

## The Urban Informal Sector in Fiji Results from a Survey

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### *Abstract*

*The growth of the urban informal sector as the urbanisation process gains momentum in developing countries, is a common phenomenon. The rise in the urban informal economy plays an important role in employment creation and labour absorption in the urban areas. This study utilises primary data from three urban areas in Fiji to examine aspects of the urban informal sector. Some key features of the urban informal sector are identified. The paper also discusses some of the impediments to the growth of the informal sector in urban areas in Fiji.*

### INTRODUCTION

Urbanisation is one of the most perplexing problems of the development process that developing countries are facing. The limited opportunities for employment and inadequate infrastructure (including water supply, sewerage and garbage disposal) together with insufficient provisions for housing, education and health services, pose major challenges to these countries. Urbanisation, with its concomitant challenges, now confronts virtually all Pacific Island states. The movement of Pacific island people to towns and cities gained momentum in the 1960s and has intensified considerably over the last two decades (Ward, 1998; World Bank, 2000).

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In Fiji, the urban population has been steadily rising since 1966. Since then, the number of people living in towns and cities and engaged in non-agricultural livelihood, has increased by 13 percent (Fiji Bureau of Statistics, 2000). Table 1 shows the changes in the makeup of the rural and urban populations as percentages of the total population. Between 1986 and 1996 the urban population increased by about 30 percent while the rural population declined by approximately 5 percent (Bureau of Statistics, 1998). The rise in urban population can be attributed to an increase in rural to urban migration, an expansion of urban boundaries (referred to by geographers as urban sprawl), and natural increase of the urban population itself.

**Table 1: Trends Urban and Rural Population, Fiji, 1966-96**

Division	Year	Population (%)	
		Rural	Urban
Total Fiji	1966	66.6	33.4
	1976	62.8	37.2
	1986	61.3	38.7
	1996	53.6	46.4
Western	1966	73.0	27.0
	1976	71.9	28.1
	1986	71.9	28.1
	1996	62.6	37.4
Central	1966	40.5	59.5
	1976	35.5	64.5
	1986	32.7	67.3
	1996	27.9	72.1
Northern	1966	86.3	13.7
	1976	85.2	14.8
	1986	85.0	15.0
	1996	78.5	21.5
Eastern	1966	92.7	7.3
	1976	93.0	7.3
	1986	93.2	6.8
	1996	90.8	9.2

Source: Fiji Bureau of Statistics (2000), Household Income and Expenditure Survey 1996, pp. 110.

The high growth rate of the urban population without a simultaneous growth of the urban sector has led to a number of urban problems. These include poverty, crime and environmental problems. These are linked to inadequate sanitation, housing, water

and waste disposal provisions.

The growth of the urban sector has seen the establishment and growth of the informal sector. The informal sector has been observed to be the entry point to the city for migrants who leave their villages with the hope of availing themselves of an urban income higher than their agricultural income (Chaudhuri, 1989).

The urban informal sector, in economics, is defined as that part of the economy which is not part of the formal sector. As such there is no official record of informal enterprises. Nor do such enterprises pay any taxes. Examples of such enterprises are the road-side vendors, bottle sellers, back-yard mechanics and other craftsmen, domestic workers, hawkers and shoe shine boys. Included also are illegal activities like prostitution and drug peddling.

The growth of the urban informal sector retailing can provide goods and services at relatively low prices, thereby undercutting prices fixed by formally registered companies that would have overheads which the informal sector enterprises do not have. The informal sector plays an important role in employment creation and poverty alleviation by providing incomes to unskilled and semi-skilled workers who otherwise would be unemployed (Malik 1996).

However, given the important role that the informal sector plays, the question which arises is: what should be the appropriate role of the state in an increasingly market-oriented economy? Two distinct policy approaches have emerged. The first, taken by the ILO (1991), recognises the poverty and low productivity characteristics of the informal sector for which the sector requires supportive state intervention in the areas of credit, technical support and infrastructure. The second approach, developed by the World Bank, assumes that the main obstacles to informal sector development are the market distortions created by state intervention, controls and restrictions. The requirement is, therefore, not state support, but deregulation, and freeing up the economy to the interplay of market forces. There, thus, are two different views of the role of the state.

The use of the state to foster growth and development has been common in developing countries. The role of the state in ensuring a better distribution of economic resources has been emphasised by many writers. Two important roles of the state have been identified (see North 1981). The primary role is to provide the underlying rules of the game, for example, a well-defined property rights regime, and appropriate and effective judicial, defence and regulatory system for the enforcement of these and other fundamental human rights (Goorha, 2000). The second crucial role of the state is to provide certain basic public goods and services that may be under-provided by the private sector.

The formal sector is dependent on the state for institutional support, whereas for long the informal sector remained outside state support. Only more recently have governments begun to see themselves as facilitators in the development of the informal sector. Whether mere facilitating role, as against a more interventionist role, would be sufficient is open to debate. What does seem to be gaining grounds, within the neo-liberal market framework, is the need to create 'an equal opportunity policy for both the formal and informal sectors. Positive as well as negative discrimination of either sector has to be replaced by the introduction of free market principles' (Overy and Piamonte, 1996).

But given the nature of the informal sector there would be a certain need for a fine balance in the state's role. The dilemma has been stated clearly by the Director General of the ILO in its report to the International Labour Conference in 1991 where he stated that the informal sector

provides jobs and income to millions of people in urban areas of developing countries, where formal jobs are not available. On the other hand, labour standards are not adhered to, while poor working conditions and child labour are common. The basic dilemma is that should countries forgo employment and income for the urban poor in the interest of labour-standard enforcement; or should they ignore poor working environments for the sake of jobs?

The 1991 ILO Report concluded that it is possible to improve working conditions gradually while improving productivity and income.

The informal sector continues to play an important role within the third world. At root, it creates numerous jobs and absorbs a rising proportion of the unemployed workers. One, thus, needs to examine the extent and importance of informal sector employment creation for the unskilled rural unemployed. The impact of this on poverty alleviation, income generation and reduction in urban crime and violence also needs to be examined. These could only be done through empirical research. Detailed primary research is, thus, necessary to establish the contribution of the urban informal sector. This would require in-depth nation-wide studies.

This study is less ambitious in its focus. It examines aspects of the urban informal sector in the country. The study focuses on the urban areas of Suva, Lautoka and Labasa. The specific objectives are to:

- 1) identify types, nature, number and size of urban informal sector activities;
- 2) examine the sector's contribution towards income generation;

- 3) examine the impediments to the growth of urban informal sector activities; and
- 4) identify what the state could do to assist the urban informal sector.

Given the time and finance constraints, establishing a conclusive nationwide data set for each of these areas was difficult. Therefore, this study is a first step towards documenting the overall characteristics of the urban informal sector in Fiji.

#### **URBAN INFORMAL SECTOR: DEFINITION AND NATURE**

Writers on the urban economy of developing countries have divided the urban sector into two parallel sectors, a formal sector and an informal sector. The formal sector is sometimes referred to as the modern sector or the industrial wage-sector. The informal sector is also referred to as the traditional sector. The latter includes the subsistence/non-wage sector.

The term 'informal sector' was first used by the ILO (1972) in its report on Kenya. The origin of the term, however, goes back to the dualistic theories of development. Originally advanced by the Dutch economist Jan Boeke, the dualistic theory of development postulated that the developing economies comprised a traditional sector and a modern sector. The distinguishing feature was the degree of factor substitutability, with the modern sector constrained by modern technology to exhibit a lack of factor substitutability while the traditional sector was characterised by perfect factor substitutability (Higgins, 1968). On this foundation, Clifford Geertz, for example, postulated the dualistic structure as comprising a 'firm sector' and a 'bazar sector', each of which represented a distinct mode of operation. It is the traditional or the *bazar* sector, which is now popularly known as the informal sector.

Since the introduction of the term by the ILO, it has been receiving much attention from social scientists as a distinct sector of economic activity and also as a distinct socio-economic group.

The debate over what comprises the formal and what the informal sector, is still far from resolved. But generally, it is taken that the formal sector includes enterprises (government and private) that are registered, officially recognised, nurtured and regulated by the state. In contrast, the informal sector operates outside the regulations of governments. As such, it is beyond access to state subsidies, credit, or other forms of state assistance or control. This sector also has a greater capacity to absorb a large proportion of labour and generate income. There

exist, however, increasing linkages between the two sectors, with the informal sector increasingly fulfilling certain tasks of economic development (Weeks, 1975). More commonly, one tends to find that sub-contractors rely on the informal sector to carry out their part of the production deals. The sector, as Fidler and Webster (1996:5) found in the context of Latin America, also incorporates illegal activities by individuals operating outside the formal sphere for the purpose of evading taxation or regulatory burdens.

The informal sector broadly refers to a wide range of economic activities including street food or market vendors, small automotive and machine repair shops, small-scale manufacturing such as garments, shoes or handicrafts carried out by single operators outside the regulatory framework of the state. The sector can also be described as a 'petty commodity sector'. It comprises economic activities for the market on the basis largely of self-employment, with little or no wage-labour, although there may be use of additional labour in the form of apprentices or of family labour. Although a high degree of convergence exists between 'small-scale enterprises' and the 'informal sector', a distinction needs to be made between the two. The informal sector is described as consisting of 'all small-scale activities that are normally semi-organised and un-regulated, and use simple labour-intensive technology... undertaken by artisans, traders and operators in work-sites such as open yards, market stalls, undeveloped plots, residential houses and street pavements..... [N]ot registered with the Register of Companies, they may or may not have licenses from local authorities for carrying out a variety of businesses' (Ferei, 2000).

While increasingly it is found that the informal sector comprises households of long standing urban residents, in many case in the third world, a significant section of the informal sector has common roots in abject poverty, insecurity of land tenure, poor education, lack of institutional support, and weak organisation. It emerges from the inability of the modern economy to absorb the rising labour force in productive employment. The sector is closely associated with poverty and squatter problems. Indeed, the dualistic theorists had argued that if the traditional sector was rising, it would lead to shared poverty, meaning that an increasing number of workers would be absorbed in the relatively inefficient traditional sector, thereby reducing the average and marginal products of labour in this sector. On average, then, a progressively increasing number of people would tend to share a less rapidly rising output.

In urban areas, the lack of opportunities in the formal sector tends to concentrate a large share of the population in the infor-

mal sector. In a survey conducted in Manila, 87 per cent of the city's slum dwellers were found to work in the informal sector (Joshi, 1997). The informal sector also absorbs a large proportion of the migrant population from the rural areas. A study in Dhaka shows that migrants comprised 70 percent of the informal sector labour force, against 37 percent in the formal sector (Malik, 1996: 37). Another survey of selected capital cities showed that 93 percent of the migrants in Dhaka, 63 percent in New Delhi, 97 percent in Jakarta and 80 percent in Bangkok worked in the informal sector (ESCAP, 1996).

In contrast to the formal sector, the informal sector is generally characterised by low entry barriers and ease of entry, reliance on indigenous/local resources, family ownership of the enterprises, simple organisational and production structures, small scale of the operations, labour intensive and adapted low technology, low level of education and skills, skills acquired outside the formal system of education and training, unregulated and competitive markets, little capital investment, self-employment with little or no wage labour or family labour, family based management system, traditional pre-modern method of production, lack of institutional support, personal sources of funds for investment, irregular working hours, and small inventories.

## **ROLE OF THE INFORMAL SECTOR**

The informal sector provides employment to the poor, absorbing some of the labour that cannot find employment in the formal sector. The sector plays a supplementary role in employment and income generation. It also plays a complementary role in the provision of goods and services.

According to Fidler and Webster (1996: 5), the urban informal sector is a major provider of employment and income to three categories of socio-economic groups in urban areas: survivalists (i.e. very poor people who work part-time in income generating activities), the self-employed (who produce goods for sale, purchase goods for resale or offer services), and very small businesses (i.e. micro-enterprises that usually operate from a fixed location with more or less regular hours).

The *Save the Children's Fund* and a few other NGOs argue that the informal sector can build markets, expand trade, manage natural resources, fight poverty, generate employment, strengthen communities, support families and feed most of the world's children (as cited in Salter, 1998). The sector also utilises waste ma-

terials such as old tyres, metal, disposed equipment, etc. to produce goods some of which otherwise would have been imported, and to provide services which could be too expensive for low-income earners.

The urban informal sector can also have a negative role by raising the expectation of potential migrants to urban areas that opportunities exist for them to move into. However, lack of opportunities may eventually lead some of the migrants to engage in crime and other unlawful activities. Furthermore, the rising urban population resulting from these expectations may lead to urban environmental problems due to the inability of the urban system to handle the sudden influx of the rising population.

The proportion of urban employment accounted for by the informal sector in developing countries varies widely. Studies reveal that the share of the urban labour force engaged in informal sector activities ranges from 20 to 70 percent, the average being around 50 percent (Todaro, 1994: 253). The proportion of informal sector employment to the total urban employment is highest in Africa followed by Asia, Latin America and the Caribbean (ILO, 1999). Estimates in some South East Asian and South Asian cities put the share of informal employment to the total workforce at around 50 to 60 per cent (ESCAP, 1993).

## **RESEARCH ON PACIFIC'S URBAN INFORMAL SECTOR**

Serious research on urban issues in the Pacific islands began in the 1960s with McTaggart (1963) examining the geography of Honiara, Bellam (1963) looking at Honiara's demographic features, and Whitelaw (1966) focusing on the governance aspect of urban areas. Household consumption studies for urban areas were conducted by Garnaut *et al.* (1977). A detailed examination of squatting and urban housing in Suva was carried out by Walsh (1978) for his Ph.D thesis. Other works on rural-urban migration have been published by Walsh (1983) and Chandra (1996).

Urban poverty received an in-depth attention by Cameron (1983), who focused on Fiji, and by Bryant (1993), who focused on selected Pacific Island Nations. Neilson (1998) wrote a brief article on the impact of urban informal sector on the growth and development of a country. Some of the problems that pose threats for urban management in Micronesia were examined by Connell (1998). Connell had previously conducted numerous studies on the urban sector as consultancy assignments for SPC in the 1980s. Storey (1998) has examined urban governance with particular reference to Port Vila.



The studies cited above have dealt with the urban sector as a whole. Some of the studies have relied on primary data while a majority have relied on secondary data. Except for a UNDP report (1998) on the regulatory aspects of informal sector activities in Fiji, there has been no systematic study of informal urban sector activities and the impediments to the growth and development of the urban informal sector in the country.

The informal sector is not particularly visible in Pacific Island towns because a lot of activity is home-based, especially for women and children (UNDP, 1999: 80). Bryant (1992) observed that the informal sector in Melanesia occupies a less important place in the urban economy than in many other parts of the Third World and offers fewer opportunities for creation of new employment opportunities. The reasons for limited informal sector activity in the South Pacific in general and Fiji in particular have been attributed to 'a lack of traditional urbanisation, the relative affluence, the post-colonial regime, the controlled public service or company origins of the towns and the shortage of skills that are appropriate to informal sector manufacturing' (Connell and Lea, 1993: 5).

There is a relatively high dependence of households on wage earning activities in Pacific Island countries. Formal jobs account for between 17 and 22 per cent of the labour force in Pacific Island countries (UNDP, 1997). The informal sector in Pacific Island economies has not been particularly entrepreneurial (*ibid*). Although there is relatively high dependence on wage earning activities in Fiji, more than one-third of the population is living below the poverty line (UNDP, 1996). The Fijian Government argues that small and micro enterprises provide economic opportunities for over 60 percent of Fiji's labour force (Government of Fiji, 2002<sub>a</sub>). The proportion of informal employment in Suva, the capital city of Fiji, however, is very high as compared to some large third World cities. The comparative figures are given in Table 2. In Suva, informal employment comprised 51% of all employment in the City in 1996 (World Resources, 1998-99). This is much higher than cities such as Jakarta, Manila, Colombo or La Paz. One reason for the higher figures for Suva could be the high youth unemployment rate in Fiji; Bryant (1992:19) estimated that in 1991, 30 percent of urban youth in Fiji were unemployed.

**Table 2: Informal Sector Employment in Selected Cities of Developing Countries**

City	% of Informal Sector Employment
Bangalore	32
Bogota	54
Chennai	61
Colombo	19
Delhi	67
Jakarta	33
Lahore	60
Lapaz	17
Lima	49
Manila	20
Suva	51

Source: World Resources, 1998-99: A Guide to the Global Environment, New York

In Fiji, it has been estimated that in 1996, 37% of the economically active population was engaged in the informal sector (Chand, 2002). The incidence of informality in the non-agricultural sector, calculated on the basis of census and employment survey data, was 13% in 1996, a decline from the 18% level in 1986. Table 3 shows the changing dimension of the informal sector in Fiji between 1976 and 1996.

**Table 3: Informal Sector in Fiji**

	No of people in Informal Sector*			% change over previous decade	
	1996	1986	1976	1996	1986
Total Informal Employment	109233	101585	71376	7.5%	42.3%
of which: Agriculture	69505	59081	45414	17.6%	30.1%
Non-Agriculture	39728	42504	25962	-6.5%	63.7%
Informal Incidence	36.7%	42.1%	40.5%	-12.9%	4.1%
<u>Non Agr. Informal Incidence</u>	<u>13.3%</u>	<u>17.6%</u>	<u>14.7%</u>	<u>-24.3%</u>	<u>19.7%</u>

\* Figures are the difference between the census year figures on total employment in each sector and annual employment survey figures for formal employment in the respective sectors. There are discrepancies in the figures given by the Bureau of Statistics for the two sources of data which it compiled but in the absence of any other official estimate on informal sector, this method provides a reasonable estimate of the size of the sector. (Source: Chand, 2002)

This table shows that in 1996, 37% of the economically active population was engaged in the informal sector. This was a decline from the over 40% which was engaged in this sector in 1986 and 1976. The fact that over a third of the economically active population is involved in the informal sector is indicative of the importance of the informal sector in generating livelihood in the country.

In this empirical study, an attempt is made to examine some of the characteristics of the operators in the urban informal sector, and examine the impact which the informal business has on the living standards of the urban informal sector operators. The study was done through a questionnaire survey of the urban informal sector.

#### **SURVEY METHODOLOGY**

Data on informal sector was obtained through interviews using structured questionnaires designed to elicit quantitative data. Primary data was collected in Suva, Lautoka and Labasa. The study was limited to these three areas due to finance and time constraints. Suva and Lautoka are the only two cities in Fiji. They vary quite considerably in size, but together account for about 32% of the urban population. Labasa was also chosen since it represents the largest town in Vanua Levu. Together the three urban areas selected account for about 50% of the country's urban population.

The survey was administered over a 5-week period in June/July 2001. An attempt was made to interview all the informal sector service and goods providers in these three urban areas. There is no database of the informal sector operators. Some operators, however, are visible as they operate from public places. However, there are numerous operators whose activities are not visible (like an electrician or a plumber working from his home). For this reason, it was not possible to carry out either a sample survey. Nor was it possible to carry out a census survey of informal sector operations in the three urban areas selected. A total of 150 respondents engaged in informal sector activities were interviewed. They were selected on the basis of a street-by-street survey; those who cooperated were interviewed. This method has the weakness of identifying only the visible informal operators and would tend to focus on certain types of activities, ignoring other types. A person who provides plumbing services, or carries out similar trade from one's home, for example, would not be covered by this method. But to include the relatively non-visible operators in any survey, there is a need for a census type survey.

A wide range of informal sector activities was covered in this study. Table 4 shows the activity types which were covered. Of the total 150, 79 were from Suva, 40 were from Lautoka and 31 were from Labasa. Since no data exists on the population of informal sector operators in each of these regions, one can not make a definitive statement on the proportion of informal sector activities which the sample represents. Of those operators who co-operated, three questionnaires were not complete enough to be included in the analysis. The single largest number amongst the activities covered was vegetable vendors. The table also shows that the predominant activity of the informal sector enterprises is the sale of goods or services to final consumers. This is understandable since the survey deals with the urban sector where production of resource-intensive commodities is often not possible.

**Table 4: Type Informal Sector Activity<sup>1</sup>**

Type of Activity	No. Responded	Proportion (%)
BBQ Seller	8	5.4
Shoe shine work	6	4.1
Wheel barrow transport activity	4	2.7
Vegetable vendor	31	21.1
Carrier operator	15	10.2
Fish seller	13	8.8
Fruit seller	3	2.0
Others	67	45.6
<b>Total</b>	<b>147</b>	<b>100.0</b>

Table 5 shows personal characteristics of the respondents. The mean age of the respondents was 38 years with a mean formal education level equivalent to 8 years of schooling. 56 percent of the respondents were Indo-Fijians while 44% were ethnic Fijians. The mean household size was 5.6 members. At 72%, a majority of the heads of households engaged in informal sector activities were males. Though definitive statements on the dominance of males in the informal sector activities can not be made on the basis of the survey, it may possibly reveal the gender bias in female employment in the still relatively conservative Fiji society as well as the possible difficulties which females may be facing in breaking into self-employment and small business sector.

<sup>1</sup> Data for Tables 4-15 are from the primary survey of the informal sector.

**Table 5: Summary Indicators of Households (N=150)**

<b>Variable</b>	<b>Observation</b>
Mean Age (years)	38.2
Mean Formal Education (years)	8.34
Ethnicity (%) Fijian	44.2
Indo Fijian	55.8
Marital Status (%) Married	75.5
Single	15.0
Divorced/Separated	4.8
Widowed	4.8
Mean Household Size	5.6
Gender (%) Male	72.1
Female	27.9

## RESULTS

Table 6 shows the size and the nature of the activities covered in the survey. An interesting finding is that those in the informal sector have entered this sector relatively recently. On an average, the activities captured in this survey are only 16 months old. There, however, is a large variation in the average length by location. In Labasa, the average life of the operation was 41 months, while in Suva it was a short 7.2 months. In Lautoka, the average life was 12.5 months. The short average life in Suva could be explained by the fact that there is a high turnover of people within the city by residences. Compared to Labasa, people in the larger urban areas (Suva and Lautoka) move residences more frequently. Given the larger economy of these two areas, with the Suva economy far exceeding the Lautoka economy, there are also more job opportunities in these areas which would tend to absorb a relatively greater number of workers. In Labasa, on the other hand, the lack of economic opportunities in the formal sector would tend to see a relatively longer life of the informal operations.

**Table 6: Size and Nature of Activity**

<b>Item</b>	<b>Mean</b>
Length of Activity (Days)	15.59
Days/Week	5.9
Hrs/Day	9.8
Average No. of Workers	1.87
Average No. of Female Workers	0.54
Child Labour	0.05
Household Labour	1.48

Another interesting result is that on average, the enterprises employ 2 workers. 75 percent of those employed by the informal enterprises are members of the family operating the enterprise. The average statistics for female labour is 0.54 meaning that one in every 2 workers is a female. Furthermore, in every 20 workers, one worker is a child.

78 per cent of the operators indicated that the labour which they use is labour from their households. The rest employ workers from outside the immediate family. Such workers, however, remain with job insecurity. The operators do not pay any superannuation for these workers. Of the total number of people working in the informal enterprises, 12% are hired workers.

The survey did not clearly reveal whether the income from the informal enterprise is the only source of income/livelihood for the operators. From information gathered from informal discussion with the operators, it was found that some operators have members of the family which work outside the family enterprise. This gives them additional income. But the quality of information provided on this, however, is not sufficient to make definitive conclusions on the extent to which the households rely on incomes from such sources. It, thus, was not possible to assess whether the informal enterprises produce the main income for the families involved in it, or only a supplementary income.

The fourth important cluster of results is that the informal sector requires a relatively longer working day as well as a relatively longer working week. The average working day is 9.8 hours, while the average working week is 6 days. This indicates that the informal sector demands extensive labour time. The average working week comes to just less than 60 hours. The longer working week is explained by the fact that profit margins in the informal enterprises are low. This is largely due to the ease of entry into the sector, leading to larger competition. Operators, therefore, increase sales volume by longer working day and longer working week than the average formal sector enterprise which has a 40-45 hour working week.

The engagement of people in informal sector activities has provided a major boost to the gross incomes of the households. Table 7 compares the incomes and assets of the households engaged in the informal enterprises with their income and asset positions before they took up the informal activity. On an average, monthly income of the head of the household before the adoption of the informal sector activity was F\$198.14. This increased to F\$315.84 after the engagement in the informal sector activity. As stated earlier, the survey did not produce reliable results on total household income since information given on the number of per-

sons working outside the informal enterprise and their incomes was considered not reliable.

For those in the informal sector, there is no social security, As such, assets can be taken as a proxy for social security for the poor. The gross asset holding of the average informal sector operator rose from \$7,179 to \$18,622. Information on the debt/liability position was not consistent so it is not possible to make any definitive statement on the net asset position. In addition, given that the information on family incomes was also not consistently provided, it is not possible to assess whether the increase in the gross asset position is due to incomes only from within the enterprises.

What is, however, clear is that the gross asset positions increased significantly. The significant increases in the incomes and assets of those in the informal enterprises provide powerful incentives to the operators to continue to be engaged in their current activity. Only 29 percent of the respondents indicated that they wished to move out of the informal sector.

**Table 7: Change in Income and Asset Position of Households**

Item	Before Informal Sector Activity	From Informal Sector Activity
Net Income (\$F/month)	198.14	315.84
Value of Assets (\$F)	7178.92	18622.35

Earlier it was seen that most of the urban informal enterprises are involved in the sale of goods and services to the final consumer. The goods which are sold are often not produced by the operators. Table 8 shows that only a third of the operators use their own resources. More than half of the operators purchase goods from others and re-sell them.

Another significant finding is that 77 percent of the urban informal enterprises are carried out from a public place.<sup>2</sup> These are places which are owned by either the municipal councils or the state, including road kerbs, street corners and footpaths. This saves the rental component of costs which formal sector enterprises incur. Since the nature of the enterprises do not require any electricity or piped water, costs associated with such overhead items are also not incurred by these enterprises.

<sup>2</sup> Note the qualifications provided on the survey method. The street-by-street search of the informal sector operators would capture only those operators who are visible, thereby loading the survey towards those who rely on public space for their activities.

**Table 8: Source of MaterialS Sold and Location of Informal Activity**

<b>Variable</b>	<b>Proportion</b>
<b>Source of Material</b>	
Own Resources	32.2
Raw material purchased from outside	14.4
Final product purchased and sold	53.3
<b>Location</b>	
Own house/compound	6.8
Rented premises	15.1
Friend's or relative's place	0.7
Public place	77.4

### Socio-Economic Conditions

Survey results show that a half of the informal sector operators in urban areas actually reside in rural areas. Tables 9 and 10 provide the residential status of the operators, before they entered the current activity in the informal sector and after they entered it, respectively.

**Table 9: Residential Location of Head of Informal Sector Activity Prior to Taking up this Activity**

<b>Residential Location</b>	<b>Before Entering Informal Sector (%)</b>
Urban	17.7
Urban squatter	1.4
Peri-urban	7.5
Peri-urban squatter	0.7
Rural area	72.8
<b>Total</b>	<b>100.0</b>

\* Urban areas coincide with the municipal boundaries of cities and towns. Peri-urban includes areas which appear urban but which are not included in the legal boundaries of the urban areas. Rural includes all areas outside the urban and peri-urban areas.

Table 9 shows that 73% of those in the urban informal sector resided in rural areas prior to taking up their current engagement in the informal sector. In the rural areas, they may very well also have been engaged in the informal sector, particularly non-formal agriculture (like cash cropping). In contrast, 18% of those in the urban informal sector resided in urban areas prior to taking up engagement in the informal sector.



Table 10 shows that almost a half of the urban informal sector operators still reside in rural areas. This means that they commute daily to operate their businesses in urban areas. 37% of the operators currently reside in urban areas, either as legal dwellers or as urban squatters.

**Table 10: Current Residential Location of Head of Informal Sector Activity**

<b>Residential Location</b>	<b>Current (%)</b>
Urban	29.9
Urban squatter	7.5
Peri-urban	10.9
Peri-urban squatter	2.0
Rural area	49.7
<b>Total</b>	<b>100.0</b>

Of the urban residents, 44 percent indicated that they are migrants to the urban area.

Survey results also show that 23 percent of the operators occupy rented residential dwellings. A majority, therefore, own the premises where they reside. However, as Table 11 shows, about 70% of the houses occupied by the operators are of wood and iron construction while 32% are of concrete. Most of the households have tap water. Table 11 also shows that only 4% of the respondents relied on alternative sources of water like bore holes, rainwater, and wells. The availability of tap water has also contributed to most of the operators having flush toilets (83.0 percent).

**Table 11: House Characteristics**

<b>Indicator</b>	<b>No.</b>	<b>Proportion</b>
<b>House Type (Walls)</b>		
Iron	4.0	2.8
Wooden	37.0	25.5
Wooden/Iron	58.0	40.0
Others (concrete)	46.0	31.7
<b>Tap Water Availability</b>		
Yes	141.0	95.9
No	6.0	4.1
<b>Toilet Type</b>		
Flush Toilet	122.0	83.0
Pit Toilet	25.0	17.0

A major feature of the operators is that on average they have

limited education. Table 12 shows the educational profile of the informal sector workers.

<b>Worker No. *</b>	<b>Years of formal education</b>
Worker 1	8.8
Worker 2	8.5
Worker 3	7.5
Worker 4	7.4

\* Worker 1 is the owner or the enterprise; others are ranked in order of their importance to the enterprise.

On average, the head of the household has 8 years of formal education. This means that the operators have no higher education than primary school. The other workers, who mostly are family members, also do not have any better education profile than the owners of the enterprises. The average literacy rate in Fiji is 93%, meaning that 93% of Fiji's population has the ability to read and write a short statement on their everyday life. The informal sector operators and worker, therefore, fall in the literate category, though the survey data shows that they have no higher education than primary levels.

A large proportion of the respondents (85.7 percent) indicated that they do not have leisure time. This is a necessary outcome of the long working day and long working week which is required of the informal operations.

Table 13 provides data on the expenditure pattern of the households engaged in informal enterprises. On an average, the informal sector households spend 47 percent of their incomes on basic household expenses (food, shelter and clothing). Of this expenditure, the major outlay is on food (28 percent) while bus fare to work and school takes up the next largest component (15 percent). Interestingly, the third highest expenditure category is *kava* (*Piper Methysticum*)<sup>3</sup>. Expenditure on alcohol is the fourth largest expenditure category. The combined expenditure on grog, alcohol and smoking is 25 percent of total household expenditure.

<sup>3</sup> *Kava* is a root drunk after being pounded and mixed with water. It is a mild intoxicant. It is consumed at workplaces as well. Most of the informal operators consumed *kava* often at the place of their business activity.

**Table 13: Expenditure Patterns of Households Income**

<b>Expenditure Item</b>	<b>%</b>
Food	27.74
Bus fare	14.95
Grog	9.22
Alcohol	8.72
Smoking	6.66
Clothing	6.40
Telephone	4.89
Others	4.70
School fees	4.30
Land Rent	4.25
Electricity	3.37
House Repairs	2.69
Water	2.12
<b>Total</b>	<b>100.00</b>

### Legal Issues

Being informal enterprises it is not expected that the operators would have any legal standing as businesses. Yet, in their responses 48.3% stated that they had a permit to operate their businesses. About 80% stated that they are registered for VAT; 29% stated that they are registered with a trade union and 23% indicated that they comply with Occupational Health and Safety (OHS) requirements. However, none of these responses are credible. The responses indicate a survival instinct since there is always a suspicion that any survey bordering on legal issues could put the operators in legal problems.

The fact that the informal enterprises fall outside formal registration, does not mean that they are not subject to the necessary laws of the land, including municipal council laws. In fact the pressure to abide by the laws, local government laws in particular, create a hurdle for the expansion of the businesses.

### Impediments to Informal Enterprise Development

The informal sector activity has a fairly high level of competition. Almost three-quarters of the respondents revealed that competition is quite high. Less than 3% of the respondents stated that competition is not a major problem for them. The high degree

of competition is a result of lower costs of entry into and exit from the industries attracting informal enterprises, as well as the non-applicability, or where applicable, the non-enforcement, of the regulatory regimes.

Despite the relatively lower entry/exit cost in the industries attracting informal businesses, the establishment and operation of informal sector activity is certainly not free of obstacles. The major problem in the establishment of the activity is lack of finance. Over 60 percent of the operators state finance as the major problem. Other constraints articulated by informal sector operators include a lack of know-how and skills, and discriminatory government regulations.

The dominant sources of financing for urban informal enterprises are moneylenders and relatives; each accounts for 40% of the finances which the informal operators utilise. In very few cases – only about 11% - have banks provided finance to this sector of the economy. This is understandable since the lack of any formality under which such businesses operate does not provide the banks any security for their loans. The result is that the main source of finance has to be the non-bank sector. But this comes with its own set of problems. Interest charged by moneylenders are quite high, averaging 34 percent per annum. Generally, it can be expected that lending rates would be high for the informal sector because it faces an unorganised credit market and associated risks as well.<sup>4</sup>

The alternative to the exploitative interest rates prevailing in the informal sector is state intervention in the form of micro-financing of informal activities. Legislation to promote small and micro-enterprises in the country is already in place with the Small and Micro-Enterprise Development Act of 2002. A National Centre for Small and Micro-Enterprise Development (NCSMED) has been established by the government to lead the development in this sector. Appendix 1 provides further details on the objectives of the NCSMED. The establishment of the NCSMED, and the earlier enactment of the Small and Micro-Enterprise Development Act have been in response to the inability of the various governments in ensuring the creation of adequate formal employment opportunities to the rising labour force, and the consequent realisation that the largest labour absorption capacity is in the small and micro enterprises.

The following section provides results from factor analysis. Factors analysis is a statistical technique used to identify the importance of various types of variables given for a response. These

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<sup>4</sup> In Calcutta, for example, in 1988, in the informal tailoring industry, the actual rate of interest has been as high as 180% (Chaudhuri, 1989; Romatet, 1983).

responses can then be lumped together on the basis of their commonality. The importance of the factors can be ascertained by examining the Eigenvalue or variance levels for each factor. The higher the variance, the more important the factor is in explaining the response. Within each factor, the importance of the variance relative to other variables can be ascertained by examining the factor loadings. The higher the loading, the more important is that variable relative to other variables within that factor.

A factor analysis of the problems encountered in the establishment of the informal sector is given in Table 14. The results show that self-induced factors are the major inhibiting factors for the sector. It accounts for 66.4% of the total variance. Within this factor, the most important variable was the lack of ideas. The second most important factor was revealed to be state induced factors. Amongst this, poor security was singled out as the most important factor that affected the operations. Stability and security are fundamental to any type of business operation be it formal or informal. A lack of it can be a serious drawback in business development and growth.

**Table 14: Factor Analysis (Varimax) of the Problems encountered in the Establishment of the Informal Sector Activity in Fiji**

Factor	Mean	Loading	Eigen-value	Variance (%)
<b>Self-Induced</b>			5.315	66.431
Lack of ideas	2.3	0.760		
Lack of appropriate skills	1.5	0.841		
Lack of finance	1.4	0.752		
Lack of manpower	1.4	0.842		
<b>State-Induced</b>			2.382	29.741
Poor Security	1.5	0.770		
Difficult to get a permit	1.0	0.801		
Regulation	0.9	0.781		
<b>Others</b>	2.4	0.89	0.305	3.809

Note: The scale ranged from 0 to 3, with '0' being 'not a factor' to '3' being 'the most important factor'.

Factor analysis results on the type of assistance that is required by the informal sector activity provider is provided in Table 15. It shows that government assistance in finance and business operation is the most important requirement, accounting for 23% of the variance. Within this factor, lack of finance and the high interest rates are the two impediments which have been highlighted. Government assistance towards this was ranked as an important need. Another sought after assistance from the government is related to easing of government regulations. Market

problems were also highlighted, accounting for 17% of the total variance.

**Table 15: Factor Analysis (Varimax) of the Types of Assistance Required to Promote the Growth and Development of Informal Sector Activity**

Factor	Mean	Loading	Eigen-value	Variance (%)
<b>Gov't Assistance in Finance &amp; General</b>			3.847	22.632
Need Finance	0.82	0.999		
Need Low interest Loans	0.88	0.989		
General Assistance	0.43	0.976		
<b>Security</b>			2.152	12.657
Place should be more secured	0.37	0.999		
Minimise Political Instability	0.33	0.975		
<b>Market</b>			2.945	17.324
High Cost	0.16	1.00		
Low Price	0.23	0.99		
Low sales	0.50	0.99		
High Competition	0.98	0.999		
<b>Government/Regulation</b>			3.174	18.668
Too much regulation	0.39	0.977		
Require license	0.14	0.995		
High rates	0.58	0.984		
<b>Location and Facilities</b>			1.946	12.32
Bad location	0.28	0.993		
Bad facilities	0.23	0.994		
<b>Others</b>			3.368	16.402
Create other employment opportunities	0.17	0.991		
Perishable product	0.18	0.983		
<b>Weather</b>	0.56	0.984		

Note: (1) The scale ranged from 0 to 3, with '0' being 'not a factor' to '3' being 'the most important factor'.

The problems highlighted by the operators as impediments are problems which are likely to remain as long as the enterprises are within the informal realm. In fact the informal nature of the enterprises itself lead to the problems and impediments identified.

In many countries, there have been attempts to formalise the informal sector. This has been attempted through the creation of micro-enterprise schemes. This approach has also been taken in Fiji. While so far, not much has come to the public domain in terms of formalising the informal sector under the auspices of the Small and Micro-Enterprise Development Act of 2002, results from other countries indicate major problems in this endeavour. In Latin

American countries, for example, five different sets of requirements were identified as barriers to establishing formal micro-enterprises. These were: (i) the initial registration process; (ii) procedures concerning the location of the micro-enterprise; (iii) procedures related to health and safety standards; (iv) registrations concerning taxes; and (v) rules related to labour (Lagos, 1995). A similar nature of problems is also expected to arise in Fiji. At least some of these factors have been identified by Fiji's urban informal sector operators as major impediments to the growth of the output, incomes and employment of the informal sector operators.

## **CONCLUSION**

There has been an increasing body of literature on what has been called the informal sector. Defined as the sector which is outside the formally recognised economic activity sector, it is seen as one which has a significant capacity to absorb the increasing labour force in the third world nations. Its significance in the modern era arises from its labour-absorbing potential in the urban areas of the third world. Absorbing the rising labour force in the third world, particularly the rising urban labour force, also creates a livelihood for this section of the population. Many third world nations now recognise informal sector as an important sector in the economy; an increasing number of these countries are now putting in place policies which encourage the informal sector. Fiji is no exception in this regard.

During 2001, the Government of Fiji enacted a law which established a National Centre for Small and Micro-enterprise Development. The Centre now provides the coordination between policy making and implementation on small and micro-enterprises in the country, a vast majority of which are in the informal sector.

The problem in Fiji, however, is that despite the recent proclamations by the government on the importance of the informal sector, there is a significant vacuum in terms of data on the informal sector.

This paper has attempted to provide the results of a field survey on the informal enterprises in three urban areas in Fiji which amongst them comprise about a half of the country's urban population.

Results show that there has been a significant increase in the incomes and assets of those who are involved in the informal sector compared to their pre-informal sector days. It also shows that

the average education level for those involved in the informal sector is no higher than primary school level. The informal enterprises absorb mostly immediate family members. It is also found that those in the informal sector have entered this sector relatively recently. On an average, the activities captured in this survey are only 16 months old. There, however, is a large variation in the average length by location, with the average life of the informal enterprise being inversely proportion to the size of the urban area. Another important cluster of result is that informal sector activities have relatively long working days as well as relatively long working weeks. The average working week in the urban informal sector is just less than 60 hours.

This study also points out some of the key problems faced by the informal sector operators. Among the major problems are a lack of access to credit facilities, and the national and municipal laws and regulations governing the conduct of business in the country.

The results from this survey provide a glimpse of the urban informal sector in the country. There, however, are numerous aspects of this sector which remain to be explored. For a clear and comprehensive policy on the informal sector, there is an urgent need for a nation-wide survey of the informal sector in the country. This could most effectively be done by re-examining the standard questionnaire which is used for the national population census with a view to including in it specific questions concerning the informal sector.



**Appendix 1: Small and Micro Enterprise Policy and Performance Indicators.**

No	Policy Objectives	Key Performance Indicators
1	To mainstream SMEs in national development	<p>?? Annual national consultation/workshop on SME development beginning in 2003-06-03.</p> <p>?? Government resources allocated annually to SME sector.</p> <p>?? Annual awards for individual and group excellence in SMEs.</p>
2	To improve policies and regulations for SMEs	<p>?? Studies on Government and municipal policies and on laws/regulations that affect SMEs conducted by 2003.</p> <p>?? User-friendly policies, laws and regulations that affect SMEs implemented by 2004.</p> <p>?? Booklets on SME laws in English, Hindi and Fijian published and disseminated in 2004.</p>
3	To improve co-ordination of SME training/development activities	<p>?? Register of business training providers, trainers and advisors produced by National Centre for Micro Enterprise Development (NCSMED) by 2003.</p> <p>?? NCSMED website established by 2003.</p> <p>?? Training of Trainers and refresher courses conducted on regular basis.</p> <p>?? Greater coverage of SMEs in secondary school curriculum.</p>
4	To improve business support services/infrastructure	<p>?? Improved access to banking and credit facilities.</p> <p>?? Incentive scheme for large firms to develop SME suppliers set up by 2005.</p> <p>?? Service providers are assisted to access technology to benefit clients;</p> <p>?? Publish SME establishment costs on a regular basis.</p> <p>?? Quality and productivity issues addressed by NCSMED and FNTC by 2003</p>
5	To develop marketing for SMEs	<p>?? Research conducted on new markets and opportunities regularly.</p> <p>?? NCSMED to work with private sector organisations (FEF, FCCI, FMA) large firms, FTIB and NGOs (including NGO networks overseas).</p>
6	To develop SME sector data and statistics.	<p>?? Bureau of Statistics coverage of SME activities strengthened by 2004.</p> <p>?? Business register and SME developed by 2003.</p>

Source: Government of Fiji (2002b: 111)

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