

Sada Reddy: Medium term strategy for financial inclusion in Fiji

Opening speech by Mr Sada Reddy, Governor of the Reserve Bank of Fiji, at the microfinance workshop on “Medium term strategy for financial inclusion in Fiji, Lami, 4-5 November 2009.

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Distinguished Guests, Ladies and Gentlemen.

Introductory remarks

A very warm welcome to you all. I am delighted that you have kindly accepted our invitation to participate in this workshop. I am confident that this workshop will greatly benefit from the valuable experiences and knowledge that you will share with each other over the next two days. I wish to acknowledge the support of the Pacific Financial Inclusion Programme (PFIP) of the UN in co-hosting this workshop with us.

Financial inclusion, which includes microfinance, has been acknowledged the world over as critical to lifting the living standards of people and addressing poverty. Financial inclusion, that is, the availability of safe savings, appropriately designed loans for the poor and low income households and for micro, small and medium-sized enterprises, and appropriate insurance and payments services – can help people help themselves to increase incomes, acquire capital, manage risk and work their way out of poverty. As such, each developing country should have a variety of financial institutions that, together, offer appropriate products and services to all segments of the population.

Working together – a coordinated approach

I note that a number of you present here today have been involved in the development of microfinance over the years. Some of us, however, are new to this subject of financial inclusion. I hope that our combined experiences and efforts can translate into developing a practical and results oriented financial inclusion strategy for Fiji. This is the main objective of this microfinance workshop. We have to each identify our roles in developing the strategy. Your participation and support towards this co-ordinated approach is needed.

I would like to take this opportunity to acknowledge and thank the Government, donor agencies, NGOs and our banking institutions for their contributions so far in developing the microfinance industry, financial literacy programmes and rural banking in Fiji.

Whilst the RBF fully supports and celebrates the many achievements of our stakeholders, we firmly believe that much more can be done to improve financial inclusion in our communities. We realise the great potential that exists which could be harnessed given the right strategic approach and leadership.

Action plan

I am a firm believer in action and achieving set goals with realistic deadlines, rather than mere talk. I do not wish for this workshop to be another meeting where we just come, talk and go away. I will be very interested in the practical Action Plan that the workshop should produce at the end of the 2-day meet. I look forward to your usual contribution and commitment in this respect.

Over the years, we have seen various action plans being generated at meetings held for the development of microfinance and SMEs. Most of these plans have remained plans and not

actioned. A good starting point therefore would be to do a stocktake to determine the extent of financial inclusion in the country and then determine areas that need further improvement and who should be responsible for doing this.

This should be followed by developing strategies for lifting financial inclusion in Fiji to the next level. What role can each of the institutions represented here play to realise the extension of financial services to the remote areas? It is my hope that this workshop will not only crystallise these roles for us, but that we will action them so that we achieve measurable results.

What the Reserve Bank is doing

For a number of years the Reserve Bank of Fiji has been advocating the development of microfinance in Fiji and also greater participation of the financial sector in areas like financial literacy and access to banking for rural/remote areas of Fiji, similar to many other developing economies around the world.

This year, as many of you may be well aware, the RBF has taken the challenge of promoting financial inclusion in Fiji and ensuring a financial system geared towards supporting this critical area. Our intention is to see the poor or those considered unbankable being provided access to savings and credit facilities that will ultimately help in reducing poverty. Accordingly, the aim of the workshop is to come up with clear and actionable strategies for promoting financial inclusion.

The microfinance sector plays a very important role in economic development. This has been proven in both the developing and developed countries of the world. We have seen it necessary to pick up the momentum in this particular area of economic development. For this reason, the RBF has become more involved rather than just playing a promotional role. To express our commitment, we established a new Department at the Bank called the Financial Systems Development and Compliance Group. Amongst other responsibilities, the Group will drive the development of microfinance and other financial inclusion initiatives to reach the poor and vulnerable in society. This workshop is the materialisation of planning by this new Department which has only been in existence for over 7 months. The outcomes of this meeting will also be monitored by this Group.

The RBF has announced policies whereby the banks and other financial institutions are to increase their involvement in microfinance. Policy guidelines have been issued to them in this regard.

An inclusive financial sector

The idea for this workshop was mooted in a meeting with commercial banks during the microfinance workshop organised by the Microfinance Pacifika in July this year. One of the critical outcomes that I wish to see arising from this workshop is the strategy on the integration of commercial banks in Fiji in providing microfinance services from January next year.

The financial system is a locomotive for growth and banks are the main players in this system. Their importance comes with responsibilities as well. No doubt, banks have contributed to the development of the country over the years. However, I would like to see them play a more influential and active role in addressing the unbanked population through financial inclusion initiatives.

There is a moral responsibility as well for the commercial banks to develop financial services to suit the development needs of a country. Banking licences are not issued as a right, but are a privilege. Therefore, the commercial banks' policies need to be aligned to the development needs of a country in which they operate. Of course, we understand that

commercial banking is a very specialised area and risks need to be managed carefully so that depositors' interests are safeguarded.

I therefore strongly believe that the commercial banks operating in Fiji **CAN** play a more active role in the economic and social development of our country, by providing banking services to suit the needs of our people, especially those considered to be un-commercial or unbankable. This has been successfully demonstrated by commercial banks in many countries in Asia, South America and Africa, where financial services are normally tailored to the needs of the people and the country. Banks in these countries have modified their operations to include microfinance because they realized the opportunities that existed.

We believe that commercial banks with their outreach and resources have a unique opportunity, not only to contribute to the development of our rural areas and assist the marginalised in our communities, but also capitalise on this investment and make reasonable returns.

Nevertheless, I understand that the commercial banks will need to work out their own strategies and ensure appropriate and adequate resources are invested in the provision of this service. There is no doubt that banks would need to undergo certain degree of adjustments to enable them to provide microfinance services. But, it can be done. I am glad that the programme will have some discussions on this important area. I note also that experiences in other countries will be shared in some sessions.

There is a need for greater consultation and collaboration with the banks to address the issues which will guide us in promoting the development of micro, small and medium enterprises, rural banking and promoting financial literacy.

We heard from various agencies and institutions during the Pacific Microfinance Week held in July this year, of the different types of micro insurance and financial literacy programs that have been developed so far. There are significant opportunities for banks to package these services and products and offer them alongside saving and micro credit facilities. In addition, new products can be developed that can be adapted to suit the needs of our unique market. You will be pleased to know that microfinance services offered by commercial banks can be a profitable business too.

A study by the Simon Fraser University in Canada that assessed six different models used by commercial banks around the world for downscaling into microfinance concluded that ***the model where the bank sets up a separate service company was the highest performing model.***

Over the next two days, through the program sessions and speakers we will assess and strategically review the needs of our markets. We should then be in a better position to determine the key challenges and opportunities, and then try to workout a win-win situation for all stakeholders. We do not believe that this is an insurmountable task.

There is an untapped market out there that is awaiting your institutions' innovative packaging and provision of appropriate financial services and products. These financial services include loans for business and personal use, savings and other deposit products, remittances and transfers, payments services and insurance.

Financial inclusion is about **CHANGE** and **INNOVATION**. It is about opening up new product lines, new services and attitudes that may bring about positive changes to the marginalised and poor in our communities.

Commercial banks with their international experiences, extensive retail branch network have the ability to use their existing networks, computer systems, and senior management structures, institutional marketing campaigns and other expenditures to leverage-off and offer more financially inclusive products and services.

What we have learnt from other countries experiences is that for commercial banks reaching down the market goes beyond scaling down existing products. Micro clients have different

needs, and therefore microfinance services and products need to be tailored and adapted to suit the local environment before it is offered to the market. Over the course of the provision of these services, vital constructive learning will occur on the part of the banks which enhance the efficiency of the services provided and lower costs.

Ladies and gentlemen we can and need to start somewhere and make the **CHANGE** necessary to empower our communities and providing a chance to the otherwise **“commercially undeserved”**. This will also require a change of mindset on our part. Like all changes, there is always resistance. But in small island economies like ours, co-operation and co-ordination is vital amongst all the players in society to allow us to realize our potential and improve the living standards of our people. Government agencies, the private sector, donors and civil society organizations all have a responsibility in this regard. As stakeholders in the microfinance or financial inclusion segment of our society, this workshop provides you with the ideal opportunity to make a difference.

Without the right financial structure and accessibility to appropriate financial services our rural sector will not grow. As I mentioned previously, banks are the most ideal institutions that can assist by providing financial services to micro & small business enterprises given their vast resources and experience. It is our duty in the financial sector to assist the other sectors of our economy by making accessible the tools and the means to work in our rural areas. I am confident that together we can deliver.

Furthermore, the Reserve Bank has been approached by a number of telecommunication operators to offer basic banking service through mobile phones at very affordable prices. These types of services will further enhance the promotion of financial inclusion in Fiji, especially in terms of mobilising the savings and easy access to remittances. In addition, this will provide increased choice of financial services available to people in geographically isolated and remote areas of Fiji.

Concluding remarks

Let me wrap up by informing you ladies and gentlemen, that Fiji, like any other developing country, is currently reviewing and reforming its financial sector to make it a locomotive for growth and development.

The reviews are aimed at strengthening policies to improve the regulatory environment and set the right platform for our economy to grow. The Reserve Bank of Fiji has in the last few months taken on a more active role in terms of defining a more strategic approach for various sectors of the economy.

We believe that much more can be done to improve accessibility of financial services to the unbanked in our communities. Studies have shown that there are many opportunities for commercial banks in banking the commercially underserved. There are many success stories that have been documented in Fiji evident from the FDB's Small Business Award which highlight that low income markets can be served on a sustainable level. This role is not limited to banks alone. The Government, the RBF, civil society and other private sector players also have a role to play.

Microfinance has been proven to be an effective means of reducing poverty and empowering the marginalised in our societies. It can make a difference in improving housing, health and education and more particularly in improving the status and empowerment of women in social and economic activities.

For our economy to prosper it is vital that everyone has the opportunity to effectively contribute through employment and gainful economic activities.

We in Fiji are blessed with abundant natural resources and a sound and well managed financial system. We can all transform and lift the standards of living by working together to create an enabling environment for our people.

The challenge for us here today is to open ourselves to change.

With these words, I now declare the national microfinance workshop open and wish the meeting every success.

Thank you.