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Socio-Economic Determinants for Poverty Reduction: The Case of Fiji

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Abstract

Poverty is a multi-dimensional issue, which encompasses different dimensions of deprivation that relate to human capabilities including food security, health, education, rights, voice, security, dignify, income and consumption. Above all, poverty is denial of human rights (United Nations, 2009). Despite Fiji's as a most developed island economy, and plays an affluent role among the Pacific Island nations, its history of coups and vulnerability to external shocks have created major obstacles to reducing poverty by half by 2015.

The study demonstrates that knowledge on the characteristics of the poor is vital not only because it is essential to tackle the roots of poverty but also shape the policies and strategies to reducing poverty. The study found that, in particularly, the households headed by the females and people with disability are most prone to poverty. Rural households are more likely subjected to poverty than urban households. The Indo-Fijian households face greater income inequalities than Fijian households, and the urban households endure greater inequalities in comparison to rural households.

Being educated and employed are the key fundamental elements in reducing the likelihood of remaining poor. The study shows that people from the lowest income to the highest income groups all benefit from formal education, but it is tertiary education which has the ability to sustainably prevent people falling into poverty when the unseen event occur in the future. Also, employment in manufacturing, construction, trade and services, transportation and communications sectors are all vital determinants of poverty reduction. In particular, the manufacturing sector helps rural households in increasing the possibility of meeting the basic needs, while the transportation and communication sector helps urban households to increase the probability of meeting their basic needs.

The research findings suggest that poverty reduction polices and programmes should focus on the core areas of integration and targeting, promotion of human assets, provide resources and transportation linkages for rural and urban activities, promotion of income-job-creation and income redistribution. Releasing land for commercial agriculture farming could contribute to poverty reduction in rural areas and its linkages in the urban sector could also reduce poverty in urban areas.

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Table of Contents

Acknowledgements ii

Table of Contents iii

List of Tables vi

List of Figures viii

List of Abbreviations ix

Chapter 1 Introduction 1

1.1 Background to the Study 1

1.2 Objectives and Significance of the Study 3

1.3 Data and Methodology 4

1.4 Chapter Outline 4

Chapter 2 Literature Review 6

2.1 Introduction 6

2.2 Definition and Measurement of Poverty 7

2.3 Determinants of Poverty 17

2.3.1 Country Level Characteristics 17

2.3.2 Household Level Characteristics 20

2.4 Education and Health for Poverty Reduction 24

2.4.1 Education and Poverty 25

2.4.2 Health and Poverty 29

2.4.3 Income Inequality 32

2.5 Conclusion 33

Appendix A2.1 35

Chapter 3 The Economy of Fiji: An Overview 37

3.1 Introduction 37

3.2 Economic Indicators of Fiji 38

3.2.1 Economic Growth Performance 38

3.2.2 Trade Sector Performance 41

3.2.3 Labour Force 45

3.3 Demographic, Emigration and Social Indicators of Fiji 47

3.3.1 Education 49

3.3.2 Health Indicators 50
3.3.3 Housing and Utilities 53
3.4 Poverty Issues in Fiji 56
3.4.1 Household Characteristics' as Determinants of Poverty in Fiji 57
3.4.2 Household Head's Characteristics' as Determinants of Poverty 63
3.5 Millennium Development Goals and Poverty Reduction 66
3.5.1 Progress Towards the MDGs in Fiji 66
3.5.2 Pro-poor Programmes in Fiji 70
3.5.2.1 Economic Infrastructure and Pro-Poor Growth Policies 72
3.5.2.2 Social Infrastructure and Pro-Poor Growth Policies 73
3.6 Conclusion 75
Appendix 3.1 76
Appendix 3.2 77

Chapter 4 Determinants of Poverty in Fiji: A Logistic Regression Analysis 78
4.1 Introduction 78
4.2 Literature Review 79
4.2.1 Household Head's Characteristics' as Determinants of Poverty 80
4.2.2 Household Characteristics' as Determinants of Poverty 82
4.3 Model Specification, Methodology and Data 83
4.3.1 Model Specification 83
4.3.2 Data and Methodology 86
4.3.3 Variable Definitions and Descriptive Statistics 89
4.4 Empirical Results 92
4.4.1 Results for Poverty Determinants: Basic Needs and Food Poverty 93
4.4.2 Results for Food Poverty and Basic Needs Poverty Line: By Regions (Stage Two) 98
4.4.2.1 Results for Food Poverty Line: Rural versus Urban 98
4.4.2.2 Results for Basic Needs Poverty Line: Rural versus Urban 101
4.5 Conclusion 103

Chapter 5 The Impact of Education and Health on Poverty Reduction: Empirical Evidences for Money and Non-Monetary Models 105

5.1 Introduction 105

5.2 Role of Education on Poverty Reduction: Monetary Model Specification and Methodology 107

5.3 Role of Education and Health on Poverty Reduction: Non-monetary Model Specification and Methodology 113

5.4 Data and Variable Definition 117

5.5 Empirical Results 118

5.6 Conclusion 125

Chapter 6 Inequalities in Fiji's Household Income Distribution 2002-03: Empirical Analysis 127

6.1 Introduction 127

6.2 Theoretical Aspects of Measurement of Income Inequality 128

6.2.1 Positive Measures: The Gini Coefficient and the Nelson Ratio 130

6.2.2 Normative Measures: The Atkinson Index 132

6.3 Theoretical Aspects of Decomposition of the Inequality Measures 133

6.3.1 Decomposition Within and Between Population Groups 134

6.3.2 Decomposition by Source of Household Incomes 135

6.4 The Data and Assumptions 137

6.5 Empirical Results 139

6.5.1 The Within-Group Inequalities 139

6.5.2 The Between-Group Inequalities 141

6.5.3 Decomposition by Source of Household Income 142

6.5.4 The Atkinson Index 143

6.6 Conclusion 145

Chapter 7 Conclusion and Policy Implications 146

7.1 Introduction 146

7.2 Summary of Chapter Findings 146

7.3 Policy Recommendations 150

7.4 Areas for Future Research 155

Bibliography 157

List of Tables

Table 3.1	Fiji's Major Export Commodities (% of GDP), 1980-2007	43
Table 3.2	Unemployment for Age 15 and Over, 1996 and 2007	47
Table 3.3	Top 10 Causes of Morbidity and Mortality in Fiji, 2007	52
Table 3.4	Poverty Lines (F$) and Incidence in Fiji, 2002-03	57
Table 3.5	Distribution of Household Income and Expenditure, 2002-03	58
Table 3.6	Household Expenditure by Gift-given, Alcohol and Tobacco, 2002-03	62
Table 3.7	Household Size and Number of Children (age 0 to 14) per Household	62
Table 3.8	Average Years of Schooling and Gender of Household Heads, 2002-03	63
Table 3.9	Income Earning Characteristics of the Heads of Households, 2002-03	65
Table A3.1	The HDI, HPI, GDI and GEM Value and Rank for Fiji, 1991-2009	76
Table A3.2	Progress Towards the MDGs in Fiji, 1990-2015	77
Table 4.1	Variable Description and Definitions	90
Table 4.2	Descriptive Statistics	91
Table 4.3	Logit Models for Overall Households Analysis, HIES 2002-03	94
Table 4.4	Logit Model for Food Poverty Line: Rural versus Urban	99
Table 4.5	Logit Model for Basic Poverty Line: Rural versus Urban	102
Table 5.1	Variable Description and Definitions	118
Table 5.2	Monetary Impact of Education on Poverty Reduction	119
Table 5.3	Results for Total Education (i.e. Years of Schooling) Quantile Regression	120
Table 5.4	Results for Disaggregated Education Level Guantile Regression	120
Table 5.5	Logit Model of Education-Health Nexus: Health Prevention	123
Table 5.6	Logit Model of Education-Health Nexus: Sanitation	124
Table 6.1	Summary Data Statistics for HIES 2002-03 in Fiji	138
Table 6.2	Household Income Inequalities and Income Distribution in Fiji, 2002-03	140

Table 6.3	Decomposition of Inequality Index between Ethnic and Regional Groups	141
Table 6.4	Household Income Inequality by Factor Components, HIES2002-03	142
Table 6.5	Equally Distributed Equivalent Household Weekly Income and the Atkinson Indices of Inequality, 2002-03	144

List of Figures

Figure 2.1	Capability Approach: The Instrumental Role of Monetary Resource	12
Figure 3.1	Fiji's Economic Growth in Real GDP Growth (2000 prices), 1969-2008	39
Figure 3.2	Annual Inflation Rate in Fiji (consumer prices), 1970-2008	41
Figure 3.3	Value Added in Gross Domestic Product by Sectors (% of GDP), 1963-2007	42
Figure 3.4	Fiji's Labour Force by Gender, 1996 and 2007	46
Figure 3.5	Life Expectancy at Birth by Selected Western Countries, 2007	51
Figure 3.6	Infant Mortality Rates (under age 5), Selected Countries, 2007	52
Figure 3.7	Water and Sanitation by Selected Countries, 2006	53
Figure 3.8	Food Expenditure by Income Deciles (%), 2002-03	59
Figure 3.9	Education Expenditure by Income Deciles (%), 2002-03	59
Figure 3.10	Medical Expenditure by Income Deciles (%), 2002-03	60
Figure 3.11	Housing Expenditure by Income Deciles (%), 2002-03	61
Figure 4.1	A Nested Structure of Poverty Status of Households for Fiji	87
Figure 5.1	Returns to Education by Quantiles of Income	121
Figure 6.1	The Lorenz Curve and the Gini Coefficient	130

List of Abbreviations

ADB	Asian Development Bank
CPI	Consumer Price Index
EIU	The Economist Intelligence Unit
EU	European Union
FIBOS	Fiji Islands Bureau of Statistics
GDI	Gender-related Development Index
GDP	Gross Domestic Product
GEM	Gender Empowerment Measure
HDI	Human Development Index
HPI	Human Poverty Index
HIES	Households and Income and Expenditure Survey
ILO	International Labour Organisation
MDGs	Millennium Development Goals
MFNP	Ministry of Finance and National Planning
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PICS	Pacific Island Countries
RBF	Reserve Bank of Fiji
UN	United Nations
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
EUS	Employment and Unemployment Survey
VAT	Value Added Tax
WB	World Bank
WHO	World Health Organisation

Chapter 1

Introduction

"Poverty is a call to action-for the poor and the wealthy alike-a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities", World Bank.[1]

1.1 Background to the Study

Over the past 30 years, developing countries have achieved remarkable improvements in the living standards which are reflected in terms of growth in average incomes, doubled primary school enrolment rate, fall in mortality rates and risen in life expectancy. The statistics about poverty indicate that the population of the poor has been declined to 1.4 billion in 2005 from 1.8 billion in 1990 (based on US$1.25 a day in 2005 prices). In particular, poverty in East Asian (the world's poorest region in 1981) has fallen from nearly 80 percent of the population living on less than US$1.25 a day in 1981 to 18 percent in 2005, largely owing to rapid progress in poverty reduction in China and India (United Nations Development Programme, 2009).

These improvements in living standards are highly encouraging because they demonstrate that poverty can be overcome and reduced. But the battle is far from over as poverty continues to be pervasive, intractable and inexcusable. The UNDP (2009) estimates that one in four persons in developing countries still lives on less than US$1.25 a day. And the progress in combating poverty is far from even from country to country. Despite Asia's rapidly advancement in reducing poverty, it still accounts for most of the world's poor. On the other hand, Sub-Saharan African nations have struggled with slow growth and rising poverty partially linked to conflict and governance problems, and the scourge of HIV/AIDS.

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[1] World Bank. "Poverty Analysis: Overview". Retrieved July 6, 2009 from http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,contentMDK:20153855~MENUPK:435040~pagePK:148956~piPK:216618~theSitePK:430367,00.html

In the case of Fiji, poverty reduction is considered to be the highest priority development objective in the national plan, which aims at reducing the incidence of poverty by half by the year 2015 (Asian Development Bank, 2003; Ministry of Finance and National Planning, 2008). The aim to reduce poverty to negligible level as indicated suggests various challenges to meet this goal. But the results are far from satisfactory. Since Fiji gained independence in 1970 a decade later saw some major achievements in socio-economic development. However, since the military coups in 1987 Fiji faced various development challenges for its resources, economic and environmental vulnerability, and limited access to the global markets that led to obstacles in achieving substantial advancement both in economic and social developments. The economic hardships are enhanced due to a series of notorious political upheavals and natural disasters, and the expiry of land tenure problems have pushed more households into poverty (Gounder, 2007a). As a result, about 35 percent of the population or 29.6 percent of the households in Fiji are in poverty (Narsey, 2008).

At the global level, the Fiji's human poverty index (HPI) rank has dropped from the 6th (out of 85 developing countries) in 1998 to 45th (out of 95 developing countries) in 2009. It is particularly concerning that Fiji's human development ranking (i.e. Human Development Index, based on life expectancy, education and income) has slipped from 44th (out of 174 countries) in 1998- a position most developing countries would envy at the time- to 81st in 2009 (UNDP, 2009).

Secondly, the term poverty can still mean different things for different people in Fiji. This means that according to their perceptions, their social and cultural backgrounds, and their economic circumstance will understand and reflect on poverty issues differently. Therefore, "clarification of how poverty is defined is extremely important as different definitions of poverty imply use of different criteria for measurement, potentially the identification of different individuals and groups as poor, and the use of different policy solutions for poverty reduction" (Laderchi, Saith and Stewart, 2003, p. 3).

Thirdly, the literature on poverty reduction in developing countries supports the view that both education and health play a crucial role in poverty eradication (Romer, 1990; Mankiw, Romer and Weil, 1992; Tilak, 1994; Geda, Jong, Kimenyi and Mwabu, 2005;

Todaro and Smith, 2006; Abuka, Ego, Opolot and Okello, 2007), yet little has been written about the impact of education and health on poverty reduction in the case of Fiji. In these studies, some authors suggest that investment in education increases the skills and productivity of poor households that in return enhances the income levels as well as the overall living standard. And some suggest that education not only helps in the fulfilment of basic needs such as water and sanitation, utilisation of health facilities and shelter but also affects the women's behaviour in fertility decisions and family planning.

1.2 Objectives and Significance of the Study

Given the background of poverty issues, this study raises a general research question that how the poverty is defined and measured, what causes it, how it can be alleviated and where the future policy can be directed to in dealing better with poverty problems in the context of Fiji. This study is directed by the following specific objectives:

1. identify the characteristics that are responsible for the incidence of poverty in Fiji;
2. examine the possibilities of remaining poor, and analyse its household characteristics;
3. analyse the impacts of education and health on lifting people out of poverty;
4. measure the magnitude of household income inequality in Fiji in 2002-03; and
5. determine the implications amongst these above mentioned factors that influence the social and economic policies aimed at poverty reduction.

The empirical investigations of the general research question have several areas of significance for Fiji. Theoretically, it contributes to an understanding of how poverty is defined and measured, what are the characteristics that are responsible for the incidence of poverty and how to address it based on the household survey.

Practically, the study is expected to assist policy makers, government agencies and interested groups to improve the way poverty is understood and to help them design effective strategies and responsive polices to poverty reduction by determining the

characteristics of the poor in Fiji. This is vital for Fiji as it has only five years to achieve its commitment in reducing poverty by half by 2015.

1.3 Data and Methodology

A quantitative approach is adopted in the study, which utilises Household Income and Expenditure Survey (HIES) data for the period 2002-03 to estimate several research hypotheses. The HIES dataset is obtained from the Fiji Islands of Bureau of Statistics (FIBOS) through personal communication.

Appropriate econometric procedures have been employed throughout the study. For the household level determinants of poverty, the logit regression technique is used to examine the probability of remaining poor based on households' demographic and socio-economic information. For the analysis of education and health impact on poverty reduction, both the quantile and logistic regression methodologies are employed. In investigating the household income inequality in Fiji, a set of econometric procedures has been used. The details of these procedures are discussed in the relevant chapters.

1.4 Chapter Outline

This study consists of seven chapters. Chapter 1 is an introduction, which provides background, objectives and significance of the study. A review of theoretical and empirical literature on poverty is presented in Chapter 2. It discusses how poverty is understood, measured, and what are the determinants of poverty and linkages between education, health and poverty reduction. In discussing the causes of poverty and the impact of education and health on poverty reduction, this review investigates the characteristics of the poor and the interaction of education and health at both the country- and household-levels.

Chapter 3 addresses the trends in social and economic development in the context of Fiji with a focus on socio-economic issues. In discussing the economic indicators, the chapter provides an overview of economic growth performance, trade sector

performance and labour force in the post-independence period. Some of the key social indicators discussed are education, health, housing and utilities, and poverty issues. Given Fiji government's efforts and commitment in attacking poverty, this chapter also discusses the level of progress in achieving Millennium Development Goals (MDGs) followed by illustrating the existing pro-poor programmes and exploring the potential pro-poor growth policies for Fiji.

Chapter 4 empirically investigates the household level determinants of poverty in Fiji. In this chapter determinants of poverty are examined in two categories, household head's characteristics and household characteristics. Chapter 5 tests the hypotheses that the influence of education on poverty reduction that goes beyond its impact on income and wages, but also on the health behaviours of individuals. A set of econometric techniques is used in this chapter to analyse both the monetary and non-monetary effects of education on poverty reduction.

Chapter 6 looks at the nature of Fiji's household income distribution in 2002-03. In this chapter, income inequality is examined to address several main issues such as: what is the magnitude of inequality within and between population groups; which source of household income contributes more inequality effect; and hypothetical speaking, what would be the equally distributed equivalent household income for Fiji in 2002-03.

Chapter 7 concludes the study by summarising the empirical findings. The key findings are: households headed by the females and people with disability are most likely subjected to poverty; the poorest people benefit most from obtaining formal education; employment in the sectors such as manufacturing, construction, trade and services, transportation and communication are vital determinants of poverty reduction. The chapter 7 also presents the overall conclusions and policy recommendations for Fiji, and explores areas for future research in this dynamic area of poverty study.