early labour policy created a sort of master-servant relationship between the untenured labourer and employers (Latukefu, 1989). Following independence, Papua New Guinea retained the core of Australian-like labour market regulations, which included a tripartite structure. Unionization was actively promoted in the workplace – unusual for a developing economy (Hess, 1989). Ultimately, however, the interests of workers were poorly represented, despite the existing tripartite structure (Imbun, 2008). Today, enforcement of existing protection legislation is a major issue for Papua New Guinea. As in other developing economies, labour legislation tends to apply exclusively to the formal sector. There are no clear channels for dissemination of new legal rules. Jones and McGavin (2015) remark that many firms still implement so-called "common rules" that no longer exist in the current law.¹¹ As in Fiji and Palau, minimum wage-setting remains the key institution in Papua New Guinea.

¹¹ A common rule was a registered award under the rules of a specific section of old employment legal regulation (for example, the Industrial Relations Act of 1962). In case a common rule contradicted another piece of labour regulation, the most favourable legislation to the worker was applied.

D. Policy considerations

The main pillars of labour market institutions – EPL, minimum wage, and labour organization – can help to protect workers' rights and improve labour outcomes. But changes to these institutions can also bring costs to employers, along with other unintended consequences. In many PICs, labour market institutions are also tempered by the small size of most labour markets, while the residual legacy of colonialism continues to influence the very structure of these institutions today. The challenge for the region is to determine how to enact changes to these institutions to achieve better employment outcomes.

The following key principles underscore recommendations intended to help improve the effectiveness of the Pacific's labour market institutions: (1) reforms to EPL should offer protection to more workers, rather than more protection to a few workers; (2) changes to minimum wage policies have a larger impact on both workers and employers; and (3) an effective social partnership is the best avenue toward equitable and stable economic growth. Ultimately, all labour market reforms will have consequences for both workers and their employers, but these should not be viewed as a trade-off between economic growth and workers' protection. Instead, reforms must be made collaboratively through effective social dialogue, thereby reducing uncertainty and increasing opportunities to build more efficient and equitable labour markets.

D1. Reforms to employment protection legislation should focus on offering protection to more workers, rather than strengthening existing protections for a few workers.

Changes to EPL will have consequences beyond their original intent. Strengthening protection for workers, in the form of regulations on advanced notice and severance pay, will help displaced workers but boost costs for employers. On the other hand, protecting workers may also increase economic efficiency and productivity. The dilemma of EPL reform, then, is a question of how to strike the right balance: How do policy-makers provide effective protection to workers without imposing excessive costs on employers?

- **Focus on providing a realistic level of EPL:** An ideal level of EPL will protect displaced workers by providing a reasonable time for the job search process and possibly monetary compensation. Such protections are especially useful in countries where unemployment benefits do not exist. At the same time, this burden must be affordable for businesses; otherwise, there will be a high incentive for non-compliance, or movement toward the informal economy. This chapter's analysis has shown that average redundancy costs in the region are not especially high and, at a descriptive level, do not correlate with unemployment. However, the costs can be burdensome in specific cases.
- **Jointly implement protective countermeasures if decreasing levels of EPL:** If policy-makers decide to lower levels of employment protection, these reforms should be implemented in combination with other measures that offset their impacts. In cases where redundancy protection is lowered, the most important countermeasure may be improving the overall enforcement of labour laws. In cases of employee dismissal, promoting effective arbitration and conciliation may be beneficial. Workers in the informal economy often have few legal protections. These workers would stand to benefit the most from a substantial increase in enforcement. In this way, policy-makers can focus on extending the reach of protections to the wider workforce, while limiting the burden of existing measures covering workers who already enjoy some protection. It should be noted that lowering redundancy protection for all workers across the labour market does not preclude additional provisions from being collectively bargained in sectors or companies where a higher level is feasible.

- **Consider decreasing redundancy costs in Fiji and Papua New Guinea:** Fiji's employment protection legislation includes some measures putting limitations on redundancies, while Papua New Guinea and Palau do not. Palau also has no provisions for advance notice and severance payments. In Fiji and Papua New Guinea, existing legislation on minimum notice periods and severance add up to an average cost of about three months of salary per redundancy. This is likely not a large cost for jobs in the formal sector, especially for jobs requiring high qualifications. However, the reality is these benefits are enjoyed by a relatively small group of workers in better jobs, especially in countries like Papua New Guinea, which has a large informal economy and low enforcement levels. Both Fiji and Papua New Guinea could consider decreasing redundancy limitations and severance pay, but at the same time strengthen enforcement of new labour regulations. Similarly, relaxing requirements for advance notice, instead of severance payments, would have a lower impact on displaced workers' earnings.
- **Implement some form of minimum EPL in Palau:** Palau has a much smaller informal economy and almost no regulations on redundancies. It would be advisable to implement some form of protection by law, in order to extend safeguards to displaced workers in an economy where unemployment compensation is non-existent.
- **Ensure adequate labour protection to cover all workers:** Unlike Fiji and Papua New Guinea, the informal economy in Palau is very small, accounting for an estimated 7 per cent of all employment.¹² However, wage legislation is not uniform, while taxes and labour laws are not applied equally. The variability in protections for Palau's relatively large foreign workforce compared to local Palauans may be the beginning of a dual labour market, in which an informal economy runs parallel to the primary market. It is highly advisable to prevent this from happening. It is clear that in other economies, particularly in Europe, it becomes difficult to reduce the impacts of dual labour markets once they exist. In advanced economics, one promising way to counter duality is to provide the same protections and rights to temporary workers as permanent workers. This suggests that changes to labour regulations should expand to cover all workers with the same level of protection, regardless of origin. For Palau, such implementation would primarily be aimed at protecting foreign workers. However, such a proposal would also be applicable to the informal economies in Fiji and Papua New Guinea. This recommendation is not new to Palau; the Palau Chamber of Commerce, acting as an employers' organization, advocates for a more comprehensive labour policy, including equal application of wages, taxes and labour laws.

D2. Minimum wage policies are more important than employment protection legislation for protecting workers, and also a larger concern for employers.

Generally, minimum wage levels have a larger impact than EPL – for both workers and employers. For example, a survey of employers in Papua New Guinea found that protection rules were not the principle issue; rather, employers were more concerned about costs and uncertainties associated with a mandated minimum wage (Jones and McGavin, 2015). Regional policy-makers can take steps to increase certainty around wage-setting while at the same time expanding the prevalence of sector-wide collective bargaining.

¹² While the informal economy is large in Fiji and Papua New Guinea (around 60 per cent and 80 per cent of workers, respectively), figures for Palau are very different: less than 7 per cent in 2015 (calculations with information from Table 4.9, p. 53 of the 2015 Statistical Yearbook, Republic of Palau). See: <http://palaugov.pw/wp-content/uploads/2016/09/2015-Statistical-Yearbook-1.pdf>.

- **Increase the predictability of minimum wage changes:** Policy-makers can lower uncertainties by taking steps to bring about more efficient institutions for minimum wage-setting. A key element would be to increase the predictability of the minimum wage by setting it with regards to the mean wage of the economy, or to value added per worker. It is important to consider the mean wage of an economy when debating changes to minimum wage. Altering the minimum wage without this consideration can lead to unrealistic levels, as was seen when Papua New Guinea experimented with labour market reforms in 1992 (Levantis, 2000).
- **Reform the institution responsible for setting minimum wage in Papua New Guinea:** It will be a crucial step to reform Papua New Guinea's Minimum Wage Board, with the goal of creating more certainty. Reforming minimum wage in Papua New Guinea means changing the very structure of the Minimum Wage Board, steering it toward ongoing "standing" status, rather than its current irregular, episodic existence, as well as increasing the expertise of board members. This could include reforming the board as expert advisers, rather than a political board that meets at the behest of government. These alterations will help Papua New Guinea avoid unpredictable minimum wage changes and connect minimum wage determination with economic performance.
- **Limit exceptions to the general minimum wage:** Developing countries often introduce a long list of exceptions and differing wage levels based on sector or occupation, in an attempt to limit the potentially negative impacts of minimum wage-setting. This often leads to cumbersome regulations that are difficult to apply, worsening problems with labour law enforcement. Instead, the minimum wage system should minimize these special cases, though exceptions may still be needed in specific circumstances.

D3. An effective social partnership is the best avenue toward equitable and stable economic growth.

Regardless of the degree or direction of change, the goal is to reduce uncertainty by implementing labour market reforms with the collaboration of the social partners – workers, employers and the state. In order to ensure the success of any prospective reforms, then, PICs should continue to reinforce the importance of social dialogue.

- **Expand collective bargaining at the sector level:** The existence of sectoral exceptions to national minimum wages is a product of ineffective or non-existent collective bargaining in that sector. However, minimum wage exceptions are a poor substitute for sector-wide collective bargaining. Instead, policy-makers should simplify minimum wage systems by eliminating exceptions, while at the same time promoting collective bargaining in these previously exempt sectors. Some experts favour decentralized collective bargaining at the company level, arguing that this offers firms more tools to adapt to unexpected shocks. However, there are a large number of small businesses in countries like Fiji and Papua New Guinea, given the extent of the informal economy; company-level bargaining would be very difficult for most. For this reason, sectoral collective bargaining makes sense.
- **Reinforce the importance of social partners, unions and employers' organizations in Palau:** Until recently in Palau, the institutional framework for tripartism had been almost non-existent. Unions are permitted by law, but there were no operating trade unions until recently. The Government currently fixes minimum wage using a predictable time path. This reduces uncertainty for employers. Over the medium and long terms, however, it is important to reinforce the importance of the social partnership between businesses, workers and the state, and create opportunities for social dialogue through permanent institutions where social partners can interact. This would include the active promotion of collective bargaining.

Appendix

Table A2.1. Labour market regulations on redundancy rules and payments in PICs

Redundancy rules								
Fiji	Kiribati	Marshall Islands	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Vanuatu
Maximum length of probationary period (months)								
3.0	n.a.	n.a.	n.a.	n.a.	3.0	n.a.	n.a.	6.0
Dismissal due to redundancy allowed by law?								
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Third-party notification if one worker is dismissed?								
Yes	Yes	No	No	No	No	Yes	No	No
Third-party approval if one worker is dismissed?								
No	Yes	No	No	No	No	No	No	No
Third-party notification if nine workers are dismissed?								
Yes	Yes	No	No	No	No	Yes	No	No
Third-party approval if nine workers are dismissed?								
No	Yes	No	No	No	No	No	No	No
Retraining or reassignment?								
No	No	No	No	No	No	No	No	No
Priority rules for redundancies?								
No	No	No	No	No	No	No	No	No
Priority rules for reemployment?								
No	No	No	No	No	No	No	No	No
Redundancy payments								
Fiji	Kiribati	Marshall Islands	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Vanuatu
Notice period for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)								
4.3	4.3	0.0	0.0	2.0	2.0	4.3	0.0	2.0
Notice period for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)								
4.3	4.3	0.0	0.0	4.0	3.0	4.3	0.0	13.0
Notice period for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)								
4.3	4.3	0.0	0.0	4.0	5.0	4.3	0.0	13.0
Notice period for redundancy dismissal (weeks of salary)								
4.3	4.3	0.0	0.0	3.3	3.3	4.3	0.0	9.3
Severance pay for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)								
1.0	0.0	0.0	0.0	1.7	0.0	2.0	0.0	4.3
Severance pay for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)								
5.0	0.0	0.0	0.0	8.7	0.0	10.0	0.0	21.7
Severance pay for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)								
10.0	0.0	0.0	0.0	17.3	0.0	20.0	0.0	43.3
Severance pay for redundancy dismissal (weeks of salary)								
5.3	0.0	0.0	0.0	9.2	0.0	10.7	0.0	23.1

Source: World Bank (2017).

Note: According to the methodology of the report, the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and the worker is not member of a trade union (unless membership is mandatory). The business is a limited liability company (or equivalent) with 60 employees, operating in the economy's largest business city. It is subject to collective agreements when agreements cover at least half the food retail sector. It abides by every law and regulation but does not grant more benefits than those mandated by law or collective agreements. These considerations are intended to make the data comparable across economies.

Table A2.2. Labour market regulations on working hours in PICs

Fiji	Kiribati	Marshall Islands	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Vanuatu
Standard workday								
8	8	8	8	8	8	9	8	8
Maximum working days per week								
6	7	7	7	6	6	6	6	6
Premium for night work (% of hourly pay)								
4	0	0	0	0	0	0	0	0
Premium for work on weekly rest day (% of hourly pay)								
0	0	0	0	0	100	0	0	50
Premium for overtime work (% of hourly pay)								
50	50	0	0	50	50	50	0	25
Restrictions on night work?								
No	No	No	No	No	No	No	No	No
Restrictions on weekly holiday work?								
No	No	No	No	No	Yes	No	Yes	No
Restrictions on overtime work?								
No	No	No	No	No	No	No	No	No

Source: World Bank (2017).

Note: According to the methodology of the report, the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and the worker is not member of a trade union (unless membership is mandatory). The business is a limited liability company (or equivalent) with 60 employees, operating in the economy's largest business city. It is subject to collective agreements when agreements cover at least half the food retail sector. It abides by every law and regulation but does not grant more benefits than those mandated by law or collective agreements. These considerations are intended to make the data comparable across economies.

Table A2.3. Labour market regulations on gender and job quality in PICs

Fiji	Kiribati	Marshall Islands	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Vanuatu
Equal remuneration for work of equal value?								
Yes	Yes	No	No	No	Yes	No	No	No
Gender non-discrimination in hiring?								
No	No	No	No	No	No	No	No	No
Paid or unpaid maternity leave mandated by law?								
Yes	Yes	No	No	Yes	Yes	Yes	No	Yes
Minimum length of maternity leave (calendar days)?								
84	84	n.a.	n.a.	0	28	42	n.a.	84
Receive 100% of wages on maternity leave?								
Yes	No	n.a.	n.a.	n.a.	Yes	No	n.a.	No
Five fully paid days of sick leave a year?								
Yes	...	No	No	Yes	Yes	Yes	No	Yes
Non-pregnant and non-nursing women permitted to work same night hours as men?								
Yes	No	Yes	Yes	No	Yes	No	Yes	No
Paid annual leave for a worker with 1 year of tenure (in working days)								
10	0	0	0	11	10	15	0	15
Paid annual leave for a worker with 5 years of tenure (in working days)								
10	0	0	0	11	10	15	0	15
Paid annual leave for a worker with 10 years of tenure (in working days)								
10	0	0	0	11	10	15	0	21
Paid annual leave (working days)?								
10	0	0	0	11	10	15	0	17
Unemployment protection after one year of employment?								
No	No	No	No	No	No	No	No	No

Source: World Bank (2017).

Note: According to the methodology of the report, the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and the worker is not member of a trade union (unless membership is mandatory). The business is a limited liability company (or equivalent) with 60 employees, operating in the economy's largest business city. It is subject to collective agreements when agreements cover at least half the food retail sector. It abides by every law and regulation but does not grant more benefits than those mandated by law or collective agreements. These considerations are intended to make the data comparable across economies.

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CHAPTER 3

PUBLIC EMPLOYMENT SERVICES: A REVIEW OF FIJI AND PAPUA NEW GUINEA

Introduction

A well-functioning labour market relies on intermediaries to help match jobseekers to available jobs. Public employment services can be a vital intermediary, preparing jobseekers for work and helping employers fill vacant positions. But these public employment services require increasingly scarce government funds to operate, while privately run services already perform some of the same functions – often more efficiently. In middle- and low-income economies, then, policy-makers must justify why resources should be spent on a public employment service. This debate is highly relevant to both Fiji and Papua New Guinea today. Both countries already have some form of public employment services. However, these services vary in scope and effectiveness. With the largest labour forces among the Pacific Island nations, what concrete steps can Fiji and Papua New Guinea take to ensure employment services are actually meeting the needs of jobseekers and employers?

This chapter begins with an overview in Section A of the role public employment services play, and the key distinctions that apply to middle- and low-income countries. Section B examines existing public employment services in Fiji and Papua New Guinea, comparing and contrasting their effectiveness with existing alternatives. Section C offers policy considerations, underscoring the importance of prioritizing the needs of the employers who, today and in the future, create the jobs that power the Pacific's workforces.

A. The role of public employment services in the labour market

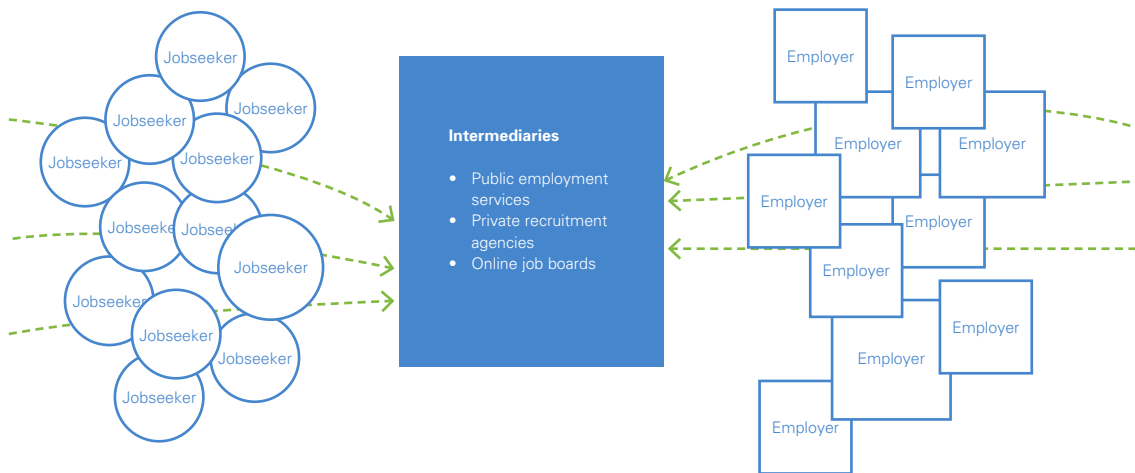
Employment services play a key role in the efficient operation of the labour market. They provide an essential link between workers and employers, helping jobseekers find paid work while making it easier for employers to fill vacancies. Employment services are an important intermediary, helping the search process by matching jobseekers' skills to available positions. They can also offer training to improve skills and readiness for out-of-work jobseekers.

Efficient labour markets require intermediaries to connect jobseekers with employers.

Intermediaries are an essential part of efficient labour markets. They provide a vital bridge between workers and employers – between jobseekers and job vacancies. Intermediaries reduce costs for both employee and employer by facilitating the job-search process.¹

¹ The following outline of the economic benefits of the role of information-based labour market intermediaries is taken from Autor, (2008), "The economics of labor market intermediation: An analytical framework", Working Paper 14348 (Cambridge, MA, National Bureau of Economic Research).

Figure 3.1: The role of intermediaries in the labour market



At a basic level, intermediaries collect and distribute job search information at a cost far below what workers and employers would pay on their own. At another level, intermediaries reduce the costs of adverse or unsatisfactory selection for employers and jobseekers. The service of verifying key information – a job applicant’s education credentials, previous work experience and absence of a criminal record, for example, or a business’s reputation as an employer in good standing – helps put jobseekers and employers on a more even playing field. At a more complex level, intermediaries provide job-matching services that greatly reduce costs, in time and resources, for both employers and jobseekers.

Publicly funded employment services are not the only option for jobseekers and employers – a crucial consideration for Pacific policy-makers. Private fee-for-service recruitment agencies help employers fill open positions. Newer online job boards and networking sites also help facilitate the employment process, generally at a lower cost than traditional recruitment firms. In some ways, Internet-based methods of disseminating job vacancies are an extension of the services provided by newspaper advertisements – still the most common form of publicizing job opportunities in Fiji. These intermediaries all have their strengths and weaknesses, including varying costs and reach. Together, however, intermediaries perform an important function for jobseekers and employers, making it easier for one to find the other.

The nature of unemployment is fundamentally different in a developing country...

There are key differences in how public employment services operate in middle- and low-income countries compared with high-income countries. This is because the very nature of unemployment in developing countries is fundamentally different to high-income countries. As a result, any assessment of public employment services in developing countries must take this key distinction into account.

In high-income countries, most people of working age have little choice about whether or not they work in a wage job. In most cases, they lack the means of generating their own income and livelihoods from home-based production. At the same time, opportunities for self-employment are limited, due to the prohibitively high costs of entry, such as sizeable start-up capital and constraints imposed by health and safety regulations (Vodopivec, 2009). Finding paid work is the only realistic long-term option most people in a high-income country have to survive.

... wherein most workers cannot afford to be active jobseekers.

The opposite is true in low-income countries, where fewer people have the time and resources required to be an active jobseeker. Most workers must undertake any type of available work, even if it is low-paid and unreliable – there is often no alternative. In addition, the informal economy has low entry and exit costs: Little start-up capital is needed and institutional barriers to work are few or not monitored. This explains why official counts, such as census data, show that unemployment is low in most developing countries.

In contrast, active jobseekers in low-income countries have generally completed higher levels of education and are often supported by their families, giving them the luxury of finding a “good job”. This means that many of those who are “unemployed” – active jobseekers – are likely to be from households that are better off (Vodopivec, 2009). These jobseekers are more likely to be young people who are looking for their first jobs and who have completed high school or attained a post-secondary qualification. Put another way: In low-income countries, having the time and resources to be a jobseeker is a luxury that most workers simply cannot afford (Curtain, 2004).

For policy-makers in low-income countries, then, decisions on funding employment placement services should be driven by the need to identify specific target groups that have a strong case for government support. These target groups may include school-leavers living in major urban centres, urban residents caught in a cycle of temporary jobs, and others who earn income from the urban informal economy and who live below the poverty line. The affordability of support services and the need to minimize administrative costs are also key considerations.

Box 3.1

The building blocks of effective public employment services

According to the ILO, public employment services have the following shared features:

- They are national in scope.
- They offer free services for eligible citizens.
- Use of the services is voluntary.

Public employment services aim to meet the needs of employers and encourage collaboration between labour market partners, including private recruitment agencies. They also provide other forms of support, which include gathering vital labour market information, offering training in work-ready skills, and providing regulatory support to help specific groups of jobseekers.

Source: Koeltz (2013).

Private recruitment agencies serve a small section of the jobseekers' market.

Publicly funded employment services are not the only option. There are many large and small private recruitment agencies operating in Papua New Guinea, with fewer in Fiji.

They provide job placement services to employers on a fee-for-service basis. These agencies range from well-resourced multinational recruitment agencies or accounting firms to small niche agencies that specialize in jobs for specific industries. In general, private recruitment agencies are well placed to meet the needs of employers because their commercial success depends on obtaining repeat business. However, these private recruitment agencies focus only on job-ready jobseekers with formal qualifications or relevant work experience. They do not target disadvantaged individuals, unless funded to do so by the government.

A lower-cost option for employers is to recruit via an online jobs board. However, web-based jobs boards rely on standardized tools to screen and match candidates. They are not able to provide preparatory support for individual jobseekers.

Key questions must be answered to justify a public employment service.

Developing countries have a small number of wage jobs, compared with many ways to generate income in the informal economy. Consequently, governments must justify why scarce public funds should be allocated to a relatively small group seeking work in the formal economy.

Private recruitment agencies are best placed to meet the needs of employers looking for senior managers, professionals and other specialized workers. On the other hand, employers in low-wage industries within Fiji and Papua New Guinea must rely on the local networks of their existing workers or the surrounding community. However, employers in Papua New Guinea can also use existing online job boards as a lower-cost option to recruit process and trade workers.

Given the active and effective role of other intermediaries in the labour market in Fiji and Papua New Guinea, the justifications for a public employment service come down to several key questions. The answers to these questions will help determine what kind of public employment service may be best suited to countries in the Pacific.

Box 3.2

Key questions of a public employment service

- What target groups of jobseekers require publicly funded support to gain the skills to be job-ready and to find a job?
- What is the best way to identify job vacancies?
- How can the job placement function best meet the needs of employers with job vacancies?
- How can support services be tailored to meet the needs of jobseekers in the designated target groups?
- How can a simple and minimal system be set up to monitor the job placement steps?
- How can this system be set up so that it operates in different locations as required?

B. Examining existing public employment services in Fiji and Papua New Guinea

Governments in both Fiji and Papua New Guinea have recognized a need for some form of publicly funded employment service to help connect jobseekers with job vacancies.

The Government of Fiji's 2015 National Budget papers note that "the NEC [National Employment Centre] is one of Government's most important initiatives":

It helps unemployed Fijians find decent and sustained jobs, both locally and overseas, that will allow them to support themselves and their families. When Government enacted the NEC Decree 2009, it was the first time in Fiji's history that a law had been formulated specifically to address the needs and concerns of the unemployed in Fiji. NEC focuses on providing skills training that makes unemployed persons, retirees and volunteers more competitive in both local and overseas employment markets. It also offers placement services.

According to the December 2009 Decree, the objective of the NEC was to establish a "one-stop shop" National Employment Centre infrastructure throughout the Fiji islands. The NEC aimed to:

provide quality skills training, human resources development and utilisation services to enhance the employability of unemployed persons, retirees and volunteers for both the local and overseas employment markets through quality consolidation, facilitation, coordination and monitoring of all existing employment creation services within Government.

The NEC was intended to provide four main functions:

1. A Formal Employment Service
2. A Self-Employment Service
3. The Fiji Volunteer Service
4. A Foreign Employment Service

The Self-Employment Service, however, has not been implemented.

In Papua New Guinea, the National Employment Services (NES) Division of the Papua New Guinea Department of Labour and Industrial Relations has four main functions or activities. These are:

1. Licensing, monitoring and regulation of employment agents
2. Labour market studies and employment promotion including the job placement programme
3. Papua New Guinea labour market information systems and statistics
4. The Seasonal Worker Coordination Office

Two of these functions or activities are common to both government departments providing these services. These are:

1. Job placement and recruiting for the work-ready pool
2. Selecting and dispatching seasonal workers.

Fiji's NEC also arranges for assistance to the unemployed to make them job-ready. A similar service exists in Papua New Guinea, but this is delivered by a separate project, which is funded mainly by the World Bank and Australian Aid. Fiji's NEC also runs a domestic and foreign volunteer service which has no equivalent in Papua New Guinea.

The governments in both countries provide assistance to the informal economy. However, separate departments and agencies deliver this service. Papua New Guinea's NES also has a work area responsible for labour market information and developing a labour market information system. There is no equivalent function within Fiji's NEC.

Table 3.1: Type of employment service available and lead sector or agency, Fiji and Papua New Guinea

Employment services	Public employment service		Private recruitment agencies		Recruiting via jobs board		Donor-funded project		Employers provide work attachment		Other government agency	
	Fiji	Papua New Guinea	Fiji	Papua New Guinea	Fiji	Papua New Guinea	Fiji	Papua New Guinea	Fiji	Papua New Guinea	Fiji	Papua New Guinea
Job placement	Minor activity	No Activity	Minor activity	Significant activity	No Activity	Minor activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity
Assistance to the unemployed	Significant activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	Significant activity	Significant activity	Minor activity	No Activity	No Activity
Foreign employment service	Significant activity	Minor activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity
Support for self-employment	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	Significant activity	Significant activity
Employment of foreign workers	No Activity	Significant activity	No Activity	Significant activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity	No Activity

Significant activity
 Activity is ineffective
 No Activity
 Minor activity

The remainder of this section compares similar employment services in both countries. This will provide the basis for making recommendations about how to improve existing services, and what new services may be beneficial.

B.1 Job placement services in Fiji

An effective job placement service must first define and record who is eligible to receive these services. For Fiji's NEC, the starting point is its official register of unemployed.

The NEC Decree states that "any person who is unemployed or on part-time employment and at least 15 years of age must register with the National Employment Centre as prescribed". Failure to do so could incur a maximum fine of 500 Fijian dollars (FJD). However, the NEC does not enforce this compulsory registration requirement.²

² At the time of writing in late 2016, the NEC Decree had not been gazetted and therefore can be challenged in court if an attempt is made to enforce its compulsory provisions.

The job placement services of Fiji's NEC are basic and often do not meet the needs of employers...

Between the start of operations in 2010 and August 2016, the total number of unemployed people registered with the NEC is 51,477. However, the NEC's registry is not a listing of current jobseekers. Rather, it is an archive of the total number of people who have enrolled over the years. There is no systematic way of removing the names of registrants who are currently in paid work or no longer looking for a job. This is because the database structure that underlies the register cannot be altered to record any change in employment status, rendering it a static administrative tool designed to record NEC clients and the services they have received.³ The NEC staff has attempted to track and update details about which clients have found employment, but this information has been recorded separately from the NEC registration database.

The NEC has no provision for people to register online. All registrations must be completed by hand and lodged personally at an NEC office. One justification for this is the opportunity to authenticate the identity of a potential client by verifying documents, such as a birth certificate.

Staff at Fiji's NEC offer a very basic job placement service focused on helping employers fill job vacancies. When employers contact the NEC hoping to fill a job vacancy, the NEC staff chooses possible candidates from the database of registered jobseekers. However, as noted above, the database cannot be updated to exclude people who have found jobs. As a result, the NEC staff must call each possible candidate to confirm availability – a laborious process complicated by mobile phone numbers that are often no longer in service. This means that not all the job candidates sent to employers may be available for work. In addition, the NEC does not attempt to assess a jobseeker's suitability for a given job vacancy.

... the result is that few employers use these services.

The core function of a public employment service is to provide placement services, matching jobseekers with job vacancies. The NEC does this, but only in a basic manner. The end result is that only a small number of employers take advantage of this service – an average of four to five each week. When requested by an employer, the NEC merely provides a list of people from its database, along with basic information, such as education level and stated employment skills. There is no pre-screening process to determine whether or not those on the list sent to the employer have the appropriate skills and work experience for the job, or even if they are interested in the vacancy.

³ The limitations of the database are described in detail in the performance audit report of the Auditor General of the Republic of Fiji on the management of NEC (December 2014) para 5.3.3.

Box 3.3

Other placement services in Fiji

Private recruitment agencies: The Fijian labour market, unlike Papua New Guinea, appears to have few private sector recruitment agencies servicing employers with low- and middle-skill job vacancies. Only two employment agents are registered with the Ministry of Employment, Productivity and Industrial Relations. One reason for this may be the cost of registration, which is a non-refundable fee of FJD1,000 and a surety bond of FJD20,000. The major accountancy firms offer a selection, recruitment and mobilisation service for managerial and professional vacancies.

Online job sites: Fiji does have websites offering information on job vacancies for jobseekers. The Fijian website, Vacancies, has some 13,500 likes on Facebook. Job Hunt Pacific, another website, claims that it has at least 902 members, comprising jobseekers and businesses it has helped. However, neither site gives details of who is behind the site and whether there is a charge for connecting jobseekers to employers.

The website, Recruit Pacific, covers nine Pacific countries, including Fiji. It lists 1,096 members, but provides no details about who they are. Maxumise is primarily a human resources consulting company based in Suva, but it also performs recruiting services and advertises some job vacancies on its website.

Note: See Ministry of Employment, Productivity and Industrial Relations, n.d. "Employment Agency Checklist": <http://www.labour.gov.fj/images/Media/PublicNotice/Employment%20Agency%20Check%20List.pdf>

B.2 Job placement services in Papua New Guinea

A media release from Papua New Guinea's Department of Labour and Industrial Relations describes the purpose and activities of its Job Placement Programme and Employment Promotion Unit in the following terms:

The Employment Promotion Unit promotes and facilitates employment services in-country under Job Placement Programme (JPP). JPP assists both the employers and the jobseekers for manpower shortages and employment respectively. EPU receives applications, processes them and refers skilled and semi-skilled workers to prospective employers upon request.

The Job Placement Programme (JPP), which was revived in 2012, is based on the 1996 Employment Placement Service Act and a 2002 amendment. One reason for setting up the programme was in response to the "Government's Vision 2050 to assist the unemployed population in securing better employment opportunities in the Labour Market".⁴ The public notice advertising the employment service urges the unemployed, school-leavers and graduates to register at the NES office in Waigani, a suburb of the capital, Port Moresby. The JPP is only available for jobseekers in Port Moresby and Central Province.

⁴ Department of Labour and Industrial Relations, n.d; "Jobseeker Registration for Employment Assistance: Come and Register Now for Free". Public Notice for National Capital District and Central Province.

Papua New Guinea's Job Placement Programme has major limitations.

There are other critical issues that also significantly hinder the programme's scope and effectiveness. At a basic level, there is little publicity for the programme. At the time of writing, the official website was not working. Most jobseekers call by phone and come to the office.

The job placement process at the JPP starts with verifying jobseekers' documentation, including education credentials. A profile of the jobseeker is then created. The next step is to canvass employers. However, only one officer is available to contact potential employers, based on a list of the largest employers taken from the Yellow Pages. This inadequate method of canvassing has resulted in few responses from employers.

Job matching is done by occupation. The jobseeker's profile is matched to the job vacancy before referral, but this does not involve a person-to-person interview. There is only an initial interview to verify documents when the jobseeker fills out the form used to produce the profile. This type of job placement service is merely offering confirmation to employers that the applicant's documentation has been verified. There are no other services offered that may benefit employers, such as interviewing and screening candidates to produce a shortlist, or arranging job-ready training or work placements.

The JPP's shortcomings are evidenced by its extremely low success rate. The total number of successful job placements for the programme is said to be less than ten over its lifetime. Some 450 jobseekers have been registered with the JPP since 2012. Data for 2014–15, however, show only 80 people are defined as being in the job-ready pool. A more refined list dated to the second quarter of 2016 only has 13 jobseekers listed as job-ready.⁵ Of the 13 jobseekers listed, all have post-secondary qualifications. These jobseekers are likely to be at the top of the hiring queue and they are likely to have already registered with third-party websites offering direct access to employers.

The programme's approach is fundamentally unsuited to the labour market.

The Employment Placement Service Act 1966 was based on the needs of a very different labour market – a time in the colonial period when few Papua New Guineans had completed secondary education. The model for the employment service is clearly a product of the prevalent view at the time that it was the role of governments alone to provide job placement services. This view was shaped by the Australian labour market of the day, where unemployment was very low and most people stayed in the same job for years. The model was then – and is now – entirely inappropriate for the labour market in Papua New Guinea.

⁵ Another worksheet shows that only 11 jobseekers were referred to employers between April and October 2016. No job placements are recorded for 2016.

Box 3.4

Functions of Employment Placement Service, Papua New Guinea

The function of the Employment Placement Service is to provide services and facilities in relation to employment for the benefit of persons seeking to become employed or seeking to engage employees. In particular, the service exists to:

- Aid persons who have been trained to become employed in a manner best suited to their training, experience, abilities and qualifications;
- Afford occupational advice, vocational guidance and other services to facilitate the engagement in employment and the continued employment of persons in the manner best suited to their experience, abilities and qualifications; and
- Provide such other advice and information services, and such other facilities in relation to employment or to matters connected with employment, as the Minister determines.

Source: Independent State of Papua New Guinea. Employment Placement Service Act 1966, para 2.

According to one international recruitment agency, an analysis of the online job networking site, LinkedIn, shows that there are an estimated 30,000 to 40,000 domestic workers using the website to look for jobs.⁶ This is based on an overall figure of 75,000 people who are connected to LinkedIn from within Papua New Guinea. Most people using LinkedIn to locate a job are already employed. Work permit data show there are 41,000 foreign workers in the country. If many of these workers are on LinkedIn, this leaves between 30,000 and 40,000 domestic workers who may be using the website to look for jobs. This number of domestic jobseekers is consistent with the numbers of jobseekers recorded on recruitment agency databases and on one online job board.

Recruiting companies play an important role in Papua New Guinea, where the oil and gas sector drives demand for young, skilled workers...

Papua New Guinea has 13 main recruitment companies with mostly Papua New Guineans in their databases. One major recruitment agency has some 30,000 people in its database, but this number will be reduced when old entries are removed. Another major recruitment agency has around 10,000 people, mostly citizens of Papua New Guinea, in its database.

Recruitment agencies operate on a fee-for-service basis, targeting jobseekers with scarce skills or skills likely to be in demand by employers. Recruitment agencies offer employers a choice between different cost options for sourcing skilled workers. The options are skilled Papua New Guineans, nationals from countries such as India, the Philippines and Sri Lanka, as well as workers from high-income countries such as Australia, New Zealand, United Kingdom and the United States.⁷

⁶ The analysis was commissioned by the recruitment agency itself.

⁷ One recruitment agency noted that where they recruit from depends on the industry and their budget. Persons recruited from India and Sri Lanka cost less: between 20 and 40 per cent less in their base salary compared with expatriate sources from high-income countries.

The number of young Papua New Guinean jobseekers looking for skilled work is high. Recently, the Kumul Petroleum Academy received 3,200 applications for only 34 privately funded scholarships.⁸

Another significant indicator of young jobseekers is the number of programme participants since 2011 in Port Moresby's Urban Youth Employment Project (UYEP). The project's target group is disadvantaged urban young people between the ages of 16 and 35. By the end of August 2016, some 11,860 young people had entered UYEP since the beginning of 2011. The target is 15,500 project participants by the end of October 2018. More information on the UYEP will be presented later in this chapter.

Generally, recruitment agencies only deal with jobseekers that are currently employed, have scarce skills and have recent, relevant work experience. Most employers are only prepared to pay for recruitment services for hard-to-find skilled or specialist workers.

... but employers also need less costly ways to fill low- to mid-skill level positions.

Employers looking to fill vacancies for low- to mid-skill level jobs commonly rely on social networks among employees and within the local community. For these vacancies, newspaper advertising can be prohibitively expensive, both in terms of direct costs and the staff time required to process job applications.

One alternative is to fill the jobs through online options. One such example is the job board on the website PNGJobSeek. Operated by the recruitment agency Headhunters, the site claims 353 employers use the site, along with 30,750 registered jobseekers.⁹ About half of the jobs listed on this job board are considered blue collar, in the lower to middle end of the skill spectrum, according to the site manager. Many employers seeking workers at these skill levels want to reduce their recruitment costs as their businesses are operating in a low-cost, low-wage environment. To use PNGJobSeek, the cost to employer for one job vacancy is 345 Papua New Guinean kina (PGK) for 30 days. The site allows employers to receive applications in both soft and hard copy, view the applications online, shortlist candidates using hand-selected filters and contact jobseekers directly via text message or email.

⁸ A Group of 34 Papua New Guinea nationals will take part in a junior oil and gas technician scholarship programme commencing in July at the South Pacific Employment Institute, in conjunction with Site Group International and Kumul Petroleum Academy. See <http://energy-pubs.com.au/png-resources/png-nationals-gain-hands-on-experience/>. Information on the total number of applications and shortlist was provided by a senior manager at Exxon. Orion Project Services Ltd in Papua New Guinea managed the applications process and produced a shortlist of 140 to 160 candidates who were interviewed for 32 places. The aim of the 15-month programme is to produce job-ready junior technicians in the production, instrument, electrical and mechanical disciplines.

⁹ The statistics are updated on a live basis and are published on the PNGJobSeek website accessed via the button "Board Statistics".

Box 3.5

Functions of Employment Placement Service, Papua New Guinea, continued

Private recruitment firms play a key role in Papua New Guinea's labour market. They help employers fill jobs that demand scarce or hard-to-find skills – for a price.

The recruitment agencies – there are about 13 main firms that have mostly Papua New Guineans in their databases – focus on different industries. Applus+ Velosi JDA (PNG), formerly JDA Wokman Ltd, is said to focus on mining. AirSwift focuses on the LNG and oil and gas sectors, while Vanguard International concentrates on other industries. Pacific Manpower Ltd describes itself as servicing the mining, oil and gas, transport, hospitality, construction and manufacturing industries throughout Papua New Guinea. The company also has joint ventures with at least three landowner labour hire companies, providing work on mining sites for local communities. Headhunters, another recruitment agency, also operates the PNGJobSeek website.

Table 3.2: The major recruitment agencies in Papua New Guinea

Major recruitment agencies	Website	Dedicated Papua New Guinea website
Applus+ Velosi JDA (PNG) formerly JDA Wokman Ltd	Yes	
Air Swift	Yes	
Placements (PNG) Ltd	Yes	http://www.placementsaustralia.com/au/services.php
Orion Project Services (PNG) Ltd	Yes	
Headhunters	Yes	http://www.pngjobseek.com/
Vanguard International	Yes	http://www.vanguardpng.com/
Brunel International SEA Pty Ltd	Yes	
Pacific Manpower (PNG) Ltd	Yes	http://www.pacificmanpower.com.pg/
Deloitte Touche Tohmatsu	Yes	
People Connexion PNG	Yes	http://www.peopleconnexion.com/png
Star HR Ltd	No	
CC Pacific Limited	No	
GPS Employment Agency/Gore Project Services	No	

B.3 Assistance to the unemployed

Fiji's NEC offers assistance to jobseekers as a core function. In Papua New Guinea, a comparable service aiming to make jobseekers work-ready is offered in the capital, Port Moresby, but it is a separate donor-funded project.

Fiji's National Employment Centre offers counselling, aptitude assessments and life skills training, but only some clients are able to take advantage.

The NEC operates under a government decree that spells out in detail the assistance the Formal Employment Service is to provide to jobseekers. The elements of the assistance are:

- Professional counselling for two hours done on a group basis
- Individual aptitude assessment done by completion of a questionnaire over two hours
- Life skills training for one week (30 hours)
- Employment skills training

The number of registrants who have received NEC services is much less than the total number registered (see table 3.3). Just over one-in-three NEC clients have received professional counselling or aptitude assessments (37 and 36 per cent, respectively). Just over one-in-five registrants have received life skills training (22 per cent). Only 6 per cent of NEC registrants have received employment skills training. In 2015 and to mid-2016, due to a lack of funds, no registrant has been recorded as having received professional counselling or aptitude assessments. Fewer people in this period have received life skills training than in previous years.

Table 3.3: Number of persons taking part in activities of the NEC, 2010 to August 2016

Activities	2010–16
Registration	51 477
Professional counselling	18 928
Aptitude assessment	18 407
Life skills training	11 349
Employment skills training	2 981
Work attachments	5 180
Volunteer placements	812
Permanent employment	6 205
Foreign employment	219
Awareness activities for firms	621
Memorandums of Understanding (MOUs) signed	440

The NEC also requires that clients – people who have undertaken training – repay half the cost of the services they receive. Clients who receive all the required services must pay FJD700 to the NEC if they find ongoing employment, though those finding jobs through the Fiji Volunteer Service are exempt. In practice, very few of those who find ongoing paid work repay the money they owe. Nevertheless, this obligation to repay the NEC is likely to be a major deterrent to clients reporting a change of job status, which affects the accuracy and usefulness of registration data.

The professional counselling sessions are conducted by an outside consultant on a group basis for 20 to 30 participants. However, in the past, the numbers have reached as high as 50 participants (Auditor General of the Republic of Fiji, 2014). The use of large groups is a cost-saving measure, but this comes at the expense of beneficial effects for individuals. In addition, there is a lack of staff skills to engage in one-on-one consulting, necessitating the need for group sessions.

An external consultant also conducts the aptitude assessments. However, the results of the aptitude assessment are not returned to NEC clients unless requested, which few have done. Also, NEC staff lack the training to provide advice on how each client should interpret the results. The life skills training is also offered in a group format.

Table 3.4: Schedule of fees set by NEC for services delivered, as of 4 March 2016

Phases	Total cost (FJD)
Registration - Administration	10
Professional counselling (2 hours)	15
Aptitude assessment (2 hours)	15
Life skills training (1 week)	
User manuals	10
Bags	6
Training venue	10
Trainer	10
Administration	14
Subtotal	50
Employment skills training	600
Work attachment (FJD30 * 24 weeks)	720
Total	1 410

These services fail to meet the needs of the jobseekers they are meant to help.

These three services are not focused on the needs of individuals and no attempt is made to assess clients' individual responses to the training. Participants in these activities are invited to fill out evaluation forms that are collected by the NEC. However, these forms have not been tabulated and analysed.

The lack of individual counsellors or case officers for each client means that the information collected from the client during the life skills training is not combined with the aptitude test results. This is a missed opportunity to provide tailored or customized advice that could meet the needs of individuals, especially those with marked disadvantages compared with other jobseekers.

Meanwhile, scarce employment skills training is not assessed against actual labour market demand.

A small proportion of clients are offered up to eight weeks of employment skills training. Training courses were previously provided by the National Training and Productivity Centre (NTPC) for up to eight weeks and were budgeted at FJD600. The training courses are based on client preferences as indicated on the registration form. The training is not based on any assessment of the actual demand for skills in the labour market.

Due to budget constraints, which resulted in no employment skills training being provided in 2015, the NEC has recently made use of the training provided by new technical colleges. These colleges are funded to provide short training courses with no cost to the NEC or NEC clients. These short courses are modules offering credit points toward a Certificate II. Again, the selection of training for NEC clients is not based any assessment of employer demand.

Box 3.6

Can Fiji's NEC justify asking clients to pay fees?

NEC clients are expected to pay back half the costs of employment skills training if they find permanent employment. However, this requirement appears to contravene ILO Employment Service Convention (C088) 1948, which states that public employment services should be free (para 1).

There are practical reasons for not charging the NEC client a fee. One is that the client is not given a choice of service providers based on evidence of quality or effectiveness. Nor is the training provided tied to any evidence of employer demand. Third, there has been no evaluation of the training's effectiveness.

The two largest components of the total expense are the employment skills training and the payment the Government makes to the NEC client on a work attachment. The Government should acknowledge that the payment to the person on work attachment is a wage subsidy to the employer – a common form of labour market assistance to disadvantaged jobseekers. In any case, few NEC clients now pay back the money owed; recognizing this cost as a wage subsidy would merely accept the current reality.

Note: C088 - Employment Service Convention, 1948 (No. 88) Article 1: Each Member of the ILO for which this Convention is in force shall maintain or ensure the maintenance of a free public employment service.

For some people, the National Employment Centre's work attachments appear to be a pathway to employment...

A key test to measure the impacts of assistance programmes for the unemployed is whether or not these services actually result in permanent work. At Fiji's NEC, work attachments are the main mechanism for connecting jobseekers to employers. But what employment outcomes have NEC registrants achieved?

There were 5,180 work attachments recorded between 2010 and August 2016. In other words, roughly 10 per cent of the total number of registrants gained a work placement. Some 6,205 registrants in total (12 per cent) were recorded as gaining "permanent employment" in the domestic labour market. Some 219 registrants gained foreign employment, and 812 registrants have been placed in employment as volunteers.¹⁰

¹⁰ Fiji sends through the regional volunteer scheme retired teachers to neighbouring island states that request assistance. Fiji has signed a memorandum of understanding (MOU) with the Marshall Islands, Nauru and Vanuatu. Cook Islands, Kiribati, Federated States of Micronesia, Papua New Guinea, Solomon Islands and Timor-Leste have also shown interest in the programme. Through the local volunteer scheme, graduate volunteer teachers are engaged with the Ministry of Education to assist with the National Substance Abuse Advisory Council's community and school-based awareness and education programmes. According to the National Budget Papers, other volunteers are engaged in hard-to-find skill areas such as outboard engineering, community rehabilitation assistance, and human resource management in various ministries and departments.

... but more information is needed to determine long-term success.

NEC data suggest that work attachments are an important mechanism for placing jobseekers in permanent work. Excluding 2014, an outlier year, the pattern for all the other years combined is 4,218 work attachments and 2,984 permanent employment placements. If it is assumed that work placements lead to offers of permanent employment, permanent employment results from 71 per cent of the number of work attachments. A more reliable figure may be the most recent data for the year 2015. Excluding the four or five notifications of job vacancies made directly to the NEC each week, the conversion rate of work attachments to ongoing employment is estimated to be between one-in-five and one-in-four (21 and 27 per cent, respectively). However, further data are needed to determine the actual conversion rate of work attachments to permanent employment.

The work attachments scheme focuses on employers approached by the NEC to sign a memorandum of understanding (MOU). The MOUs require enterprises to provide work attachments equivalent to five per cent of their workforce (Government of the Republic of Fiji, 2009). NEC data show that 440 MOUs have been signed with enterprises with workforces of more than 50 employees. Seven out of the 10 enterprises approached responded to NEC's formal request to sign an MOU.¹¹ Based on the total number of work placements to August 2016, the average number of work attachments per enterprise is 12.

Papua New Guinea's donor-funded Urban Youth Employment Project shows results in reaching disadvantaged youth.

Papua New Guinea's UYEP targets disadvantaged urban youth between the ages of 16 and 35. Its two main objectives are:

1. To provide clients with income from temporary employment opportunities to improve social stability and alleviate poverty in the National Capital District (NCD)
2. To help young people realize their potential and prepare them for the workforce by increasing their employability¹²

Community awareness campaigns are run to raise the project's profile. Target participants are then recruited and screened. In addition to the age requirements, participants must have left school and be without a wage job for at least six months. They are also required to be not enrolled in tertiary education and show that they live in the project's target location. After screening and selection, trainees are required to complete a five-day basic life skills training course.

From here, participants are divided into two streams based on their basic numeracy and literacy test results:

1. **Youth Jobs Corps:** a public works component, which provides a 40-day paid placement on a public works project
2. **Skills Development and Employment Scheme:** an on-the-job training component, which sees the trainee undergo additional pre-employment training before being placed with a public or private employer for up to five months

More details of the different interventions and the available options are shown in box 3.7.

¹¹ As of August 2016, NEC staff conducted 621 awareness campaigns targeted at employers with more than 50 employees. These consisted of presentations, emails and phone conversations (Auditor General of the Republic of Fiji, 2014).

¹² World Bank, n.d.

The overall project began in 2011. By the end of August 2016, some 11,860 young people had entered UYEP and by the end of October 2018, the target is a total number of 15,500 project participants. The total cost for a planned 15,500 participants is US\$27.5 million, or roughly US\$1,744 per participant.

According to the World Bank Implementation Report, 14 June 2016, the project is meeting its goals.¹³

Overall, the UYEP is on track to meet its Development Objectives. Implementation slowed down slightly in 2015 during the transition to the current additional Financing phase. However, by February 2016, a total of 9,500 urban youth have benefited from the Project (of these, 41 percent are women). An Additional Financing grant of US\$10.8 million from the Australian Government has allowed an extension of UYEP until October 2018. Planned end target of 15,500 by 31 October 2018. This will represent a cost of US\$1,774 per young person helped.

Box 3.7

Exploring Papua New Guinea's UYEP

The public works component of Papua New Guinea's UYEP, called Youth Job Corps, provides a 40-day paid job placement on a public works project. The goal of the placement is to enable the trainee to earn cash, learn general skills, and to enhance the trainee's community through basic road maintenance and waste collection activities. Trainees earn PGK3.20 per hour and are required to work a six-hour day. This means that participants earn PGK768 if they complete the 40 days of work they are offered.

The Skills Development and Employment Scheme consists of two pre-employment training programmes followed by on-the-job training through a work placement. The Port Moresby Technical College training programmes focus on vocational subjects – such as carpentry, mechanical skills and electrical skills – as well as office skills, such as customer service and hospitality. The Port Moresby Business College training focuses on clerical work and covers subjects such as bookkeeping, data entry, business practices and information technology. Trainees are eligible for five months of sponsorship.

The overall project began in 2011, initially funded by the World Bank with a grant of US\$14.1 million (more than PGK43 million). The Republic of Korea also provided US\$530,000 (more than PGK1.5 million) and the Government of Papua New Guinea and the National Capital District Commission provided US\$1,580,000 (more than PGK4.5 million). The project has been extended to the end of October 2018 with additional funding support of US\$10.8 million (more than PGK31 million) from the Government of Australia.

The costs of its component parts are:

- Youth Job Corps (YJC): US\$11.08 million
- Skills Development and Employment Scheme: US\$9.59 million
- Project Management: US\$6.83 million

Source: World Bank (2016).

¹⁴ Wiederhofer (2016).

There is evidence that Papua New Guinea's donor-funded UYEP has helped disadvantaged youth connect with employers. Beneficiary surveys undertaken in September 2015 suggest good results regarding the project's ability to increase youth employability. Fifteen months after finishing UYEP, young people supported by the project are significantly more likely to be employed than young people from a control group – 21 per cent of young people from the on-the-job training scheme and 14 per cent of young people from the public works-based Youth Job Corps (YJC) had jobs. This compares with only 3 per cent in the control groups.

The cost per participant in the YJC component is US\$963, based on the project target numbers. The cost per participant of the Skills Development and Employment Scheme is much higher – at US\$3,197 – due to the additional costs of pre-employment training and the sponsorship for five months' work. The cost per longer-term employment outcome is, of course, much higher because only between one-in-ten and one-in-five project participants were in paid work 15 months after leaving the project. The cost per longer-term employed participant was US\$8,759 for those who worked on the public works project. For those who did the pre-employment training and worked in a job in the private, public, or civil society sectors, the cost per participant was US\$17,759.

B.4 Recruitment of seasonal workers

Seasonal work schemes represent a potentially useful mechanism for some PICs. Official programmes allow workers to take up temporary, seasonal employment in countries like Australia and New Zealand. They enable employees to bring home valuable earnings, and in some cases receive skills training. However, seasonal work programmes have shown uneven results among participating Pacific countries, while specific problems in Fiji and Papua New Guinea have limited their benefits.

After a problematic start, Fiji was forced to restructure its seasonal work scheme.

Since May 2015, Fiji has sent 163 workers to Australia and New Zealand to participate in seasonal work programmes. This arrangement is a product of MOUs that the Government of Fiji signed with the governments of Australia and New Zealand in April 2015 and December 2014, respectively.

Australian employers showed a degree of interest in recruiting workers from Fiji in the scheme's first year, when some 133 seasonal workers took part in the programme. However, more recent figures show a large decline in employer interest, necessitating a need by the Government of Fiji to rethink aspects of the programme. There were only 30 people recruited during the first half of 2016.

Ten people from among the early group of workers sent to Australia absconded from their employer. These workers expressed dissatisfaction with the payment process. They experienced further difficulties when they switched employers, only to find similar working conditions. A more recent group of 20 left Fiji in January 2016 to harvest tomatoes in Victoria, Australia. All have now returned to Fiji. People in this group reported being dissatisfied with their accommodation and pay rates.

The programme's initial selection process was intended for rural residents only. Applicants were required to have a letter from the district officer in their home area, showing they were local residents and capable of doing farm work. However, it was later discovered that false documents were used in some cases, while some selected workers did not have any skills and experience in agricultural farming work. The initial selection process also relied on a "first-in, first-out" method, which meant that many participants came from different communities. This often produced conflict within the group recruited for an employer.

Fiji has since made major changes to how its workers are chosen – a product of ministerial consultations about the problem, and also the lingering damage caused by Cyclone Winston, which hit Fiji and other parts of the Pacific in February 2016.

Box 3.8

Changes to Fiji's seasonal workers programme

From mid-2016, the Government of Fiji has implemented a new recruitment strategy for seasonal workers in Australia and New Zealand. The primary focus of the changes centres on how workers are selected for the programme. These changes were made in part because of complaints that previous workers did not have the required skills and experience in farming work. The changes focus on recruitment from isolated rural area, and ensuring that the village community is responsible and accountable for workers who are selected. Key aspects of the changes include:

- Recruitment areas will target rural villages where Cyclone Winston had its biggest impact.
- The Minister for Employment visits the chosen area to emphasize the importance of selecting the right people and their obligations to their community.
- An “awareness and selection team” stays in the area for up to two weeks to provide a one-stop service to eligible workers.
- Based on a village's social structure, community leaders in targeted villages will select programme candidates.
- The needs of employers will be prioritized.

Despite having the largest population among Pacific Island countries, Papua New Guinea's share of seasonal work participants is among the smallest.

The PNG Seasonal Worker Coordination Office has been operating since 2011. However, the number of workers sent to Australia and New Zealand has been very low compared with other Pacific countries, despite the size of Papua New Guinea's population and its proximity to Australia.

In 2014, according to the department's annual report, 28 workers were sent to Australia and 71 were sent to New Zealand. In 2015–16, only 42 seasonal workers went to Australia compared with 75 seasonal workers sent to New Zealand.¹⁵ By comparison, more than 43,000 workers from PICs participated in the programme in New Zealand alone between July 2010 and September 2016. For a comparison of why other countries have had more success with seasonal work programmes, refer to box 3.10.

The programme's selection process contributed to early problems, particularly in Australia. This process emphasized the need to select people with good English-language skills and at least a Grade 10 education. This resulted in a system that favoured the selection of people from Port Moresby, who were often not able to work as productively as employers expected. Australian employers who reported bad experiences with unproductive workers were reluctant to recruit more workers from Papua New Guinea.

¹⁵ Papua New Guinea Department of Labour and Industrial Relations Annual Report, 2014.

Compounding the problem is the fact that the Seasonal Worker Coordination Office continues to operate with insufficient resources. The office lacks a vehicle, laptops, portable printer, projector, camera and even access to phones. Office staff also require additional capacity building, funding and technical support. Box 3.9 analyses the worker selection process for Papua New Guinea's seasonal work programme.

Box 3.9

How workers are selected by Papua New Guinea's Seasonal Worker Coordination Office

The methods by which Papua New Guinea selected participants effectively limited the success of its seasonal work programme. Although officials are attempting to rectify these issues, the consequences continue to keep recruitment numbers low.

Workers are selected from a database known as the PNG Seasonal Worker Work-Ready Pool. Some applicants in the Work Ready Pool in 2010-11 stated that they were from rural areas; however, many had moved to and were residents in urban areas. Staff at the Seasonal Worker Coordination Office process applications when an employer requests potential workers. They screen for attributes based on employers' specifications, from height and weight to age and work experience. A list of candidates is sent to the employer, who makes the final selection. The office arranges logistical details such as flights, medicals, visas and pre-departure sessions.

Fee-based third-party recruiters are not permitted to enlist workers on behalf of employers; the Government of Papua New Guinea retains the sole power to select workers. Similarly, the Seasonal Worker Coordination Office is responsible for publicizing the programme, which is done in major towns including Port Moresby, Lae and Rabaul, as well as provincial towns like Popondetta and Mount Hagen. Applicants for the Work Ready Pool are drawn from these urban areas as well as rural populations, despite the programme website stating that those applying "must be from rural areas".

The PNG Department of Foreign Affairs and Immigration is the lead agency for seasonal work programmes. Its initial emphasis on language abilities and education meant other workers more suited to farm-based work were overlooked. This initial selection process contributed to the programme's early problems. Australian employers who had bad experiences with unproductive workers did not want to recruit more participants from Papua New Guinea and passed the word onto other employers. New Zealand employers, however, were much more likely to be directly involved in the selection process, sometimes even bypassing the Work Ready Pool to recruit through personal contacts in specific villages.

Programme staff now understand the importance of targeting participants from rural areas. However, the continuing low number of participants recruited for Australia – 42 seasonal workers in 2015-16 – shows that the initial problems with selection continue to shape employer attitudes.

Box 3.10

Where seasonal worker programmes have been successful

Papua New Guinea has the largest population among the PICs. However, it contributes only a small fraction of the Pacific workers that participate in seasonal work programmes in Australia and New Zealand.

In New Zealand, 43,573 workers from eligible Pacific countries took part in official seasonal work between July 2010 and September 2016. Of these, Papua New Guinea contributed only 289 – less than 0.7 per cent of the total. This lagged far behind countries like Solomon Islands and Vanuatu – two other Melanesian countries without any special historic relationship with New Zealand.

Table 3.5: Country of origin of Pacific seasonal workers working in New Zealand under the Recognized Seasonal Employer programme, July 2010 to September 2016

Country of origin	N	Per cent
Vanuatu	19 745	45.3
Tonga	10 560	24.2
Samoa	8 113	18.6
Solomon Islands	3 135	7.2
Kiribati	1 046	2.4
Tuvalu	474	1.1
Papua New Guinea	289	0.7
Fiji	171	0.4
Nauru	40	0.1
Total	43 573	100

Source: Immigration New Zealand Statistics: W3 - Occupations of Work Apps Approved 2010-16.

One key reason is that both these Melanesian countries benefited from a “first-mover advantage”. Vanuatu, for example, was selected to participate as part of a World Bank-organized pilot scheme. After seeing positive results, New Zealand employers preferred to hire returned workers due to their higher productivity. The employers also used returned workers to recruit new workers, thus ensuring that Vanuatu workers had a clear advantage over other countries. Importantly, Vanuatu government’s Employment Services Unit also played a supportive role working closely with employers in New Zealand. Workers from Vanuatu account for almost one half of the participating seasonal workers in New Zealand.

Solomon Islands also sent far more workers than Papua New Guinea – 3,135, despite having less than one tenth the population. This can be attributed to an initial connection established by a Solomon Islander woman who was a New Zealand resident. The woman recruited Solomon Islanders on behalf of a large employer in New Zealand’s Hawkes Bay region. Crucially, she also helped the new workers adjust to their new working and living conditions. This same woman later worked with an employers’ labour cooperative, Pick Hawkes Bay, to recruit Solomon Islanders for other employers. These employers also used returned workers to recruit new participants. These first mover advantages have been notably missing for Papua New Guinea.

B.5 Labour market information

Good labour market information can serve a valuable role, but recent proposals have been unsuccessful or inadequate.

Neither Fiji nor Papua New Guinea has a functioning labour market information system.

The Fiji Department of Employment proposed to develop and implement a labour market information system at a cost of FJD3 million. It was more akin to a management information system, collecting all relevant information from every contact the ministry had with the public, from workplace inspectors to the NEC contact with the unemployed. It did not include data from surveys of employers or the labour force. The proposal was ultimately not approved for funding.

The Labour Market Studies and Employment Promotion Unit in Papua New Guinea's Department of Labour has produced a 24-page booklet called "Job Search Guide for Job Seekers 2012/2015" which was available on the National Employment Division's webpage. The unit has also developed a proposal for setting up a labour market information system. However, it also has not been approved for funding.

The description of the proposed Labour Market Information Service for Papua New Guinea, available from the Department's website, reflects an imported concept that bears little or no relationship to what can be achieved in Papua New Guinea based on the available data. A much different, bottom-up approach needs to be adopted. The key starting point is to determine what type of labour market information is already available to use, without requiring costly new surveys or setting up a new database system for managing different data.

The ADB's "Good Practice in Technical and Vocational Education and Training" warns that developing information on labour market needs and feedback is no simple matter (ADB 2009):

Labour market information systems are a good idea in theory but rarely work in practice. Several reasons account for this: unclear purpose, difficulties in collaborating across bureaucratic lines for sharing information, problems in recruiting trained analysts, insufficient budgets. Design of investments in labour market information systems should be preceded by careful analysis of their operational problems and constraints.

Labour market information needs to be timely, reliable and relevant. This requires regular interpretation, analysis and dissemination of available information.

There are two key questions when making use of labour market information:

1. For what purpose will the information to be used?
2. What data are readily available from current administrative datasets or official statistics?

Reliable information is a starting point to help tackle Papua New Guinea's over-reliance on foreign workers...

An obvious issue that Papua New Guinea's policy-makers can address with available labour market information is reducing the country's reliance on a large number of foreign workers, especially those employed at technician and trades levels. The Department of Labour and Industrial Relations already has a readily available source of data that can address this issue: the data that the Department collects from processing work permits and licensed employment agents' monthly reporting requirements.

However, there are limitations to this information from a labour market information perspective. One limitation is the lack of detail on the type of jobs that are included in a broad occupational category used for work permit applications: “technical and trades coordinators”. The second is the pressure on employers to change the occupation description of the foreign worker to fit what the Foreign Employment Division will approve. The Department has acknowledged the problem of outdated or missing occupational categories; a review of occupations eligible for work permits was scheduled to be undertaken by the end of 2016. Another limitation of the data is the widespread use of exemptions. These are granted for special projects. Chinese construction projects, for example, usually involve exemption from English-language requirements for workers from the People’s Republic of China.

The National Employment Division has another administrative dataset that can be used to identify the qualifications of Papua New Guinean jobseekers for specific occupations. One of the requirements of an employment agent’s licence, which must be renewed annually, is to provide monthly registration reports for citizen and non-citizen workers in Papua New Guinea. Although 131 employment agents are registered, the number of agents who engage in the recruitment of workers is smaller, as many agents specialize only in arranging work permits.

...but existing data sources are grossly underutilized.

Of the employment agents who provide monthly returns, there are 21 employment agents who provide recruitment services, according to data held by the Employment Agent Licensing and Monitoring Unit. Nine employment agents are labour hire operators, and 47 are agents who arrange work permits. The monthly reports provided by the recruitment agencies list the following details: the employee’s name, gender, age, education level, name of employer, position title and location. This information has not been transcribed to a spreadsheet, and only age and gender are extracted for reporting to senior management. These data can be used to provide evidence of the availability of Papua New Guinean workers for specific occupations by education level, showing which occupations have a surplus of Papua New Guinean graduates.

B.6 Support for self-employment in the informal economy

Neither Fiji’s NEC nor Papua New Guinea’s NES offers assistance to those working in or wanting to work in the informal economy.

Fiji’s National Employment Centre was originally intended to offer services to the self-employed...

In Fiji, the original 2009 decree that set up the NEC specified operation of a self-employment service as one of its functions. The definition of self-employment used in the decree was “any employment where a person or a group of persons operates a small or micro enterprise business including social enterprise...” (Government of the Republic of Fiji, 2009).

However, the definition of the self-employment service used in the decree showed that it was originally intended to take over existing programmes that were under the jurisdiction of other government departments. These included the National Centre for Small and Micro Enterprises Development, the Centre for Appropriate Technology and Development, and other forms of micro or small enterprise business creation activities and programmes, including social enterprises and local economic development initiatives. Other government departments resisted the transfer of these programmes, resulting in a cabinet decision in 2014 to leave these programmes in their original departments.

This outcome could be viewed as the result of a departmental power struggle. It could also be seen as a recognition that support for the informal economy involves addressing much more complex issues than simply providing life skills, entrepreneurship training, a business attachment, mentoring and seed funding, as the decree specified.

... but properly supporting the informal economy requires addressing complex issues.

The first major issue to address in working out how to support the informal economy is to identify what the economic opportunities are for micro-enterprises and self-employment. Generic and specific business knowledge and skills are not sufficient if those receiving the training do not have a clear idea of how they will use the skills for a specific economic activity. There needs to be a realistic assessment of the demands for goods and services produced in the informal economy. This can only be done by an agency with a well-grounded understanding of agriculture and related services in the rural economy and a range of potential income-earning activities in the urban economy.

Financial literacy and technical skills training will also be required. Access to seed funding must also be supplemented by access to micro-finance facilities that provide support by encouraging savings ahead of taking on low-interest loans. Finance-related services to small operators need to be delivered by a dedicated agency that specializes in providing these services. This means having trained staff that are resourced to travel regularly to support small groups working in the informal economy. This support should include access to information on how to market goods or services, as well as ongoing business advice. Information on the economic viability of these economic activities – essentially, what is working and what is not – must also be collected, analysed and made public.

Papua New Guinea's new small business policy includes a training and development component.

In 2014, Papua New Guinea passed the Small and Medium Enterprises (SME) Act of 2014, setting up the Small and Medium Enterprises Corporation, which replaced the Small Business Development Corporation. The Prime Minister chairs the SME Council of Papua New Guinea, which also includes other key ministers as council members, including the minister for planning and the minister for treasury.

Papua New Guinea launched a new SME policy in 2016. Its objectives are to support and grow the SME sector to create new employment opportunities, to achieve sustainable economic growth outside the resources sector, and to achieve a fair and equitable distribution of wealth through majority citizen ownership of business activities. The policy has set ambitious goals to achieve by 2030, such as increasing per capita income from US\$2,000 to US\$9,600 (PwC, 2016). The new SME policy outlines 15 key strategies, which cover a range of complex issues to do with the operation of new and existing businesses. Only one of the stated key strategies is to provide training and development (PwC, 2016).

C. Policy considerations

Fiji and Papua New Guinea represent the two largest economies among the Pacific Island nations. Their relatively large labour forces can be an advantage, helping drive economic growth and prosperity. However, careful consideration must be given to what policies will help this growth. This chapter has focused on how different kinds of intermediaries can help build an efficient and inclusive labour market. While Fiji and Papua New Guinea have each made investments in public employment services, there is ample room for improvement. Job placement services in either country are basic and, at times, ineffective. Little or no attention has been given to the needs of the very employers who are supplying paid jobs. In Fiji, it's unclear whether the existing employment skills training course reflects market demands, while other training services may not meet the needs of the jobseekers they are meant to help.

The labour market in Papua New Guinea differs from Fiji in that it has a high demand for middle- to high-skilled workers, mainly due to its resource sector. These skill needs are generally met by both foreign and domestic workers, with help from active recruitment agencies and job websites. However, valuable labour market information in Papua New Guinea is underused – a clear missed opportunity.

The following key principles shape the strategies intended to help Fiji and Papua New Guinea's publicly funded national employment services become more effective: (1) focus on meeting the needs of employers and expanding the reach of job placement services; (2) provide assistance to target groups of disadvantaged jobseekers; and (3) take advantage of existing data sources. Ultimately, Fiji and Papua New Guinea's large workforces are a valuable opportunity, though much work remains to realize their potential. However, there are concrete steps policy-makers can take to help make labour markets more efficient, and ultimately improve outcomes throughout the Pacific.

C.1 Focus on meeting the needs of employers with job vacancies for low- to middle-skill workers.

First and foremost, the process of reshaping public employment services needs to begin with a renewed focus on the needs of employers. Specifically, the needs of employers with job vacancies for low- to middle-skill workers must be prioritized. In Fiji, the NEC's Foreign Employment Service has already learned this lesson after the failure of its initial selection process to provide seasonal workers to Australia.

- **Create a basic service to meet the needs of employers in Fiji:** Public employment services should aim to meet the basic needs of employers with job vacancies in lower-skill occupations. In Fiji, the most common form of publicizing job vacancies is through newspaper advertisements. But this remains an expensive process, especially for the small- and medium-sized enterprises whose needs must be addressed. Creating a website enabling small businesses to post job vacancies would significantly reduce costs, and may even encourage a greater number of job ads. This online service should charge employers a relatively small fee per job vacancy. This online ad service will also require an accurate list of jobseekers. Fiji's NEC will also need to have a means of identifying, in real time, who is seeking paid work. This can be accomplished through a parallel web-based register of current jobseekers, using unique identifiers like a tax identification number. Two such websites already exist in Papua New Guinea and are operating successfully. However, with government funding, their coverage could be greatly expanded (see box 3.11).
- **Create a more complex service for employers in lower skilled occupations:** Fiji's public job placement services do not assess a jobseeker's suitability for, or even interest in, a job vacancy. Employers in low-skilled occupations, meanwhile, cannot afford the more specialized but costly services of a for-profit recruitment firm. To meet their needs,

Fiji's NEC could offer a for-fee service that would screen and shortlist job applicants. This matching service should be funded through an open competitive tender. Other established employment agents should also be encouraged to apply. The high barrier to entry of posting a FJD20,000 surety for employment agents should be removed in favour of an annual registration fee of FJD1,000.

- **Find out more about the effectiveness of work attachments as a pathway to employment in Fiji and Papua New Guinea:** It is important to investigate the benefits and costs of work attachments, for both unemployed jobseekers and employers. There is a lack of evidence about the benefits to employers in terms of screening for potential employees. Nor is there evidence of the value of work attachments as a pathway to permanent employment with other employers. It is also important to identify the transaction costs involved and how these costs might be reduced.

C.2 Provide assistance to specific groups of jobseekers who face major disadvantages in the labour market.

- **Tailor support services for jobseekers:** Fiji's NEC has an important role to play in providing effective job-ready training for jobseekers for lower-skilled occupations. The most effective way to do this is to first identify jobseekers who do not have the attitudes and skills to meet the requirements of employers. This can be done using a specialized website to identify current jobseekers and the jobs for which they are applying. Unsuccessful job applicants should be invited to take part in an interview to determine what support is needed to improve their chances of finding work.
- **End fees for disadvantaged jobseekers:** A key target group should include disadvantaged jobseekers, such as such as young people living in large urban areas with low education levels who have been without paid work for six months or more. This assistance should be funded in whole by the Government and not partly by the jobseekers themselves, as is now the case for Fiji's NEC clients.
- **Improve skills among NEC staff:** In order to meet the needs of all clients, but especially clients from target groups, NEC staff need the skills to offer individualized responses as case managers or employment advisers. These include communication skills, as well as counselling and problem-solving skills.
- **Expand the NEC's reach:** Fiji's NEC is too Suva-centric. The six NEC offices outside the capital have few staff and act merely as post boxes for receiving and verifying registration forms. These offices need to be upgraded with more trained staff and services such as updated, region-specific labour market information, enhanced job counselling and the ability to promote and add value to the proposed website.

C.3 Take advantage of existing sources of labour market information.

Labour market information has a vital role to play in helping school-leavers and others determine which jobs are likely to have vacancies based on job turnover and new growth. It can also provide jobseekers with up-to-date descriptions of the post-secondary qualifications needed for skills-based occupations. Much of this information can be found from existing data sources and does not require setting up an elaborate labour market information system.

- **In Fiji, focus on analysing existing data sources:** The 2015-2016 Employment and Unemployment Survey, conducted by the Fiji Bureau of Statistics, is a good source of information for a wide range of occupations. This information can be compiled as a database and be made available online to teachers and school-leavers. The aim of the database is to help users identify jobs that have shown recent growth, where they are

located and what further training is required. The NEC should have the capacity to analyse these data because it only involves making use of five or six variables from the survey.

- **Explore data from the NEC itself:** Another valuable source of labour market information can be found within the operations of the NEC itself. This includes up-to-date information on which employers are offering work placements, as well as the conversion rate to ongoing employment.
- **Use available data to reduce reliance on foreign workers in Papua New Guinea:** The country's Department of Labour already tracks data on foreign workers through its processing of work permits. Good information is also available from licensed employment agents' monthly reporting requirements. This information can be used to identify employers who have become dependent on foreign workers in specific middle-skill occupations. These employers could be encouraged to recruit Papua New Guinean workers by monitoring their commitment to the training of Papua New Guinean workers. An analysis of the well-maintained work permit database needs to be undertaken to identify the employers with occupations at middle-skill levels who have been granted work permits for an extended period.
- **Issue a policy statement targeting employers that are reliant on foreign workers:** Announce that employers who have renewed work permits on more than one occasion for specific middle-skill occupations will have to identify a Papua New Guinean counterpart to replace a foreign worker. For employers who fail to meet this requirement, withdraw permission for that employer to obtain future work permits for a specific occupation or any middle-skill occupation.
- **Use available data to identify which occupations have sufficient Papua New Guinean graduates:** The monthly reporting requirements of licensed employment agents list key details including name, gender, age, education level, employer's name, position and location. This information provides good evidence of the availability of PNG workers based on education level for specific occupations.

Box 3.11

Exploring successful job websites in Papua New Guinea

Existing websites in Papua New Guinea illustrate how a website can be used to help meet the needs of employers and jobseekers. Three examples of relevant websites in PNG are: PNG Jobseek, the Institute of Banking and Business Management (IBBM) Enterprise Centre and PNGworkforce.com. The first two websites have been set up with relatively little expense by private sector and non-government entities operating with limited budgets.

The PNGJobseek website lists 320 employers and 28,276 registered jobseekers; there are 28,596 visits per month with an average of 156 applications per job advertisement. For a subscription fee of PGK345 per month, employers are allowed one job advertisement and a short questionnaire to help screen candidates. The service includes a short message service (SMS)/text message notification system that alerts applicants when they are approved or rejected. In addition to the browser-based platform, the site can also be accessed by a smartphone app. PNGJobseek has partnered with Digicel mobile phone network for its SMS alerts service. Jobseekers can apply for jobs using their mobile device; they can also use text messages to open an account and search for jobs. Jobseekers can upload their curriculum vitae (CV) online, via email or by post.

The PNG Employment and Supplier Database is run by the IBBM Enterprise Centre. The database includes business and employment opportunities throughout Papua New Guinea, in addition to the Papua New Guinea LNG project. Once registered on the database, jobseekers can search and apply for jobs. Employers can also register and post job vacancies and business opportunities. This saves costs and time for small SMEs who would otherwise advertise vacancies in print media. Annual subscription fees give members access to thousands of CVs from candidates, as well as business profiles.

Source: The description of PNGJobseek is taken from its website, supplemented by an interview with the site manager. The description of the PNG Employment and Supplier Database is adapted from Enterprise Centre Assessment Magazine 2013 Edition.

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CHAPTER 4

MIGRATION AND MIGRATION POLICY IN THE PACIFIC ISLANDS

Introduction

Great distances and poor labour market outcomes are driving Pacific Islanders overseas in search of better job opportunities. Previous chapters in this report have explored how countries' small sizes and remoteness have limited economic growth and impeded job creation. At the same time, the region's young and growing populations are finding it difficult to find work. On average, 57 per cent of the population in the Pacific Islands is below the age of 25. In most countries, employment rates are estimated to be less than 50 per cent among the working-age population (World Bank, 2016). There are simply not enough jobs to accommodate all of the Pacific Islands' young workers. Given these challenges in the labour market, it is not surprising that many Pacific Islanders have looked elsewhere for new opportunities.

This chapter aims to paint a profile of the Pacific Islanders moving overseas in rising numbers, while outlining how inclusive policies in both sending and receiving countries can help leverage migration's benefits. Section A explores regional trends, showing how differences among the Pacific's subregions are seen in migration patterns today. Section B analyses migration policies in key destination countries, which ultimately determine the scale of opportunities available to the Pacific Islands workforce. Finally, Section C offers policy considerations in order to build toward regional policies that harness positive outcomes for sending economies, destination countries and migrant workers themselves.

A. Migration trends¹

Migration is occurring at a rapid pace...

The number of emigrants from PICs has almost doubled over the last 25 years. Today, more than 460,000 Pacific Islanders live overseas.² Migration from countries in the Pacific began to intensify during the latter half of the twentieth century. This was particularly the case in Polynesian and Micronesian countries.³

¹ The Database on Immigrants in OECD countries, referenced in this chapter as OECD (2010), does not take into account where there is a large number of persons born in a country who do not have an ancestry indigenous to that country. Therefore, many recorded as born in Papua New Guinea and now resident in Australia are the children of a large number of teachers, health staff and other expatriates in the private sector who worked there in the 1960s to 1980s. This caveat should be taken into account in any discussion of those born in Papua New Guinea now resident in Australia. For more, see Curtain et al. (2016).

² Unless otherwise stated, calculations for PIC regional figures in this chapter refer to information on 11 Pacific Island states: the Cook Islands, Fiji, Kiribati, the Marshall Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

³ See Connell (2015).

Table 4.1 Share of PIC migrants in main destination countries

	PIC migrants	Percentage share
New Zealand	143 625	3.4
Australia	121 702	0.6
United States	100 727	0.03

Source: Calculations from OECD (2010).

Note: Percentage share refers to share of PIC-born migrants among foreign-born populations in respective metropolitan states.

In fact, migration from PICs has grown at a faster pace than global migration.⁴ However, it represents a fraction of global migrant stocks – 0.19 per cent.⁵ Most Pacific Island migrants live in one of three countries: Australia, New Zealand and the United States. Even in these receiving countries, however, they represent a very small portion of total migrants, ranging from 0.03 per cent of the foreign-born population in the United States to 3.4 per cent in New Zealand (see table 4.1). This stands in stark contrast to the fundamental importance these destination countries have for migration among PICs, whose economies depend on labour mobility for valuable remittances and to alleviate the consequences of local job shortages. There has been very limited migration within the region's island states and territories: Only 1.9 per cent of Pacific Island migrants moved to any of the 11 PICs considered in this chapter, although a greater proportion – 6.3 per cent – headed toward other small territories in Oceania. (see table 4.2)

Table 4.2: Destination for overseas Pacific Islanders

		Migration within PIC-11 countries
Main destinations	83.1	
New Zealand	31.6	
Australia	31.3	
The United States	20.1	
Other Oceania	8.2	1.9
Polynesia	4.6	0.4
Melanesia	2.4	1.3
Micronesia	1.2	0.3
Other destinations	8.7	
Total	100	

Source: Calculated from OECD (2010); UN (2015).

⁴ Given the small size of some PICs, censuses and labour force surveys in the main destination countries do not list all PICs separately; therefore, migration figures should only be taken as an estimate.

⁵ Calculations based on UN (2015), adjusted using information from OECD (2010) and Australian Bureau of Statistics (2017).

... especially from Polynesian countries...

The Polynesian states account for only 3.3 per cent of the population in the PICs considered in this chapter, yet more than 40 per cent of overseas Pacific Islanders are Polynesian. Cook Islands has as many citizens living abroad as it does at home, while Samoa and Tonga have emigration rates exceeding 50 per cent. Tuvalu has the lowest emigration rate among these four states – 35 per cent – yet this is still higher than other countries in the Melanesia and Micronesia regions. For Micronesia, roughly one in every three citizens of Palau or the Marshall Islands lives abroad, while less than 6 per cent of the I-Kiribati population lives overseas. Migration rates from Melanesian countries are relatively low. In Papua New Guinea, which accounts for three-quarters of the population in the PICs, the emigration rate is less than 1 per cent. Solomon Islands has a comparable rate. Fiji is an exception in this subregion. Migration here surged following coups in 1987 and 2000 – particularly among the country's large Indo-Fijian population. Today, Fijians are the largest overseas population of any of the PICs, accounting for 44 per cent of the region's outmigration.

... whose migrants have been drawn to New Zealand in particular.

New Zealand has been the primary destination for migrants leaving Polynesian countries. This stems partly from historical and political affiliations. Cook Islands and Samoa were territories under New Zealand administration during much of the twentieth century. When the two countries attained autonomy – Samoa gained independence in 1962 and Cook Islands achieved self-governing status in 1965 – they maintained ties that heavily influence migration to this day. Samoa, for example, signed an agreement allowing a yearly quota of Samoans to receive permanent residency in New Zealand – a number set at 1,100 today. New Zealand also offers citizenship and unrestricted labour market access to Cook Islanders under a free association agreement. Today, New Zealand hosts half of all Samoan migrants, as well as 67 per cent of Cook Island migrants (see table 4.3).

New Zealand never formally colonized Tonga, but it is nevertheless home to 42 per cent of overseas Tongans. This large share stems partly from the fact that Tongans were granted temporary working visas to New Zealand in the 1960s and 1970s. While some Tongans returned home at the end of their visas, a 1974 amnesty granted permanent residency to those who remained. Today, 250 Tongans each year are able to obtain permanent residency as part of New Zealand's Pacific Access Category visa programme, which also includes citizens from Tuvalu, albeit at lower numbers.

Table 4.3: Key statistics on overseas Pacific Islanders, listed by home country

	Share in PIC population	Share in PIC emigration	Emigration to population ratio	Main destination countries and shares
Melanesia	94.8	55.0	2.7	
Papua New Guinea	77.1	8.1	0.50	AUS:87, NZL:3.8
Fiji	9.0	44.2	23.0	AUS:35, NZL:25, USA:21
Solomon Islands	5.9	0.8	0.7	AUS:61.4, Fiji:18.3, UK:9.5
Vanuatu	2.7	1.9	3.4	New Caledonia:55.2, AUS:15.3, FRA:8.0
Micronesia	1.9	3.1	16.8	
Kiribati	1.1	1.0	5.8	USA:28.7, NZL:19.5, Nauru:14.8, Fiji:12.6
Marshall Islands	0.5	1.5	33.0	USA:94, Guam:3.3
Palau	0.2	0.6	34.1	USA:63, Guam:21, Northern Mariana Islands:9
Polynesia	3.3	42.0	59.0	
Samoa	2.0	24.4	58.6	NZL: 50.0, AUS:19.7, USA:14.4
Tonga	1.1	12.2	53.2	NZL:42.4, USA:30.9, AUS:19.7
Tuvalu	0.1	0.7	35.0	NZL:40.7, RUS:17.4, Fiji:12.2
Cook Islands	0.2	4.6	103.2	NZL: 67.4, AUS:32.3

Source: Calculated from Australian Bureau of Statistics (2017); OECD (2010); UN (2015).

Notes: AUS, Australia; FRA, France, NZL, New Zealand; UK; United Kingdom; USA, United States.

Elsewhere, Australia and the United States are also main destination countries.

Just as Polynesian migrants have headed to New Zealand in large numbers, migrants from the Melanesian region tend to favour Australia. Australia is home to nine of every ten Papua New Guinean migrants, as well as two-thirds of migrants from Solomon Islands. About one third of Fijian migrants live in Australia. Vanuatu is the exception among its regional neighbours; its migrants' main destination is New Caledonia.

PICs in the Micronesian region, meanwhile, have strong links to the United States, due in large part to a pact that allows access to the US labour market. The Marshall Islands, Federated States of Micronesia and Palau form part of the Compact of Free Association, which allows citizens from the three Pacific countries to live and work in the United States. As such, the United States is the main destination country for Palauan and Marshallese migrants. Although Kiribati is not a part of the agreement, one quarter of its migrants still live in the United States.

Women are generally well represented among Pacific Island migrants with key exceptions.

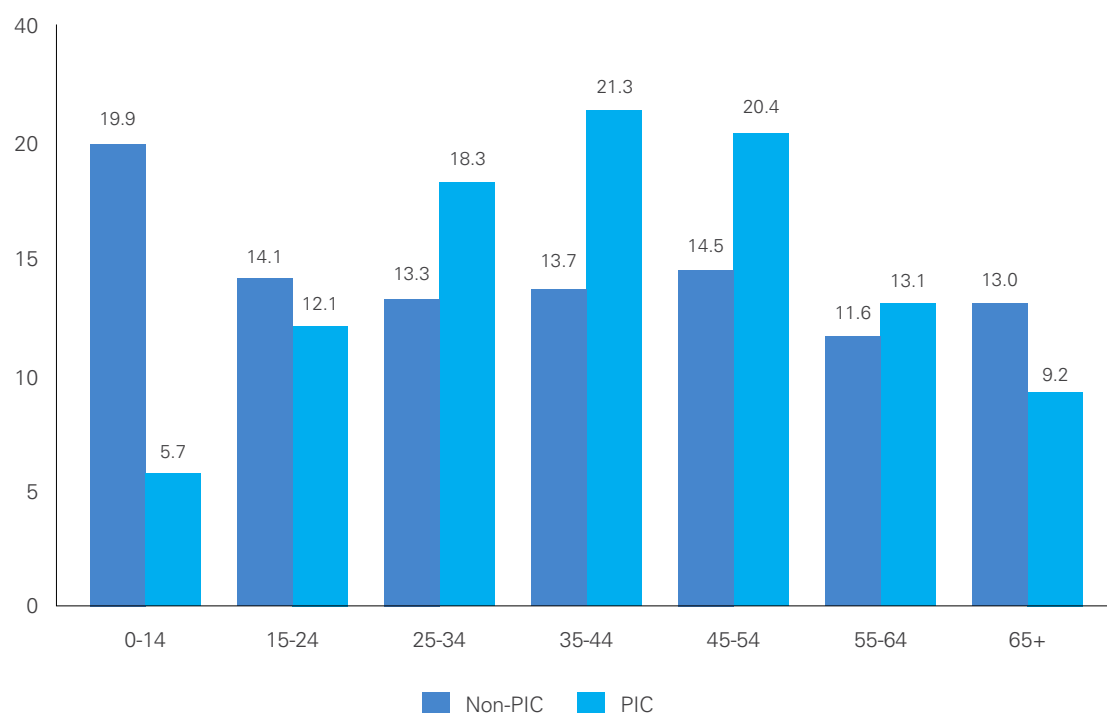
Female migrants from PICs outnumber their male counterparts: An estimated 52 per cent of overseas Pacific Islanders are women or girls (see table A4.1). In only three countries – Palau, Tonga and Vanuatu – does the share of female migrants fall slightly below 50 per cent. At the same time, Kiribati and Papua New Guinea have a relatively high share of female migrants – 58 and 56 per cent, respectively. However, women are under-represented in seasonal work schemes, and employment outcomes in destination countries offer a more nuanced picture of gender differences. These issues will be explored later in this chapter.

Employment is an important motivation for the Pacific's migrants.

In Kiribati, Nauru and Tuvalu, household surveys on climate change and migration showed that employment was the primary motivation for internal and international migration, followed by education.⁶ The age distribution of Pacific Islanders overseas also suggests that the search for better employment is an important driver of the region's migration. Only 15 per cent of overseas Pacific Islanders are elderly people (age 65 and older) or children (ages 0-14). This shows that much of the Pacific's outflow occurs during migrants' most productive years – three of every four migrants are between the ages of 25 and 64. This is especially apparent when comparing the age distributions of PIC migrants in Australia, New Zealand and the United States to migrants from other parts of the world. Figure 4.1 shows that children form the largest age group among non-PIC migrants in these countries. For migrants from PICs, however, children and the elderly are the two smallest age groups. The largest age category consists of migrants between 34 and 44 years old.

⁶ Data collected under the Pacific Climate Change Migration project showed that work (37 per cent), followed by education (26 per cent) and climate change (18 per cent) were the main motivations for migration. See: <http://www.unescap.org/esources/climate-change-and-migration-pacific-links-attitudes-and-future-scenarios-nauru-tuvalu-and>

Figure 4.1: Age distribution of Pacific Islander and non-Pacific Islander migrants



Source: Calculated from OECD (2010).

Note: Age distributions refer to PIC and non-PIC migrants in Australia, New Zealand and the United States.

Although this age pattern holds true when looking at individual nations in the Pacific, there are key distinctions worth noting. The dependency ratio tends to be larger among migrants from Polynesian states, meaning there is a larger proportion of children and the elderly compared with other PICs (see table A4.2).⁷ This could be the result of Polynesian countries' relatively early migration patterns; the Pacific's first large wave of emigration toward metropolitan states originated in Polynesia. As such, a slightly higher ratio of people aged 65 and older may be evidence of this earlier wave of migrants ageing in the destination country. It may also point to settled workers bringing children, elderly people and other dependents to the new country. Cook Islands has the region's largest dependency ratio, at 26 per cent. This may be the result of Cook Islanders having New Zealand citizenship, which would mean they are not restricted by employment-conditional residency and that there are no legal obstacles to family reunification.

The share of youth – people between the ages of 15 and 24 – is particularly high among migrants from the Micronesia subregion. Youth account for 44 per cent of Marshallese migrants and 23 per cent of Palauans. Unfortunately, the available data for these countries do not distinguish between young migrants who emigrated for work and those who emigrated to pursue higher education.

⁷ The dependency ratio is the number of elderly people and children compared to the number of people of typical working age.

Although there are important exceptions, migrants from the Pacific Islands have similar levels of education compared to other migrant-sending countries.

Previous chapters in this report have explored how skills shortages and educational attainment have played a role in labour market challenges in many PICs. Differences in education levels are also an important element when it comes to overseas Pacific Islanders and migration policy.

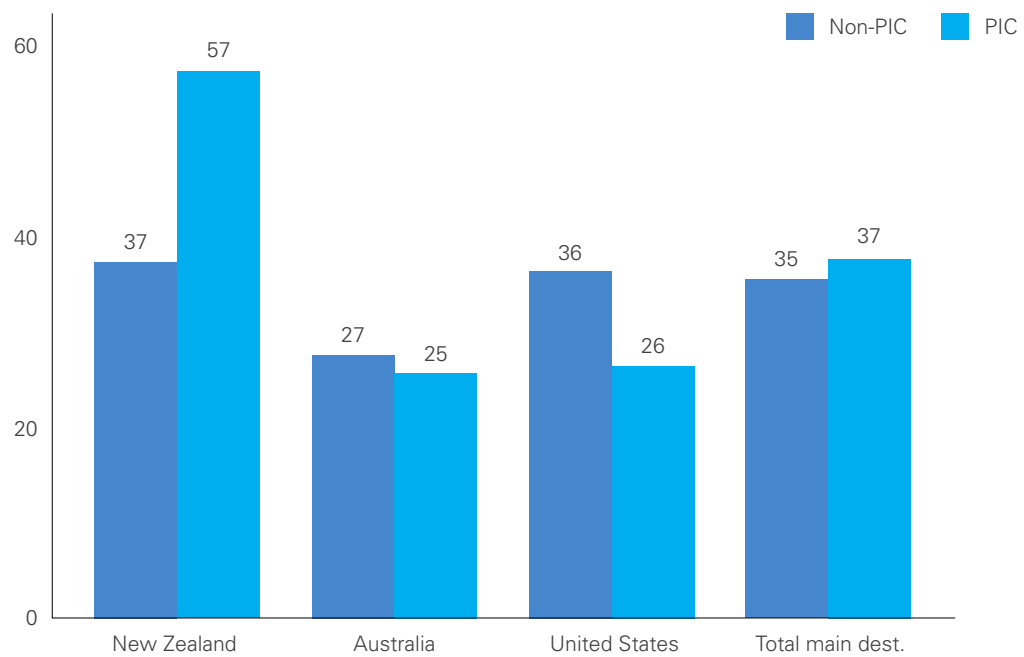
The share of low-skilled migrants is the highest among Polynesians; one in every two migrants from this subregion do not have an upper-secondary education. This is especially true for migrants from Cook Islands – more than two-thirds are low-skilled. For all the other Polynesian states, the share of low-skilled migrants is at least 40 per cent (see table A4.3). Melanesia is on the other end of the spectrum. A large proportion of migrants from this subregion have tertiary education – 30 per cent or more in some cases. Roughly 39 per cent of migrants from Papua New Guinea, and 37 per cent of migrants from Solomon Islands, have tertiary education. Migrants from the Micronesian subregion generally fall between Polynesia and Melanesia in terms of educational attainment.

Compared to migrants from other parts of the world, however, PIC migrants do not have particularly low skill and education levels. In fact, PIC migrants are more likely to have diplomas than non-PIC migrants in the United States and, to a lesser extent, Australia. The situation is reversed in New Zealand, however, where Pacific Islanders with low education levels account for more than half of their region's migrants – a considerably larger share than other migrant groups in the country (see figure 4.2).

New Zealand is the key destination for low-skilled migrants, which could point to important distinctions in migration policy.

Polynesians represent a main source of migration from PICs in New Zealand, and Polynesian migrants include a relatively large share of low-skilled workers – but this is only a partial explanation. In fact, less-qualified migrants from Melanesia and Micronesia also tend to prefer New Zealand as a destination country, compared to Australia and the United States (see figure 4.3). For example, figure 4.4 shows how the varying educational profiles of PIC migrants have taken shape in destination labour markets. “Professionals” is the most common occupational category among PIC migrants in Australia, while “labourers” is the most common category in New Zealand. This is likely the result of New Zealand's migration policies for the PICs, which have generally included development objectives rather than solely prioritizing education and skill levels. This may suggest an important path forward for equitable migration policies, which will be examined in greater detail later in this chapter.

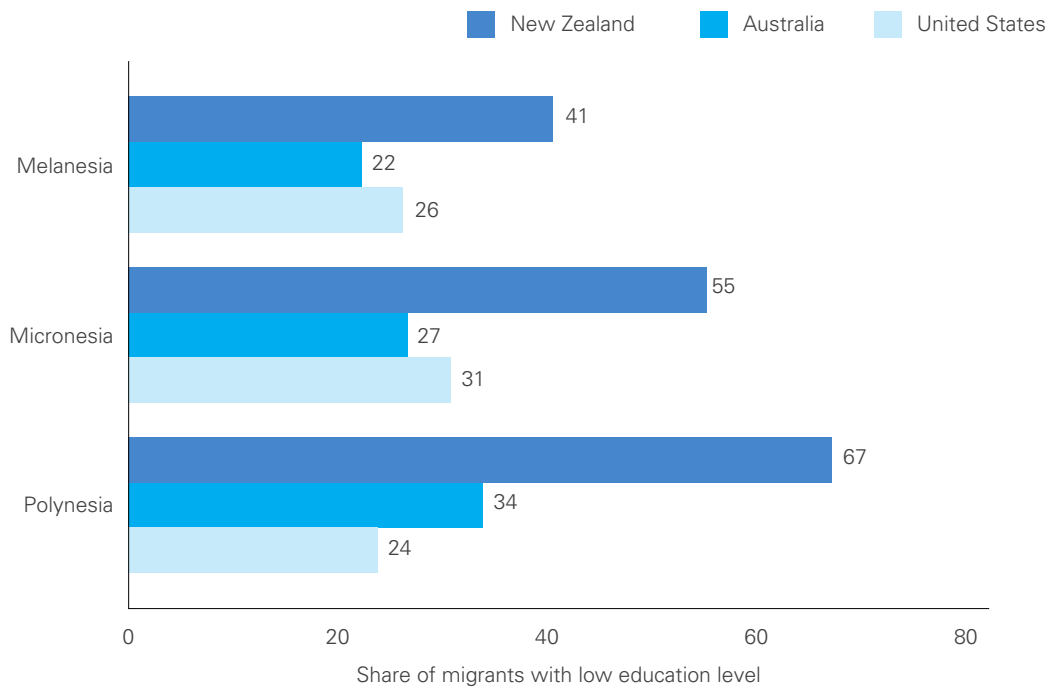
Figure 4.2: Share of low-skilled PIC emigrants by destination



Source: Calculated from OECD (2010).

Note: The figures refer to the share of migrants with primary and lower secondary education in total migrants by destination.

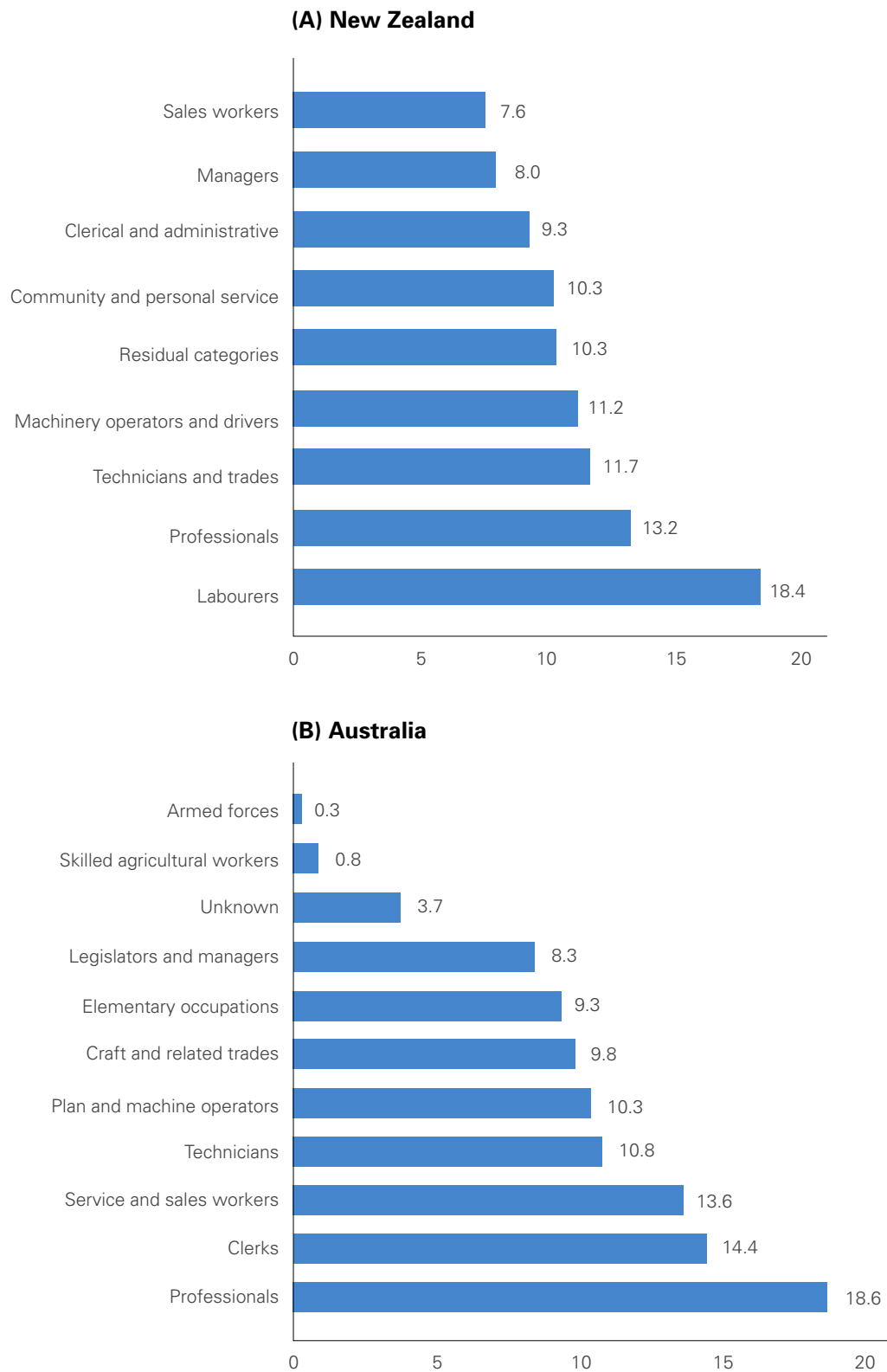
Figure 4.3: Share of low-skilled PIC migrants by subregion



Source: Calculated from OECD (2010).

Note: The figures refer to the share of migrants with primary and lower secondary education in total migrants by destination and subregion.

Figure 4.4: Occupation of Pacific Islanders overseas

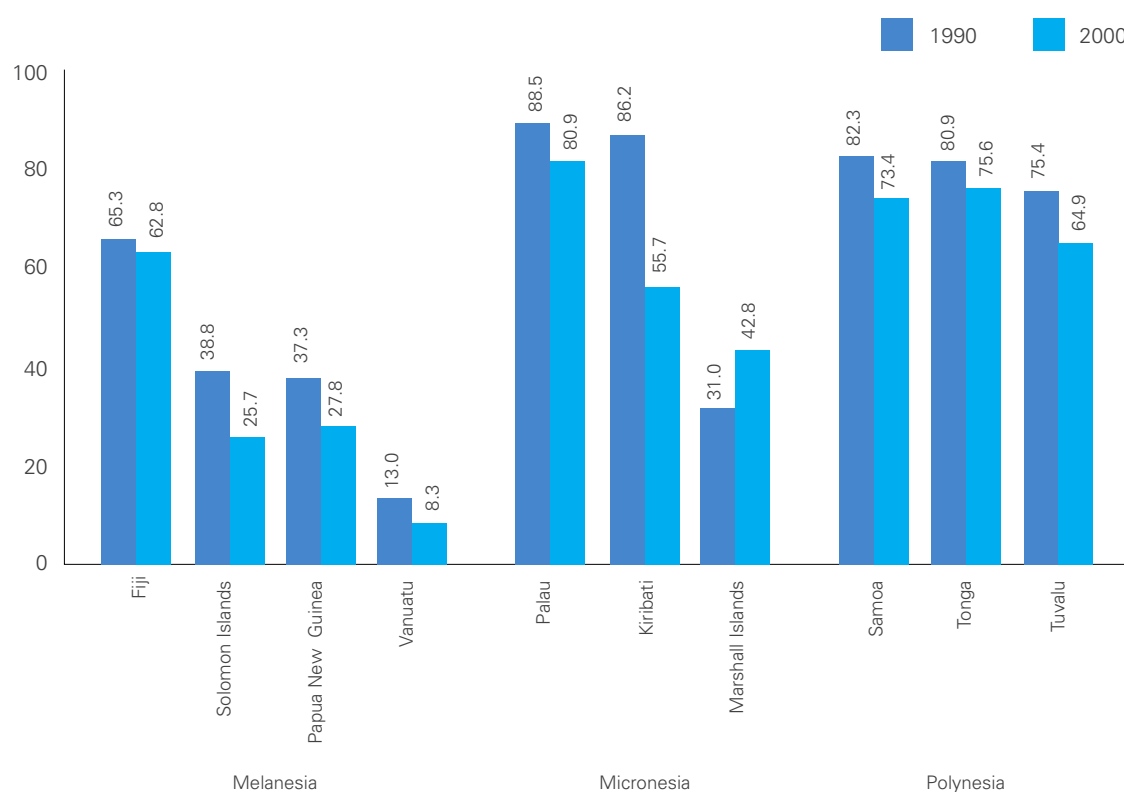


Source: Calculated from OECD (2010).

Emigration rates for highly skilled Pacific Islanders are among the world's highest.

The prevalence of low-skilled migrants among some PIC sending countries does not mean that the threat of “brain drain” is not a concern. A 2009 World Bank study constructed emigration rate estimates for migrants with tertiary education (Docquier et al., 2009). The analysis showed that emigration rates for highly skilled Pacific Islanders were among the highest in the world, although they had improved over time. Palau had the highest such emigration rate among PICs, at 80 per cent, while Samoa and Tonga both surpassed 73 per cent. All PICs, apart from Vanuatu, had high-skill emigration rates that topped 25 per cent (see figure 4.5). In all the PICs, in fact, the emigration rate for highly qualified migrants exceeded the overall emigration rate for the total population.

Figure 4.5: Emigration rate of tertiary educated



Source: Docquier et al. (2009); World Bank (2017).

Note: Emigration rate of tertiary educated shows the stock of emigrants ages 25 and older residing in an OECD country, with at least one year of tertiary education as a percentage of the population age 25 and older with tertiary education at home.

Box 4.1

Does emigration leave PICs short of skills?

To date, there is no consensus on the net costs that so-called brain drain may represent for sending countries. Remittances are a valuable part of Pacific Island economies, boosting household earnings and enabling investments in other key areas. In Tonga, for example, remittances have fuelled investments in education, helping to increase school attendance (Gibson and McKenzie, 2014b).

However, the outflow of skilled and educated workers could lead to shortages of these skills at home in the short term – this could be a critical problem in essential occupations like health and education.

Indeed, when looking at Pacific Island migrants in terms of occupation, 48 per cent working in “professional” fields in Australia are listed as “life science and health professionals” or “teaching professionals”. In New Zealand, 46 per cent of similarly categorized PIC migrants are working in education or health.

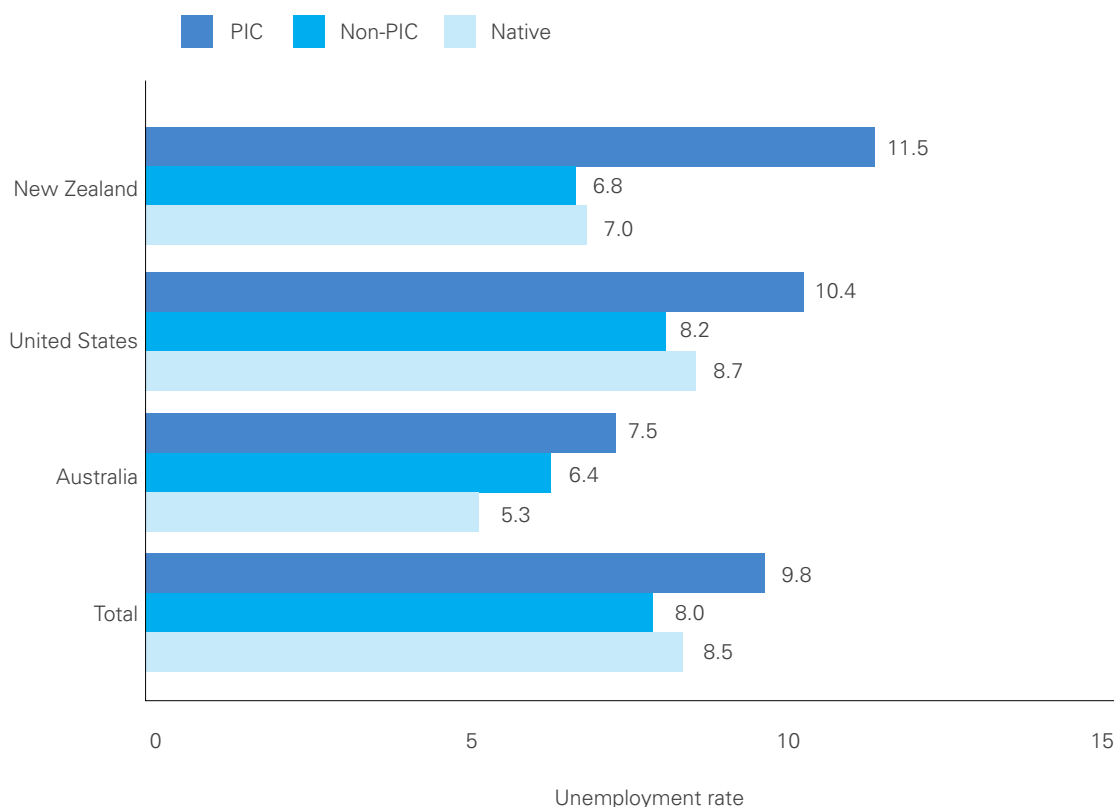
Even if relatively few workers in these essential professions leave their home countries, it could well result in crucial skills shortages that may limit progress in the fundamental fields of education and public health.

Even compared to migrants from other regions, Pacific Islanders tend to have poor employment outcomes...

Migrants from PICs have relatively poor employment outcomes in the three main destination countries. In Australia, New Zealand and the United States, Pacific Islanders tend to have higher unemployment rates than native-born workers and migrants from other parts of the world. This gap is most striking in New Zealand, where the unemployment rate is 11.5 per cent for Pacific Islanders and 7 per cent for New Zealand-born workers. PIC migrants also have the largest inactivity rate – 37 per cent of the working-age population – of any migrant group in New Zealand.⁸ There are also sizeable gaps in unemployment rates between PIC migrants and locally born workers in Australia and the United States (see figure 4.6). However, the inactivity rate for PIC migrants in these countries is relatively low – about 29 per cent.

⁸ The inactivity rate refers to the proportion of the working-age population that is not in the labour force.

Figure 4.6: Unemployment rate of Pacific Islanders overseas, main destinations



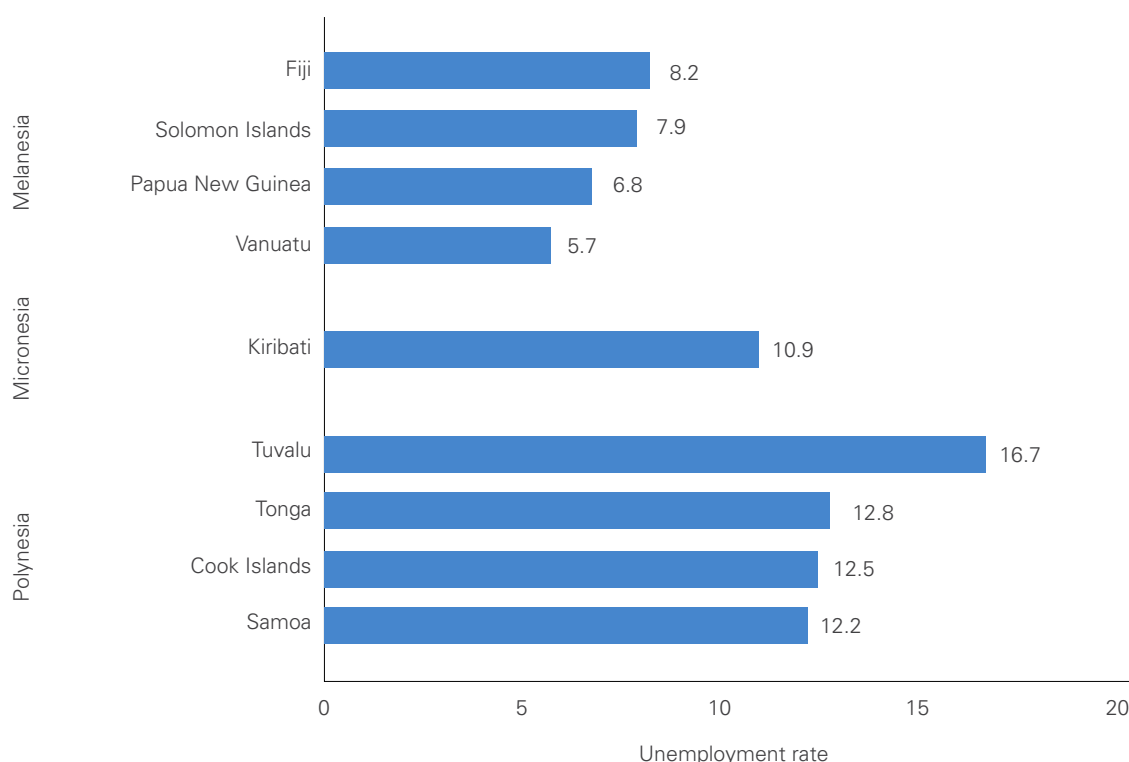
Source: Calculated from OECD (2010).

Note: Non-PIC refers to migrants from countries other than the PICs.

... particularly Polynesian migrants...

Polynesian migrants have particularly poor employment outcomes. Migrants from Polynesian states have unemployment rates that exceed 12 per cent in the three main destination countries; Tuvaluan migrants have the largest unemployment rate at 16.7 per cent. Polynesians also have the highest inactivity rates – more than 37 per cent for Samoans and Tongans, and more than 40 per cent for Cook Islanders and Tuvaluans. In contrast, Melanesian migrants have the lowest unemployment rates among the PICs: 5.7 per cent for Ni-Vanuatu and 6.8 per cent for Papua New Guineans (see figure 4.7).

Figure 4.7: Unemployment rate for Pacific Islanders overseas



Source: Calculated from OECD (2010).

Note: Statistics refer to PIC migrants in Australia, New Zealand and the United States.

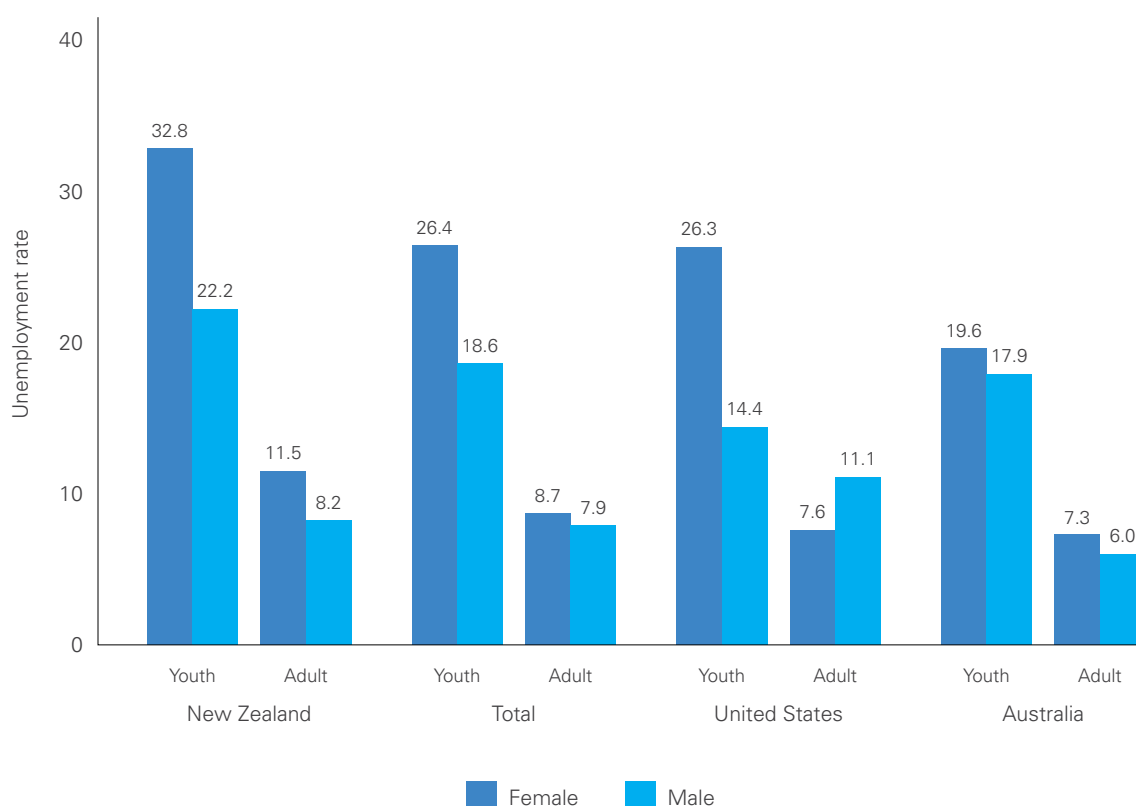
... while females and youth especially struggle with unemployment overseas.

Integration into host countries' labour markets is particularly difficult for women and youth from nations in the Pacific. When compared to their male counterparts, female migrants show relatively high inactivity rates and unemployment rates. More than one third of migrant women of working age are inactive; only one quarter of their male counterparts are not in the labour force. At the same time, the unemployment rate for Pacific Islander women is 1.4 percentage points higher than that of men. Finally, young overseas Pacific Islanders have an unemployment rate of 22.4 per cent on average – 14 percentage points higher than that of adult emigrants.

Female and youth migrants from Polynesia fare particularly poorly. The unemployment rate for young emigrants is 27 per cent on average for the Polynesian states. At the same time, 45 per cent of overseas Polynesian women are not in the labour force; of the few who do enter the labour force, 14.5 per cent are unemployed (see table A4.4 for unemployment rate by age and sex).

Finally, the youth unemployment rate for PIC emigrants is particularly high in New Zealand – and especially so for females. The unemployment rate for young female migrants in New Zealand is almost 11 percentage points higher than it is for young men; roughly one third of young PIC women in New Zealand's labour force are unemployed (see figure 4.8).

Figure 4.8: Female and youth unemployment rates for PIC migrants in main destination countries



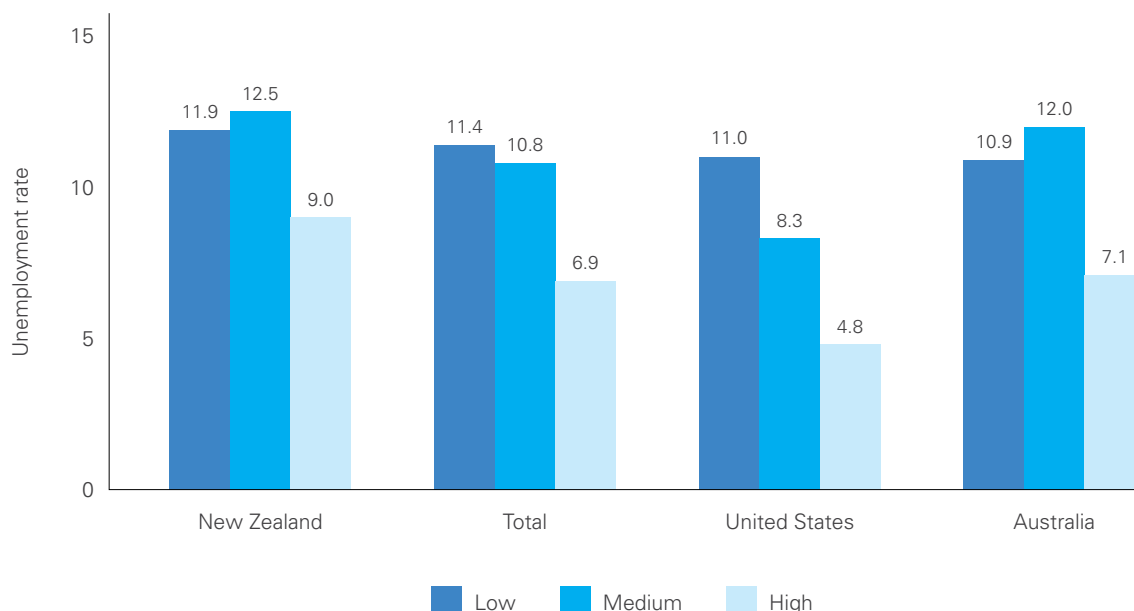
Source: Calculated from OECD (2010).

Note: Youth refers to ages 15–24 and adults to ages 25–65.

Education may play a role in these disappointing outcomes, but it is not the only factor.

Education levels may provide a partial explanation for poor employment outcomes. Low-skilled migrants from PICs predominantly go to New Zealand and originate from Polynesian states, while low- and middle-skilled Pacific Islanders fare much worse than highly qualified migrants in all three main destination countries (see figure 4.9). Unemployment rates for low-skilled PIC migrants in all three countries are significantly higher than for highly qualified Pacific Islanders. This disparity is particularly evident in Australia, where the unemployment rate for low-skilled PIC migrants is more than twice as high as the rate for well-educated migrants.

Figure 4.9: Unemployment rate of Pacific Islanders overseas, main destinations and educational level



Source: Calculated from OECD (2010).

However, education levels are likely not the sole cause of the unemployment gap that Pacific Islanders face in destination countries. Notably, even well-educated PIC migrants in New Zealand experience higher unemployment rates than the average New Zealander or non-PIC migrant. PIC migrants are also more likely to have diplomas than other migrant groups in the Australia and the United States, yet they still have higher unemployment rates in both countries. These two facts suggest that the skills of migrants from the Pacific Islands are underutilized. This apparent brain waste may be the result of pure discrimination toward PIC migrants. More likely, however, it may be linked to the quality of education in PICs, and to the degree to which PIC diplomas are recognized in destination countries.

The benefits of remittances reach beyond migrants' own households...

Amid uneven economic growth and poor labour market outcomes, PICs have developed a heavy reliance on external revenue sources. Remittances and ODA together account for more than 35 per cent of the economy in six of the PICs, and as much as 84 per cent of the Tuvaluan economy (see figure A3.2).⁹

⁹ There is no information on remittances received in Cook Islands, and therefore, the country is excluded from this section.

Relative to the size of their economies, remittances are particularly large among Polynesian states, hovering around 21 per cent of GDP over the last decade (see figure 4.10). Tongans, followed by Samoans, have the largest remittance rates – 24 and 20 per cent, respectively. Remittances represent a low and declining share of Melanesian economies; however, in absolute terms, these states have received as much in remittances as the Polynesian states over the last decade. Fiji is Melanesia's largest recipient, receiving on average US\$190 million each year between 2010 and 2014. Moreover, it is highly likely that remittances are larger than official estimates, as the savings and goods that migrants bring back are not channelled through formal means.

... and play a role in reducing poverty.

While migration's net costs may still be debated, there is a wide consensus that remittances help to reduce poverty, overcome liquidity constraints and ease the impacts of domestic economy shocks on household income. Using household survey data in Fiji and Tonga, Brown et al. (2014) showed that remittances play a significant role in poverty alleviation and act as a buffer against income shocks. More than half of the surveyed households in Tonga, and roughly one third in Fiji, reported having a family member overseas. Most of these households received remittances – 87 per cent in Fiji and 98 per cent in Tonga. The research also showed that remittances benefit not only migrants' own families, but more distant relatives as well – remittances were also sent to households without migrant workers abroad, especially in Tonga. As such, 78 per cent of Tongan households with no migrants still received income through remittances.

The research suggests that remittances play a significant role in poverty alleviation in both Fiji and Tonga. Without income from remittances and migration, the poverty headcount ratio in Tonga would be 30 percentage points higher than current poverty levels, according to the authors' analysis, and 9 percentage points higher in Fiji. In both countries, remittances were crucially more important for the poorest 20 per cent of the population. Among the poorest families in Tonga, remittances were equivalent to 640 per cent of all other sources of household income; the corresponding share in Fiji was 82 per cent. Finally, families that received remittances managed to accumulate more wealth compared to those who did not, providing a stronger defence against sudden income shocks.

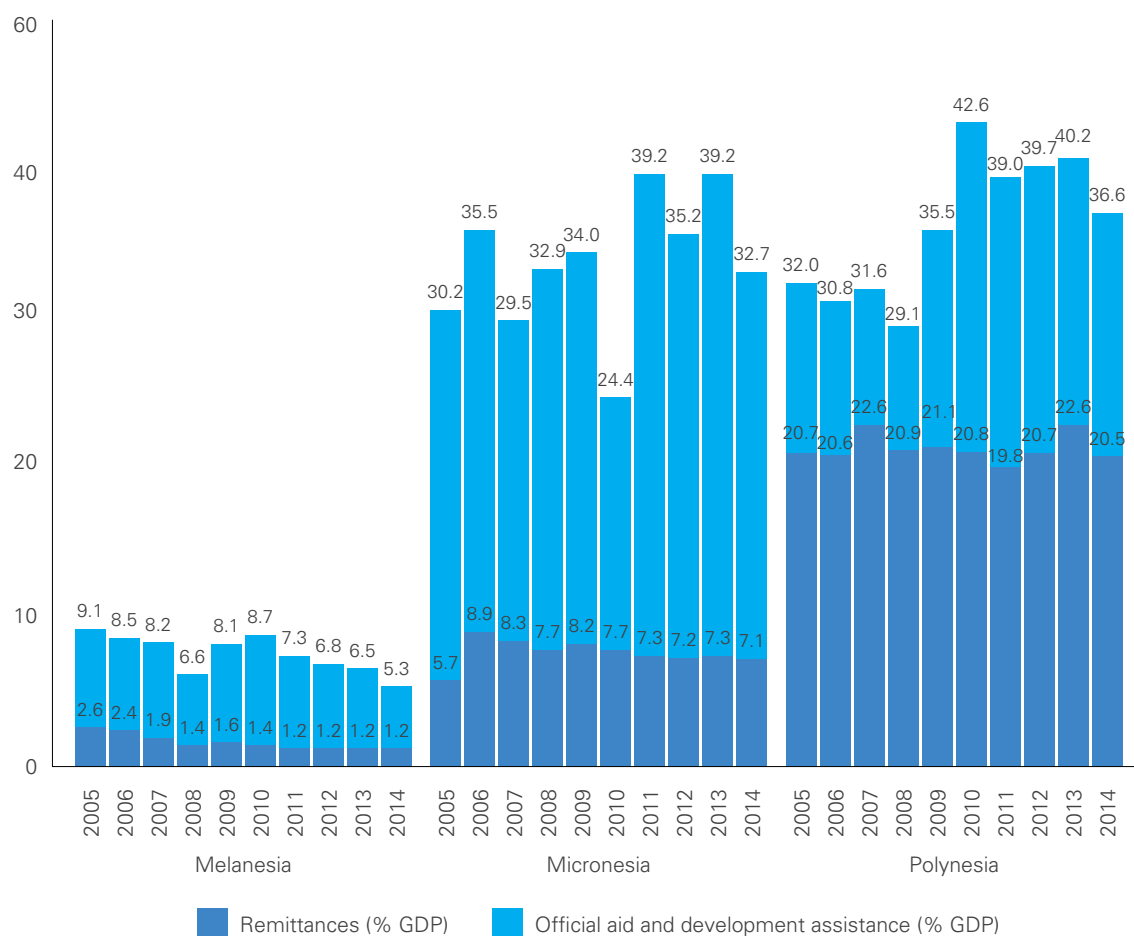
However, remittance costs remain problematically high. In mid-2015, Pacific Islanders in Australia and New Zealand were charged an average of about 11.5 per cent to send home US\$200.¹⁰ In early 2017, Samoans were charged an average of 14.4 per cent to send home US\$200 from Australia.¹¹ This is significantly higher than the SDG target of 3 per cent.

Relative to the size of their economies, Micronesian states are the main recipient of ODA within the region. However, Melanesian states, especially Papua New Guinea, are the largest recipients in absolute terms, averaging US\$600 million annually since 2010. The United States provides the bulk of ODA in Micronesian countries, while Australia is the principal source in Melanesia. Despite strong migration links with Polynesian countries, New Zealand is not the main donor in this subregion; the country ranks third, behind Australia (see figure 4.11).

¹⁰ See: World Bank: "Migration and remittances: Recent developments and outlook", Migration and Development Brief No. 26, April (Washington, DC, 2015).

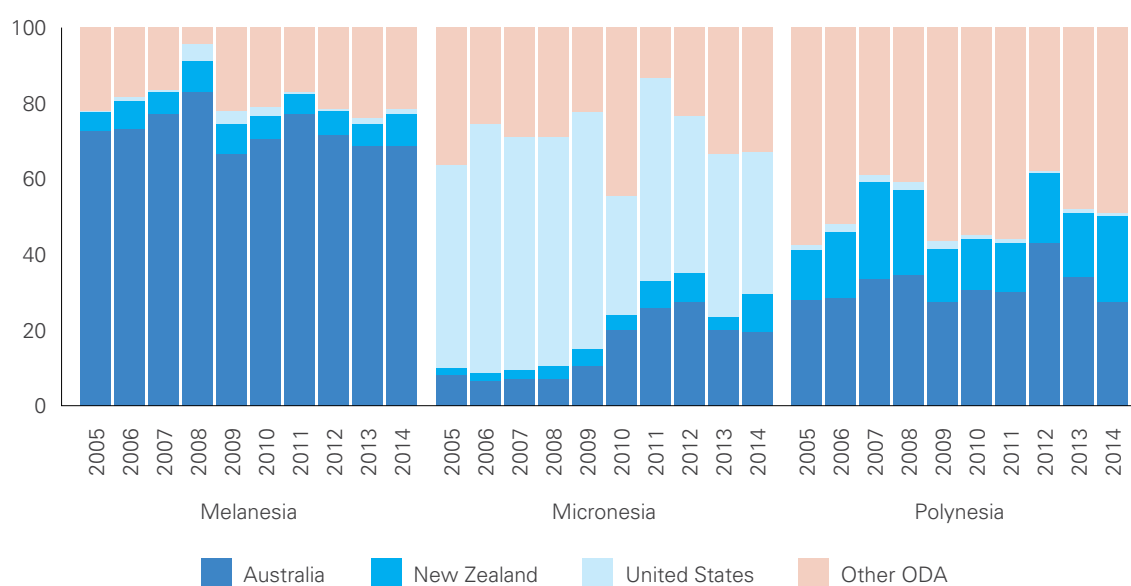
¹¹ See: World Bank: "Migration and remittances: Recent developments and outlook", Migration and Development Brief No. 27, April (Washington, DC, 2015).

Figure 4.10: Remittances and ODA to Pacific subregions, 2005–14, percentage of GDP



Source: Calculated from World Bank (2017).

Figure 4.11: Sources of ODA to PIC subregions, 2005–14



Source: Calculated from World Bank (2017).

Meanwhile, immigration to Pacific Island countries occurs at a comparatively stable pace.

In contrast with outward flows of migration from the region, inward migration to the Pacific states has remained relatively stable; the foreign-born population in the PICs has hovered between 68,000 and 73,000 since the 1990s.

For every 100 Pacific Islanders that move abroad, there are 16 immigrants moving into the region. Naturally, immigration rates are lower than emigration rates for every country in the Pacific Islands. However, Cook Islands and Palau still have relatively high immigration rates – about 20 per cent and 27 per cent, respectively. Overall, the two largest receiving countries are Fiji and Papua New Guinea, which together account for about 65 per cent of PIC immigration (see table 4.4).

Just as the Pacific's different subregions have noticeable emigration patterns in terms of primary destination countries, similar links are observable when it comes to inward migration – although these ties are subtler. For example, Australia has a relatively strong link with the Melanesian states; Australian-born migrants account for the largest share of immigration in all Melanesian states apart from Solomon Islands. Similarly, New Zealanders are well represented in Polynesian states, accounting for more than three-quarters of foreigners living in Cook Islands and more than one third in Samoa. Likewise in the Micronesian subregion, half of all foreigners living in the Marshall Islands are American-born. Box 4.2 analyses visitor arrivals in Papua New Guinea.

Still, the three metropolitan states are less important as source countries for migration than as destination countries. Instead, migrants from South and South-East Asia, as well as other Pacific Island states, encompass a prominent share of the Pacific's inward migration. Fijians, for example, account for more than 40 per cent of the immigrants in Tonga and Tuvalu, while Papua New Guineans make up more than one quarter of immigrants to Solomon Islands. South-East Asian immigrants – mainly from Indonesia and the Philippines – represent 60 per cent of the foreign-born population in Palau and 40 per cent in Papua New Guinea. South Asians from Bangladesh, India and Pakistan are important in Fiji, where they account for more than two-thirds of the total immigrant population.

Table 4.4: Key statistics on immigration to PICs

	Share in PIC immigration	Immigration to pop. ratio	Main countries of origin and shares
Melanesia	74.10		
Papua New Guinea	42.17	0.34	AUS:37.3, Indonesia:33.8, NZL:7.2, UK:6.6, PHL:5.9
Fiji	22.49	1.54	AUS:15.8, Pakistan:15.2, Bangladesh:11.4, Tonga:11.1, India:10.8
Vanuatu	5.21	1.20	AUS:27.6, France:23.7, NZL:13.7, New Caledonia:11, Fiji:9.9
Solomon Islands	4.23	0.44	PNG:28.1, AUS:13.9, Kiribati:13.2, PRC:9.8, PHL:6
Micronesia	19.79		
Palau	9.26	26.60	PHL:59.3, PRC:10.2, Micronesia FE:8.6, USA:7, Northern Mariana Islands:5.2
Marshall Islands	5.37	6.20	USA:48.9, PHL:18.5, PRC:10.9, Kiribati:9.4, Micronesia FE:8.3
Kiribati	5.16	2.80	Nauru:60.1, Fiji:20.3, Tuvalu:12
Polynesia	24.46		
Tonga	9.37	5.40	Fiji:44.7, Samoa:20.6, India:16.9, PRC:10.9, Japan:6.8
Samoa	8.06	2.55	American Samoa:35.3, NZL:33.2, USA:8.2, AUS:7.4
Cook Islands	6.79	19.93	NZL:75.4, AUS:10.8, Fiji:4.5
Tuvalu	0.23	1.42	Fiji:43.2, Kiribati:27, USA:15.3, Samoa:14.4

Source: Calculated from UN (2015).

Notes: AUS, Australia; FRA, France, NZL, New Zealand; PHL, Philippines; PNG, Papua New Guinea; PRC, People's Republic of China; UK, United Kingdom; USA, United States.

Box 4.2

A resource boom fuels surge in visits to Papua New Guinea

In Papua New Guinea, a rise in commodity prices and the construction of the country's LNG project has triggered an economic boom – and highlighted the country's reliance on skilled foreign workers.

Papua New Guinea is attracting increasing numbers of high- and middle-skilled workers, as shown by government statistics on visitor arrival cards. Almost half of all visitors are from Australia, but there are also increasing numbers from the Philippines and other parts of Asia. The share of Asian visitors to Papua New Guinea jumped to 32 per cent in 2012 from about 21 per cent a decade earlier. The arrivals data show that while visitors from countries like Australia mainly enter the country under the "business" category, the majority of Asian visitors come to Papua New Guinea for job opportunities. Roughly 82 per cent of Filipinos arriving in Papua New Guinea in 2012 indicated "employment" as the main purpose of their visit.

In 2012, there were almost 116,000 recorded visits to Papua New Guinea for employment or business purposes, out of a total of about 155,000 visits. Between 2000 and 2012, in fact, the total number of foreign visitors to Papua New Guinea almost tripled, driven by an increase in people entering under these employment and business categories.

Among work-related visits, "administration, executive, managerial" was the most common occupational category, followed by "professional, technical". Together, these two categories accounted for 70 per cent of visitors in 2012. However the number of visits recorded under a middle-skilled occupational category – "tradespeople, mechanics, boilermen, etc." – was growing at a faster pace.

Source: Voigt-Graf (2015a); Voigt-Graf (2015b); Voigt-Graf (2015c); Voigt-Graf (2015d). Figures are based on information released by Papua New Guinea's National Statistics Office, which compiles data on persons entering Papua New Guinea as recorded on arrival cards.

Table 4.5: Main purpose of visits to Papua New Guinea

	Total			Australia			Philippines		
	2000	2012	Share 2012 (%)	2000	2012	Share 2012 (%)	2000	2012	Share 2012 (%)
Total	58 448	155 008	100	29 285	72 095	100	2 656	18 306	100
Employment	13 439	63 503	41	8 269	22 466	31	1 232	15 067	82
Business	16 441	52 435	34	9 458	28 667	40	296	1 688	9
Holidays	13 792	24 013	15	5 060	13 384	19	294	486	3
Other	14 776	15 057	10	6 498	7 578	11	834	1 065	6

Source: Calculated from Voigt-Graf (2015a).

B. Migration policies in primary destination countries

This report has already established that migration is extremely prevalent among the PICs. However, these outward migration flows are also dependent on the opportunities available overseas – and the level of access available to migrants. Therefore, migration policies in destination countries are an obvious factor dictating the scale in which Pacific Island workers can capitalize on overseas employment. Given the considerable impacts migration can have on Pacific Island labour markets, an examination of current migration policies in destination countries is a step toward formulating relevant strategies.

There are four main categories of migration programmes in the primary destination countries:

1. Seasonal worker programmes
2. Temporary skilled migration programmes
3. Long-term migration schemes
4. Free access agreements between metropolitan states and their former colonies and territories

Temporary seasonal work programmes can help both sending and destination countries...

Temporary seasonal work programmes in Australia and New Zealand have dual objectives: They aim to spark economic development in sending countries by providing workers with employment; at the same time, they help destination countries fill labour shortages on a short-term basis. These programmes offer temporary work visas – typically lasting less than one year – to unskilled workers from target countries in the Pacific. There are currently two temporary work schemes available to Pacific Islanders: the Recognised Seasonal Employer (RSE) scheme in New Zealand and Australia's Seasonal Worker Programme.

New Zealand launched the RSE programme in 2007.¹² While the scheme does include countries in South-East Asia, PICs have been given top priority. As a result, about 80 per cent of participants are Pacific Islanders (OECD, 2014).

Seasonal work in the RSE programme focuses on job openings in New Zealand's horticulture and viticulture industries, provided that New Zealanders are unable to fill existing labour shortages. Seasonal migrants are permitted to live and work in New Zealand for a maximum of seven months during a year. However, migrants are able to return in subsequent years. Many Pacific Islanders have taken advantage of this; more than half of all RSE migrants in 2011–12 had already participated in the programme the year before, typically with the same employer (OECD, 2014).

The RSE scheme initially started with a cap of 5,000 permits per year, but the Government has progressively increased this limit. As of November 2016, the cap for the 2016–17 season was set at 10,500 work permits.

More than 43,000 workers took part in the programme between July 2010 and September 2016, according to New Zealand government statistics on approved work applications (see Chapter 3). Workers from Vanuatu account for the largest share of participants in the RSE programme, followed by Tongans and Samoans. Notably, however, relatively few workers from Kiribati and Tuvalu have benefitted. Workers from these two remote countries face particularly high upfront travel costs; as a result, the programme allows citizens of Kiribati and Tuvalu to stay for a maximum of nine months, instead of seven.

¹² The RSE programme initially targeted five Pacific states: Kiribati, Samoa, Tonga, Tuvalu and Vanuatu. Today, the scheme has expanded to include Fiji, the Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea and Solomon Islands. Citizens of Cook Islands already have unrestricted access to New Zealand.

Table 4.6: Number of participants in New Zealand's RSE programme

Financial year	Total	Tonga	Samoa	Vanuatu	Kiribati	Tuvalu	Solomon Islands	Other countries
2007/08	4 486	805	647	1 698	69	99	238	930
2008/09	6 821	1 355	1 228	2 342	38	49	311	1 498
2009/10	6 216	1 142	1 021	2 137	48	54	256	1 558
2010/11	7 091	1 411	1 219	2 352	149	51	252	1 657
2011/12	7 009	1 398	1 162	2 412	142	88	407	1 400
2012/13	7 456	1 573	1 137	2 829	138	56	423	1 300

Source: Gibson and McKenzie (2014a).

... but these benefits could reach more workers, especially when it comes to Australia's programme.

Australia's Seasonal Worker Programme was first introduced as a pilot scheme in 2008, officially launching in 2012. In 2015, the Government removed a non-binding limit on the number of work visas offered through the scheme. However, this total number remains low when compared to New Zealand's programme, meaning the Australian scheme should have the capacity to extend its benefits to more Pacific Islanders.

In fact, there have been roughly twice as many work permits granted under New Zealand's programme as Australia's. In Australia, temporary vacancies are not typically filled by Pacific Islanders, but by backpackers entering the country on a working holiday scheme or by undocumented workers. Indeed, Australia granted visas to 249,000 backpackers in 2013 (Curtain et al., 2016) – double the total number of PIC migrants living in Australia today.

Currently, the countries participating in Australia's seasonal work programme are Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu. Initially focused on the horticulture sector, the programme was further expanded to include the broader agricultural sector in 2016. There is also a pilot programme for the tourism sector.

During the 2015-16 season, Australia's seasonal work scheme attracted almost 4,500 temporary workers from the Pacific Islands. Like New Zealand's RSE programme, the scheme has mostly benefited Tongans and Ni-Vanuatu. Since 2012, Tonga has accounted for more than half of all seasonal migrants every year, while Vanuatu's participation is growing. As with the RSE scheme, many participants choose to return in consecutive years: Returning workers made up 46 per cent of participants in 2015-16. Also similar to the RSE programme, low-lying atoll nations have not been able to take full advantage, with Tuvalu and Kiribati accounting for only a handful of participants (Sherrell, 2017). In formulating migration policy that benefits PICs, particular attention is required for migrants from low-lying atoll nations. Tuvalu and Kiribati are especially at risk of the effects of climate change-induced sea-level rises, which could force entire populations to relocate.¹³ Chapter 5 explores the implications of climate change in greater detail.

¹³ In a December 2016 op-ed, ADB vice-president Stephen Groff underscored the need for well-planned migration to help Pacific atoll and reef-island countries adapt to the effects of climate change. See <https://www.adb.org/news/op-ed/next-migrant-wave-stephen-groff> [accessed in Mar. 2017].

Notably, there is a gender imbalance when it comes to participation in seasonal work programmes in Australia and New Zealand. Women represent only 17 per cent of participants in either scheme (Curtain et al., 2016). Considering that seasonal work programmes offer rare opportunities to low-skilled Pacific Islanders, it will be important to find ways of enabling more women to take part. This should include an evaluation of barriers that could be preventing women from participating. In an analysis of national survey results on climate change and migration in Kiribati, Oakes et al. (2016) noted that male family members often made decisions that concerned women; women were less able to make independent decisions about international migration.

Temporary schemes targeting the Pacific's skilled workers have varying degrees of flexibility...

Australia and New Zealand both offer temporary visa programmes that target skilled migrants. These work permits are typically linked to specific skills that may be in short supply in the destination country. Although the duration of these permits is longer than seasonal work schemes, they are also temporary arrangements.

In New Zealand, the Essential Skills Work Visa links work permit duration with a worker's skill level. Low-skilled workers are granted one-year visas, for example, while middle-skilled workers receive three-year visas. Workers with the highest skill levels are able to access visas lasting five years or longer. Under this programme, New Zealand granted an average of 2,400 work visas to Pacific migrants each year between 2010 and 2015 – roughly 9 per cent of the total visas given to workers of any nationality under this scheme. Fiji, Samoa and Tonga accounted for 98 per cent of the PIC workers (Curtain et al., 2016).

In Australia, a comparable programme – called the “Temporary Work (Skilled) visa (subclass 457)” – grants work permits lasting up to four years. It enables employers to address labour shortages in high-skill occupations. Between 2010 and 2015, the scheme saw an average of 581 visas granted to Pacific Islanders each year – less than 1 per cent of the total visas issued under this programme.

Compared to its New Zealand counterpart, Australia's temporary skilled migration scheme has reached fewer Pacific Island migrants. It is also restricted to high-skill level job categories, while the New Zealand scheme has no skills threshold. This means that low-skill positions like care workers, livestock farm workers and truck drivers can be filled using temporary visas in New Zealand, but not in Australia. (Curtain et al., 2016)

... while long-term migration programmes also reach a limited number of Pacific Islanders.

Other migration schemes in New Zealand and Australia offer more long-term solutions to PIC migrants. New Zealand's Pacific Access Category Resident Visa operates on a yearly quota system, granting permanent residency to citizens of four countries: Kiribati and Tuvalu, which each receive 75 visas every year; and Tonga and Fiji, which are allotted 250 each. In addition, the Samoan Quota Resident Visa system awards visas to 1,100 Samoans each year. These two programmes, which target workers between the ages of 18 and 45, are based on a lottery system whereby migrants are only supposed to look for a job after they win the lottery. Although the visas are dependent on job offers that meet minimum income levels, the overall requirements are fairly low: Jobs are not restricted to high-skill occupations or subject to domestic skills shortages. Every year, there are far more applicants than visas granted, underscoring the interest Pacific Islanders have in these types of opportunities (Curtain et al., 2016).

Other long-term migration schemes include employer-sponsored and points-based programmes that target migrants based on skills and qualifications. Australia offers both types. In 2014–15, Australia used these programmes to issue permanent residency to 896 Pacific migrants. In New Zealand, the Skilled Migrant Category programme granted access to 2,000 Pacific Islanders in 2014 (Curtain et al., 2016).

Free access agreements enable labour mobility, but only for a select few countries.

Citizens of Palau, the Marshall Islands and Federated States of Micronesia, meanwhile, are allowed unrestricted access to live and work in the United States due to the Compact of Free Association. Therefore, these three countries enjoy a relatively high degree of labour mobility through this international agreement. Similarly, Cook Islands signed a free access agreement with New Zealand following independence, giving its citizens unrestricted access to New Zealand's labour market, as well as citizenship.

C. Building toward migration policies for development

Taking advantage of migration policies to create positive labour market outcomes requires a careful balance. There is strong evidence that migration can contribute to positive development in sending countries, but there is a real risk of skills shortages as educated workers leave. The challenge in building good migration policy, then, is aiming for a "triple-win" scenario that benefits the receiving country, the sending country and the migrants themselves. These objectives are aligned with the aims of the Sustainable Development Goals. SDG 10, in particular, calls for the reduction of inequalities within and among countries; Target 10.7 aims for safe and orderly migration, which can be facilitated through well-managed migration policies.

Equitable migration policies can reduce labour shortages and sustain competitiveness in destination countries. These policies must also ensure that migrants are actually better off – with higher levels of savings, remittances and standards of living – and that exploitation is prevented through adequate workers' rights. Finally, policy-makers should be aware of migration's impacts on sending countries. It is a key challenge to enact policies that satisfy all three elements. However, the risks of non-inclusive migration policies are problematic: Poor policies could trigger strong opposition in host countries, create social exclusion for new migrants, and curb development in sending countries.

The net benefits of migration will continue to be debated. However, high levels of migration are already a reality in many of the PICs. The oncoming effects of climate change and natural disasters will only intensify these pressures. Therefore, it falls to policy-makers, in both sending and destination countries, to pursue strategies that recognize both the benefits and costs of migration. The following key principles underscore recommendations intended to help improve migration policies in the Pacific: (1) sending countries have the power to take better advantage of migration and to mitigate its long-term costs; and (2) receiving countries can use migration policy to fuel development in sending economies.

C1. Sending countries have the power to take better advantage of migration and to mitigate its long-term costs.

While migration opportunities may be determined by policies in destination countries, the smaller sending economies of the Pacific Islands can help ensure that migration leads to optimal outcomes. Existing opportunities are underused, while more can be done at home to help Pacific Islanders succeed overseas. Over the long term, PICs can make strategic investments in education and training, while enacting policies that encourage their brightest workers to return home.

- **Promote labour mobility and create overseas employment opportunities:** Remittances are a key source of revenue in many PICs. In Fiji, remittances have become one of the country's largest sources of foreign exchange.¹⁴ Policy-makers should consider steps to promote labour mobility and create new opportunities for overseas employment. At the political level, this would involve establishing or extending opportunities through labour mobility schemes, as well as securing a long-term commitment to these schemes through trade negotiations. Pacific Island nations should also look beyond the immediate region for new migration possibilities. There could be opportunities in other overseas labour markets, particularly in Japan and the Republic of Korea (World Bank, 2016). For example, the Republic of Korea's Employment Permit System accommodates up to 55,000 low-skilled workers each year and already includes Timor-Leste. Participation in this programme could benefit PICs (Curtain et al., 2016).
- **Take advantage of existing opportunities by improving local governance:** At the local level, PICs should ensure their workers are equipped to capitalize on opportunities that are already available. Papua New Guinea, for example, has the largest workforce among the PICs, yet only a small number of workers have taken part in seasonal migration programmes to New Zealand or Australia: only 99 workers in 2014, according to Papua New Guinea's government statistics.¹⁵ There has also been low participation among Fijian workers. In both Fiji and Papua New Guinea, there have been major structural and organizational issues that have limited the success of labour migration opportunities – some of which were outlined in Chapter 3. These include recruitment mismatches and insufficient input from employers. Countries should tackle needed reforms to the systems and organizations that facilitate these programmes, so that workers can take full advantage of the few opportunities that already exist. In Papua New Guinea, for example, these reforms could include greater efforts to promote Papua New Guinean workers to overseas employers, improving pre-departure training and pre-departure assistance, and offering reintegration assistance for returned seasonal workers, helping them to transfer the skills developed overseas. Policy-makers should also address the gender imbalance in seasonal work programmes by taking steps to ensure that women are more able to take part.
- **Recognize the urgency of long-term planning to increase education levels:** PIC migrants experience high unemployment and inactivity rates. In addition to improved integration in destination countries, major efforts are needed to address the quality of education available in PICs and to improve the accreditation process, so that migrants are able to take full advantage of their qualifications while overseas. Education could be geared toward employment skills valued in both domestic and international labour markets. For example, the Fiji Higher Education Commission is working on the accreditation of courses that could help Fijian workers find jobs in overseas markets. This wider accreditation could also help students continue their studies at overseas universities before finding jobs based on their new degrees. Countries would benefit through "brain gain" if these workers return.
- **At the same time, incentivize return for migrants:** While sending countries should facilitate migration opportunities, they must also take steps to retain and attract highly skilled workers. Improving educational quality and accreditation will help make workers more employable; however, it is also important to look ahead to ensure that workers who benefit from these opportunities have a stronger incentive to return home. Providing attractive remuneration packages to highly skilled professionals is one step. Another is to promote higher education scholarships that are conditional on students returning to their home countries after graduation.

¹⁴ Ministry of Strategic Planning, National Development and Statistics: "The National Strategic Human Resources Plan 2011-2015" (2011), p. 21.

¹⁵ PNG Department of Labour and Industrial Relations Annual Report 2014, p. 14.

C2. Receiving countries can use migration policy to fuel development in sending economies.

Parts of this chapter have focused on Pacific migration to Australia and New Zealand. This is a reflection of these countries' importance to migration possibilities in the Pacific, as well as their shared connections. However, migration solutions are not limited to these main destination countries – neither are the policy considerations in this chapter. Australia and New Zealand's experiences with Pacific migration can inform and shape strategies beyond their borders, including in the United States, in other Pacific states that receive PIC migrants, and in other countries considering Pacific Islanders in their migration schemes.

- **Leverage migration policies to aid development in sending countries:** New Zealand's seasonal workers programme is a promising example of how migration policies can aid economic development in the sending country while benefiting the host country and migrants themselves. The Recognized Seasonal Employer programme was designed to minimize overstays, ensure worker protection, and limit the displacement of native workers. Subsequent evaluations of the RSE scheme have been positive. In Tonga and Vanuatu, one evaluation showed that participants' household income increased by more than 30 per cent, leading to larger consumption, higher savings, the acquisition of durable goods and home improvements. At the same time, school attendance rates also increased among 16–18 year-olds in Tonga (Gibson and McKenzie, 2014b). Box 4.3 explores how the design of New Zealand's RSE scheme has contributed to its success. These results show how migration policies can balance the needs of both sending and receiving countries. Migration policies concerning Pacific Island migrants should be formulated with this key principle in mind.
- **Expand opportunities for low-skilled Pacific Islanders:** Receiving countries should target low-skilled Pacific Islanders with temporary migration schemes that offer valuable opportunities. This report has highlighted existing schemes in Australia and New Zealand. With careful consideration, the strengths of these programmes can be emulated elsewhere. At the same time, these existing programmes should be scaled up to extend their benefits to more Pacific Islanders. In Australia, the size and reach of the seasonal work programme is small compared to the industries it supplies (World Bank, 2016), while working holidaymaker visas – geared toward backpackers from OECD countries – could be opened up to Pacific Islanders (Curtain et al. 2016).
- **Take steps to improve integration for new migrants:** Unrestricted access or low requirements for low-skilled migration could lead to poor employment outcomes when not paired with other policies that help migrants integrate and adapt. As this chapter has shown, low-skilled PIC migrants often fare poorly, experiencing high unemployment and inactivity rates in the main destination countries. These results underscore the need for further measures to improve integration and labour market outcomes for low-skilled Pacific Islanders already living in receiving countries.
- **Increase opportunities for migrants from climate-threatened low-lying atoll states:** Current migration policies have not succeeded in attracting significant numbers of migrants from Kiribati and Tuvalu – low-lying atoll states threatened by climate-induced sea-level rises. Prospective migrants in these countries face high upfront costs due to their remote locations, and temporary visa schemes alone may not provide enough earnings to justify the cost of relocation. Migration policies that offer work visas for longer durations, or increase the number of available permanent residency visas, may be better suited to these countries' needs. A recently launched microstates pilot programme in Australia could be a step in the right direction. The scheme will grant a two-year work visa, with possible extension to a third year, for a limited number of workers from Nauru, Tuvalu and Kiribati. The temporary workers will be placed in the agriculture and tourism sectors in northern

Australia.¹⁶ In a July 2016 paper on labour mobility in the Pacific, Curtain et al. (2016) proposed that Australia and New Zealand formulate an agreement offering open access to people from Kiribati and Tuvalu. The authors reasoned that the impacts of climate change provided "a new moral imperative" for such policy.

Box 4.3

Key design features of New Zealand's Recognized Seasonal Employer programme

In 2007, New Zealand created the Recognized Seasonal Employer (RSE) programme – a temporary migration scheme targeting workers from select countries in the Pacific Islands. This followed a period of low unemployment and rapid growth in New Zealand's horticulture and viticulture industries, which combined to trigger labour shortages in the mid-2000s. Key elements in the RSE programme's design have aimed for a "triple win" migration policy, where the host country, sending country and the migrants themselves all benefit.

- **Reducing exploitation through workers' rights:** The RSE programme explicitly prohibits recruitment fees for migrants. To participate in the programme, employers must first be vetted by immigration authorities. This process involves showing a solid financial position, a high standard of human resource policies and practices, and a clean record on immigration and employment laws. Employers are also obliged to pay at least minimum wage for a 30-hour workweek. They must provide transportation to and from the worksite, appropriate accommodation, as well as access to medical insurance and personal banking services. Finally, seasonal workers are entitled to the same rights as New Zealanders. Just as importantly, there is an adequate system to monitor this process: Three of New Zealand's 34 labour inspectors are devoted specifically to the RSE programme, where they have the authority to monitor both the workplace and accommodations. In addition, the RSE programme has a specific national manager at Immigration New Zealand (OECD, 2014).
- **Reducing displacement:** Before recruiting migrant workers, RSE employers must first demonstrate that they have given preference to New Zealanders. Employers are obliged to advertise vacancies with the Ministry of Social Development, which provides welfare benefits and job-search services.
- **Ensuring returns:** The RSE programme has demonstrated very low overstay rates. During the scheme's first six seasons, less than 1 per cent of participating workers overstayed their visas (Gibson and McKenzie, 2014a). For employers, there is an incentive to help ensure their employees return home: Employers must pay half the cost of a worker's return airfare; they are responsible for the full cost of return if workers breach their visa conditions. For employees, there is a reduced incentive to overstay: Migrant workers are able to return to New Zealand during subsequent work seasons, thereby opening up a legal avenue to continue benefiting from the programme.

¹⁶ G. Wyeth: "Kiribati first to pilot Australia's microstate visa program", in *The Diplomat* (Tokyo), 29 Dec. 2016, <http://thediplomat.com/2016/12/kiribati-first-to-pilot-australias-microstate-visa-program/> [accessed in Mar. 2017]. For more information on the pilot programme, see: Government of Australia (2015).

- **Pre-departure preparation:** Both the governments of New Zealand and the sending country are heavily involved with facilitation efforts before migrant workers are sent abroad. Participating countries signed agreements that outlined pre-departure orientation, visa processing and the recruitment process. Workers were pre-screened as part of an approach that involves strong collaboration with local communities, thus leveraging local pressures to succeed. Selected workers were then placed in a work-ready pool – a crucial measure that reduced hiring and informational costs for employers.
- **Evaluation:** A distinctive strength of the RSE programme is that it was built with the goal of evaluating its impacts on employers, sending countries, migrants and native workers. Its implementation was accompanied by systematic surveys and evaluations, which allowed results to be measured. Employers' surveys conducted by New Zealand's Ministry of Business, Innovation and Employment have shown high levels of satisfaction. As much as 97 per cent of employers agreed the RSE scheme allowed them to access a more stable supply of productive workers than in previous years, while 96 per cent said benefits outweighed the costs of participation. Moreover, 82 per cent eventually expanded their cultivation area – 89 per cent of these employers said the programme had been an encouraging factor. Finally, this business expansion translated into more job opportunities for New Zealanders; on average, RSE employers have employed six additional permanent New Zealand workers as a result of the programme (NZResearch, 2016). Crucially, RSE workers and non-migrant households in Tonga and Vanuatu were surveyed before, during and after the programme. Besides the results presented elsewhere in this report, (Gibson and McKenzie, 2014a) also found that the programme had significant economic benefits. Participation in the programme led to increases in household income. When scaled up to account for the number of participating workers, the estimated gains were equivalent to 42–47 per cent of the annual bilateral aid New Zealand sends to Tonga or Vanuatu. These sums would be equivalent to almost 50 per cent of annual export earnings in Tonga, and 25 per cent in Vanuatu.

Appendix

Table A4.1: Sex distribution of PIC migrants

	Male	Female
Total	47.9	52.1
Melanesia	46.6	53.4
Fiji	47.0	53.0
Papua New Guinea	44.1	55.9
Solomon Islands	47.8	52.2
Vanuatu	51.7	48.3
Micronesia	48.0	52.0
Kiribati	42.1	57.9
Marshall Islands	48.2	51.8
Palau	52.0	48.0
Polynesia	49.7	50.3
Cook Islands	47.8	52.2
Samoa	49.0	51.0
Tonga	51.8	48.2
Tuvalu	45.9	54.1

Source: Calculated from OECD (2010).

Note: Figures refer to PIC migrants in all destination countries.

Table A4.2: Age distribution of PIC migrants

	Dependency ratio	0–14	15–24	25–64	65+
Total	0.18	5.5	11.5	73.5	9.6
Melanesia	0.16	5.1	10.2	75.7	8.9
Fiji	0.17	5.0	10.0	75.4	9.6
Papua New Guinea	0.13	6.0	10.8	77.9	5.3
Solomon Islands	0.16	8.3	14.8	71.5	5.4
Vanuatu	0.14	4.8	13.2	74.1	7.8
Micronesia	0.08	1.7	33.3	60.3	4.8
Kiribati	0.25	7.5	17.5	62.7	12.2
Marshall Islands	0.04	0.2	43.9	52.6	3.3
Palau	0.03	0.4	22.8	74.6	2.2
Polynesia	0.22	6.4	10.4	72.0	11.3
Cook Islands	0.26	6.0	11.4	68.2	14.4
Samoa	0.22	7.1	11.3	70.7	10.9
Tonga	0.20	5.4	8.1	75.6	10.9
Tuvalu	0.18	7.2	16.8	67.6	8.5

Source: Calculated from OECD (2010).

Note: Figures refer to PIC migrants in all destination countries.

Table A4.3: Distribution of PIC migrants by level of education

	Low	Medium	High
Total	36.4	40.2	23.3
Melanesia	28.3	40.2	31.5
Fiji	29.0	41.0	30.0
Papua New Guinea	24.4	36.5	39.1
Solomon Islands	26.7	35.9	37.4
Vanuatu	32.6	35.5	31.9
Micronesia	33.7	49.4	16.8
Kiribati	44.6	36.8	18.7
Marshall Islands	36.7	52.8	10.5
Palau	19.7	51.4	29.0
Polynesia	49.0	39.0	12.0
Cook Islands	66.2	25.5	8.4
Samoa	49.2	39.5	11.3
Tonga	42.8	42.8	14.4
Tuvalu	49.4	34.8	15.7

Source: Calculated from OECD (2010).

Note: Figures refer to PIC migrants in all destination countries. Lower refers to pre-primary, primary, and lower secondary education. Medium refers to upper secondary and post-secondary non-tertiary education. Finally, high refers to tertiary education.

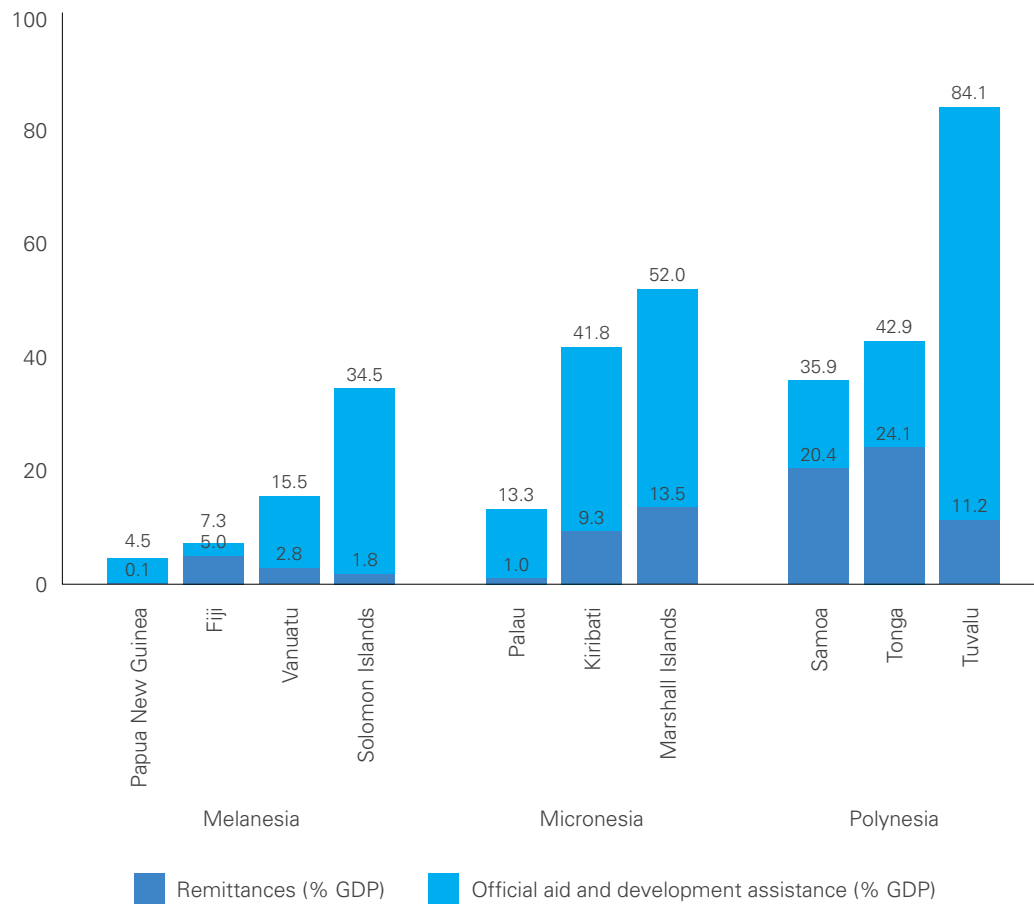
Table A4.4: Unemployment rate and inactivity rate of PIC migrants by age and sex

	Unemployment rate				Inactivity rate		
	Total	Youth	Adult	Male	Female	Male	Female
Total	9.5	22.4	8.3	8.8	10.2	25.6	37.9
Melanesia	7.7	19.4	6.5	7.0	8.8	21.8	33.1
Fiji	7.9	19.5	6.7	7.0	8.8	21.6	32.8
Papua New Guinea	6.8	18.0	5.3	6.9	6.6	22.7	33.9
Solomon Islands	7.6	24.7	6.4	6.5	8.8	19.7	38.7
Vanuatu	8.2	19.7	7.9	8.0	8.6	23.2	36.2
Micronesia	10.9	22.8	10.8	5.7	15.0	25.8	41.7
Kiribati	10.9	22.8	10.8	5.7	15.0	25.8	41.7
Polynesia	12.4	26.9	11.2	10.7	14.5	30.8	45.2
Cook Islands	12.4	27.6	11.3	10.7	14.5	35.1	48.0
Samoa	12.1	26.6	10.7	10.5	14.1	30.7	44.5
Tonga	12.7	26.8	11.8	13.4	11.8	29.3	45.1
Tuvalu	14.1	34.5	11.3	12.7	15.7	30.9	47.6

Source: Calculated from OECD (2010).

Note: Figures refer to PIC migrants in all destination countries.

Figure A4.1: Remittances and official aid and development assistance by PIC



Source: Calculated from World Bank (2017).

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CHAPTER 5

THE FUTURE OF WORK IN THE PACIFIC

Introduction

Jobs are in a constant state of evolution. Today's labour markets are far different than they were in decades past. The types of jobs workers need to sustain their livelihoods, the industries that power economic growth, even the societal expectations of what a job represents: All are subject to change, and these changes are ongoing. It is an immensely important discussion happening throughout the globe: What is the future of work? How will jobs be transformed, and what does this mean for societies, economies, employers and workers themselves? The ILO's Future of Work initiative, launched in 2015, is intended to provoke discussions on these issues at this pivotal moment.

The world is witnessing widespread job uncertainty amid global changes and rapidly evolving technologies. PICs are intensely vulnerable to these shifts, and the future prosperity of their workforces requires careful planning and consideration. The Future of Work initiative is structured around four themes: (1) work and society; (2) decent work for all; (3) organization of work and production; and (4) the governance of work. Essentially, the initiative has brought to the forefront some key questions for societies as a whole, the organizations that create jobs, and workers themselves.¹ One core principle underlying this conversation is that the future of work will be governed by the decisions women and men make today. This concept holds true in the Pacific: Policy-makers have the power to adapt to the challenges ahead in a way that promotes decent work, equitable growth and social justice. These ideals are at the heart of the 2030 Agenda for Sustainable Development. In particular, SDG 8 aims for inclusive and sustainable economic growth – including productive and decent work for all.

This chapter begins with an analysis in Section A of climate change's consequences for Pacific labour markets. Section B looks at the impacts that evolving technologies and automation could have on today's jobs. Section C offers policy considerations, underscoring the need to plan for the future. The very nature of work is changing – this much is clear. How countries respond is an open question.

A. How climate change affects Pacific labour markets

The majority of the Pacific's workforce are employed in the most vulnerable industries.

The global impacts of climate change are well studied. Rising sea levels and warming ocean temperatures will inundate coastal communities and disrupt fisheries. Erratic, unpredictable weather patterns will intensify droughts and storms, threatening food security and making it even harder for subsistence farmers to live off the land. The evidence suggests climate change will cause major hardships and jeopardize lives and livelihoods. Countries in the Pacific stand to be among the most impacted. The least developed countries (LDCs) and small island developing states (SIDS) are especially vulnerable due to their low capacity to adapt.

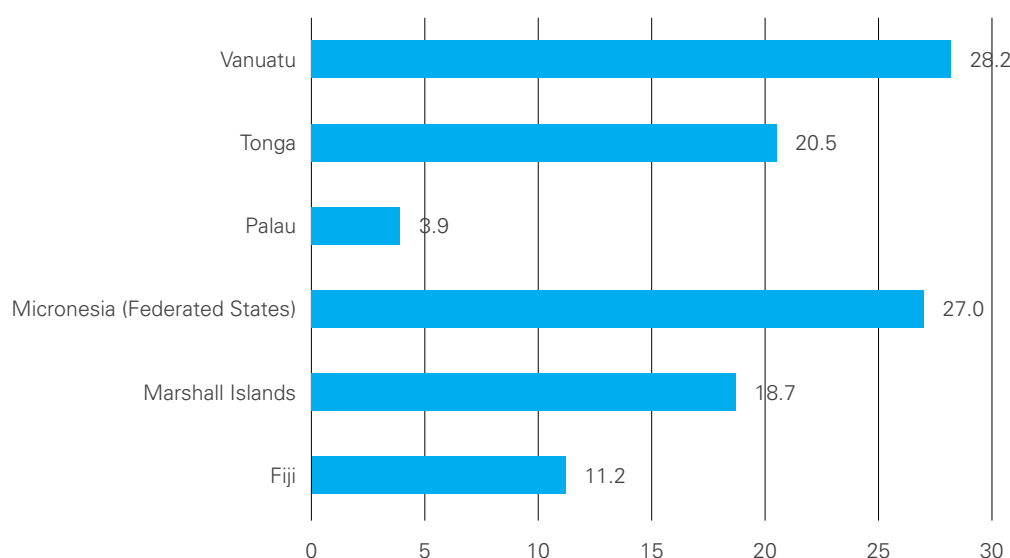
¹ For further reading, see the ILO's The Future of Work Centenary Initiative. Available at: <http://www.ilo.org/global/topics/future-of-work/lang-en/index.htm>.

Around the world, jobs that are prevalent today could disappear as their industries buckle under the weight of climate change impacts. Labour markets in the PICs are especially susceptible. Three of the sectors most vulnerable to climate change – agriculture, tourism and fisheries – now provide most of the region’s jobs. On top of this, workers themselves are vulnerable, as most in the Pacific work in the informal economy, with little in the way of social safety nets or viable alternatives. Women and young people could be among the hardest hit. The ILO has noted that women in agriculture and tourism are likely to be more affected by climate change than men: Women tend to be poorer and disproportionately represented in both sectors, while both women and young people are heavily employed in the informal economy (ILO, 2008).

Agriculture is the Pacific’s largest employer...

Agriculture is a dominant sector in many PICs, and a vast number of people depend on subsistence agriculture as their main means of earning a living (see Chapter 1). Many Pacific countries also depend on the exports of cash crops to fuel their foreign currency earnings.

Figure 5.1: Share of agriculture as a percentage of GDP in selected PICs, 2014



Source: World Bank (2017).

Agriculture is not merely an important sector, but it is also the largest employer, providing work for much of the population throughout the Pacific. According to estimates, agriculture accounted for 72.3 per cent of employment in Papua New Guinea; in Solomon Islands, it topped 75 per cent. More than 80 per cent of Vanuatu’s population engage in agriculture. In Fiji, roughly 44.2 per cent participate in agriculture (ADB and ILO, 2015). It should be noted, however, that employment data in most PICs are somewhat dated due to the lack of regular labour force surveys.

Climate change is expected to affect agricultural production in the PICs in a number of ways. For coastal communities, food production could be hit due to the effects of land erosion, saltwater contamination in groundwater and estuaries, cyclones and storm surges, heat stress, and drought (Barnett, 2011). Climate change and natural hazards could cripple the agricultural sector by shrinking crop yields and destroying plantations. In Fiji, for instance, climate change could cause yields for cassava – the island’s most consumed crop – to plummet by 36.5 per cent by 2050, according to a worst-case scenario simulation by the World Bank (see table 5.1). Although the impact of climate change is hard to estimate, these projections suggest that the

effects on crop yields could range from slightly positive to extremely negative. Furthermore, climate-induced disasters could critically damage infrastructure that supports regional food production, both subsistence and commercial.

Table 5.1: Relative changes in crop yields (%) under climate change in 2050 relative to 2000

Country	Cassava	Maize	Rice	Sugarcane	Sweet potato	Taro
	Worst case/Best case					
Fiji	-36.5/-8.8	-7/1	-11/3.5	-8.3/2.8	-13.4/2	-17.5/1.1
Solomon Islands	-27.8/-17.9	-16.5/-0.3	-16.2/5.9	-12.9/0.9	-15/1.5	-18.6/-4.7

Source: ADB (2013); World Bank (2016).

... and also its most precarious.

Employment in agriculture is acutely vulnerable to climate change. Farmers face the prospects of losing their livelihoods as the effects of climate change intensify. For workers from Fiji to Samoa, Tonga, Cook Islands, Kiribati, Papua New Guinea, Solomon Islands and beyond, the agriculture sector represents a vital source of livelihoods. These workers lack skills that transfer out of their farms. There are few alternative options should their livelihoods disappear; the risk of unemployment is high.

Beyond slower onset risks, climate-induced disasters can also destroy the infrastructure that supports the industry. For example, Severe Tropical Cyclone Winston, which hit the Pacific in February 2016, triggered devastating losses of 14,450,129 workdays and FJD351.45 million in personal income (Government of Fiji, 2016).

Most of the work in the agriculture sector takes place in the precarious informal economy. In Papua New Guinea, for example, 95 per cent of the workers involved in coffee-production are smallholder semi-commercial farmers (Hoffmann, 2014). Smallholder farmers largely operate in the informal economy without any social protection. Their income sources are limited, which makes them particularly vulnerable to the adverse effects of climate change. Furthermore, smallholder farmers throughout the region lack business capacity and market access, making it difficult to maximize their potential earnings (Wickramasinghe et al., 2014). Meanwhile, countries like Fiji, Samoa, Tonga and Vanuatu are reliant on food imports and already struggle with high levels of food insecurity (Taylor et al., 2016). Reduced agricultural employment can only add new pressure to food security issues throughout the region.

Looking ahead, it will be important to implement well-planned adaptation measures to prepare for the impacts of climate change. More transformational actions, such as moving water-intensive agriculture away from threatened areas or investing in more resilient plant varieties, will require substantial planning and resources. However, lower-cost measures that boost resilience, such as encouraging better agricultural practices, can be implemented in the short term (World Bank, 2016).

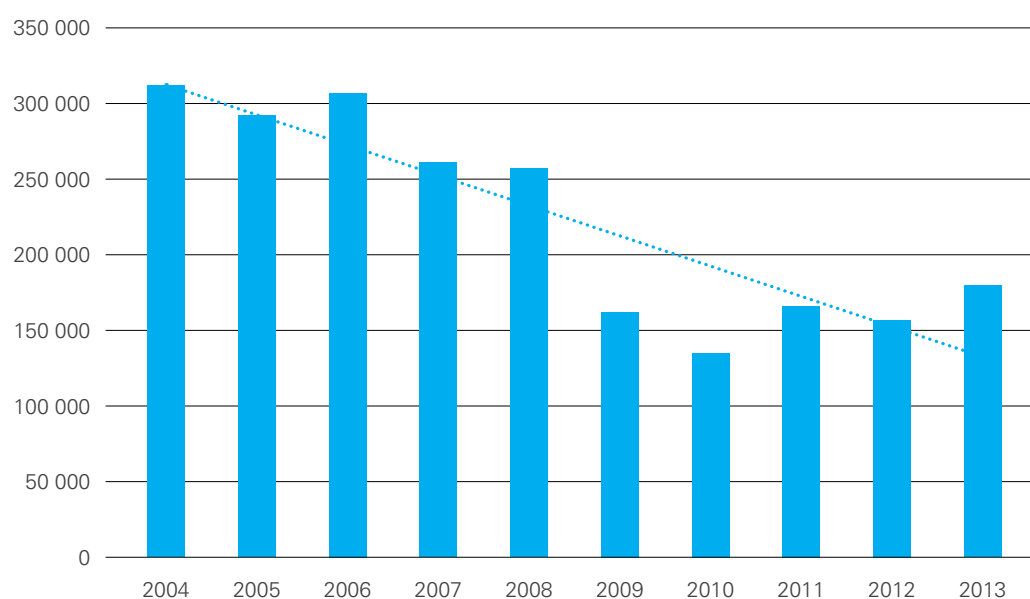
Box 5.1

Climate change and Fiji's sugar industry

Fiji's sugar industry is a major employer. It is also highly vulnerable to climate change. One key reason is Fiji's extreme vulnerability to natural disasters; it is likely that climate change will only increase the frequency of these disasters (Thomas et al., 2013).

Despite facing a decline, Fiji's sugar industry is still fundamentally important to the economy. Sugar is an important cash crop, and raw sugar is the country's third biggest export. Research has shown that sugar production is very vulnerable to climate change (Zhao et al., 2015). Cyclone Winston, which hit Fiji in February 2016, ravaged the industry by destroying about 80 per cent of the current crop and causing damages worth FJD75.3 million (Government of Fiji, 2016). The storm followed an El Niño-induced drought that had already reduced sugarcane production, culminating in a 37.1 per cent production decline in 2016 (RBF, 2016). Fiji's sugar industry has already contracted due to land tenure issues and the impending expiry of a low-tariff export deal with the European Union. The combination of all these effects could force the industry to diminish further, dealing a major blow to Fiji's employment situation.

Figure 5.2: Fiji's production quantity of raw sugar, 2004–13



Source: FAOSTAT (2017).

Note: Production quantity in tonnes.

The ocean is integral to economic growth in the Pacific Islands...

The vast ocean surrounding Pacific nations also powers their economies. This is evident in the vital tourism and fisheries sectors, which are of fundamental importance to the PICs. Both industries contribute a sizeable share to the GDP in countries across the region; these same sectors also tend to be major employers, providing valuable jobs for the Pacific's workforce. Table 5.2 shows that the gross value added – a measure of the goods or services produced in a sector – for ocean-based industries accounts for 11 per cent of the region's total GDP.

Table 5.2: Economic importance of ocean-based sectors in the Pacific

Ocean-based revenues	Gross value added (US\$)	As a percentage of GDP
International tourism expenditures	2.27 billion	7.2
Locally-based tuna fishing	596.8 million	2.0
Access fees	78.5 million	0.2
Mariculture	145 million	0.5
Commercial inshore fishery	165.7 million	0.5
Subsistence fishing	200.4 million	0.6

Source: Seidel et al. (2010).

Notes: Data in 2007 market prices, while tourism data in 2008 market prices.

... especially for the tourism sector, which is a major driver of many Pacific economies.

The tourism sector is a large employer in many PICs. Crucially, tourism also has a strong multiplier effect on employment since it is tied to other parts of the local economy. In other words, the tourism industry creates a substantial number of jobs indirectly. In Fiji, for example, travel and tourism directly supported about 42,500 jobs in 2015, according to the World Travel and Tourism Council. But including indirect jobs, the tourism and travel sector's total contribution added to 119,000 jobs, meaning there were almost twice as many indirect jobs.

Table 5.3: Employment contributions from tourism in the PICs, 2016

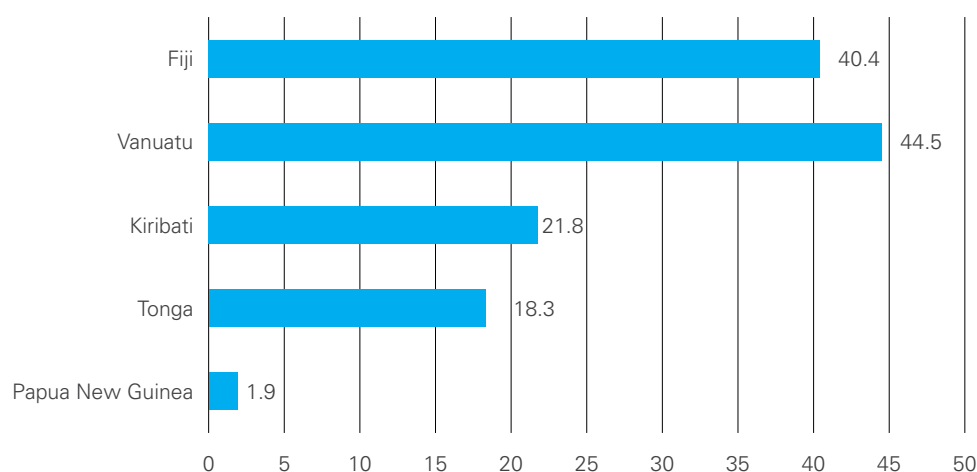
Countries	Direct contribution	Total contribution
Fiji	42 500	119 000
Solomon Islands	6 500	16 000
Kiribati	2 000	5 500
Vanuatu	10 000	28 000

Source: WTTC.²

Note: Total contribution of travel and tourism includes its wider impacts (direct and induced impact) on the economy.

² Data is collected from various WTTC country reports that may be accessed at: <https://www.wttc.org/research/economic-research/economic-impact-analysis/country-reports/>

Figure 5.3: Tourism's total contribution to the GDP in selected PIC countries (percentage)



Source: WTTC.³

Note: Total contribution of travel and tourism includes its wider impacts (direct and induced impact) on the economy.

Climate change could reduce tourism revenue and drive workers into more precarious informal employment.

The expected effects of climate change include sea-level rises and more frequent disasters such as tropical storms. This will have a direct impact on vital coastal tourism infrastructure throughout the Pacific. Moreover, ocean acidification will lead to coral bleaching, further diminishing the attractiveness of PICs as tourist destinations. Since the Pacific's natural environment is a principal draw for international tourists, this could influence where fickle global travellers choose to visit.

Research by the ADB has attempted to measure climate change's impacts on international tourism revenue. By the end of the twenty-first century, warming temperatures could lead to tourist numbers in the Pacific Islands falling by one third, according to projections; tourism revenue could see a 27 to 34 per cent reduction. Notably, these projections are focused on the impacts of rising temperatures – climate change could have an even greater effect on tourism when including consequences like coastal inundation, coral bleaching, fisheries declines and increased health risks (ADB, 2013).

While tourism is a vitally important job creator, employment in the sector is often characterized by seasonality, part-time or excessive work hours, low-paid or unpaid family labour, and informal and sometimes illegal labour (UNWTO and ILO, 2014). Climate change may alter the seasonal nature of tourism – increasing demand for casual workers while reducing opportunities for full-time employment. Moreover, it is likely that many tourism companies will lay off workers due to surging costs for cooling, insurance and disaster recovery (ILO, 2014). If climate change reduces tourist inflows, it could make an already precarious labour situation worse: with fewer tourists come fewer work options.

³ Ibid.

Fishing communities could be hit twice.

The fisheries sector plays a key role throughout the region. Across the Pacific, there are 16,000 workers employed in industrial tuna fishing and tuna processing. Together, these workers supply more than 30 per cent of the world's tuna needs (SPC, 2014). Climate change could impact fisheries by shrinking yields, increasing yield variability, reducing profitability and heightening the risks associated with fishing. Fishers, fish farmers and the coastal communities that depend on them are all vulnerable to these ramifications. It should also be noted that fish consumption in the Pacific is three to five times higher than the global average. A reduction in productivity in this sector could imperil local food security.

These changes to fisheries productivity will have a direct impact on labour demand. In fact, climate change could impact fishing communities on multiple levels. Firstly, they will bear the brunt of productivity losses; secondly, climate-induced disasters could devastate their assets and homes (ILO, 2014).

Women could be particularly impacted.

Women are especially vulnerable to the effects of climate change and natural disasters in the Pacific Islands. This is partly due to their disadvantages in the labour market: Women are more likely to be unemployed and more likely to take up vulnerable work. Women who have less access to income will have fewer resources to restore their livelihoods or adapt to climate change (World Bank, 2016). Effective adaptation measures, then, must recognize gender issues in PIC communities, and ensure the active participation of women in decision-making.

Climate change could increase demand for migration.

Chapter 4 explored how labour migration is already a critical key issue for many Pacific Island nations, while facilitated options for low-skilled workers are limited. Climate change will likely exacerbate these pressures. As rising sea levels, increased land erosion and climate-induced disasters intensify, local workers could be forced to make an unenviable choice: stay or go. A survey by the United Nations University Institute for Environment and Human Security found that more than 70 per cent of households in Kiribati and Tuvalu, and more than one third of households in Nauru, believe that migration will be necessary if climate change worsens. However, only one quarter of the households have the financial means to do so (Oakes et al., 2016).⁴

Much of the discussion on climate-induced migration in the Pacific Islands has centred on vulnerable populations living on low-lying atolls. By 2050, it is estimated that atoll populations could reach 350,000 in the Pacific Islands, including atoll nations and other countries with populated atolls (Campbell and Warrick, 2014). This equates to roughly three-quarters of the number of Pacific Islanders living overseas today (see Chapter 4). However, Campbell and Warrick (2014) also note that populations living in other vulnerable areas, including river deltas and regions that have seen prolonged drought – such as the densely populated highlands of Papua New Guinea – could also be displaced, producing an even larger source of climate migrants. This is likely to increase demand for international migration access. As Chapter 4 has shown, however, these options are already limited. Moving forward, the projected numbers alone underscore the urgency of a dialogue on this crucial issue – both within the region, and in other countries that are key destinations for Pacific Islanders.

⁴ For further information, please refer to country reports for the Pacific Climate Change and Migration Project, accessible here: <http://www.unescap.org/subregional-office/pacific/pacific-climate-change-and-migration-project> [accessed 19 Apr. 2017].

Natural disasters are already displacing large numbers, leading to competition for scarce resources.

Today, climate-induced displacement is already common in countries like Papua New Guinea – the result of volatile environmental conditions. Each year, Papua New Guinea experiences an average of two to three national-scale disaster events, as well as numerous smaller, local disasters (IOM, 2015). In fact, natural disasters displaced more than 172,000 people in Papua New Guinea between 2008 and 2014, according to the Internal Displacement Monitoring Centre.⁵

This type of sudden internal displacement is especially problematic in Papua New Guinea, a diverse country composed of different ethnicities and tribes. Displacement can lead to tensions and conflict as struggling groups compete for limited resources. Roughly 97 per cent of the land in Papua New Guinea is governed by customary ownership, established through a history of usage, rather than by written agreements (IOM, 2015). As a result, most internally displaced climate migrants find it difficult to access land. Most citizens rely on the land for subsistence agriculture; having no access to land not only exacerbates food insecurity, but also leaves migrants with no way to earn a livelihood.

In countries with little access to external labour markets, internal migration deepens vulnerabilities.

In countries like Papua New Guinea, Solomon Islands and Vanuatu, workers have relatively restricted access to international migration opportunities. Instead, internal migration has intensified.

Studies have shown that internal migration is not a durable solution to climate change. Most migrants head to overpopulated urban areas, which are themselves highly vulnerable. The newcomers quickly find high unemployment rates and limited services (UNU-EHS, 2015). Notably, however, there are circumstances in which internal labour migration can be an adaptive measure against the effects of climate change – crucially, this movement must be linked to stable formal employment.

There is evidence that temporary and circular migration helps generate income for people in rural regions, mainly through remittances and earnings from non-farm activities (Tacoli, 2009). Furthermore, non-farm activities can help temporary migrants build new skills, empowering them to diversify their livelihoods. Circular and facilitated migration can also help reduce pressure on sensitive ecosystems, since communities out-migrate from inhospitable areas (IOM, 2014). The consequences of unplanned migration, however, are problematic: unemployed migrants, negative remittances and social problems (Campbell and Warrick, 2014).

⁵ Data calculated from Internal Displacement Monitoring Centre's country information on Papua New Guinea. See: <http://www.internal-displacement.org/database/country/?iso3=PNG>

B. Automation's impacts on the Pacific

Pacific countries fill skills shortages with foreign workers...

Across the PICs, there is an acute shortage of skilled workers and an oversupply of unskilled ones. Throughout the region, foreign workers are employed in managerial and professional positions; they take up jobs as technicians and skilled tradespersons (Duncan and Voigt-Graf, 2008). There are three main factors that account for skills shortages, according to ADB (2008):

1. Jobs in these countries are largely created by sector-specific economic activities.
2. High emigration rates lead to substantial skill losses.
3. The weak supply and outputs of systems for technical and vocational education and training (TVET).

... while locals are employed in lower skilled jobs that could disappear with automation.

The discussion about inadequately skilled workforces is especially important given the consequences of new technologies and innovation in the workplace. These evolving technologies will shape the way jobs are performed and may make some positions obsolete. Jobs that require physical work in predictable environments may be the most susceptible to automation, according to a McKinsey & Company study (Chui et al., 2016). Such jobs include assembly line work, food preparation and packaging.

There is no current evidence of large-scale job automation in the Pacific Islands. However, global research and trends have identified two industries that are highly susceptible to automation in the near future: the mining and garment sectors, industries that are vital economic growth engines in many parts of the Pacific today.

Jobs in the mining industry are highly susceptible to automation...

Mining plays an important role in the economies of many PICs. For example, Nauru's economy is almost wholly dependent on calcium phosphate exports. Similarly, mineral exports are a major income source for Papua New Guinea. The importance of mining as an economic activity can be seen elsewhere in Fiji, New Caledonia and Solomon Islands.

The mining industry employs a considerable number of expatriate workers in managerial or professional positions, due to skills shortages among local labour forces. Crucially, local workers generally hold low or medium-skilled positions.

Gold is the key commodity in Papua New Guinea's mining sector. There are six major operating mines (PNG Chamber of Mines and Petroleum, 2012) as well as 60,000 smaller miners (Anderson and Moramoto, 2002). Altogether, the mining sector accounts for more than 15 per cent of the country's total GDP, with gold and copper ore comprising 20 per cent and 8.3 per cent, respectively, of total exports.⁶ Like many other developing countries, globalization has triggered a recent boom in Papua New Guinea's mining sector.

However, automation jeopardizes the core lower skilled jobs now available in this vital sector. A recent report by McKinsey & Company found that as much as 96 per cent of all mining jobs could be threatened by automation. Key operations roles like driving vehicles and operating drill rigs and underground equipment could disappear over time (Chui et al., 2015).

⁶ Data obtained from Simoes et al. (2011).

... but new, higher skilled jobs will replace them, and the workforce will need the skills to fill these new roles.

However, the effects of job automation are part of an evolution. As specific types of jobs become obsolete, new positions will begin to replace them. Over time, new jobs in data processing, equipment maintenance, and systems and process analysis are expected to emerge (McNab et al., 2013).

However, these new positions will require higher skill levels than the jobs they are replacing. For example, automation is expected to make redundant the role of drilling operator. Under the International Standard Classification of Occupations, this job falls under the category, “Plants and machine operators and assemblers”, which is typically associated with workers with mid-level skills. But roles in systems and process analysis – the types of new jobs that evolving technologies could bring – fall under the category “Technicians and associate professionals”.⁷

As more lower-skilled jobs become automated, many workers in Papua New Guinea could face the prospects of unemployment. The new economy will be knowledge-oriented. Workers will need the education and skillset to match the requirements of the evolving labour market – or risk being left behind.

The garment industry could witness large-scale automation.

Like the mining sector throughout the Pacific Islands, Fiji’s garment sector is also dominated by relatively low-skilled workers whose jobs are at risk. The garment industry could witness large-scale automation due to advancing technology – and many of the affected workers would be women.

Fiji’s garment industry is a major exporter. Textiles accounted for exports worth US\$92.1 million in 2015.⁸ The garment sector employs about 8,000 workers, according to an industry representative,⁹ and exports mainly to Australia under preferential export terms. After the Agreement on Textiles and Clothing was implemented in 2005 – ending existing quotas that limited the export of textiles from developing countries to high-income ones – Fiji initially found it difficult to compete with burgeoning garment industries in the People’s Republic of China and South-East Asia. However, Fiji has been able to reinvent itself; today it caters to a niche market by emphasizing flexibility and speed.

The garment industry is largely composed of women and mainly operates under cut, make, and trim production (CMT). This means that the companies placing the orders decide on designs and materials sourcing, while outsourcing labour-intensive and low-technology CMT tasks.

In general, the textiles, clothing and footwear (TCF) industry is highly susceptible to automation, according to a recent ILO report (Chang et al., 2016). There have been major advancements in technologies like 3D printing, virtual fitting, computer-aided design and automated sewing and cutting machines; most current operations jobs are becoming obsolete and run the risk of disappearing.

⁷ For a detailed overview of skill levels, please refer to the ISCO 08 Conceptual Framework. See: <http://www.ilo.org/public/english/bureau/stat/isco/docs/annex1.doc>.

⁸ Data obtained from Simone et al. (2011).

⁹ In a local media article, an industry representative cited 8,000 employees with a target to expand to 12,000 within two years. Singh, M. 2016: “Sector targets increase in workers”, in *The Fiji Times*, 30 Mar. (Suva, 2016), <http://fijitimes.com/story.aspx?id=347490> [last accessed 19 Apr. 2017]. In an August 2014 press release, a government official said the TCF industry employed 5,500 workers. Government of Fiji: “Textile, clothing and footwear council reassured of support”, 6 Aug. (Suva, 2014), <http://www.fiji.gov.fj/Media-Center/Press-Releases/TEXTILE,-CLOTHING-AND-FOOTWEAR-COUNCIL-REASSURED-O.aspx> [last accessed 19 Apr. 2017].

An adaptive garment industry can attract new investments, but it must upgrade its workers' skills.

Fiji's garment industry must invest in upgrading its workers' skills in order to keep pace with the industry's rapidly changing requirements. Among Fiji's competitors in the South-East Asian garment sector, there is a shortage of technicians and engineers who have the skills to operate, service and maintain new TCF technologies, according to the ILO report. If Fiji's garment sector takes the initiative to upgrade its workforce's skills, it will be possible to attract new investments from multinational brands looking for quick turnover, high performance clothing and high-tech footwear. The realities of emerging technology do not have to leave Fiji's garment sector behind. However, the industry and policy-makers must evolve and react in order to create new opportunities.

C. Policy considerations

The world is witnessing widespread job insecurity and uncertainty, driven by a changing environment and rapidly evolving technologies. Pacific Island nations are not immune to this reality; in fact, their labour markets and workers stand to be among the most affected. Climate change is already intensifying pressures on key industries. The technologies of tomorrow will profoundly reshape the jobs Pacific Islanders depend on today. This chapter has focused on the significant impacts these developments could impose on the Pacific's workforce.

These far-reaching consequences also represent an opportunity. Jobs will disappear and the structure of the labour market will shift. However, new jobs will emerge, and workforces must be equipped to fill them. The following key principles shape strategies intended to help PICs meet the challenges of the future: (1) preparing for climate change can drive innovation; and (2) education is the key to reinvention. Ultimately, the future of work is both a challenge and an opportunity. There are concrete steps policy-makers can take to help make labour markets more resilient, and equip workforces to not only withstand the looming changes, but also thrive amid them.

C.1 Preparing for climate change can drive innovation.

Climate change will have profound effects on countries in the Pacific. It is a major threat to lifeblood industries across the region. In some countries, it tests their very existence. For labour markets, the immediate impacts will include job losses in directly affected industries. However, new jobs will emerge in the replacement industries that rise to fill the void. In the long run, then, climate change can trigger innovation, creating growth and new opportunities (Fankhauser et al., 2008). With equitable policies in place to foster the proliferation of green jobs, governments can create an ecosystem that encourages innovation and sustainable development.

- **Invest in sustainable commercial agriculture:** Sustainable practices in the agricultural sector can help create green jobs and strengthen food security. Studies suggest that sustainable agriculture can also play an important role in climate change mitigation (Valin et al., 2013). Given the Pacific workforce's dependence on agriculture, targeting this crucial sector could open the door to new, more environmentally compatible jobs. By investing in sustainable commercial agriculture, PICs that export cash crops can take advantage of global consumer trends favouring sustainably produced commodities. Well-managed sustainable commercial agriculture can also provide better jobs with decent working conditions and fair salaries.

- **Protect safety and health in agriculture:** However, agriculture can also be a significant source of greenhouse gas emissions – a key contributor to climate change. The use of fertilizer and pesticides adds to these emissions. PICs should help ensure sustainability by taking steps to ratify ILO Convention No. 184 – the Safety and Health in Agriculture Convention. The Convention calls on authorities to create systems for the “safe collection, recycling and disposal of chemical waste, obsolete chemicals and empty containers of chemicals” in order to “eliminate or minimize the risks to safety and health and to the environment”. Among PICs, only Fiji has ratified this Convention.
- **Invest in sustainable tourism:** Like the agricultural sector, boosting sustainable practices in tourism can spur the growth of green jobs and contribute to poverty reduction. Globally, the tourism sector is a key employment source, especially for women, young people, migrant workers, indigenous peoples and rural communities. This is especially true in many PICs, where the tourism industry drives economies and contributes substantially to GDP. Sustainable tourism has an enormous potential to create green jobs, especially in climate-resilient infrastructure, environmentally conscious products and services catering to the industry itself. The World Tourism Organization, a United Nations agency, defines sustainable tourism as “tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities”.
 - **Protect the rights of workers in this vital sector:** A key step to developing sustainable tourism is to ensure the protection of the workers who power the industry. Taking steps to ratify ILO Convention No. 172, which oversees working conditions in hotels and restaurants, will be a major step forward in achieving decent working conditions in the tourism industry. Among PICs, only Fiji has ratified this Convention.
- **Promote policies that emphasize more formal youth employment:** Youth unemployment and underemployment is a chronic issue in the PICs. Research has shown that climate change disproportionately impacts young people who already face disadvantages in the labour market. Climate change-induced disasters can rob families of their primary livelihoods, especially those relying on subsistence agriculture. This forces young people toward vulnerable and low-paying jobs in the informal economy (Perezniето et al., 2011). All ILO members in the Pacific have developed, or are in the process of developing, national youth policies (ILO, 2013). This is a key step to promoting policies that emphasize youth employment in formal sectors, the important role of TVET education and youth entrepreneurship.
- **Increase female participation in the labour market:** Gender equality is a crucial element of climate change and disaster resiliency. Research has shown that disasters kill more women than men when women’s rights and socioeconomic statuses are unequal. Increasing female participation in the labour market will help build climate resilience in the community. However, there is a high level of gender disparity in most PICs. Fiji, for example, ranks 121st out of 145 economies in the World Economic Forum’s Global Gender Gap Index 2015. Compared to other countries in Asia and the Pacific, Fiji ranks higher than only Iran and Pakistan. Policy-makers should prioritize the issue of employment discrimination by prioritizing gender-focused national policies. They should initiate dialogues with employers to encourage the hiring of women and take steps to ensure more women are trained and qualified for jobs in the formal sector.

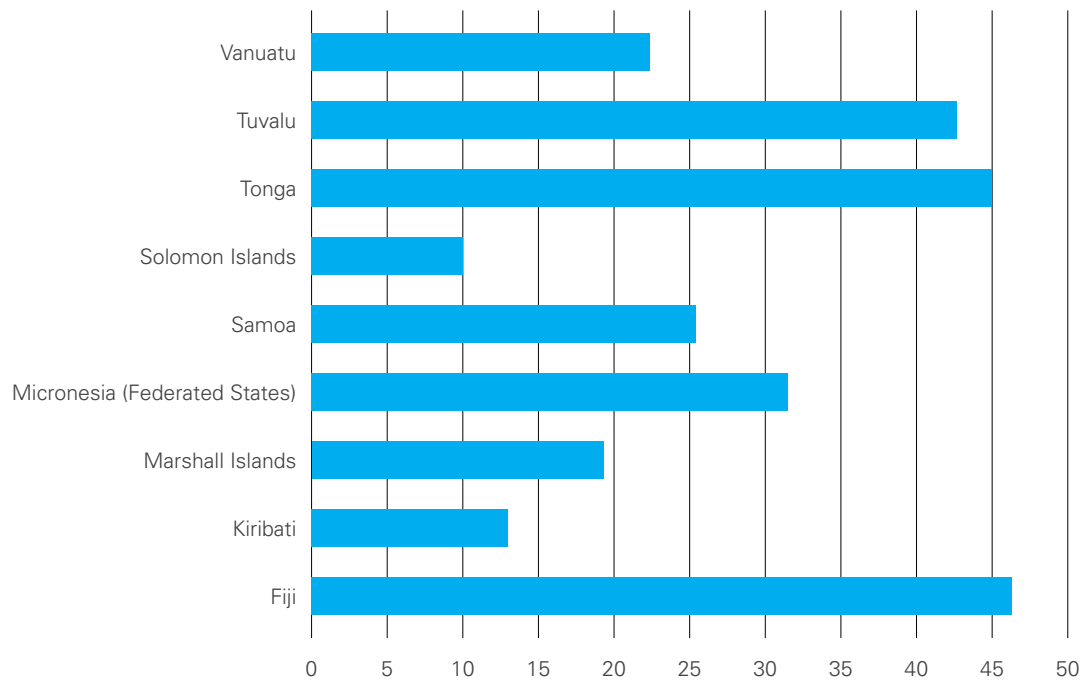
- **Link internal migration with formal employment:** The problem of land scarcity will likely surge as climate change pushes coastal and rural communities toward cities. Governments require policies that reduce conflict between new arrivals and local communities and ensure an equitable use of land and resources. Governments should prioritize resource and land-use policies that encourage sustainable development and help facilitate labour migration, in the case of climate-induced migration. Internal migration, viewed as an adaptation strategy, should be linked to formal employment initiatives. In this way, workers will be protected by a social safety net and learn new skills that will empower them to find work beyond subsistence agriculture.

C.2 Education is the key to reinvention.

There will be new industries and new opportunities to replace the low-skilled jobs threatened by evolving technology and automation. However, adapting to these major shifts will require workers to upgrade skills to satisfy the demands of tomorrow's labour market. This is where TVET is crucial. TVET systems in the Pacific Islands have key structural deficiencies – the product of high labour emigration and an over-reliance on a select few industries for job creation. To rectify the problem, regional education ministers adopted the Pacific TVET Framework for 2012–2015, which sought to align TVET systems and labour market needs. But policy-makers can still take further measures to enable the education system to be a catalyst for skills development.

- **Reform the TVET system to cater to market needs and the knowledge economy:** High-income economies are increasingly characterized by knowledge rather than means of production. PICs must also ensure their workers have the skills to thrive in the knowledge economy. Delivering TVET through quality apprenticeships will be a benefit to both workers and potential employers. As well, formalizing informal apprenticeship schemes will lead to more widely accepted qualifications. Correspondingly, countries in the Pacific should invest in training programmes for teachers.
 - **Increase the use of information and communications technology in education:** Policy-makers should take advantage of the scalability of information and communications technology (ICTs) by making it an integral part of education delivery. Using ICT can help deliver TVET to a wider audience, create a more open and flexible learning environment, and allow access to enhanced learning through interactive content. Such flexibility will produce TVET that is more responsive to the labour market's needs. The Pacific Education Development Framework 2009–2015 acknowledges the importance of open and distance learning for those who have lacked formal schooling opportunities. Also, it notes the role ICT and distance learning can play in making teacher trainings more effective. Increasingly, employers are formally accepting skills learnt using open and distance learning and encouraging employees to train themselves. However, countries throughout the Pacific have low Internet penetration rates. The Framework for Action on ICT for Development in the Pacific (SPC, 2010) acknowledges the problem and proposes a road map to boost connectivity. PICs should properly implement these policy strategies in order for the knowledge revolution to benefit its citizens (SPC, 2010).

Figure 5.4: Internet users per 100 people in selected PICs, 2015



Source: World Bank (2017).

- **Ensure the reformed training system is as green as the jobs of the future:** As some forms of low-skilled employment begin to disappear, new opportunities will take their place. These could include jobs in emerging fields such as building climate-resilient infrastructure. Pacific Islanders must be equipped to fill these roles. For example, Papua New Guinea’s national climate policy has identified green infrastructure and buildings as a key pathway to climate resilience (OCCD, 2014). However, the skills required for green construction can differ substantially from conventional construction (ILO, 2011). Policy-makers should ensure TVET systems meet the demands of the burgeoning green economy, so that local workers can reap its rewards.

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CHAPTER 6

POLICIES FOR BETTER LABOUR MARKET OUTCOMES

Introduction

There are both challenges and opportunities for Pacific Island labour markets. How can Pacific Island economies overcome small sizes and large distances to fuel underperforming sectors and create jobs? How can policy-makers leverage key labour market institutions to protect workers? How can governments help connect their most disadvantaged jobseekers to vital employment? How can PICs reap the benefits of migration while minimizing its costs? And how will countries prepare their labour markets for the profound implications of climate change?

These issues speak to the core of the SDGs, which represent tangible objectives for strengthening shared prosperity. In particular, SDG 8 aims for inclusive and sustainable economic growth – including productive and decent work for all. As this report has shown, PICs face challenges in extending the benefits of good jobs and opportunities to the entire workforce. Taking concrete steps to improve labour market outcomes in the Pacific will help the region meet the objectives of the 2030 Agenda for Sustainable Development and build more prosperous and equitable labour markets for its workers.

With this in mind, this final chapter highlights key policy areas that could lead to better labour market outcomes, while pointing to practical steps to move forward. These policy considerations cover key issues raised in this report, including recommendations to strengthen labour market institutions, to help make labour markets more efficient, to prioritize more equitable migration outcomes and to help prepare workforces for the economies of tomorrow. This chapter also draws from forthcoming labour market studies on Fiji, Palau and Papua New Guinea, which were produced as part of an ILO collaboration with the ADB supporting evidence-based and collaborative labour market policies and programmes.

Ultimately, the challenges facing PICs are enormous. However, the region's policy-makers have the power to influence equitable growth in their economies and build the foundations for more inclusive and sustainable labour markets.

Policy priorities

Strengthen labour market institutions through social dialogue.

When considering changes to EPLs, policy-makers should prioritize covering more workers rather than increasing protections for a few. Reducing uncertainty around minimum wage levels will benefit both employers and workers. Above all, reforms to labour market institutions in the Pacific must be carried out through an effective social dialogue among employers, workers and the state. More effective policies can be reached through a collective negotiation process that does not view reforms as a trade-off between worker protection and economic growth.

- **Focus on protecting more workers, rather than strengthening existing safeguards for a few:** Labour markets in each Pacific Island nation are unique, and appropriate levels of protection legislation will be determined by these attributes. In general, however, policy-makers should focus on extending protections to as many workers as possible, rather than concentrating solely on formal-sector employees. Pacific Island labour

markets are characterized by large informal economies, where workers often have few legal protections. These workers would benefit the most from boosting enforcement of existing EPLs. In this way, policy-makers can focus on extending the reach of protections to the wider workforce, while balancing existing measures' burden on employers. In Fiji and Papua New Guinea, which both have large informal economies, policy-makers might consider decreasing redundancy limitations and severance pay, for example. If this is the case, however, they should at the same time strengthen enforcement of regulations throughout the labour market. On the other hand, Palau has a much smaller informal economy and almost no regulations on redundancies. Displaced workers there would benefit from some form of protection.

- **Increase the predictability of minimum wage changes:** As Chapter 2 outlined, minimum wage policies are more important than EPL for protecting workers, and also a larger concern for employers. A key strategy is to increase the predictability of the minimum wage by setting it with regards to the mean wage of the economy, or to value added per worker. Policy-makers can reduce uncertainty by improving the institutions used to set minimum wage. In Papua New Guinea, policy-makers could take steps to make the national Minimum Wage Board more efficient by increasing the body's expertise and converting it to an ongoing "standing" status. Policy-makers in all PICs should take steps to limit sectoral exceptions to the minimum wage, where possible. These exceptions often lead to cumbersome regulations that are difficult to apply, worsening problems with labour law enforcement.
- **Reinforce the importance of social dialogue:** Healthy and impartial industrial relations are a foundation for stronger democratic institutions. Labour market reforms made in consultation with all the social partners can minimize uncertainty and avoid conflict. As such, Pacific policy-makers should underscore the importance of an effective, collaborative partnership between employers, workers and the state. This includes the promotion of collective bargaining. SDG 8's Target 8.8 calls for the protection of labour rights for all, which includes freedom of association and collective bargaining.

Target public employment services to help those who need it most.

Fiji and Papua New Guinea both have public employment services, but as Chapter 3 showed, these agencies have struggled to connect jobseekers with available jobs. If public funds are to be spent on employment services, policy-makers should refocus these efforts on key groups that stand to benefit the most: employers with lower-skilled job vacancies and disadvantaged jobseekers.

- **Help facilitate the job-search process for businesses with low and mid-skill vacancies:** While private-sector intermediaries have been effective at filling higher-skilled positions, there could be a need among employers who cannot afford the expense of a costly private recruitment firm or newspaper ads. A basic online service may fill this need, charging employers a small fee to advertise vacancies. This would require an accurate list of jobseekers, which could come from a parallel online register of current jobseekers.
- **Concentrate on helping disadvantaged jobseekers:** Similarly, more efforts are needed to help disadvantaged jobseekers prepare for work. In Fiji, for example, this could include job-ready training for young people with low education levels living in large urban areas. This would first involve identifying unsuccessful job applicants in lower-skilled occupations and tailoring services to their needs. However, this will require capacity building for staff at Fiji's National Employment Centre (NEC). Similarly, more trained staff and region-specific services would be required to extend the NEC's reach beyond the capital, Suva.

Use policy to leverage the benefits of migration while reducing its costs.

There is an ongoing debate about the net costs of migration. However, it is clear that remittances are immensely important to sending countries in the Pacific Islands, helping to reduce poverty and increase household income. Over the long term, governments can invest in education and training, while building toward policies that encourage skilled workers to return home. SDG 10, which calls for the reduction of inequality within and among countries, recognizes labour mobility's importance to workers seeking better opportunities and higher wages. Target 10.7 underscores the need to facilitate safe migration through well-managed policies.

- **Promote labour mobility and leverage existing opportunities:** Policy-makers should ensure their workers are equipped to capitalize on migration opportunities that are already available in key destination countries like Australia and New Zealand. Both countries offer seasonal work programmes for temporary migrants, yet only a small number of workers from Fiji and Papua New Guinea have taken part. Chapter 3 has outlined some of the key organizational problems that limited the success of temporary labour migration in these two countries, including poor recruitment practices and insufficient employer input. In Papua New Guinea, reforms could also include greater efforts to promote Papua New Guinean workers to overseas employers while improving pre-departure training and assistance. Returned seasonal workers should receive reintegration assistance, with a view to enabling workers to use and transfer the skills they acquire overseas. Meanwhile, PIC policy-makers can explore new opportunities for facilitated labour mobility schemes through trade negotiations.
- **Recognize the urgency of long-term planning to increase education levels:** As Chapter 4 showed, PIC migrants experience high unemployment and inactivity rates while abroad. In addition to improved integration in destination countries, efforts are needed to help migrants take full advantage of their qualifications while overseas. The quality of education is a long-standing issue, as is the need to improve the accreditation process. Education could be geared toward job skills valued in both domestic and international labour markets. The Fiji Higher Education Commission is working on the accreditation of courses that could help Fijian workers find jobs in overseas markets. This wider accreditation could also help students continue their studies at overseas universities before finding jobs based on their new degrees. Countries would benefit through "brain gain" if these workers return.
- **Incentivize return:** While sending countries should facilitate migration opportunities, they must also take steps to retain and attract highly skilled workers. Improving educational quality and accreditation will help make workers more employable; however, it is also important to look ahead to ensure that workers who benefit from these opportunities have a stronger incentive to return home. Providing attractive remuneration packages to highly skilled professionals is one step. Another is to align expected labour market needs with tertiary scholarships that are contingent on returning home after graduation. This could help ensure qualified professionals are available while preventing brain drain – particularly in the case of Palau, whose workers can access the United States labour market through the Compact of Free Association.

Leverage regional cooperation to counter the weaknesses of small individual labour markets.

Pacific Island nations have attempted to reform labour markets, often building on the recommendations of international organizations. Attempts have often aimed at limiting various aspects of EPL or changing the systems responsible for minimum wage. However, change has been slow in many countries (UNESCAP, 2007). One key obstacle: labour markets' small size. Individual reforms, made country-by-country, have fallen short because the goal requires

international coordination in order to implement harmonized changes across the Pacific. With increased regional cooperation, however, individual labour markets can leverage the collective strengths of the larger region.

- **Extend the reach of migration programmes across the region:** PICs traditionally look to Australia, New Zealand and the United States for work options. While temporary migration to these countries can benefit small economies, solutions are also found closer to home. Pacific Island nations may be separated by great distances, but they also share cultural connections and labour market similarities. Policy-makers should take advantage of these links to create a basic legal framework to facilitate migration among PICs – essentially expanding the size of their national labour markets. This framework should help facilitate visas, seasonal employment, recognition of qualifications and other stumbling blocks. This type of “South-South migration” would help to provide more opportunities for the region’s workforce, building a defence against skills shortages, unemployment and brain drain. Countries in the Caribbean have made similar moves toward regional integration (Warner and Anatol, 2014). Their experiences – and challenges – could be instructive for Pacific policy-makers.
- **Facilitate homogenous training and formal education across the region:** Pacific Island nations already have an example of broad regional co-operation: the University of the South Pacific, which has campuses throughout the 12 Pacific countries that jointly own the institution. In order to help ensure the success of regional integration, a crucial task will be to expand public or private-public partnerships in labour market intermediation across the region. Intermediaries make labour markets more efficient by connecting jobseekers and employers. Intermediaries can also offer skills training and education components to help jobseekers build required skills. Over the medium and long terms, it will be essential to involve employers in vocational training programmes, so that the training skills on offer match up to the requirements of available jobs.
- **Alleviate restrictions on workers from PICs:** In order for regional labour integration to function, policy-makers should relax restrictions on workers from other Pacific Island nations. This may be a contentious issue in a country like Palau, which has high rates of emigration and skills shortages that are often filled by foreign workers. The past decade has seen attempts to legislate changes aimed at limiting employers’ use of foreign workers. These efforts were motivated by Palau’s skills shortage and discomfort with the use of foreign workers as cheaper labour. In recent years, however, government officials have considered relaxing or simplifying these restrictions, particularly in advocating for a flat foreign worker fee to minimize labour hiring distortions.

Foster job growth while directing investments toward underserved areas.

As this report has shown, Pacific Island economies have struggled to sustain growth, while there is a general mismatch between available jobs and worker skill levels. While improving labour market outcomes requires carefully considered strategies across a range of issues, the overarching goal is to strive for pro-employment policies that create decent work options for a growing workforce. SDG 8 Target 8.3 aims for policies that support decent job creation, entrepreneurship, innovation and the growth – and formalization – of micro, small and medium-sized enterprises (MSMEs).

- **Promote private and public investment in job creation:** Private-sector investment is the driving force behind growth and job creation. However, businesses in the Pacific are generally credit-constrained. Policy-makers should commit to providing an environment that contributes to a competitive and robust private sector without sacrificing worker protection. Transportation infrastructure and interconnectivity are key barriers to growth in many promising industries. Governments should make strategic investments to upgrade infrastructure while improving legal and financial systems to create a positive business

environment. To tackle corruption – identified by businesses in some PICs as a major constraint to growth (Chapter 1) – governments can take steps to strengthen democratic institutions in order to earn the confidence of investors. The public sector alone cannot provide jobs for the entire labour market. This is especially evident in Palau, where development has largely been led by public sector activity and financed by substantial foreign assistance. Grant flows have allowed the country to run a significant deficit, support sizeable public sector employment and carry out substantial public investments. However, there is uncertainty regarding the future of the Compact of Free Association, and diminishing international grant assistance will make it even more critical to promote private-sector employment.

- **Promote rural development to enhance employment opportunities:** Rural labour markets throughout the Pacific face particular challenges. In Fiji, a decline in rural per capita incomes, compared to urban incomes, suggests a worsening standard of living. In Fiji's sugar industry, the last three decades have seen declining production levels attributed to a migration away from farms, land lease issues and unsustainable uses.¹ In Palau, the incidence of poverty is dramatically higher among the rural population than among urban dwellers.² Papua New Guinea has a mostly rural population, most of whom do not have formal wage jobs. Policy-makers can enhance economic opportunities by directing domestic and foreign investment to these underserved rural areas. Providing more secure land tenure will empower farmers to invest in their land and adopt more sustainable farming practices. This will also enable commercial farming, rather than smallholdings cultivation, allowing farmers to achieve better economies of scale through mechanization.
- **Help develop MSMEs:** In developing countries around the world, MSMEs are an engine for economic growth. However, these small businesses struggle with high start-up costs, prohibitively expensive raw materials and higher interest rates (Sharma and Gounder, 2011; Naidu and Chand, 2013). Governments can help these enterprises access crucial capital by working closely with banks and community leaders to identify opportunities to extend financial services. In Papua New Guinea, the number of SMEs is low by international standards, and commercial banks have only recently started to lend to these small businesses. While the Government has an ambitious SME growth policy, a survey of SMEs in Papua New Guinea highlights key imbalances. For example, a higher proportion of SMEs in the informal economy employed unpaid staff compared to the formal sector, while only 8 per cent were wholly owned by women (Tebbutt Research, 2014). While these female owners faced similar challenges as men, difficulties like accessing finance were often magnified. Moves to improve female access to finance, such as working with banks to encourage lending and exploring the feasibility of percentage-based requirements for female lending, could be beneficial.
- **Promote sectors that have the potential to support sustainable and inclusive growth:** Sustainable agriculture and niche markets could be a promising fit for the region's unique strengths. Linking ecotourism and agri-tourism with overall tourism could aid the agricultural sector. A country like Palau can continue measures to build sustainable tourism, which will drive employment and support government revenue. In October 2015, Palau's Government converted 80 per cent of its territorial waters into a marine sanctuary, prohibiting commercial fishing, oil drilling, and seabed mining.³ Tourism-related activities like diving and snorkelling are expected to provide alternative livelihoods for those affected. This focus is particularly important in light of the expected effects of climate change on the

¹ FBOS (2013).

² Poverty data from 2014 Household Income and Expenditure Survey. See: <http://palaugov.pw/wp-content/uploads/2016/04/2014-ROP-HIES.pdf>

³ (SB 9-30) To Prohibit the Commercial Export of Highly Migratory Fish From Palau and to Prohibit Foreign Fishing within Palau's Exclusive Economic Zone (Fisheries Protection Act of 2009). See: <http://www.palauoek.com/wp-content/uploads/2014/04/SB-9-30.pdf>.

region's key sectors – including agriculture, fisheries and tourism. A focus on green jobs and industries can anticipate the oncoming effects of climate change by creating more adaptable employment in climate-resilient infrastructure and environmentally conscious products and services. SDG 8 Target 8.9 calls for implementing policies that promote sustainable tourism.

Tackle vulnerabilities in the informal economy by providing income-generating opportunities and training.

The informal economy is prevalent in most PICs, although it is by nature difficult to quantify. Workers in the informal economy are vulnerable due to a lack of basic protections. The presence of a large informal economy also deters private businesses from investing, creating strong disincentives to firms that might otherwise create better jobs in the formal sector. Both Fiji and Papua New Guinea have large informal economies with substantial numbers of people in subsistence activities. Notably, Palau's informal economy is comparatively small. However, as Chapter 2 noted, the variability in protections for Palau's relatively large foreign workforce compared to local Palauans may be the beginning of a dual labour market.

- **Create income-generating opportunities for people in subsistence activities:** In Fiji, almost one quarter of employed workers receive no monetary income because they rely on subsistence activities, according to the Fiji Employment and Unemployment Survey 2010-11. Policy efforts in this area must prioritize groups that have the highest vulnerability. Strengthening micro-finance options for subsistence workers would be beneficial, but these should encourage savings ahead of taking on low-interest loans. Efforts to enhance agricultural productivity could help subsistence and informal workers save money.
- **Enact training and capacity building:** Given the shortage of formal sector jobs and the region's high population growth, the informal economy will likely remain a key source of income for many households in the Pacific Islands. Governments should pursue policies that help workers build market-relevant skills by accessing short-term training, which could include entrepreneurship, financial literacy and management. However, decision-makers must first identify what realistic economic opportunities are available for micro-enterprises and self-employment – based on an assessment of the actual demand for goods and services produced in the informal economy. Above all, these efforts must involve informal economy participants from the start, empowering them to participate in decisions that affect their futures.
- **Improve data on the informal economy:** While efforts to address the Pacific's oversized informal economy are important, these decisions must be based on comprehensive data and information. In Papua New Guinea, for example, there are no reliable and current data on the informal economy. A full assessment of the informal economy will help policy-makers properly understand the requirements of informal SMEs and gauge the skills needs among informal workers.

Address inequalities affecting youth and women.

Young Pacific Islanders face high levels of unemployment, while women are less likely to participate in the labour market and more likely to take up precarious work in the informal economy. This is a critical issue for Pacific policy-makers, as demographic trends point to a young and growing workforce competing for inadequate job opportunities.

- **Create opportunities for young Pacific Islanders to upgrade skills:** Reflecting conditions in many PICs, youth unemployment in Papua New Guinea is significantly higher than for the general population. Many young people leave school poorly equipped to find work. As Chapter 3 demonstrated, Papua New Guinea's public employment service has been

ineffective at matching jobseekers with jobs. Improved career guidance in the school system could help empower youth to make more informed choices. Governments can support self-employment through entrepreneurship training and improved access to credit and savings. Policy-makers can also take further steps to provide TVET to youth. In Fiji, for example, regular public education is free until the secondary level. Offering TVET at a concessional cost to early school-leavers could be a sensible move, as education would have been provided free of charge had the student remained in school. Papua New Guinea's donor-funded UYEP has shown success in increasing employability among disadvantaged youth (Chapter 3). The merits of offering a similar programme could be explored elsewhere, providing disadvantaged urban youth with paid work on a rotational basis. Overall, the goal should be to reduce the number of youth who are neither employed nor enrolled in education or training, while smoothening the transition into the labour market. SDG 8 Target 8.6 aims to substantially reduce the proportion of youth not in employment, education or training.

- **Prioritize the rights of women in the workplace and in the law:** Women face discrimination in the Pacific labour market: They are less likely to participate and more likely to take up vulnerable jobs. Youth unemployment is also more severe among females than males. In a country like Fiji, this occurs despite little difference in educational achievements among females and males. While there are multifaceted reasons for these outcomes, it is clear that legislative efforts have fallen short in addressing gender inequality in the labour market. None of the PICs have laws against gender-based discrimination in hiring, while only Fiji, Kiribati and Samoa have laws mandating equal pay for equal work (Chapter 2). Papua New Guinea ranks poorly on measures of gender-based inequalities in reproductive health, empowerment, and economic activity, yet a recent national planning document does not mention the word “gender” once.⁴ As a start, policy-makers should implement and monitor equal employment policies in workplaces. Increasing opportunities for women requires legislation that ensures their rights in the workplace and in education. Authorities could consider prioritizing the employment of women in government departments, while promoting more versatile job training options not based on gender stereotypes. Together with previous recommendations on promoting MSMEs and rural development, advancement in rural women's economic activities should be prioritized. Overall, the objective is to see more women employed in the formal labour market, including in non-traditional areas, and more female business owners. SDG 8 Target 8.5 includes a goal of achieving decent work for all women and men, including equal pay for work of equal value.

Implement a labour market data system but take advantage of existing information sources.

Good policy requires accurate data, and this is one area in which many PICs can improve.⁵ Timely and reliable data will help policy-makers identify key areas of concern throughout the labour market – and help them make informed decisions.

⁴ See Papua New Guinea Medium Term Development Plan 2, 2016-2017 “Pathway to a Responsible Sustainable Future”, Department of National Planning and Monitoring. See: <http://www.planning.gov.pg/images/dnpm/pdf/MTDP2.pdf>.

⁵ Fiji has the most developed labour market information system in the Pacific Islands region. However, its usefulness is limited by a lack of timeliness and frequency. See ILO: “The ILO in Fiji” (ILO Country Office for South Pacific Island Countries), p.2, http://www.ilo.org/wcmsp5/groups/public/—asia/—ro-bangkok/—ilo-suva/documents/publication/wcms_366536.pdf.

- **Take steps to establish a labour market information system:** A first step to creating a working labour market information system is to enforce existing legal requirements to report data. In Papua New Guinea, for example, companies must register their annual and monthly returns with the Department of Labour and Industrial Relations. Policy-makers should identify what other existing legislative requirements and mechanisms are available to ensure compliance. Labour market data should include comprehensive surveys of the formal and informal economies, as well as annual surveys of higher education graduates. These data can be developed into a skills database, while a demand database can be powered by an annual survey of industry needs. This skills and demand database can form the basis of a comprehensive labour market information system. The goal is to create a source of reliable and updated labour market data to enable evidence-based policy. However, this will require resources and political commitment among multiple stakeholders.
- **Take advantage of existing sources of labour market information:** Policy-makers should also leverage existing data sources to inform decisions. In Fiji, for example, current information on a wide variety of occupations can be found in the 2015-2016 Employment and Unemployment Survey, conducted by the Fiji Bureau of Statistics. This information can identify jobs that have shown recent growth, where they are located and what further training is required. Fiji's NEC should also carry up-to-date information on employers offering work placements, as well as the conversion rate to ongoing employment. In Papua New Guinea, available data can be used to tackle a pressing labour market concern: employers' reliance on foreign workers. Good information on foreign workers should be available through work permit processing – which Papua New Guinea's Department of Labour already tracks – and monthly reporting requirements from employment agents. Authorities can use this information to identify employers who have become dependent on foreign workers in specific occupations – and formulate policies that could lead to the training and hiring of local workers instead.

Reform skills training to meet the demands of the labour market.

Throughout the region, capitalizing on new opportunities in promising sectors will require strengthening national education and training systems and equipping workers with the qualifications and skills to compete for jobs. Policy-makers should enhance the standard of available technical training programmes and ensure they are actually meeting labour market needs – now and in the future.

- **Align skills development to labour market needs:** Skills training must be focused on areas where there is actual labour market demand. This is one key example of where timely data would be beneficial. In the absence of comprehensive information, analysing data on foreign work permit holders in Papua New Guinea would offer an indication of current needs. Increasing industry involvement in TVET is an important way to improve education quality. Direct industry involvement in curriculum development and quality assurance will help ensure TVET is actually meeting labour market demand. These types of partnerships could also be reflected in apprenticeship schemes.
- **Make vocational training relevant to young populations:** One challenge will be to raise awareness about the importance and relevance of TVET to young workers. In Fiji, for example, studies have observed a mismatch between the career aspirations of young people and Fiji's actual skill needs (Nilan et al., 2006; Cavu et al., 2009). School-leavers were found to have returned to their villages because they focused on securing white-collar careers rather than the blue-collar jobs that often matched their skill levels. This is partly a problem of communicating realistic labour market needs. In a move to change perceptions of vocational education in Fiji, TVET has been rebranded as Technology Employment Skills

Training, also known as TEST, at the secondary school level (ADB and ILO, 2015). Career guidance services could help increase demand for TVET programmes that are relevant to expanding sectors.

- **Anticipate future demand:** The labour markets of tomorrow will look strikingly different than they do today. Rapidly evolving technologies and a changing climate have profound implications for the very nature of work throughout the world – and in the Pacific. While upgrades to education and training are necessary to address today's skills needs, TVET reforms must also anticipate tomorrow's workplaces. Pacific Islanders must possess the skills to thrive in a knowledge-based economy. Policy-makers should ensure reformed training systems are as green as the jobs of the future, like the ones found in emerging fields such as climate-resilient infrastructure. Certain types of jobs will disappear, but Pacific Islanders can be equipped with the skills to meet tomorrow's challenges.

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Improving labour market outcomes in the Pacific

POLICY CHALLENGES AND PRIORITIES

Labour markets in the Pacific Island countries are characterized by underemployment, high levels of informality, gender disparities in employment outcomes, and a large and growing share of young people not in education, employment or training. Size and remoteness have hindered economic growth and limited positive labour market outcomes. A very young and growing population is both an opportunity and a concern: Pacific Island countries stand to benefit from a demographic dividend, but labour markets are simply not producing enough jobs to accommodate all the young women and men entering the workforce each year.

Given the labour market challenges in the Pacific Islands, many workers have looked elsewhere for new opportunities. Emigration rates for skilled Pacific Islanders are among the world's highest, leading to fears of a "brain drain" in many of the labour-sending countries. Meanwhile, many Pacific Islands are heavily reliant on foreign labour, driven in part by "skills shortages" at home. The challenge moving forward will be determining how to leverage the benefits of migration while mitigating its negative consequences. Looking ahead, the looming impacts of climate change and rapidly evolving technology also pose a major challenge to Pacific Island economies.

This Report provides policy guidelines for improving labour market outcomes, focusing on five key areas: first, investing in underserved areas and tackling informality; second, strengthening labour market institutions to make growth more inclusive; third, adopting migration policy that works for all; fourth, addressing inequities between women and men while tackling youth unemployment; and lastly, preparing for the future of work in the Pacific, which will likely be shaped by climate change.

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