



The way forward for Microfinance in Fiji

Risks and opportunities under new financial rules

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Summary

In April 2009 the Reserve Bank of Fiji (RBF) announced a number of new economic and financial measures. These were the devaluation of the Fijian dollar by 20 percent; the adjustment of lending rates to the December 2008 rate; a reduction of the interest rate spread to 4 percent by the end of 2009; and, a directive to all banks to set up specialised micro-finance service centers in all branches by January 2010. The RBF has committed itself to supporting this directive by setting up a Microfinance Research and Development Unit. This FDC Briefing Note raises several issues related to the impact of this directive on commercial banks and other financial institutions and the implications for the microfinance industry and service levels in Fiji in the future.

Introduction

The political events since 1987, expired land leases, the decline in sugar prices and several natural disasters have negatively affected the Fijian economy. This is reflected in declines in economic growth, remittance levels, investment rates, employment and income. In turn, these factors have critically influenced the levels of available private credit.

In its latest quarterly report, the RBF reported a 6.6 percent decline in economic output in 2007, with an estimated growth of 1.2% in 2008.¹ The RBF also reported that personal remittances fell by 19 percent to F\$178.3 million in the first eleven months of 2008. This compares with a 26.2 percent decline during the same period in 2007, when remittances stood at F\$220.1 million.² The private investment to GDP ratio declined from 17 percent in 2004 to less than 10 percent in 2007.³ This has resulted in low employment growth during the period.

The 2002-2003 Household Income and Expenditure Survey (HIES) indicated that the poverty rate increased to 35 percent from an estimated 25 percent in the mid-1990s.⁴

Since the last HIES, there have been no indications that poverty has declined. In fact, recent employment figures suggest that poverty might be on the rise. In 2007, the overall unemployment rate was 8.6 percent up from 5.8 percent in 1996. In the same year female unem-

ployment remained about 40% higher than the male unemployment rate.⁵

The above figures indicate that Fiji is not achieving sustained economic growth at levels that can improve living standards. This comes at a time when provision of financial services has been widely recognised by the Fijian government and external stakeholders as a key tool to improve the living standards of low income earners, the unemployed and those living in rural areas.

The microfinance environment in Fiji

In order to provide greater access to financial services to the poor and low income earners, in 1999 the Government of Fiji took the initiative to trial the delivery of microfinance services through specialised micro-finance institutions.⁶

In 2004 the Government's Microfinance Unit merged with the National Centre for Small and Micro-Enterprise Development (NCSMED) to combine the efforts of financial services and micro-enterprise development which were jointly seen as essential to sustain micro and small businesses and consequently the microfinance sector.

Under NCSMED, the various models of delivery (including Grameen replications and a few home grown models) have provided some valuable lessons in relation to the delivery of microfinance. One lesson is that, considering the country's geography and demography, the provision of microfinance services is very labour intensive with a relatively high cost structure which makes it extremely difficult to achieve sustainability within short timeframes. This problem is not unique to Fiji as it has been a documented obstacle in many parts of the region and beyond, especially those with low population densities.

Nevertheless, the provision of microfinance has shown some clear positive results. In the period from 2000 to 2007 micro-savings levels increased from just under F\$ 50,000 to over F\$1.5 million and the number of savers went from 800 to over 20,000. In the same period the number of loans disbursed increased from over F\$ 164,000 to FJ\$ 4.8 million. Also on record are the improvement in socioeconomic status of microfinance clients, including the large number of women who now have access to financial services and the increase in associated enterprise development. As of 2009, Fiji has eight registered MFIs covering most regions of the country.⁷

Despite these efforts financial inclusion in Fiji has a long way to go. According to a 2005 study, up to 340,000 people in the rural areas remained unbanked.⁸



On the supply side, microfinance is still not very well understood as a financial service or as a commercial option by many financial institutions and banks in Fiji. Commercial banks are faced with issues of high risk, high costs and low efficiency, coupled with the client's low education and nonexistent business records. The latter remain major obstacles to anyone working with this target group.

The RBF, previously working through its Rural Banking Working Committee, has tried to encourage commercial banks to provide more financial services to the rural areas.⁹ As a result the ANZ took the lead by offering rural services in 2004 that included saving accounts and micro loans. Today, the bank services over 300 communities and 170 schools with over 60,000 savings accounts and F\$8m in deposits.¹⁰

Impacts of the recent RBF directive

The immediate reaction to the directive of the RBF among commercial banks to set up specialised microfinance service centers in all of their branches not later than January 2010 appeared to be confusion and angst. Some advocates of microfinance promotion see this move as an opportunity to pursue the goals of increasing financial access and inclusion. But what does this mean for commercial banks, other financial service providers and government agencies dealing with microfinance? Are they, in fact, able to competently deliver microfinance services?

The Reserve Bank of Fiji

In many countries the financial sector and the microfinance sector have taken separate paths of development. The role of a central bank vis-à-vis microfinance, therefore, varies depending on the development and size of the microfinance industry, and the independence and resources of the central bank. The RBF's decision to create a unit within the Bank is necessary to allow it to establish appropriate guidelines and develop and implement supervisory and monitoring mechanisms for the sector.

Through this reform, the RBF appears to have assumed the responsibility of "microfinance champion". But first it needs to take a more inclusive approach designed to promote "financial inclusion". Financial inclusion means getting the majority of the non-bankable population access to all financial services - not just microfinance. The approach should therefore shift from simply providing more microfinance services to thinking about how to achieve the goal of financial inclusion for all.

Secondly, it is critical for the RBF to facilitate linkages and/or strategic partnerships that may arise between MFIs and commercial banks. The merging of strengths of the various service providers as seen in many other parts of the world today can only be beneficial to each institution and the clients they serve.

Last but not least, considering the challenges in providing microfinance in Fiji, the RBF would be well advised to reassess any efforts to cap interest rates on provision of microfinance services by commercial banks.¹¹

Commercial banks

Commercial banks have a comparative advantage in the delivery of microfinance services in Fiji in that they are licensed, regulated and will comply with conditions of ownership, financial disclosure, and capital adequacy that help ensure prudent management; they have established systems and procedures that can deal with large volumes of clients; they already have a branch network that usually has access to both urban and rural areas; they have their own source of funds making them less reliant on donor grants and government capital; and, they offer various types of financial products that can be made available to microfinance clients.

It is no surprise then that commercial banks continue to make their way into the microfinance market globally. A recent CGAP survey identified over 225 commercial banks and other formal financial institutions engaged in microfinance. For some, microfinance has been highly profitable. Certain microfinance-specialised banks are now more profitable than the banking sector average in their country.¹² In these instances finding the right niche in the microfinance market and exploring in-house or outsource options in order to supply the chosen market segment was key to success. CGAP warns however that some banks have attempted to serve this market but failed because they did not understand the market or tried to move too quickly.¹³

What is clear is that Fijian commercial banks could replicate the success stories from elsewhere if they gain thorough knowledge of the local microfinance industry, on both the supply and demand side. This could be achieved by creating partnerships with existing MFIs and perhaps other microfinance service providers. The latter institutions have a distinct advantage due to their extensive knowledge base and a better relationship and rapport with the target community. This enables them to identify the key issues on the ground and propose better solutions. These institutions are also more likely to ensure that the focus of expanding access to financial services is to improve the client's socio-economic status and support other key micro-enterprise development initiatives.



The government's role

Having had a major role in the development of microfinance services in Fiji, the current government should now work with other stakeholders to re-double their efforts at creating a conducive and sustainable environment for the microfinance industry through the following:

1- Enabling environment

This involves, amongst other things:

- updating outdated laws and more specifically reviewing and altering regulations that allow appropriate licensing and fee structures for micro enterprises;
- providing accessible space in towns and cities for micro enterprises with innovative ideas e.g. night markets;
- revising laws and regulations affecting micro enterprises in conjunction with those involved in the sector;
- providing incentives to commercial banks and microfinance service providers for any initiative that expands access and increases efficiency of operations through the use of new technology; and,
- encouraging networking with all stakeholders not only locally but also regionally. The Microfinance Pasifika Network (www.microfinance-pasifika.org), formed in 2006, provides an avenue for Pacific regional coordination and support between microfinance service providers in the region.

2- Micro-enterprise development

The development and the success of microentrepreneurs and their enterprises are critical. Enterprise development involves business and skills training which may be linked to government policies and programmes such as: import substitution, financial literacy training, business mentoring, and linkages between large and small business linkages.

3- Review microfinance institutions' roles

The role of microfinance institutions should be reviewed and their objectives clearly defined. Regular consultation should proceed with the RBF and other stakeholders to ensure ongoing service to existing microfinance clients. Any possible links with commercial banks should also be examined and explored.

Technology's role

It cannot be overemphasised the extent to which technology has a critical role to play in the delivery of financial services. The deregulation of the mobile phone market and development of card payment systems has raised the opportunity for achieving greater efficiencies and outreach in the delivery of financial services.

The cost of telecommunications in Fiji has reduced in the last two years; the high volume sale of affordable mobile phones has enabled the majority of the population to have access to a phone. The mobile phone customer base has grown to 700,000 (83.6% of population) at the beginning of 2009.¹⁴

There is evidence already in the region based on specialised organisational models and emerging technologies showing that new opportunities in branchless banking can be achieved in Fiji. They are provided by telecommunications companies that are well positioned to participate in ventures that provide financial services to their mobile phone clientele. This process is already advancing rapidly in Vanuatu and Samoa.¹⁵

Within the constraints of delivering microfinance in Fiji, the use of communications technology has to take some priority. The lead role could be taken either by the government, the RBF or the telecommunications companies to ensure that commercial banks and other microfinance institutions have a fair chance of delivering sustainable financial services to low income earners and rural dwellers.

Conclusion

The expectation, under the RBF directive, is that microentrepreneurs and consumers will, en masse, open up savings accounts, send more remittances, take out a loan, take up an insurance policy or other financial service. This uptake, however, must be accompanied by letting commercial banks set interest rates for microfinance products and by the implementation of clear guidelines for all involved in providing financial services for low income earners. The means to provide this service is also a critical factor in which communication technology has a definite role to play.

There is risk in the RBF directive on microfinance back-firing. To be successful, numerous precursors, as mentioned above, will need to be in place. But if high-level political support can be accompanied by adequate technical and policy agility and flexibility in approach, then it may be possible for Fiji's microfinance industry — and their clients — to benefit from this new directive in the years ahead.

References

1. Reserve Bank of Fiji. *Quarterly Review*. December 2008.
2. Reserve Bank of Fiji. *Quarterly Review*. December 2008.
3. Reserve Bank of Fiji. *Economic Overview*. March 2009.
4. Fiji Islands Bureau of Statistics - *Key Statistics: 2002-03 Household Income and Expenditure*. Suva.
5. Fiji Islands Bureau of Statistics - *Key Statistics: 2002-03 Household Income and Expenditure*. Suva.
6. Fiji is made up of over 320 islands of which two thirds are populated. The 2007 Population Census shows that half of the total population resides in the rural areas of the two main islands and the smaller, more remote islands. The rural areas have limited infrastructure, expensive and limited modes of transport as a result of the low population densities. In comparison to many Asian countries (which range from 50 to as much as 1,000 people per square kilometer) the population density of Fiji, at approximately 46 people per square kilometer, is low to sustain a microfinance service within an acceptable period.
7. See www.ncsmed.org.fj/mfdatatrends.aspx, June 2007.
8. Liew, J. (2005). *Banking the Unbanked*. UNDP, Suva.
9. To date, there are five commercial banks, all with total or part-private foreign ownership. The dominant banks in terms of assets and liabilities are ANZ and Westpac, both Australian owned. The Bank of the South Pacific (BSP) is owned by the Government of PNG and Bank of Baroda is from India. The Colonial National Bank (CNB) is minority owned by the Fijian government.
10. *Island Business* February 2009
11. More information on the role of central banks in microfinance with possible recommendations can be found at:
http://www.adb.org/Documents/Books/Central_Banks_Microfinance/Country_Studies/default.asp.
Readers are advised to look at FDC's publications relating to this policy area: *Getting the Framework Right: Policy and Regulation for Microfinance in Asia* (1998) which describes how Asia-Pacific governments and external agencies can establish a policy and regulatory environment supportive of microfinance with detailed country studies. Readers should also visit www.microfinance-pasifika.org and the Pacific Resource Center for Microfinance: <http://www.microfinance-pasifika.org/resource-centre.html>
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