



# SOCIAL PROTECTION IN THE PACIFIC: MITIGATING CRISES

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POLICY BRIEF - LUCY PENNINGTON

# EXECUTIVE SUMMARY

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This policy brief outlines the benefits and drawbacks of 'informal' social protection systems in the Pacific. Further, it investigates how these practices could be bolstered in light of the COVID-19 economic shock and the lack of strong formal systems in the region.

This policy brief seeks to draw attention to existing remitting behaviours, the role of reciprocity in many Pacific cultures, the sharing of land and kinship social support as parts of a functioning 'informal' social protection system, helping mitigate economic shocks by sharing funds.

As remittances shrank during the COVID-19 pandemic, the systems that reduced the need for more widespread governmental support faced financial strain. Despite some shortcomings, like the reliance on migrant economies and the inequality between recipients of remittances and those who do not have family overseas, there is still potential for the expansion of these practices alongside programs that make them more streamlined. This could bolster regional economic resilience and reduce the need for government spending.

As these programs do not reach everyone, there is place for them alongside a smaller formal system, made more viable through the reduction of transaction costs.

As such, it is recommended that:

1. Strong regional economies, like Australia and New Zealand, expand seasonal worker programs to kick-start the process of remitting; governments should help enable equal access to these schemes;
2. A small percentage of remitted funds be set aside for NGOs, church groups and community organisations to help equalise the spread of benefits;
3. Costs of remitting money overseas are reduced.

# BACKGROUND

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Social protection measures in the Pacific region are poor, and while spending has increased in recent years, they only reach one third of intended beneficiaries [1]. Despite this, voluntary remittances and cultural practices of reciprocity often form part of an informal social 'safety net', providing communities with financial reserves to somewhat counter the lack of services provided by governmental systems.

In the age of COVID-19, the halting of many seasonal worker programs and the disruption of labour markets overseas have put a strain on the remittance system [2]. In this context, a form of social protection is crucial to maintain regional stability throughout the period of economic recovery [3]. With informal social protections widespread throughout the region, there are ample opportunities for the expansion of existing culturally relevant systems to mitigate the continuing COVID-19 economic shock. To clarify, the term 'informal' is used as these processes exist outside of traditional market relations. In many countries, the process of remitting and redistributing is formally structured and culturally institutionalised [4].

For the purposes of this policy brief, 'informal' social protection systems consist of remittances sent by migrants, cultural practices of reciprocity, the sharing of land, social support from kin and a strong sense of collective responsibility, amongst others.

# THE PROBLEM

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## **Drawbacks of Informal Protection Systems**

Informal social protection systems in the Pacific have several drawbacks. Firstly, unequal remittance flows can worsen local inequalities as not all families have migrants to support them [5]. The scope of remittances is relatively narrow and while many remit to community organisations and churches, households receive the majority of benefits. Secondly, studies have shown they are insufficient for economic development [6], however, they are powerful in mitigating economic crises. Finally, with the disruptions of the regional labour market, the reignition of remittance flows relies on reinstating seasonal worker programs and the recovery of other countries. In this context, informal systems become increasingly important.

Importantly, formal protection systems are in place elsewhere for good reasons, often for the protection of vulnerable peoples. These informal measures are insufficient on their own as they do not ensure these groups are protected. Therefore, best practice would be to maintain some formal social protections for these groups, but also rely on remittances and cultural social practices to reduce strain on the government.

## **Benefits of Informal Protection Systems**

Economically, informal programs were crucial in mitigating the 2008 Global Financial Crisis in Vanuatu [7].

Stepven Ratuva found traditional social protection measures to provide an insufficient explanation of social protection in Vanuatu, as cultural practices including the reciprocity of goods and services, kinship social support, ideas surrounding collective responsibility and land sharing rights play a significant role in mitigating social risk [8]. Ni-Vanuatu Member of Parliament Ralph Regenvanu has cited these aspects of the traditional economy as forming the basis of economic resilience in Vanuatu [9].

Broadly, remittances are more effective than both aid and investment in alleviating poverty [10]. This is due to their stability in comparison to other flows of capital as they play an essential role in mitigating economic crises [11]. Furthermore, households and community organisations receiving remittances are significantly better off than they would be without them [12]. Therefore, programs increasing remittance flows alongside other ‘informal’ practices could help mitigate the COVID-19 economic shock. However, fees to transfer money overseas are high, around 10 per cent [13].

### **How can these systems be bolstered during crises?**

There are two main problems with informal systems that need to be solved to make them more effective during crises. Firstly, not everyone receives remittances, and secondly, the cost of sending money home is high.

Outside the Pacific, countries like Mexico have broadened the scope of remittances by founding ‘Hometown Associations’ that invest a portion of remittances in infrastructure or community enterprises [14]. This would be culturally relevant in the Pacific as it aligns with existing patterns of remitting to community organisations. Secondly, a program merging credit unions in the North and Central America was able to reduce remittance fees from 10 per cent to 2.6 per cent [15]. A 2019 DFAT report suggested that low digital literacy and the competitive advantage of Western Union raise transaction costs [16]. The cost of remitting should be reduced to make these practices flow more smoothly.

Remittances are reliant on overseas labour markets and have reduced during the pandemic. Therefore, recommendations should take this into account as an overarching problem.

# POLICY RECOMMENDATIONS

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## 1 SEASONAL WORKER PROGRAMS FOR REMITTANCE FLOWS

Australia, and other countries, need seasonal workers in the agricultural industry and have implemented programs to bring workers from the Pacific [17]. With the implementation of these programs, strong historical practices of remitting will mean a portion of earnings will return to the region [18].

Logistically, direct flights from Pacific Island countries to remote Australia should be organised to help reduce the risks involved with travel during the pandemic. This aligns with current debates surrounding the viability of hotel quarantine in Australia's capital cities. Beyond coordinating the programs, the role of Pacific Island governments and private implementing contractors would be to ensure all communities in each country have the opportunity to apply for the program, and that successful applicants are geographically spread out to ensure benefits are evenly distributed. Here, cultural practices of reciprocity will run their course, though programs to ensure distribution is widespread will help aid this outcome.

# 2

## SHARING THE BENEFITS

‘Hometown Associations,’ organisations that invest remitted money in community projects, have seen great success in Mexico. As many remitters already send money to community organisations such as churches, the most efficient way to gain a similar outcome would be to require workers brought to other countries as part of seasonal worker programs to send a small percentage of their earnings to a designated community organisation. This could be a church, NGO or local charity, giving workers autonomy over where their money goes and ensuring the finances are shared through a pseudo-tax system.

Remitters should be able send their money to existing community organisations, following historical patterns of transfers, provided they are subject to financial oversight and reporting standards from the implementing partner. Where community organisations are insufficient, the implementing partner should cooperate with local NGOs or programs to set up these community enterprises.



# 3

## LOWERING THE COSTS OF REMITTING

As digital literacy is low and in-person transfer methods are preferred, Western Union's money transfer services dominate, driving prices up. Therefore, an alternative to the salient Western Union is best offered at the Post Office alongside this service as a digital process carried out by the teller. That way, the remitters can benefit from the speed and cost-effectiveness of sending money digitally, but do not have to do it themselves. DFAT has put a tender out for a program lowering the costs of remitting to the Pacific [19]. The solution delivered by the implementing contractor should take into account low digital literacy and the preference for in-person transactions.



# CONCLUSION

Due to the cultural relevance of informal protection systems, they have the potential to play a key role in mitigating the continued COVID-19 economic crisis. By expanding seasonal worker programs, fortifying community organisations and lowering transaction costs, traditional cultural systems could form a crucial foundation for financial resilience. This has potential to form part of a renewed, more culturally appropriate social protection system in the Pacific, alongside the government's 'formal' protections.

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