

## **Sada Reddy: An anatomy of microfinance in Fiji**

Opening speech by Mr Sada Reddy, Governor of the Reserve Bank of Fiji, at the Pacific Microfinance Week 2009, Nadi, 13-17 July 2009.

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Distinguished Guests, resource persons and honoured participants. Let me extend to you all a very warm welcome and bula vinaka to the Fiji Islands.

I am very grateful and delighted to be here this morning to address this distinguished gathering of the Pacific Community on the important subject of microfinance. Firstly, I would like to commend the Microfinance Pasifika Network, the Foundation for Development Cooperation and the sponsors for putting together such a comprehensive programme for us this week. A wide range of issues on microfinance and its role in the development of the Pacific communities will be discussed. I note from the programme that we have very distinguished speakers and resource persons to speak to us and provide guidance on the way forward.

I guess one of the greatest benefits of this kind of gathering is the networking and the sharing of each other's experiences.

I will therefore shortly be sharing with you some of Fiji's experiences in the promotion and development of microfinance in Fiji.

Before that, however, let me make some general remarks on microfinance. As we are all aware, the role and contribution of microfinance in economic development and empowering our underprivileged is very important indeed. The impact studies of the various microfinance projects around the world have shown the significant improvement in the lives of people through the outreach of microfinance. It has contributed significantly in tackling poverty, improvements in housing, health & sanitation, better access to education, and more particularly the empowerment & participation of women in social and economic activities.

Most of you know the seminal work done in Bangladesh in the area of developing and promoting microfinance schemes. A number of countries have adopted the Bangladesh model.

Bangladesh saw an astronomical growth in microcredit over the last three decades. It has grown from a loan of US\$27 to 42 people in 1976 to more than US\$4 billion to 2.8 million borrowers in 2003. I am told the recovery rate in Bangladesh is 99 percent. These statistics show the phenomenal success of microcredit in Bangladesh. Therefore, I do not see why similar successes cannot be achieved in our part of the world. But this requires great drive and motivation of our people and policy makers.

The basic and simple principles and beliefs of the Grameen Bank's success story that have defied the conventional commercial thinking over the years are:

- (1) Institutions create poverty and not the poor;
- (2) Poverty cannot be eradicated by charity;
- (3) No difference in the ability of the poor person and any other person;
- (4) Understanding the needs of the poor and designing of the credit delivery system accordingly;
- (5) Trust and firm belief that poor people will pay-back; and finally
- (6) Lending to women brings greater benefit and maximises the uses of limited resources.

More simply put, Grameen philosophy centered on the theme of promoting credit as a human right.

This philosophy, combined into action on the ground, delivered Grameen Bank where it is today. As the famous saying goes, fine words and intentions are not enough until and unless they are transformed into action.

But of course, we know now, that **microfinance is more than just provision of micro-credit**. Microfinance is intertwined with access and provision of credit, basic banking services and also provision of insurance services and financial literacy.

### **The development of microfinance: experience of Fiji**

Let me now share with you our experiences in Fiji. I intend to first provide an analysis of microfinance in Fiji and outline the major challenges facing us. Finally, I will elaborate a little on the role of the Reserve Bank of Fiji in promoting microfinance in Fiji.

The first microfinance initiative was established by the Ministry of Women, Social Welfare and Poverty Alleviation in 1993. I believe this was done with the assistance of NZ Aid.

This initiative was based on the Grameen Bank model. Soon after, we saw the establishment of two new private initiatives – SEEDS and Anandpur. SEEDS (abbreviated for Social and Economic Equity for the Disadvantaged) and Anandpur were community based microfinance institutes that received technical assistance and funding from the National Microfinance Unit, the UDNF, Ministry of Women and Ba Rotary Club.

In the early 1990s, the Reserve Bank of Fiji started taking an interest in examining how best to develop and promote microfinance nationwide. First, we provided awareness to our staff by sending them to international conferences and also to visit countries with successful microfinance schemes. I also personally benefited through such awareness trips to some Asian countries and saw firsthand the role the governments, private sector and NGOs played in the promotion and development of microfinance.

Recognising that we needed to have a national strategy, the Reserve Bank of Fiji conducted a national survey on the existing microfinance schemes and the demand for microfinance in 1996 with technical assistance from the UN ESCAP. Based on the findings of the survey the Reserve Bank proposed to the Government the need for setting up an agency within the Government to drive the microfinance initiative.

Around the same time the Reserve Bank, in collaboration with the UNDP, organized a national conference on microfinance. The outcomes of this conference led to the Government setting up a Microfinance Unit in 1999.

The initial role of the Microfinance Unit was to conduct pilot-projects on the best methods and means for promoting micro-credit lending. By 2000 the National Microfinance Unit was fully operational.

Initially, the National Microfinance Unit acted as a wholesaler of micro loanable funds to Fiji Council of Social Services' Microfinance Unit and the Aglow's Microfinance Unit. However, in 2001, the National Microfinance Unit ventured into its own retail microfinance operations. It started lending to individuals rather than to groups. This eventually resulted in significant problems for the National Microfinance Unit and led Government to review the effectiveness of the National Microfinance Unit.

In a study conducted by the World Bank in 2003 it noted that “the National Microfinance Unit neglected systemic issues in favour of a pre-occupation with short-term operational objectives”. This was a result of almost exclusive emphasis on microcredit and ignoring issues such as, savings, capacity building and the creation of an enabling environment.

Consequently, the individual lending programme of the National Microfinance Unit was discontinued.

In 2004, the Government merged the National Microfinance Unit with the National Centre for Small and Medium Enterprises (NCSMED).

Let me share with you some statistics of the NCSMED on microfinance.

- Savings
  - The number of savings clients rose from around 12,500 in 2004 to around 24,000 by the first quarter of 2009, an increase of around 93 percent.
  - Total savings is around F\$1 million.
- Lending
  - Total lending by the Centre was around F\$7 m at the end of March this year. In addition the Centre provided capital grants of \$7.1 m.
- Loan repayments
  - Repayment of loans has improved from around 62 percent in 2000 to 95 percent in 2008.
- Number of micro businesses
  - 200 new micro businesses by 2008 compared to 46 in 2004.
- Training and capacity building
  - The Centre plays a very critical role in terms of training and capacity building. It has developed a package of training, technical and financial assistance for the benefit of affiliated microfinance institutions, NGOs and social groups.

The NCSMED basically follows the Grameen Bank model. However, I understand, there are a number of other models of microfinance in Fiji. These new models, I believe, have developed because of the unique constraints we face in Fiji, like other Pacific Island countries, in terms of the significant geographical and demographic dispersion from the key economic centers, which tend to increase transaction costs.

Before I go on further, let me share with you two success stories from the work done by NCSMED.

### **Mrs. Siliva Nasaga**

Mrs. Siliva Nasaga is from Viria in Naitasiri. She has come a long way from the days when her family had to survive on \$10 a week. Mrs. Nasaga always had an interest in flowers and the interest grew while she was working in various hotels around Fiji. This encouraged her to leave paid employment to focus on the farm with her husband. In 2004, Mrs. Nasaga secured a stall at the Garden City in Raiwaqa to sell pot plants and cut flowers. She also hired out pot plants. The business started off with no capital but the passion in farming and flowers became a driving force and Mrs. Nasaga and her husband joined the microfinance program in 2005.

They secured three loans from FCOSS Microfinance Unit and fully repaid it with continued savings. The money earned from the business has supplemented what is earned from the farm assuring them a comfortable life. Their dedication and passion was rewarded with the Fiji Sun sponsored 2nd Category of the Fiji Development Bank Small Business Awards in 2008.

## **Mr. Sanjay Chand**

Another success story is of Mr. Sanjay Chand. Mr Chand is a very successful vegetable farmer and a poultry producer in Saru, Lautoka.

In order to maximise returns from the farm Mr. Chand joined microfinance initiative in July 2008 and immediately signed himself up for the Business Skills Training offered in Lautoka by NCSMED. With this training Mr Chand was able to prepare detailed financial projections and business plan. This enabled him to obtain a loan from the Fiji Development Bank under the FDB's Small Business Loan Scheme in 2008 to buy his stock of seeds, and other essential supplies plus a horse.

Mr. Chand's farm has now expanded to include many different vegetables. He is now looking into expanding into commercial peanut farming. I am told Mr Chand is always looking to expand the farm by testing different crops.

Mr Chand's venture was assisted greatly by the Lautoka staff of the Microfinance Unit and the Ministry of Agriculture.

Through the Microfinance Unit West Sanjay was identified as a candidate for the FDB Small Business of the Year Awards for 2008 and he was successful in receiving the Farming Small Business Award sponsored by the Reserve Bank of Fiji.

There are several other very good success stories but these two cases, I just illustrated, go to show how we can assist small and micro businesses to grow with the necessary support and guidance from the various agencies of Government, financial institutions and NGOs.

Let me at this stage briefly talk about the ANZ Rural Banking Scheme in Fiji. Access to banking services in the rural areas is very critical in enhancing the growth of microfinance.

In view of this, the Reserve Bank of Fiji has been discussing with the commercial banks in Fiji for a number of years on how best they can provide access to banking services to our rural people. The Reserve Bank was very pleased that the ANZ Bank took great initiative in this regard by launching the ANZ Rural Banking Services in 2004. Both the Reserve Bank and the Government played an important facilitating role in this initiative. I am pleased to say that the ANZ Rural Banking Scheme is now an internationally recognized model for delivery of banking services to the rural sector.

Here, I would like to convey my special thanks to the UNDP for its role in making the ANZ Rural Banking a success. The UNDP's financial literacy programme assisted in the success of this scheme immensely particularly in the education of villagers in the rural areas on the importance of managing their finance.

To date, ANZ has face-to-face relationship with over 300 communities and 200 schools each month. In just under 4 years, ANZ rural banking initiative has grown substantially to over \$9m deposits with over 70,000 rural customers. In addition, total lending has reached over \$2m and its rural banking team continues to serve with vigour in areas across Fiji – in Suva, Nausori, Sigatoka, Ba, Labasa, Savusavu and including Taveuni & Kadavu.

The Reserve Bank of Fiji is very grateful to the ANZ rural banking scheme for the commitment shown in areas that are not normally serviced by commercial banks.

## **Challenges**

Let me now discuss some of the challenges in developing and promoting microfinance in Fiji. I am sure some of these challenges will also equally apply to many other countries of the Pacific participating here today.

- **Deficiency of data on microfinance**

Adequate data on microfinance is very critical in policy design and promotion. Unfortunately, availability of such data is a key challenge for most of us.

Some of the data that we need, for example, are types of microfinance operators and their location, the number of employees, annual turnover, assets and capital investment, etc.

What we need is to pool the data held by different institutions in order to produce a comprehensive set of usable data for analysis and appropriate policy response. This will also allow evaluations to be made to identify areas of improvement.

- **Delivery of low-cost and efficient microfinance services**

As I mentioned before the geographical and demographic dispersion has been a key factor contributing to the high transactional costs for the delivery of microfinance services in Fiji.

- **Financial literacy is another area of importance and needs to improve its outreach**

The UNDP Report on Fiji (2005) highlighted that around 340,000 people in the rural areas remained unbanked. Although, some good progress has been made in this regard through the ANZ Rural Banking Scheme, I feel it still remains a major challenge for most of us. Of particular interest are the maritime areas and how to deliver banking and microfinance services to these remote areas even though a number of our people live on these islands and they expect similar type of service delivery with least costs. The use of mobile phone technology for providing basic banking services can be considered for these remote areas.

- **Lack of good proposals for microfinance projects**

In recent meetings with various microfinance stakeholders, the RBF was informed that lack of innovative and/or viable proposals for micro, small and medium ventures are a key inhibiting factor. It seems everyone wants to replicate a successful business in an area. For instance, if one person operates a successful canteen on an outer island, others will set-up similar business using micro-credit. It is obvious that such actions will make the canteen business unsustainable given the small market size within which these businesses operate. In such situations, education, guidance, mentoring and awareness becomes critical.

## **Role of the Reserve Bank of Fiji**

Let me say a few words on the role of the Reserve Bank of Fiji as the country's central bank in promoting microfinance and rural banking.

I have already mentioned the role the RBF played in working with commercial banks to introduce rural banking services.

The RBF has also played a very significant role in the development of microfinance in Fiji. As I alluded to before, the RBF initiated policy dialogue with the Government in the early 1990s which led to the formation of the national schemes for the promotion and development of microfinance Fiji-wide.

However, much more needs to be done to fully realize the benefits of microfinance so that more of our rural and unbanked people are enabled to fully participate in the growth of our economy and in turn improve their living standards. Microfinance can be an effective channel through which we can reduce the growing poverty in our respective countries.

In this regard, I refer to the findings of the Joint IMF-World Bank Financial Sector Assessment Program (FSAP) conducted in 2007. This Report highlighted that providing financial services to the poor and to rural communities and expanding access to finance for small enterprises are key development goals for Fiji.

This Report further noted that “initiatives in this regard have not been coordinated and sustained. A lead agency is needed to formulate an overall development strategy for micro, small and medium enterprises and to harmonise the various initiatives to improve access to finance for these enterprises and to rural areas. The RBF should work closely with this agency and other stakeholders to facilitate the enhancement of the enabling environment”.

The NCSMED and UNDP Pacific Centre are two very key organisations in this area that the RBF will work closely with. In addition, the RBF will engage more actively with financial institutions, in particular the commercial banks, FDB, NGO microfinance institutions and other microfinance stakeholders. The target areas would be development of micro, small and medium enterprises, rural banking and promoting financial literacy.

The RBF, with these institutions and other development partners, will work on reviewing and tailoring the regulatory framework to provide further impetus for growth of microfinance services. Efforts will be made to obtain a more comprehensive set of statistics on a regular basis on the various facets of microfinance and small and medium enterprises.

Let me at this stage recognize the very important role, the UNDP and other donor agencies have played in the development of microfinance in Fiji and the Pacific. In particular, the UNDP Pacific Centre, through its Financial Inclusion Programme, and in conjunction with donor agencies, has been instrumental in the implementation of financial literacy programmes, provision of micro-capital grants, research & specialised technical expertise specific to financial service development, advocacy and facilitation of partnerships and capacity development.

I also commend the UNDP’s new initiatives that are being considered such as the provision of mobile phone banking services. I assure you the RBF will be supportive of such initiatives that will reduce transaction costs and improve extension of banking services, particularly to the remote areas. This will allow those in our remote islands to access banking services. With the wide coverage of our current mobile phone providers, this initiative will have a significant impact on our development.

More recently the RBF has taken on an active role in formulating financial strategies and policies to increase access to finance by our rural and unbanked people.

A new department called the Financial System Development and Compliance Group was specifically set up in April this year to drive these initiatives. I am hoping that the RBF will now be able to interface more closely with other development agencies and the financial institutions in promoting microfinance schemes around the country.

To begin with the RBF has asked all the commercial banks operating in Fiji to set up microfinance centers in each of their branches with effect from January 2010. We believe the commercial banks need to play a more active role in the development of the country in which they operate through designing their banking services to suit the needs of the development goals of the country. As we are aware most of the countries in Asia and South America have successfully outreached the rural sector through national policies in which the banking industry plays a pivotal role.

Some of the other areas of policy development the RBF is focusing on are:

- Local value added content requirement for the tourism industry;
- Financial literacy; and
- Local advisory board for branches of foreign banks.

Most of these policies are directly related to the microfinance initiative. The goals of each of these projects are mutually reinforcing – that is, achieving one will lead to another.

## Concluding remarks

Ladies and gentlemen, I have discussed at length our experiences in Fiji with respect to development and promotion of microfinance. I have also touched on a number of challenges we all face in our respective countries in getting more and more of our rural and unbanked people into the economic mainstream. They can be a formidable force and with proper systems and structures in place, can contribute substantially to economic development.

I have acknowledged the significant contribution the various government agencies, financial institutions and development agencies are playing in the area of microfinance, rural banking, financial literacy and financial inclusion.

At this juncture I wish to acknowledge the significant and pioneering role a number of NGOs and individuals have played in initiating and promoting microfinance in various parts of Fiji. There are numerous organizations and individuals and for this reason I am unable to mention each one by name. But let me assure all of you that we tremendously value the great work you all are doing in uplifting the lives of our underprivileged people.

We recognize that our governments and central banks need to place greater emphasis on microfinance and put in place policies and procedures whereby the microfinance schemes and rural banking are driven at national level by competent lead agencies.

In my view we have come a long way in our understanding of what makes a successful microfinance scheme but we have to constantly build on our experiences and share our experiences. In this regard, this one week of programme on microfinance will go a long way in further strengthening and enhancing microfinance in our respective countries. Let me once again thank the organizers and the sponsors for this initiative and foresight.

Finally, I would like to end with the seminal quote of Prof Yunus – **“Each of you has the power to change the world – realise it and act on it!”**

With these few words I have much pleasure in declaring the Pacific Microfinance Week officially open.

Thank you, Vinaka Vakalevu and Dhaniyavaad.