Sustainable Development in the Small States of the South Pacific: Toward a Corporate Social Responsibility for International Banks

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Abstract

Sustainable development is an important but elusive goal for the highly vulnerable small states in the South Pacific. Events such as the current global financial crisis make this goal more elusive as international assistance is revised. New, self–dependent strategies and policies are required. Inspired by the expanding finance–growth literature and based on findings that international banks may control finance and contribute to users being 'involuntarily' excluded, this paper proposes a corporate social responsibility policy response for international banks in the region. Implications extend to other developing economies.

Introduction

Sustainable development has, at least since the United Nation's 1992 Rio Declaration, increasingly become an issue of profound international concern. Defined variously, sustainable development essentially entails 'meeting the needs of the present generation without compromising the ability of future generations to satisfy their own needs' (Brundtland Commission, 1987)[1]. Globally, one region constantly at serious risk of constrained development is the South Pacific. The small island

[1] Formerly the World Commission on Environment and Development (WCED), now known by the name of its Chair Gro Harlem Brundtland. Convened by the United Nations in 1983, the commission was created to address growing concerns regarding the accelerating deterioration of the human environment and natural resources worldwide and the consequences of that deterioration for economic and social development.

developing states (hereafter, SP–SIDS)[2] of the region have persistently been burdened with ordinary economic growth challenges, where *sustainable* development—encompassing environmental, economic, social and political sustainability—would be a mammoth task.

Indeed, the UN formally recognises (e.g. United Nations, 1992)[3] economic growth as 'an important and overriding priority for developing countries and is itself essential to meeting national and global sustainability objectives' (section 33.3). The UN also admits that inaction on the part of the international community to assist developing countries in their economic growth plans is likely to be devastating not only to these countries but would also not serve the interests of the developed countries and adversely affect humankind in general, including future generations.

With issues such as the above in mind the UN 1992 Rio Declaration on Environment and Development set in motion a new concerted international effort to tackling global sustainable development problems, with special attention to the problems in developing economies. That undertaking has subsequently been re–affirmed several times, including the 2000 Millennium Declaration, which established quantitative benchmarks for achieving agreed Millennium Development Goals (MDGs), with the target for most set as 2015.

However, less than five years from the target date, the world finds itself engulfed in unprecedented socio–economic crisis. Severely affected themselves, the developed world finds it increasingly difficult to continue, at least for sometime, with the generous donations and other assistance to developing economies, resulting in worrying consequences for economies such as the SP–SIDS, including amplified poverty levels and a severe risk of social and political unrest (MDG Report, 2009).

Lessons are emerging, including a need to become more self–dependent. As Taleb (2007) systematically demonstrates, random events such as the current global crisis, which often are overlooked in developing long–term policies and strategies such as the MDGs, may cause things to be put off track[4]. More worryingly, such events could recur. Moreover, the next crisis or other adverse event could be more damaging, perhaps compelling the developed world to more drastically cut back its financial and other aid to economies such as the SP–SIDS.

[2] SP–SIDS refers to South Pacific Small Island Developing States and include Cook Islands, Fiji, Kiribati, PNG, Samoa, Solomon Islands, Tonga and Vanuatu.

[3] Agenda 21, Chapter 33: A global agenda for transition to sustainability in the 21st century, adopted by 178 countries at the 1992 UNCED Earth Summit, Rio de Janeiro.

[4] The UN Secretary General admits this to be the case currently (MDG Report, 2009).

On a positive note, the situation provides an opportunity for the SP–SIDS to investigate and develop *new* strategies for sustainable development and ostensibly, economic growth would be a top priority. New strategies *are* required because a host of past strategies, including wide–ranging, growth–enhancing reforms and policies have been tried and tested but to little avail (e.g. Sharma and Nguyen, 2010a); the question is—what can be done *differently* to stimulate growth, keeping long–term sustainable benefits in mind. And, this is where we make a valuable contribution: we offer in this article, a new, practical and sustainable strategy for dealing with growth problems in the SP–SIDS.

Our approach is inspired by escalating evidence that formal financial sectors, via private sector firms, may positively and strongly influence a country's economic growth. Using Fiji as an example, we demonstrate that in the case of the SP–SIDS, finance related growth opportunities may well be arbitrated by major international banks. Unfortunately, some intentional and/or unintentional actions of these banks appear to be perceived as discouraging private sector firms from approaching banks for credit (see for example CIFS, 1999)[5]. To encourage the banks to recognise, respect and respond to local community concerns while pursuing their business objectives, and for the firms to approach the banks more confidently, we recommend that the banks be required to become *socially* responsible corporations. Such a policy response is likely to improve the much needed social and economic conditions in the region and provide a useful framework for sustainable development. In light of the strong influence of these banks on the region's sustainable economic growth, the alternative might have to be in the form of formal regulation.

It is important to apprise the reader even at this stage the reason for the focus on the major international banks. These banks particularly are perceived as highly profitable 'outsiders' with little interest in the welfare of local communities (e.g. CIFS, 1999). Since they are also financial sector 'leaders', a conspicuous social responsibility role and practice by these banks will not only have positive implications for local perceptions and economic growth, but will also encourage other less significant banks to follow suit. Moreover, data required for the analysis conducted in this paper is less readily available for the other banks.

[5] The Report of the Committee of Inquiry into Financial Services (in Fiji), 1999. The Inquiry was a government response to growing community and media concerns and complaints about issues—including cost and quality of service—relating primarily to the banking sector. Independently appointed and charged with clear terms of reference and scope, the committee members included appropriately qualified and experienced professionals from various sectors, including academia and business.

The rest of the paper proceeds as follows. We first highlight the difficulties for SP–SIDS in pursuing sustainable development goals noting the special disadvantages of these economies. Next, we review literature on the influence of formal financial sectors on economic growth, and highlight the importance of access to finance for an effective finance–growth link; we also propose a CSR solution. The following part demonstrates that a few international banks are the main providers of finance in the SP–SIDS. We then examine the profitability and stability of these banks. Next, we show how the main providers of finance may intentionally/unintentionally be making it difficult for users to access finance, having grave implications for economic growth and thus sustainable development. Finally, we propose a CSR policy response to enhance access to finance in the SP–SIDS.

Sustainable Development and the Small States of the South Pacific

The socio–economic conditions of the SP–SIDS are indeed very challenging. Small size, insularity, remoteness and proneness to natural disasters are among the few special disadvantages of these economies, which also render them highly vulnerable to external forces, threatening sometimes their economic viability (e.g. Streeten, 1993; Briguglio, 1995; Briguglio et al., 2006; ADB, 2004; UNEP, 2004). Small size in the case of these economies also implies poor natural resource endowment and low interindustry linkages, resulting in high import content in relation to GDP and dependence on foreign exchange earnings, exacerbated by limited ability to influence prices due to the very small volume of trade relative to world markets. Moreover, indivisibilities and limited scope for specialisation make it difficult to exploit the advantages of economies of scale, leading to high cost of productions, and infrastructural constructions, and high degree of dependence on imported technologies.

To aggravate the situation, these economies are prone to natural disasters, especially cyclones, which are usually damaging; again, the small size exacerbates the costs and consequences, sometimes wiping out entire settlements, devastating certain business sectors, and threatening the very survival of economies. Ironically, in relation to this last point, pressures on economic development have downsides, including fast depletion of agricultural land arising from increased demand for residential housing and industrial production. Some natural resources too, especially non-renewable, have been depleted or almost depleted. Global warming and rising sea levels pose new and additional environmental problems.

The above special characteristics of the SP–SIDS make it difficult

for these economies to self–grow and develop adequately, let alone in a sustainable fashion. Moreover, some of these characteristics constantly render these economies vulnerable to external shocks. Consequently, the economies remain underdeveloped, fragile, burdened with high levels of poverty, unemployment, and experience other socio–economic problems. Fortunately, these economies have received special attention of the international community. However, recent global events have compelled a revision of that support; the consequences for the resource–constrained, poverty–stricken, fragile SP–SIDS appear grave.

The above events suggest that the occurrence of the current global crises and/or the unprecedented extent of their consequences may have been inadequately incorporated or completely overlooked in developing the MDGs. While such events may have escaped the minds of the 2000 MDG designers, they are likely to be given more consideration now. The implications are many, including that the target dates for the MDGs need to be revised with not only the current crisis in mind but recognising also a possibility of future crisis, which may have greater consequences. But, here lies a dilemma: how do we predict the timing and nature of a future crisis and its consequences? The trouble is, huge disagreement prevails on even how the current crisis will unfold.

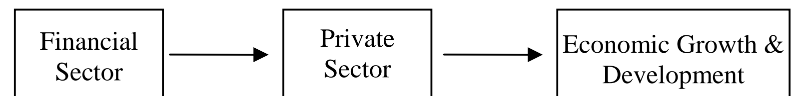
Essentially, there now appears to be a lot of uncertainties regarding the accomplishment of the MDGs. But, one thing is becoming more certain: economies such as the SP–SIDS need to learn to depend less on their generous donors and become more self–reliant. In the context of sustainable development, an implication is to investigate strategies that are less dependent on the circumstances of the developed world. For economies such as the SP–SIDS, an overriding priority would be sustainable economic growth, which as discussed below, is importantly influenced by the formal financial sector.

Finance, growth, access to finance and CSR

While some researchers dispute the role of the financial sector in economic growth (e.g. Lucas, 1988; Meier and Seers, 1984; Miller, 1988), comprehensive surveys by Levine (1997, 2005) show that increasingly many more researchers (Guiso et al., 2004; Goldsmith, 1969; King and Levine, 1993, and Rajan and Zingales, 1998), accede that finance positively and strongly influences growth. The growing body of theoretical and empirical research suggests that the operation of the formal financial system[6] critically determines who can or can not start a business, who can or can not pay for education, who can or can not exploit economic opportunities (Demirguc–Kunt and Levine 2008a). Essentially, finance matters for economic opportunities of households and firms and for overall economic growth.

Conceptually, consider the widely accepted importance of capital accumulation and technological evolution for economic growth. While private firms are expected to generate these essential growth–enhancing ingredients, it is the formal financial sector that critically arbitrates how much capital will be accumulated and what will be the extent of technological evolution (figure 1). That is, the ability of the private sector to generate the ingredients depends, *inter alia*, on how much funds they are able to obtain from the formal financial sector, which brings us to a related issue, that of firms' access to formal financial sector finance. Intuitively, the greater this access, the more a country's economic growth, among other things. However, to understand issues relating to access, it is important to understand first that access is not synonymous with use; a firm may have access but may not wish to use the services.

Figure 1: The finance–private sector–economic growth link



The figure shows the transmission mechanism between credit provided by the financial sector and economic growth and development. The extent and magnitude of credit provided by the financial sector to the private sector may determine the rate of a country's economic growth and development.

The non–users are those that may have access but prefer not to use it. The *voluntarily* excluded include those who do not see any need for credit or who due to socio–cultural reasons do not rely on credit (e.g. Demirguc–Kunt and Levine 2008a; Beck et al., 2007a, 2007b). On the other hand, there may be those that need a service but do not have access

[6] This study focuses on the role of the formal sector, including banks, nonbank financial institutions, capital markets and other forms of institutions covered in standard finance textbooks; it does not cover micro–credit programs and other informal systems.

to or are denied access. This group—the *involuntarily* excluded—may be further grouped as follows: (i) the un–bankable; (ii) the discriminated; (iii) the un–reachable; (iv) the product–excluded, and (v) the oppressed.

The 'un–bankable' include those with inadequate own contribution and/or constitute very high risk group. The 'discriminated' include those excluded on social, religious or ethnic grounds or other redlining practices. The 'un–reachable' include those considered commercially unviable due to physical access. The 'product–excluded' include those unable to afford the price and/or meet other product–related conditions. The oppressed are those excluded based on 'psychological' barriers, such as negative views, mistrust and feelings of intimidation, and personal or others' experience of past refusal.

Access to financial services appears problematic across countries. In a recent survey of 193 banks across 58 countries, Beck et. al. (2007a) find that while access to banking services may be taken for granted in the developed world, price and non–price barriers prevent access to banking services in many developing countries. Ironically, while on one hand, market frictions such as transaction costs and information asymmetries give rise to financial markets and institutions (e.g. Diamond, 1984, 1991; Ramakrishnan and Thakor, 1984; Boyd and Prescot, 1986), on the other, these very frictions may prevent a user from accessing services from the financial sector. In Cameroon, for instance, over 700 dollars is required to open a checking account—an amount higher than the GDP per capita of that country. Comparatively, no minimum amounts are required in South Africa or Swaziland. Similarly, in Sierra Leone, checking account maintenance fees exceed 25 percent of the country's GDP per capita; in the Philippines, no such fees exist. To qualify for a loan in Bangladesh, an SME needs to borrow a minimum amount equivalent to 10,000 percent of the GDP per capita compared to no such requirements in Algeria, Belarus, Denmark and Egypt. Fees on SME loans vary from zero in Algeria and Switzerland to around 30 percent in the Dominican Republic.

Involuntarily excluded customers may also include those that have formed a view that banks are not for them and/or banks don't want them (Kempson and Whyley, 1999; Devlin, 2005; Djankov et al., 2008). In one survey, for example, Caskey (1997) finds that around 17% of the respondents in the US and Mexico did not have a bank account because they were not comfortable dealing with banks. For various reasons, across Europe, a sizeable proportion (10 to 22%) of the adult population has been noted to be without access to a banking account (Carbo, et al., 2007).

Financial exclusion, in any form, has damaging implications for economic growth, poverty and inequality (Beck et. al., 2007a); the amplified implications for the already disadvantaged SP–SIDS can only be imagined. Banerjee and Newman (1993) and Galor and Zeira (1993), show that access–preventing market practices can be critical in generating persistent income inequality or poverty traps. Beck et. al. (2007a) find that barriers to banking are negatively correlated with economic development. On the other hand, growth related problems can be alleviated via banking development and greater access (e.g. Demirguc–Kunt and Maksimovic, 1998).

We believe that all users who fall in the 'involuntarily excluded' group demand some form of response from policy makers. Indeed, policy responses and other measures have been initiated in many countries to encourage greater access to finance and banking services generally, including a voluntary role of banks, and the government as a mediator as well as a legislator. The results in some cases such as in the UK have been noteworthy—adults without a bank account had fallen from 55% in 1975 to around 12% by 2007 (Collard, 2007). However, considerable challenges remain; access to a basic bank account continues to be the most pressing concern.

New research proposes a more rigorous monitoring of the banking industry rather than relying only on self–regulation or legislation (Kempson et al., 2004). It is also argued that merely a right to access is inadequate; having access does not necessarily mean that needs have been met or required services received. In fact, access and use of some services may actually cause difficulties, including charges imposed and/or the practice of providing 'second–class' services to minimise costs. Moreover, despite the expansion of credit markets, access to credit remains severely constrained even in developed economies like the UK.

In light of the above analysis, the special circumstances of the SP–SIDS, and the need for self–dependent sustainable development strategies, we propose a CSR policy response for international banks in the region. The idea is to encourage these banks to appreciate their critical role in, and contribution to, the region's economic development; the objective is not only to broaden access to services, but also for the private sector and the banks to work together towards sustainable development. For this reason, the activities of the banks would need to be monitored. Our focus is mainly on the 'product–excluded' and the 'oppressed' groups. Next, we investigate who the main providers of formal financial sector finance are in the region, and establish a rationale for our proposal.

Main Providers of Formal Finance in the SP–SIDS

We use Fiji as an example of the SP–SIDS for a number of reasons. Fiji is one of only two in the region with a stock market and is considered to have a more developed financial system compared to other SP–SIDS (e.g. ADB, 2005). Also, for expediency; among the SP–SIDS, data is more readily available on Fiji.

Fiji's current financial system comprises a number of institutions and a capital market. The institutions include four (ANZ, Westpac, Bank of Baroda, Bank of South Pacific) commercial banks, two finance companies, two residential mortgage providers, several insurance companies and unit trusts (similar to mutual funds), a development bank, a superannuation fund, and other non–bank financial institutions. The capital markets encompass a stock market, a money market and a bond market.

Finance to firms in Fiji provided by the capital markets appears insignificant. Sharma and Nguyen (2010b) show that trading activities in the country's stock market has always been extremely low. Using TRADE (total value of shares traded/GDP), the authors show that, on an international basis, Fiji clearly stands out as a country with lowest levels of trading activity. For example, Fiji's TRADE was only approximately 0.10% to 0.30% of GDP in the period 1997–2005 compared with 23% to 65% in Malaysia, 40% to 84% in Australia and 60% to 100% in Singapore. Sharma and Roca (2010) confirm that trading has indeed been extremely weak and negligible, suggesting also that there may be a need to review the role of a stock market in a country such as Fiji.

Consequently, the main suppliers of finance to private sector firms in Fiji are financial institutions. The volume of such finance or credit may be measured by private sector credit by all financial institutions relative to GDP (Sharma, 2009). Table 1 (panel A) shows that private sector credit: GDP (PRVY) in Fiji over the period 1970–2007 appears to have risen gradually from around 12% to around 48% (Beck et. al., 2008). The table also shows the volume of credit to the private sector provided independently by the banking sector (BPRVY), and banks' relevant market share (BPRVY/PRVY). The results are noteworthy: on average, the banking sector provided 92% of all financial institution credit to the private sector. To better appreciate the banking sector's dominant role, comparison may also be made to the credit facilitated by the stock market; the average ratio of BPRVY to TRADE was in excess of 300 times. That is, credit facilitated by the stock market was infinitesimal compared to that provided by the banks; in 2007, the banking sector provided 757 times more credit to the private sector compared to that facilitated by the stock market.

Table 1: Finance for Firms by Formal Financial Sector

Panel A: Private sector credit by all financial institutions (PRVY) and by banks only (BPRVY), 1970–2007

Year	Credit by All FIs to GDP PRVY (%)	Credit by Banks only to GDP BPRVY (%)	Bank share BPRVY/PRVY
1970	12.04	10.70	88.82
1975	14.84	13.75	92.60
1980	19.60	18.42	93.98
1985	27.89	25.89	92.81
1990	32.46	30.79	94.87
1995	42.36	40.04	94.52
2000	33.03	29.62	89.68
2005	37.84	34.42	90.95
2007	48.35	44.12	91.25

* To conserve space, the table shows data for five–year intervals only; the data for every year from 1970 to 2007 are similar to that displayed in the table i.e. banks have constantly dominated credit to firms in Fiji. Over this period, on average, banks provided 92% of all financial institution credit to firms. (Source: Beck, Demirguc and Levine, 2008).

Panel B: Comparing credit provided by banks to private sector in Fiji to that provided by the stock market, 1997–2007

	Credit by Banks only to GDP BPRVY (%)	Total value of shares traded to GDP TRADE (%)	Bank share BPRVY/TRADE
1997	36.67	0.10	383.96
1998	30.65	0.24	126.97
1999	25.58	0.13	199.75
2000	29.62	Na	-
2001	29.71	Na	-
2002	27.42	Na	-
2003	28.35	0.10	284.50
2004	30.57	0.28	110.74
2005	34.42	0.15	230.62
2006	39.30	0.10	381.38
2007	44.12	0.06	757.26

Source: Beck, Demirguc and Levine (2008).

All four commercial banks currently operating in Fiji are branches of foreign banks. Two of the banks are Australian (ANZ, Westpac), one from the Subcontinent (Bank of Baroda—BOB) and one from PNG (Bank of South Pacific Limited[7]—BSP). Of these, as table 2 shows, ANZ was clearly the largest bank provider of credit to the private sector (over the 1999–2008 period)[8], providing around 44% of total bank loans followed by WBC, which provided around 32% over the same period. Together, ANZ and WBC provided around 76% of total bank loans, i.e. roughly 70% of the loans by all financial institutions in Fiji.

Table 2: Asset and Loan Distribution: Banking Sector, 1999–2008

Year	Bank	Tot Ass ($Fm)	% of TA	ANZ+ WBC	Tot Loan ($Fm)	% of TL	ANZ+ WBC
2000	ANZ	700.59	42.1%		492.57	44.2%	
2000	BOB	184.82	11.1%		72.99	6.6%	
2000	CNB	218.97	13.2%		144.87	13.0%	
2000	HBL	47.56	2.9%		28.77	2.6%	
2000	WBC	512.99	30.8%		373.99	33.6%	
		1,664.93	100.0%	72.9%	1,113.19	100.0%	77.8%
2004	ANZ	951.07	40.4%		657.79	42.8%	
2004	BOB	256.47	10.9%		89.62	5.8%	
2004	CNB	361.80	15.4%		254.36	16.6%	
2004	HBL	27.79	1.2%		12.67	0.8%	
2004	WBC	758.45	32.2%		521.11	33.9%	
		2,355.58	100.0%	72.6%	1,535.55	100.0%	76.8%
2008	ANZ	1,526.81	39.7%		1,220.80	44.1%	
2008	BOB	377.70	9.8%		107.08	3.9%	
2008	CNB	741.97	19.3%		510.39	18.4%	
2008	BSP	76.69	2.0%		55.21	2.0%	
2008	WBC	1,123.12	29.2%		876.24	31.6%	
		3,846.29	100.0%	68.9%	2,769.72	100.0%	75.7%

To conserve space, the table shows data for selected years over the 1999–2008 period; the data for the rest of the years are similar to that displayed in the table i.e. ANZ and WBC are clearly the dominant banks in Fiji. Together, ANZ and WBC control around 70% of total banking assets and 75% of total bank loans. Following from table 1 then, these banks dominate formal financial sector credit to firms in Fiji. Note: Data for Fiji operations of the banks is available only from 1999. Source: Reserve Bank of Fiji: http://www.reservebank.gov.fj/pub_disclosure.html

[7] Bank of South Pacific Ltd., a PNG owned and incorporated company, acquired Habib Bank Ltd's Fiji operations towards the end of 2006 and Colonial National Bank's operations in 2009.

[8] Data on Fiji operations of international banks is available only from 1999.

Accordingly, the level of private sector credit in Fiji, and by implication, the country's rate of growth and development appears to be importantly determined by two international banks—ANZ and WBC. The situation is unlikely to change in the near future. Moreover, this situation is likely to prevail across the South Pacific. Further, not only do ANZ and WBC control formal financial sector finance to firms in Fiji, they are also, as we show below, highly profitable and well–capitalised. Yet, as shown subsequently, a strong public perception that these banks are self–interested, without a social responsibility for the country's welfare appears to keep the private sector away from accessing finance, having adverse implications for the country's growth and sustainable development goals.

Profitability and Capital Adequacy of the Main Banks in Fiji

Period of analysis

The period 2007–2009 has been exceptionally trying for financial sectors worldwide; many institutions have disappeared, merged, or been bailed out. Where damage has been less significant, to avoid contagion effects, governments have still had to provide conspicuous and tangible support, such as deposit guarantees. In the case of Fiji, the year 2006 had another important implication; this was the year of the third coup d'état[9]. Bearing the above in mind, and for expediency, we decided that a 2005–2009 comparative analysis would provide reasonable insight into the performance of the main banks in Fiji. To augment the analysis, we also provide the two banks' performance over the most extended period possible—2000–2009.

Comparator banks and areas of performance

Since the two banks are Australian incorporated and due also to Australia's proximity, level of financial development and leadership in the South Pacific, we decided to compare the performance of ANZ and WBC Fiji operations (hereafter ANZFJ and WBCFJ) with that of banks in Australia. Because we are comparing Fiji operations with Australian, it

[9] There is no evidence to support any suggestions, however, that political events like the coup d'états have made banking business in Fiji any more risky; the Reserve Bank (regulator) has not noted, around the time of the coup d'états or at other times, any major concerns regarding capital, credit or other risks.

makes sense to do this at least at two levels: against ANZ and WBC global operations, and against other banks, both national and regional. In the latter group, the national banks include the rest of the four majors in Australia, i.e. Commonwealth Bank of Australia (CBA) and National Australia Bank (NAB) and three regionals: Adelaide, Bank of Queensland (BOQ) and St. George[10].

A quick investigation of the data[11] revealed some dissimilarity in the constituents of variables that could be used to compare various areas of performance. Fortunately, however, comparing two areas of performance—profitability and capital adequacy—has been less challenging. For example, the capital adequacy framework is applied in a similar manner in both Fiji and Australia. Focussing on only two areas does not dilute the analysis; in fact, profitability and capital adequacy are two of the more critical areas of bank performance. We employ DuPont's ROE (return on equity) model to analyse performance.

Profitability

To measure profitability, we use return on assets (ROA, net income to total assets), return on equity (ROE, net income to total equity), and profit margin (PM) ratios. All ratios are before tax (bt) as well as after tax (at). Table 3, which provides simple averages for the 2005–2009 period, shows that over this period, by all profitability measures, Fiji operations of both ANZ and Westpac have been much more profitable compared to respective global operations and other national and regional banks in Australia. For example, ANZFJ's and WBCFJ's ROEbt, on average, were

[10] Adelaide's 2008–09 figures reflect the merger between itself and Bendigo (another regional bank); St. George merged with Westpac in 2009 but its 2009 accounts are still independently available.
[11] Data sources are various annual reports of respective banks available online and include:
(a) for Westpac: http://www.westpac.com.au/about-westpac/investor-centre/annual_reports/
(b) for ANZ: http://www.shareholder.anz.com/phoenix.zhtml?c=96910&p=irol-reportsannual
(c) for CBA: http://www.commbank.com.au/about-us/shareholders/financial-information/annual-reports/
(d) for NAB: http://www.nabgroup.com/0,,32863,00.html
(e) for Adelaide: http://www.bendigoadelaide.com.au/public/shareholders/annual_reports.asp
(f) for BOQ: http://www.boq.com.au/shareholder_annual_report.htm
(g) for St. George: http://www.stgeorge.com.au/investor-centre/annual-report.asp

180 and 300 times more than their global operations, respectively. To illustrate further, WBCFJ's ROEbt was on average 880 times more than Adelaide's (note that Adelaide had merged with Bendigo in 2008). Figure 2 provides a graphical illustration of ANZFJ's and WBCFJ's comparative profit performance. The results hold irrespective of whether the ratio is before or after tax. For example, the ROA(at) for the Fiji banks averaged 2.6 to 3.3% compared to 0.4 to 1% for banks in Australia, including the global operations of the Fiji banks

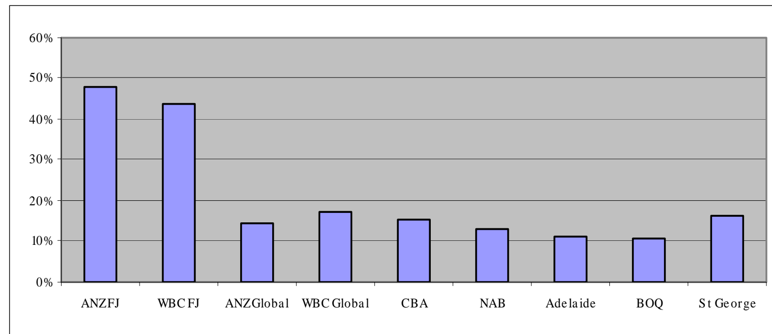
Table 3: Average Profitability Ratios: ANZFJ, WBCFJ, and Australian Banks, 2005–2009

	ROA(at)	ROA(bt)	ROE(at)	ROE(bt)	PM(at)	PM(bt)
Panel A: ANZ, WBC Fiji						
ANZFJ	2.61%	3.75%	33.44%	48.07%	26.72%	38.43%
WBCFJ	3.27%	4.30%	33.14%	43.75%	36.55%	47.89%
Panel B: ANZ, WBC Global						
ANZ Global	0.97%	1.34%	19.98%	14.38%	14.31%	18.33%
WBC Global	0.86%	1.16%	23.05%	17.17%	12.47%	17.11%
Panel C: Other Australian banks						
CBA	1.02%	1.26%	18.99%	15.35%	15.56%	19.29%
NAB	0.94%	1.19%	16.67%	13.21%	14.25%	18.09%
Adelaide	0.41%	0.47%	13.23%	11.00%	6.48%	7.37%
BOQ	0.59%	0.84%	15.20%	10.71%	7.65%	10.88%
St George	0.97%	1.32%	22.17%	16.20%	13.21%	17.96%

Source: (i) For ANZFJ and WBCFJ: Reserve Bank of Fiji; (ii) for all other banks: respective annual reports from the Internet (see endnote 10 for URL details).

The above profitability performance of ANZFJ and WBCFJ is consistent over a longer period. For example, over 2000–2009, the respective average ROEbt of 3.57% and 4.46% were similar to the five–year results of 3.75% and 4.64%, indicating that these banks' Fiji operations may have been highly profitable for a longer period. Indeed, the CIFS (1999) notes, comparing performance of these banks to their global operations, that the Fiji operations of two banks were much more profitable in the 1990s—a view shared by White who notes that 'it is impossible to escape the conclusion that (these) banks are clearly performing well in Fiji…' (1999: 155).

Figure 2: Average Return on Equity: ANZFJ, WBCFJ versus Australian Banks, 2005–2009



This figure illustrates, using the 2005–2009 simple averages of return on equity before tax (ROEbt), the comparative profitability of banks in Fiji (ANZFJ and WBCFJ) and a number of Australian banks. It shows that Fiji banks are by far more profitable. (Source: (i) For ANZFJ and WBCFJ: Reserve Bank of Fiji; (ii) for all other banks: respective annual reports from the Internet (see endnote 10 for URL details)).

Capital adequacy

Standard capital adequacy ratios have been used to measure performance in this area. Specifically, we use two ratios: tier 1 and total capital. Per these regulatory requirements, adapted in both countries from the Basel recommendations, a minimum 4% is legally required for tier 1[12] and 8% for total capital. In both cases, all banks included in the sample display strong capital positions; excesses are recorded with respect to both ratios. Nevertheless, as Table 4 shows, the capital positions of both ANZFJ and WBCFJ appears stronger compared to their respective global operations and other banks in Australia, especially in relation to tier 1 capital (figure 3). Using the widely accepted capital adequacy measures i.e. tier 1 and total capital adequacy ratios, the table shows that, over the 2005–2009 period, Fiji operations of ANZ and WBC (panel A) have been far better capitalised compared to respective global operations (panel B) and other Australian banks at both the national and regional levels (panel C). For example, on average, Tier 1 ratio has exceeded the minimum requirements by 6 to 8.5% for the Fiji banks compared to 2.9 to 3.7% for banks in Australia, including the global operations of the Fiji banks.

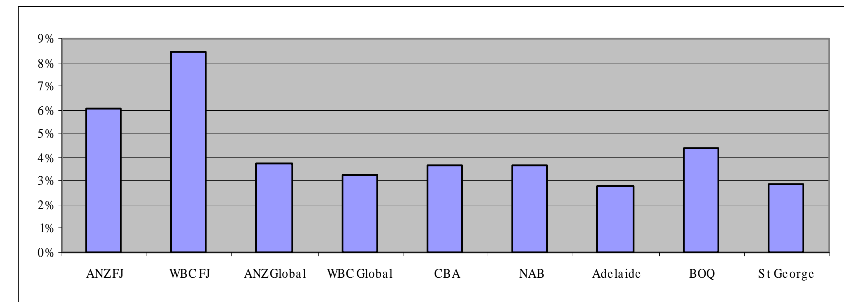
[12] Tier 1 capital is often the most expensive and difficult to obtain but represent the most valuable part of total capital for banks around the world.

Table 4: Average Capital Adequacy Ratios: ANZFJ, WBCFJ versus Australian banks, 2005–2009

	Tier 1 Ratio	Min Req T1	Excess T1	Cap Ad Ratio	Min Req CAR	Excess CAR
Panel A: ANZ, WBC Fiji						
ANZ FJ	10.05%	4.00%	6.05%	11.33%	8.00%	3.33%
WBC FJ	12.46%	4.00%	8.46%	13.52%	8.00%	5.52%
Panel B: ANZ, WBC Global						
ANZ Global	7.74%	4.00%	3.74%	11.20%	8.00%	3.20%
WBC Global	7.30%	4.00%	3.30%	10.08%	8.00%	2.08%
Panel C: Other Australian banks						
CBA	7.68%	4.00%	3.68%	10.23%	8.00%	2.23%
NAB	7.64%	4.00%	3.64%	10.74%	8.00%	2.74%
Adelaide	6.77%	4.00%	2.77%	10.81%	8.00%	2.81%
BOQ	8.38%	4.00%	4.38%	11.78%	8.00%	3.78%
St George	6.90%	4.00%	2.90%	10.50%	8.00%	2.50%

Source: (i) For ANZFJ and WBCFJ: Reserve Bank of Fiji; (ii) for all other banks: respective annual reports from the Internet (see endnote 10 for URL details)

Figure 3: Average excess tier 1 capital ratio: ANZFJ, WBCFJ versus Australian banks, 2005–2009



Again, the strong capital positions of both ANZFJ and WBCFJ are evident over an extended period; over 2000–2009, the average excesses for ANZFJ were 5.36% (tier 1) and 2.91% (total); for WBCFJ they were 6.96% (tier 1) and 4.54% (total), indicating again, that both ANZFJ and WBCFJ are very well capitalised to absorb business risks.

Access to banking services

Two international banks control formal financial sector finance to firms in Fiji. Fiji operations of these banks are highly profitable and strongly capitalised. In this section, we show how certain practices and behaviour of these banks may be driving firms away from the financial sector.

Earlier we noted that while formal financial sectors may influence a country's economic growth, a related issue of 'access to finance' had important implications for the extent of such influence, among other things. Noting also that 'access' was different from 'use', we classified firms into 'voluntarily excluded' (have access but no need) and 'involuntarily excluded' (have need but no access). In this paper, we focus on two sub–groups under the latter classification: the 'product–excluded' and the 'oppressed'. It should be noted, however, that involuntary exclusion of any form is likely to retard economic growth and potentially increase poverty and inequality (e.g. Beck et. al., 2007a).

Product exclusion

As noted elsewhere, in the case of Fiji as well, product–exclusion practices, i.e., excluding users (including firms) on grounds of pricing and collateral requirements, appear to be taking place. The CIFS (1999) observed claims by users across the country that bank interest rates, fees and charges are extremely high; users are appalled that these could be applied to just 'anything imaginable'—'fees are extremely high and totally unjustified …and imposed on every transaction, no matter how small and on every service…' (CIFS, 1999: 18).

The Committee's own calculations revealed that over the 1993–1997 period, net interest margins and spreads of banks in Fiji were noticeably larger compared to their consolidated global operations. Moreover, the largest differences were noted for ANZFJ and WBCFJ with the differences widening over the years. In the case of ANZFJ, for example, the difference had widened from 27% in 1993 to 122% in 1997. Similarly, over the same period, a comparison of margins and spreads of international banks in Fiji with banks operating in New Zealand and Australia revealed that banks in Fiji enjoyed significantly higher margins. For example, in 1996, the net interest margin of international banks in Fiji was 4.6% compared to 2.9% in New Zealand and 3.8% in Australia.

The Inquiry was a government response to growing public concerns and complaints that bank interest rates, fees and charges were excessively

high. Unfortunately, even after confirmation by the Committee that public concerns were valid, little was done to address the situation, and public's discontent appears to continue. For example, four years after the Committee's report, Sharma and Reddy (2003) find cost to still be a major deterrent to banking services in Fiji. Based on a survey of 300 respondents across the country, the study shows that a mere perception that costs are high increased the likelihood of an individual not seeking a bank service by up to 25%.

In a more recent study, Sharma (2009) finds, based on a survey of 75 firms in Fiji[13], that cost continues to be the single biggest obstacle to firms obtaining finance from banks. On a scale of 1—7, (most to least expensive), most respondents considered bank finance to be highly expensive, twice as expensive as founders' own capital, which was considered to be the least expensive form of capital. Further evidence of high cost of banking services in Fiji may be discerned from findings above. That Fiji operations of ANZ and WBC could well be the most profitable business segment of the respective holding companies suggests that the cost of bank finance in Fiji could be relatively high; the likelihood of this prospect increases in light of constantly high liquidity positions of these banks in Fiji (e.g. ADB, 2004, 2005; Reddy, 2008). A quick investigation shows that over the 2000–2009 period, both ANZFJ and WBCFJ consistently held around one–quarter of total assets in liquid form; profits, on the other hand, continued to increase over this period, due perhaps to rising interests, fees and charges.

Oppressed Exclusion

In the case of Fiji, the responses, actions and behaviour of banks to public concerns and complaints, including those highlighted in above, appears to have done little to comfort the public; on the contrary, they are likely to aggravate 'psychological' barriers to banking services. Banks' (including ANZFJ and WBCFJ) response to customer complaints of high costs has been that 'they offer a product, and the consumer can take it or leave it' (CIFS, 1999: 29). Banks are of the view that it is the customer (not the banks) that 'need(s) to change their behaviour and learn that banking is not free'; that services must be paid for. In essence, their view is that they 'are in business to make money….that (they) are operating on a commercial basis and that is the way it should be' (CIFS, 1999: 17).

[13] The selection criteria considered characteristics such as size, business type/sector, date and place of incorporation, listing status and ownership type.

They also believe, contrary to findings of the Committee, that the cost of banking services in Fiji was lower than in Australia and New Zealand.

The Report also highlights (1999: 14–15) cases where banks have 'forcefully' repossessed and sold collateral even where delay in repayments had only been temporary. To aggravate the situation, customers' pleas for restructure of repayments and/or offer of additional payments to make up for the delays appear to be ignored and collateralised properties (including personal) are foreclosed and sold without due process and adequate notice. In one of the reported cases, a little delay in shipment of imported goods financed by a letter of credit resulted in the client's current account being debited. It appears that the bank did not attempt to work–out the account with the client; escalating debts resulted eventually in the business being wound up. Customers claim that banks' lack of interest in addressing these issues have resulted in business and wealth losses, escalating debts, stress and trauma.

There is little to show that things have changed in favour of customers since the 1999 inquiry. In relation to costs, for example, the banks' did not offer to look into the complaints or review their policies nor have they, to date, attempted to disprove any of the claims and/or data presented by the Committee indicating a 'profiteering' or 'gouging' behaviour by banks. Similarly, there is little to show that banks did not agree with other claims of intimidating and unreasonable behaviour and actions nor is there evidence of an attempt to improve their image on issues of concern. In the words of Newell (2005), the behaviour of banks in Fiji may be perceived as abuse of power and arrogance; that the banks are insensitive to the needs of the local community, unappreciative of exigencies, and inattentive to the voiced concerns of locals.

As indicated earlier, we believe, as do other researchers (e.g. Demisrguc–Kunt and Levine, 2008b) that there needs to be some, albeit different, policy response to minimise situations such as above and to encourage users to access banking services more widely. Below, we offer one such response for consideration by policy makers in the SP–SIDS.

A Case for Corporate Social Responsibility for Banks in Fiji

There is a strong public perception that banks have a social responsibility to the community and the country; in the latter case, for stimulating growth, and a stronger perception that 'foreign–owned banks are insensitive to socio–economic realities in Fiji' (CIFS, 1999: 20); that while the country's progress was marginal, the banks enjoyed very high levels of profits and were reluctant to lend even when there was substantial ex-

cess liquidity in the system. The perception is that these banks appear to have little, if any, empathy for the adverse socio–economic situation of the people and country which, in relative terms, gives them the most revenues.

If finance does matter for sustainable development, then one policy response, in light of the above arguments, analysis and discussions would be to require international banks to become socially responsible towards sustainable development programs and efforts in the region. The basic idea of Corporate Social Responsibility (CSR) is that responsibility of business goes beyond just its legal responsibilities to shareholders and the notion of 'profit maximisation'; corporations are expected to integrate social and environmental concerns in their business operations.

While there may not be any clear boundaries or agreement on the definition of CSR, growing worldwide expectations and acceptance for socially responsible behaviour by international corporations has led to a number of organisations, including the Social Accountability and Interfaith Centre for Corporate Responsibility, constructing universally applicable benchmarks for responsible business behaviour. Standards have also been established on the basis of these expectations, including the Caux Round Table and the Global Reporting Initiatives. Firm–specific universal codes have also been developed (Webb, 2004). Essentially, the requirements are designed to make it increasingly difficult for international firms to take advantage in and of countries where standards are lax or non–existent.

Given ANZFJ and WBCFJ's crucial impact on the economic growth and thereby, sustainable development of the SP–SIDS, especially in light of their healthy profits and strong capital, it would be of interest, from a public policy perspective, to examine the CSR practices and commitments of these banks to the region. To do that, we first outline some important elements of CSR.

Reflexivity and dialog

In establishing targets or guidelines for socially responsible business practices, it appears important that an understanding of local contextual variables, including public expectations and moral demands be adequately incorporated (Bird and Smucker, 2007). Accordingly, in the context of arguments forwarded in this paper, and based on *reflexivity* and *dialog*—two crucial principles in developing social responsibility frameworks (e.g. Beschorner and Muller, 2007)—an important consideration for ANZFJ and WBCFJ should include the nature of their role in South

Pacific region's sustainable development process. *Reflexivity* entails questions in relation to: (i) what is the problem? (ii) who am I (in relation to the problem)? and (iii) how can I contribute to solving the problem? *Dialog* is related to reflexivity and leads to the questions of: (iv) how am I related to others? and (v) how do I have to organise my social relations to others as a problem–solving process?

The authors argue that in the course of developing appropriate socially responsible goals, corporations should 'reflect' on the nature of their roles in the community. Universal standards may have to be modified via a process of continual 'dialog' with relevant local stakeholders and, a willingness to modify modes of operation. In effect, constant evolution rather than codes developed elsewhere or modelled on others should guide the development and practice of acceptable businesses behaviour.

In fact, business ethics *per se* would dictate that ANZFJ and WBCFJ can not disregard existing national and regional socio–economic struggles while continuing to generate high profits; an engagement with the host communities in finding and offering assistance in mitigating the problems would be a more ethical and responsible reaction. Nor would it be appropriate for the banks to only criticise the conditions they encounter in their operations.

In the context of the findings, discussions and theme of this paper, the CSR of banks would have to include an undertaking to make *credit* more accessible to the private sector. In doing so, as Bird and Smucker (2007) suggest, in consonance with many other researchers and commentators, the banks need to at least (i) better understand the institutional dynamics of the local context; and (ii) engage in an open, non–intimidating communication with local communities and others. Below, we critically assess, keeping the foregoing issues in mind, the adequacy of the two banks' current CSR practices in the South Pacific.

ANZFJ and WBCFJ's current CSR practices in South Pacific

ANZ and WBC's presence in the South Pacific commenced in 1880 and 1901, respectively, with the first branch establishments in Fiji. Over time, the operations of both banks have expanded to Cook Islands, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu. Both banks offer a wide range of commercial banking services to the communities across the region, including (i) retail and business deposit and loan facilities; (ii) international trade finance and treasury services; (iii) debit and credit card products; (iv) asset financing and leasing; and

(v) acquiring facilities and insurance.

Both banks appear well–informed about the concept and importance of CSR; their practices and commitments to the region are well documented and published, including on the Internet. For example, ANZ identifies the following 'priority' areas for its CSR initiatives and investments: (i) education and employment for the disadvantaged; (ii) rural development; (iii) financial capability; (iv) responsible practices; and (v) urban stability[14]. Similarly, Westpac's approach includes commitment to: (i) environment; (ii) social and community; (iii) governance; (iv) performance reporting and (v) a charitable trust[15].

The banks outline a set of guidelines and programs for each of the above areas that form the framework for pursuing respective commitments. The framework appears to have been developed in response to expectations of customers, employees, community groups, regulators and governments across Australia, New Zealand, Asia and the Pacific. There is also some evidence of the contributions the banks have made to the environment and communities across the South Pacific. However, the question remains: are the banks doing enough? We attempt to answer that question next.

ANZFJ and WBCFJ's CSR in the South Pacific: An Assessment

It appears unlikely from the published information that the special disadvantages of the SP–SIDS, as highlighted in section 2, have been given special consideration in developing the CSR frameworks of ANZFJ and WBCFJ or their operations elsewhere in the South Pacific. More importantly, there is no indication that the banks appreciate their crucial roles in the sustainable development process of the region; the documented CSR practices and commitments do not talk about making credit more affordable to the private sector in the region. Essentially, the principles of 'reflection' and 'dialog' with local constituents appear to have been ignored in developing the frameworks. On the contrary, it appears that universal frameworks are applied to the South Pacific.

A number of studies (e.g. Griesse, 2007; Nwankwo, et al., 2007; Raufflet and do Amaral, 2007) illustrate that from the perspective of the locals, the most important consideration is how international businesses advance their social and economic welfare and an assurance that they are not exploited for purely private gains. The issues of employment, fair

[14] http://www.anz.com/about-us/corporate-responsibility/
[15] http://www.westpac.com.au/about-westpac/sustainability-and-community/

wages, taxes, etc., are but merely ordinary matters; social responsibility requires active involvement in the development and maintenance of infrastructure, social services, and more importantly, advancement of general welfare, especially where government or other institutional support are weak and/or absent (Bird and Smucker, 2007).

Ironically, the views of ANZFJ and WBCFJ appear to be confined to mundane matters; they appear convinced that they need not do more than pay taxes, provide employment and invest capital in the country (CIFS, 1999: 29). In fact, they believe that social objective goals would be counter–productive in that they would impede competition. The banks' assert that their obligation is primarily to the shareholders, who happen to be entirely non–locals, and that social objectives are for governments, not commercial banks. They appear so strongly opposed to the idea of corporate social responsibility that they even threaten to close business if required to adopt such responsibilities. Their view is that they should not be asked to provide 'uneconomical or free services'.

The perception of the general public, including business and household bank customers, is that banks are indeed purely profit–oriented and are disinterested in their or the country's welfare, that they have no sense of responsibility to their clients nor to the development of the country, and that policies formulated overseas are implemented in Fiji regardless of appropriateness (CIFS, 1999: 30, 175). They want banks to empathise with and be sensitive to the needs of Fiji's population and to have vision as leaders of development.

Implementation

While details outlining the design and implementation of the CSR process could be part of future research, we discuss here very briefly our proposed implementation approach. Based on experiences elsewhere, we do not favour legislation or a regulatory approach at this stage, which may not only be resisted by banks but may also be counter–productive; the approach that does appeal to us is one proposed by Cramer (2005) and extended to by Maon et al. (2009). Briefly, Cramer (2005) proposes a six non–consequential step process: (i) listing the demands and expectations of stakeholders; (ii) formulating a vision and a mission with regard to CSR and a code of conduct; (iii) developing short and longer term strategies with regard to CSR for drafting a plan of action; (iv) setting up a monitoring and reporting system; (v) embedding the process into quality and management systems; and (vi) communicating internally and externally about the approach and results obtained.

We also do not favour external monitoring of this aspect of banking activities by the designated regulator, the Reserve Bank; nor do we believe that self–regulation practices would be particularly effective. We propose that an independent body such as the office of a relevant ombudsman be responsible for monitoring banks' actions in accomplishing the objectives of the CSR. Reports may coincide with regular annual financial reports and banks may also be encouraged to communicate their accomplishments to the public at large, via media and meetings.

Regulation—an alternative to CSR

It is not uncommon for states, in pursuing proper functioning of a market economy and to foster social justice, to implement necessary institutional frameworks, to resolve market failures, and to undertake redistributive policies (Amalric and Hauser, 2005). Universal examples of state actions in accomplishing the foregoing include defining property rights, enforcing contracts, regulating monopolies, reducing information asymmetries, producing public goods, regulating externalities, and ensuring proper distribution of resources.

In Fiji, based on the rationale of economic development, job creation, and productivity and earnings enhancement, and to influence liquidity, inflation and foreign reserve levels, bank credit, in the 1970–80 period, had been subjected to a number of direct government control and/or indirect influence. Administered through regulations or moral suasion, the controls included quantitative restrictions, priority sector lending and interest rate ceilings.

Quantitative restrictions were applied in the form of loans and liquid assets to deposit ratios and reserve requirements. Enforced over the period 1980–1987, the loans-to-deposits ratio required banks to observe a maximum ratio of 65 per cent. Introduced in 1974, the Liquid Asset Ratio (LAR) required banks to invest a minimum proportion of their deposits in government and government–guaranteed securities. Introduced in 1973, the Statutory Reserve Deposit (SRD) has been used as an instrument of monetary policy. Enforced over the period 1979–1987, mandatory or directed lending required banks to lend a certain proportion of their total deposits to priority sectors, including agriculture and manufacturing sectors. Similarly, bank lending and deposit rates were also regulated until 1987.

In pursuit of open market policies and market competition, regulations today are based on the rationale of prudential supervision for purposes of promoting and strengthening the soundness and stability of fi-

nancial institutions. However, in view of the recognised critical role of banks in the national sustainable development process, should the banks fail to become more *socially* responsible via explicit goals and outcomes, it may become necessary to re–regulate certain components of the banking business, such as re–introduction of directed lending and regulation of interest rates. While we do not favour such an approach, public support for such a proposal is expected to be strong; there is already a perception that commercial banking behaviour should be monitored and regulated.

Conclusion

Recognising that random events, such as the current global economic and social crisis, are highly likely to compel the developed world to cut back their generous donations and other assistance to underdeveloped and fragile economies such as the South Pacific's Small Island Developing States resulting in stalled sustainable development progress, this paper suggests that these economies may need to become more self–reliant. Recognising also that there is a need to investigate and develop *new* sustainable development strategies, the paper proposes a corporate *social* responsibility requirements for international banks in the SP–SIDS. The proposal is based on the following arguments. Generally with respect to sustainable development, economic growth is 'an important and overriding priority for developing countries and is itself essential to meeting national and global sustainability objectives' (United Nations, 1992). Formal financial sectors, via private sectors, positively and strongly influence a country's economic growth. Access to finance is an important consideration for an effective finance–growth link; where access differs from use, such that one may have access but not need finance (voluntarily excluded) or may need but have no access (involuntarily excluded). Appropriate, albeit possibly different, policy responses may enhance access to formal finance for the 'involuntarily excluded' users (including the private sector) and lead to economic growth and desirable progress toward sustainable development.

Specifically, in the case of Fiji, formal financial sector finance is controlled by two international banks—ANZ and WBC. While these banks enjoy high profits and strong capital positions, their intentional/unintentional actions may well be contributing to more and more users being 'involuntarily' excluded from formal financial sector finance. Moreover, these banks appear not to have much concern or empathy for the special economic circumstances of the SP–SIDS or the adverse socio–economic conditions of financial service users. A policy response in the

form of corporate social responsibility requirement for these banks would encourage them to appreciate, define and adhere to social and ethical values in addition to normal business objectives, which in turn may result in greater firm access to finance and thereby economic growth and sustainable development.

With respect to corporate social responsibility, we believe generic policies are not appropriate in the case of the international banks in the SP–SIDS, a region endowed with special disadvantages, lack lustre economic growth and huge sustainable development challenges. There is a need for the international banks, which critically influence the financing opportunities in these economies, to become, via reflexivity and dialogue, more sensitive to the needs, norms and values of the host communities. The banks need to become more responsible in advancing efforts towards sustainable development programs in the region; the alternative may well be in the form of appropriate regulation.

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