




## **Fiji Financial Services Sector Assessment**

August 2009

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Based on field research and preliminary report prepared by Basix   
BASIX  
Equality for Equality



**Pacific Financial Inclusion Program**

The Pacific Financial Inclusion Program (PFIP) is a joint program funded by the United Nations Capital Development Fund (UNCDF), United Nations Development Program (UNDP), the European Union/Africa, Caribbean and Pacific Microfinance Framework Program (EU/ACP), the Government of Australia (AusAID) and the Government of New Zealand (NZAID) through its financial contribution to the UNDP Pacific Centre. The mission of the PFIP is to increase the number of low income and rural households, micro and small enterprises in Pacific Island Countries (PICs) that have on-going access to quality and affordable financial services. The outcome of the Program is for 250,000 new clients in the target market segment to have new and/or improved access to appropriate, sustainable financial services including, but not limited to savings, money transfers, insurance and loans. The PFIP has several instruments to achieve its outcome, including (1) generating knowledge of the demand for and supply of financial services through research; (2) sharing knowledge through workshops and conferences; (3) providing direct expert advice or making expert consulting services available to stakeholders; (4) advocating the removal of constraints to financial inclusion and (5) providing financial support to partners that can help PFIP achieve this outcome.



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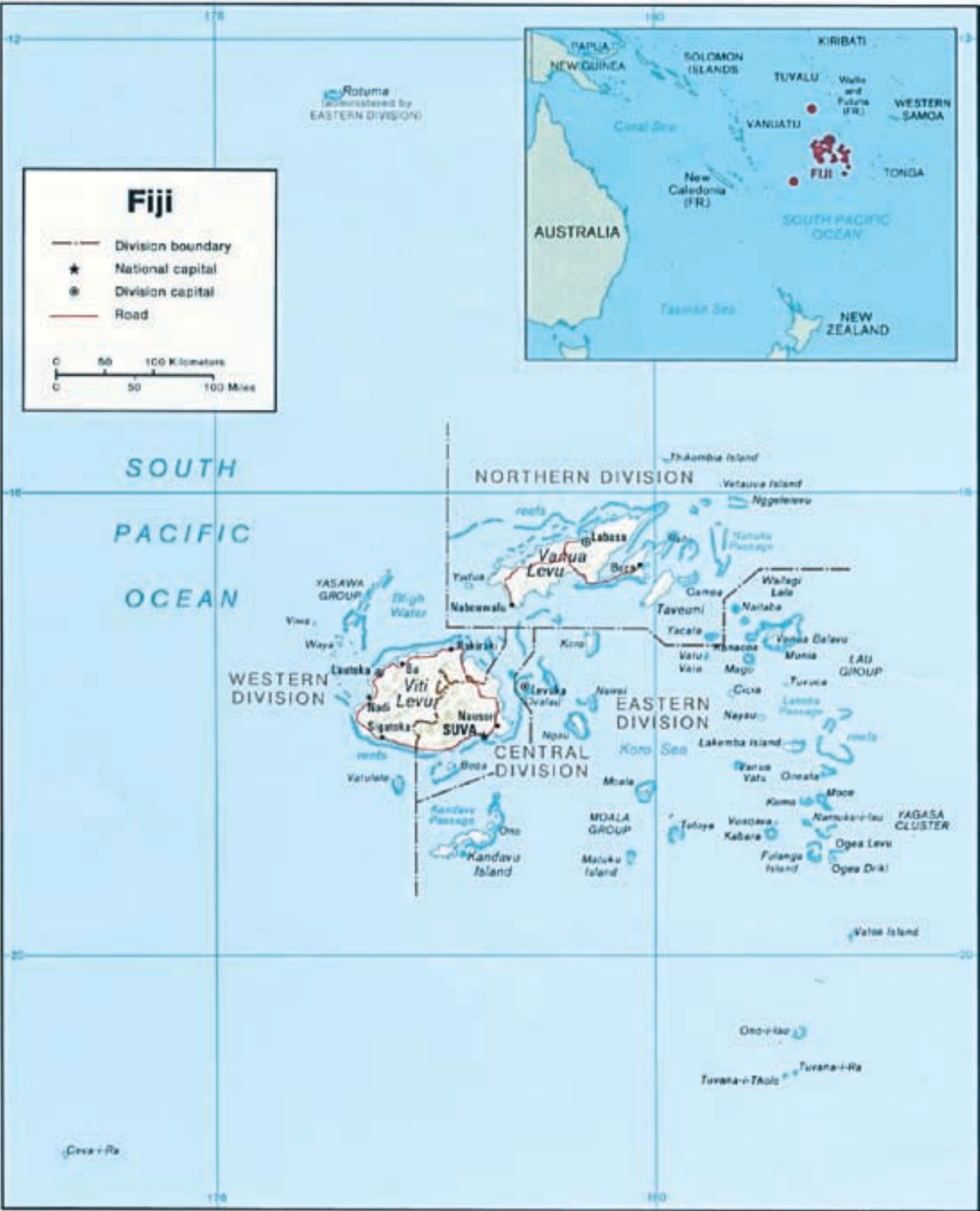
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Abbreviations

|                 |  |
|-----------------|--|
| <b>ABIF</b>     | Association of Banks in Fiji                                     |
| <b>ADB</b>      | Asian Development Bank   |
| <b>ALTA</b>     | Agriculture and Landlord and Tenants Act                         |
| <b>AML/CFT</b>  | Anti money laundering and combating the financing of terrorism   |
| <b>ANZ</b>      | Australia and New Zealand Banking Corporation                    |
| <b>ATH</b>      | Amalgamated Telecom Holdings                                     |
| <b>ATM</b>      | Automatic teller machine   |
| <b>AusAID</b>   | Australian Agency for International Development                  |
| <b>AUSTRAC</b>  | Australian Transactions Reports and Analysis Centre              |
| <b>BNPL</b>     | Basic needs poverty line   |
| <b>BSP</b>      | Bank of the South Pacific  |
| <b>CEFE</b>     | Competency based Economies through the Formation of Enterprises. |
| <b>CDMA</b>     | Code Division Multiple Access                                    |
| <b>CEO</b>      | Chief executive officer  |
| <b>CGAP</b>     | Consultative Group to Assist the Poor                            |
| <b>CNB</b>      | Colonial National Bank   |
| <b>CU</b>       | Credit union   |
| <b>CUFA</b>     | Credit Union Foundation of Australia                             |
| <b>CUNA</b>     | Credit Union National Association                                |
| <b>EFT</b>      | Electronic funds transfer  |
| <b>EU</b>       | European Union   |
| <b>FCOSS</b>    | Fiji Council of Social Services                                  |
| <b>FDB</b>      | Fiji Development Bank  |
| <b>FIBOS</b>    | Fiji Islands Bureau of Statistics                                |
| <b>FINTEL</b>   | Fiji International Telecommunications Ltd.                       |
| <b>FNPF</b>     | Fiji National Provident Fund                                     |
| <b>FSCUL</b>    | Fiji Savings Credit Union League                                 |
| <b>FTA</b>      | Fijian Teachers' Association                                     |
| <b>FTRA</b>     | Financial Transactions Reporting Act                             |
| <b>FTUCTC</b>   | Fiji Teachers' Union Cooperative Thrift and Credit Society       |
| <b>GDP</b>      | Gross domestic product   |
| <b>GoF</b>      | Government of Fiji   |
| <b>GPRS</b>     | General Packet Radio Service                                     |
| <b>GSM</b>      | Global System for Mobile Communications                          |
| <b>HIES</b>     | Household and Income Survey                                      |
| <b>IFC</b>      | International Finance Corporation                                |
| <b>ILO</b>      | International Labour Organisation                                |
| <b>IMF</b>      | International Monetary Fund                                      |
| <b>KYC</b>      | Know your customer   |
| <b>LICI</b>     | Life Insurance Corporation of India                              |
| <b>MDG</b>      | Millennium Development Goals                                     |
| <b>MF</b>       | Microfinance   |
| <b>MFI</b>      | Microfinance institution   |
| <b>MF West</b>  | Microfinance Unit West   |
| <b>MF North</b> | Microfinance Unit North  |
| <b>MNO</b>      | Mobile network operator  |
| <b>MNP</b>      | Microfinance Pasifika Network                                    |
| <b>NBF</b>      | National Bank of Fiji  |
| <b>NCSMED</b>   | National Centre for Small and Microenterprise Development        |
| <b>NMFU</b>     | National Microfinance Unit                                       |
| <b>NGO</b>      | Non-governmental organisations                                   |
| <b>PFIP</b>     | Pacific Financial Inclusion Programme                            |
| <b>PFTAC</b>    | Pacific Financial Technical Assistance Centre                    |
| <b>PIC</b>      | Pacific Island country   |
| <b>PNG</b>      | Papua New Guinea   |
| <b>POS</b>      | Point of sale device   |
| <b>RBF</b>      | Reserve Bank of Fiji   |
| <b>SDP</b>      | Strategic development plan                                       |
| <b>TFL</b>      | Telecom Fiji, Ltd.   |
| <b>UNCDF</b>    | United Nations Capital Development Fund                          |
| <b>UNDP</b>     | United Nations Development Programme                             |
| <b>WOCCA</b>    | World Council of Credit Unions                                   |
| <b>WTO</b>      | World Trade Organisation   |

1 Executive summary

Although Fiji has a per capita gross domestic product (GDP) of US\$4,113,<sup>1</sup> (2007), the incidence of basic-needs poverty<sup>2</sup> has been estimated at an average of 38.1% of the rural population and 31.8% of those living in the urban areas. It is estimated that, since 2002/03, the rate of poverty could have risen by additional four or five percentage points as a consequence of the low rate of economic growth and the higher price of basic food items, which have hit the poorest households hardest. The poverty gap index, measuring the extent of poverty, was 11.2 in 2002/03, indicating that on average the expenditure of poor households was approximately 11% below the basic needs poverty line of FJ\$174.60 per week for an urban family and FJ\$145.27 per week for a rural family. Poverty in the context of Pacific Island countries (PICs) is different from poverty in much of the developing world in that there is little basic food poverty due to an abundance of natural resources, coupled with traditional familial support networks. Instead, poverty is reflected in the lack of access to a nutritional diet, and inadequate access to water, shelter, clothing, education, health care and productive resources. With an increasing rate of urbanisation (51%) in Fiji, which is expected to reach about 61% in 2030, there are associated issues of unemployment, low income in relation to the cost of living, and poor shelter in the urban areas.

Statistically, there are relatively fewer self-employed poor than in many other developing countries. Fiji's economy is increasingly dependent on services, particularly tourism, finance, communications and personal services.

Manufacturing has declined since the loss of preferential treatment for garment industry exports. Consequently, the urban economy consists of a small percentage of high-income businesses, a small salaried middle class, and a large number of low-income wage earners. The salaried class is largely employed by the government, financial and tourism sectors, while wage earners hold semi-permanent service sector jobs in hotels and restaurants, trading, community service and domestic work. These wage earners are largely unserved by financial institutions.

The rural economy is based primarily on subsistence agriculture. The largest commercial agriculture industry in Fiji, the sugarcane industry, is in decline as a result of the gradual loss of preferential trade benefits and lack of investment. Infrastructure in the rural areas is inadequate; the lack of developed transportation networks throughout most of rural Fiji is of particular relevance. Investment in small scale commercial agriculture is also inhibited by the land tenure system that relies on leases rather than ownership. As a result, there is a relatively low level of income-generating activities and poor market access in rural areas.

Compared to other PICs, the financial sector in Fiji has well-developed institutions and a broad array of services is offered by commercial banks, non-banking financial institutions, credit institutions, insurance companies and microfinance institutions. The banking sector's physical presence, products and services are largely designed to serve the business sector, government, expatriates, the wealthy and the salaried urban population, leaving most Fijians<sup>3</sup> with few financial services. There are some exceptions, such as Australia and New Zealand Banking Corporation's (ANZ) rural banking operations and Colonial National Bank's (CNB) historical partnership with Post Fiji. .

The relatively small population base and low population density in Fiji (46 persons per sq. km) have made financial service delivery an expensive proposition outside the main population centres. There is a long history of registered but unregulated financial institutions in Fiji. Traditional credit unions, cooperatives, village banks and both formal and informal moneylenders cater to the financial requirements of the unserved population. In all these initiatives, however, the scale and quality of operations are such that they are unable to meet the demand. Their performance in recent times is far from satisfactory and several such institutions have failed. Personal borrowing from friends and family is ubiquitous.

Box 1: Financial services providers at a glance (December 2009)

- Five retail commercial banks with 64 branches and 122 ATMs, led by ANZ, Westpac, and Colonial National Bank
- Three credit companies with 11 branches, for consumer and home lending
- Fiji Development Bank with rural, sectoral and some microfinance loans
- Approximately 1700 EFTPOS terminals mostly offered by banks
- ANZ mobile banking has eight vans and 80,000 savers
- Three MFIs, four village banks and a cooperative programme supported by NCSMED. The largest are FCOSS (in Suva) and Microfinance West (operated directly by NCSMED after a takeover) serving over 22,000 savers and 1,500 borrowers
- Approximately 35 active credit unions with up to 12,000 members
- Two life insurance companies, seven general insurance companies – none serves the poor
- One large superannuation fund (FNPF), mandatory for salaried employees and optional for self-employed, with 320,000 account holders.

<sup>1</sup> UNDP Human Development Report 2009  
<sup>2</sup> Analysis of the 2002/03 Household Income and Expenditure Survey, UNDP Pacific Centre, August 2006  
<sup>3</sup> The term Fijian(s) is used in this document to include the whole population of Fiji. The term indigenous Fijian(s) refers to ethnic Fijians.

The Government of Fiji (GoF) took the initiative over a decade ago to introduce microfinance in the country as a means of both poverty alleviation and provision of financial services to the poor and excluded population. The National Microfinance Unit (NMFU) was established in 1998 and merged with the National Centre for Small and Micro-Enterprise Development (NCSMED) in 2004. The NMFU has been playing an instrumental role in developing microfinance institutions, promoting and/or supporting nine institutions. However, the programme has had relatively limited outreach - fewer than 1,500 outstanding borrowers and 22,000 current savers - and less than satisfactory performance in servicing those it has reached. It has still to reach many unserved communities.

Fiji has a financial infrastructure conducive to microfinance; a real-time payment system, a credit bureau, and a broad network of automatic teller machines (ATMs) and point of sales devices (POS) are available. This all sits on the back of an increasingly sophisticated and affordable telecommunications infrastructure. Finally, Fiji has a legal and regulatory environment that has demonstrated flexibility and several government entities, including the Reserve Bank of Fiji (RBF), that are keenly interested in promoting microfinance. The current policy environment, however, is mixed. In an unusual step, the RBF capped banks’ average interest rates and interest spreads in early 2008 - a step that makes reaching down market difficult. There has also been a persistent and pervasive view among policy-makers that microfinance is microcredit, particularly Grameen Banking models, which have not proved successful in Fiji despite a decade of government promotion and support.

There is no definitive measurement of access to financial services in Fiji. A recent study put a composite measure of adult access to financial services in Fiji at 39% (Honohan, 2008). Five-year-old household income and expenditure survey (HIES) data also suggest that access was approximately 35-40%; the total number of excluded households is approximately 109,000 or 63% of economically active households. Using Fiji Islands Bureau of Statistics (FIBOS) data and households of similar income levels as a proxy, the estimated potential demand for savings from these excluded households is between FJ\$71 and FJ\$86 million, while the same figures for credit are FJ\$57 and FJ\$69 million. Average savings are higher in rural areas than in urban areas while the reverse is true for credit. There is a demand for remittance services in rural areas; this is suggested by secondary data as well as by opinions given in interviews, indicating a need for financial inclusion initiatives by stakeholders. The potential demand for other products, such as microinsurance, is not known, although there has been significant interest shown in a new funeral policy.

The way forward

While there are some legal and regulatory hurdles to microfinance and the need to build or improve the supporting infrastructure, the main inhibitor is the lack of appropriate products and retail institutions to deliver them. Like most PICs, Fiji is too small to build a large competitive

Table1 shows the situation of microfinance in Fiji in an analysis of the strengths, weaknesses, opportunities and threats (SWOT).

| Table 1: SWOT analysis of microfinance in Fiji                                  |   |
|---|---|
| Strengths   | Weaknesses  |
| • Knowledge of microfinance spreading among stakeholders and clients            | • Lack of regulatory and supervisory support for most microfinance, particularly cooperatives |
| • Robust and sound financial sector   | • Little interest from the formal financial sector towards peri-urban and rural banking       |
| • Interest of policy-makers and commitment of the RBF                           | • Poor performance of micro-credit across all actors; slow development of GoF supported MFIs  |
| • Wide range of institutions serving the market                                 | • Lack of appropriate products and services   |
| • Experimentation (rural banking) has had some successes                        | • Weak microfinance support institutions  |
|   | • Lack of accurate data and knowledge-sharing among organisations.                            |
| Opportunities   | Threats   |
| • Untapped demand for savings, remittances and credit                           | • Political and some regulatory uncertainty in Fiji   |
| • Commercial banks with a new mandate to enter the sector                       | • Archaic land tenure systems, land unavailable for collateral                                |
| • High number of service points throughout the country                          | • Lack of moveable collateral regulations, registries   |
| • Good mobile network operators’ penetration and interest in financial services | • Poor infrastructure in rural areas and outer islands  |
| • Interest of Post Fiji in financial inclusion                                  | • The global economic downturn  |
| • Increased donor commitment and funding available for new approaches           | • Microcredit-driven approach of GoF initiatives and policy                                   |
| • Financial education efforts of multiple players                               |   |

microfinance industry. However, it does have an adequate market to sustain one or two large, strong, full-service, regulated microfinance institutions (MFIs). The traditional non-governmental organisation (NGO) microfinance actors are weak, and an important step is an evaluation of the NCSMED and its partners in order to understand their true performance and the reasons for their failure to drive growth. Given the market size, a “greenfield” microfinance bank might be possible in Fiji; this is, however, likely to be costly. Fortunately, there are other options.

The entrance of mobile network operator (MNO) Digicel into the market is leading it and its rivals Vodafone and Telecom Fiji (via EasyTel and Transtel) to look for new products to deliver through their technology and distribution networks. Their combined outreach with the spread of wireless broadband can reduce costs and increase access to real-time transactions, even in rural areas. Other institutions, including Post Fiji, are seeking to become more active in financial services. These actors could fill much of the demand, particularly for savings and remittances. There is also great scope for them to cooperate with commercial banks to pursue branchless banking models that have proven successful elsewhere.

Microfinance is now at the forefront of the commercial banks’ agendas. In April 2009, the RBF announced a requirement that all commercial banks set up microfinance windows in their branches by 2010. Draft guidelines suggest that banks will need to: (a) appoint a fairly high level microfinance manager, (b) maintain a microfinance window in at least one branch in each city, town or area in which they have a branch, and (c) report on their microfinance savings and credit activity. While it is not entirely clear what this will require in practice, the commercial banks and the RBF met in various groupings to discuss how to respond to this; the banks were expected to present their plans by the end of 2009. In November 2009, the RBF and the Pacific Financial Inclusion Programme (PFIP) hosted a national workshop with the banks and other key stakeholders to formulate a medium-term plan for greater financial inclusion in Fiji. This included several strategies and set a goal to reach 150,000 unserved Fijians by the end of 2014.

A complementary option is to look at membership-based microfinance providers, including credit unions and cooperatives. As noted by the International Monetary Fund (IMF) and the World Bank Financial Sector Assessment, there is a lack of oversight and a dearth of information relating to the credit union movement. Credit unions are useful players in financial inclusion, particularly in rural areas, but their weaknesses must first be understood and documented if they are to be addressed.

Finally, there is strong interest among donor agencies in updating their approach and increasing their support to microfinance. In addition to the PFIP, the Australian Agency for International Development (AusAID), the Asian Development Bank (ADB) and the International Finance Corporation (IFC) are increasing their commitment to improving access to finance throughout the region. While there are some political constraints on the type and level of their support to Fiji, the intention is clearly to increase donor activity in financial inclusion in the coming years.

2 Background

The objective of the PFIP is to enable the estimated 6.5 million financially excluded Pacific islanders to gain access to appropriate financial services. The PFIP works with all relevant stakeholders for greater financial inclusion in the Pacific, including Fiji. Financial inclusion means enabling the entire population, including low-income and rural households, to have access to a range of financial services provided by different institutions in a cost effective manner. The goal of financial inclusion was endorsed in the Pacific Forum Finance and Economic Ministers' Meeting in 2006. The United Nations Capital Development Fund (UNCDF), the United Nations Development Programme (UNDP), and European Union, Africa, Caribbean and Pacific Microfinance Framework Programme joined together to conduct an initial assessment of the financial sectors in PICs in order to provide a basis for country-specific financial inclusion strategies. This research was conducted in five countries in 2007, but did not include Fiji or Papua New Guinea. The purpose of this assessment is to do the same detailed analysis in Fiji,

3 Approach and methodology

Before conducting the interviews with key stakeholders, PFIP and BASIX<sup>4</sup> reviewed existing documents on various aspects of the financial sector in Fiji. Documents relating to the financial sector assessment, the financial sector policy review, the microfinance sector assessment, private sector development and other related fields were studied in order to gain an understanding of the current status of the financial sector in Fiji and the Pacific Islands.

While in Fiji, BASIX conducted interviews with key stakeholders to gain a deeper understanding of current perceptions and opportunities. BASIX met with representatives of key government ministries, including the Ministry of Finance and National Planning and FIBOS, as well as the RBF, and used the data to gain a statistical estimation of the demand for financial services. To understand the supply side, BASIX held discussions

<sup>4</sup> The Holding Company of the BASIX Group is called Bhartiya Samruddhi Investments and Consulting Services (BASICS Ltd.) which started operations in 1996 as India’s first “new generation livelihood promotion institution”. It set up two fund-based companies: Bhartiya Samruddhi Finance Ltd, a micro-finance NBFC in 1997 and Krishna Bhima Samruddhi Local Area Bank Ltd in 2001.



with senior members of commercial banks and met the microfinance players and support institutions, including the regional Microfinance Pasifika Network. Interviews with credit unions, cooperatives, the primary MNO and Post Fiji were also conducted. Information about demand was gathered from FIBOS data and other research. BASIX conducted field visits to MFI clients in both urban and rural areas. The preliminary findings of the study were shared with key stakeholders in a workshop organised by PFIP in April 2009 to provide feedback and answer questions on the conclusions of the study.

The structure of the report follows UNCDF’s standard FSSA format.

4 The setting for financial services in Fiji

4.1 Country profile

Fiji is an archipelago of 332 islands, about one-third of which are inhabited on a permanent basis. The total land area is 18,333 square kilometres. The major islands are Viti Levu, accounting for 57% of the land, and Vanua Levu, accounting for 30% of the land. According to UNDP’s Human Development Report, Fiji was ranked 103rd among 179 countries in the 2008 Human Development Index. Along with neighbouring PICs, Fiji shares many of the geographic challenges of being an island nation, including territorial fragmentation, remoteness from major markets, high exposure to natural disasters, and external shocks such as commodity price fluctuations.

4.1.1 Demography

The most distinguishing feature of Fiji relative to its neighbours is its multi-cultural society with a mix of indigenous Fijians, Indo-Fijians, Chinese, Europeans and other communities. The population of Fiji was estimated to be 850,000 as of December 2006 (FIBOS). Ethnic Fijians comprise 55% of the population, followed by Indo-Fijians (40%) and other ethnic groups (5%). There is marked trend of rural-urban migration. One decade ago, the census showed that 54% of the population lived in rural areas and 46% were urban dwellers. The percentages are now estimated to be 49% rural and 51% urban and are expected to be 39% rural and 61% urban by 2030. Although the country has only 46 people per square kilometre on average, there are areas of dense population on Viti Levu, such as the Suva-Nausori corridor which is home to more than 20% of Fiji’s population. A third important demographic feature is emigration; Indo-Fijians, many of whom are professionals and farmers, have emigrated in large numbers in the past decade due to uncertain land tenure systems and political instability in the country.

4.2 The socio-political scenario

Since the first coup in 1987, Fiji has experienced a series of political crises that have had far-reaching economic, social and political impacts. The country is currently governed by a military government led by Commodore Bainimarama, who was re-appointed as Prime Minister by the President when the 1997 Constitution was abrogated in 2009.

The abrogation of the constitution and suspension of the free press in April 2009 has resulted in international disagreements, particularly with Fiji’s traditional donor and trading partners, New Zealand and Australia. In November 2009, the GoF expelled the High Commissioners from both countries, and Australia and New Zealand responded in kind. It is not clear if the situation will result in a substantial decrease of aid, trading or immigration privileges, or if tourism will slow, any of which could impact Fiji’s poorer citizens. The suspension of Fiji in May 2009 from meetings of the Pacific Islands Forum is complicated by the fact that the secretariat of the Forum is based in Suva. So far, neither the Forum nor Fiji has taken steps to significantly undermine their relationship. Fiji was also suspended from the Commonwealth in September 2009.

4.2.1 Land

Since colonial rule, indigenous Fijians have controlled land tenure by law, frozen since 1909, and managed through a collective, clan-based system of ownership. Approximately 83% of land in Fiji is under indigenous Fijian ownership, 7% is owned by the government and 10% by private individuals as freehold land.<sup>5</sup> This lease process is administered by the Native Land Trust Board (NLTB), which manages leases, determines values, collects and distributes payments. Freehold land can be transferred privately. Communal tenure lands are leased out for a fixed period (10-99 years) and most Indo-Fijian farmers rely on leases from indigenous Fijian owners.

4.2.2 The economic scenario

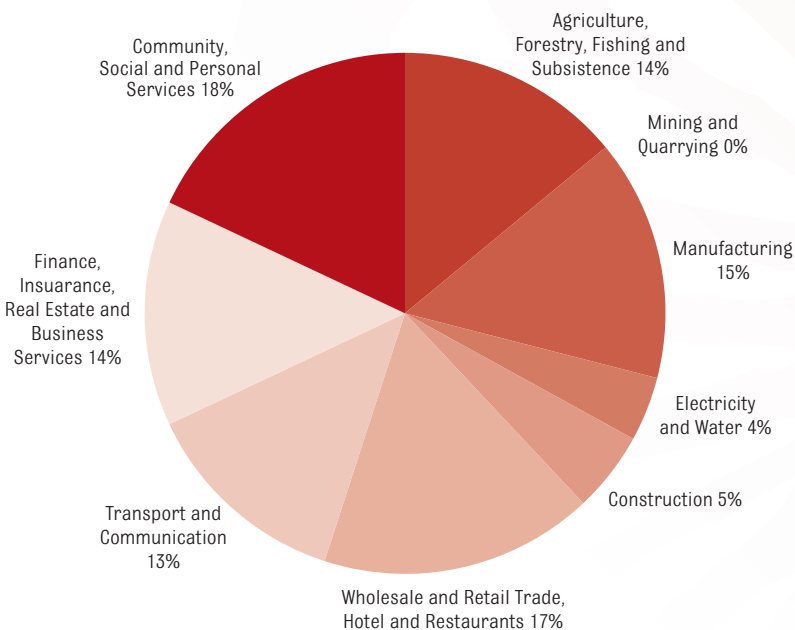
The GDP at current factor cost was about US\$3.53 billion in 2008 (World Bank estimate) or FJ\$4.86 billion. Per capita GDP in Fiji was estimated to be FJ\$5,808 (US\$3,670 GNI per capita).<sup>6</sup> Growth has been negative in four of the past ten years, including 2000, 2007 and 2009, triggered by political instability. Although growth is expected to be positive again in 2010, this will still be at a very low rate, consequent on the impact of global factors.<sup>7</sup> The annual inflation rate in the past two years has been between 7% and 9%. Despite consumption decreases, the devaluation of the Fiji dollar by 20% in April 2009 has fed inflation. The composition by sector of GDP is shown in Figure 1.

<sup>5</sup> Fiji Trade and Investment Board <http://www.ftib.org.fj/fiji-land.cfm>

<sup>6</sup> World Bank GNI Per capita Atlas Method)

<sup>7</sup> Asian Development Outlook Update 2009, ADB, October 2009,

Figure 1: Composition of Constant Price GDP, 2007



Source: FIBOS

backed coup in late 2006 and did not fully recover until 2008. They fell significantly in the first quarter of 2009 due to the global economic crisis and massive flooding in the tourist area in and around Nadi. While tourist arrivals rebounded in the second half of the year, cut-rate pricing means that total tourism revenues are likely to be lower than they were in 2008.

4.2.3 The informal sector

In 2004-2005, about 40% of the total population was participating in the Fijian economy.<sup>8</sup> This translates to about 340,000 people. At the same time, estimates suggest that the informal economy accounts for only 17% of GDP (FIBOS, Press Release No. 54, 2009). Of this, subsistence agriculture is estimated to contribute 3% to GDP, currently more than sugarcane or timber. Informal manufacturing is estimated to contribute only 3.4% to GDP, while informal services and petty commerce contribute over 4%.

As can be seen in Table 2, about 85% of the economically active population is employed in the informal or semi-formal sector comprised by wage earners, self employed workers and family workers. Moreover, 50% of the total workforce is employed in rural areas. Sectoral employment data reveals that 28% of the total workforce is engaged in agriculture, forestry and fisheries followed by 21% in hotel, retail and restaurants.

As shown in Table 2, women constitute 31% of the total economically active workforce and 79% of those who are economically active operate in the informal sector, mostly as regular or occasional wage earners (38%), followed by self-employed workers (23%). Out of the total female workforce, 56% are employed in hotel, retail and restaurants, community, social and personal services.

| Table 2: Employment statistics of Fiji, 2007      |               |               |
|---|---------------|---------------|
|   | Total         | Women         |
| Total Population                                  | 850,000       |               |
| Economically Active population                    | 340,000       | 105,400 (31%) |
| Salaried  | 51,000 (15%)  | 18,972 (18%)  |
| Wage earners (regular and occasional)             | 149,600 (44%) | 40,052 (38%)  |
| Self-employed                                     | 95,200 (28%)  | 24,242 (23%)  |
| Family worker (work only at home, mostly farming) | 37,400 (11%)  | 18,972 (18%)  |
| Total Informal sector                             | 282,200 (83%) | 83,266 (79%)  |

Source: RBF Annual Report

<sup>8</sup> Narsey, 2005.

The informal sector of micro and small enterprises is fairly small when compared with the space being taken up by wage earners and occasional labourers. Fiji's self-employment rate of 28% falls between that of developed countries (10-15%) and developing countries (40-50%). Given the relatively low percentage depending on self-employment, there is a correspondingly low demand for small and micro-enterprise credit, but probably high demand for consumption credit and small savings from the wage earners.

Although agriculture dominates employment, it is mostly for subsistence rather than commercial purposes. In the Pacific, there has been only limited commercialisation of agriculture in rural areas and it has consequently not been a driver of entrepreneurial activity or economic growth. This is largely due to rural communities not being connected to urban centres and therefore having very low access to any markets. This is in marked contrast to traditional economic systems in Asian countries, where agricultural linkages to urban areas have led to production of household crafts and manufacturing, the existence of money as a medium of exchange, and the development of a complex division of labour, facilitated by domestic trade.

Fiji's economy is largely monetised. Estimates suggest that 7%-9% of all GDP is non-monetary, mostly agriculture and fishing.

#### 4.2.4 Remittances

Until the late 1990s, the volume of remittances in Fiji was insignificant, amounting to only about FJ\$36 million in 1993. Since the late 1990s, Fiji has been generating remittances mainly through personal receipts from labour migrants, especially United Nations peacekeeping forces. Formal remittances peaked in the 90s, nearing FJ\$313 million per annum but have fallen to below FJ\$250 million in recent years. They were down further at only FJ\$80 million for the first five months of 2009 (RBF 2009) and are likely to come in under FJ\$200 million for 2009. This still makes remittances the second largest or largest source of foreign exchange in Fiji, after tourism.

According to the latest statistics available, personal remittances accounted for about 97% of the total remittances to the country in 2004. Personal remittances involve three categories of receipts: gifts and maintenance received by individuals; funds, including legacies, brought into the country by immigrants; and salaries, allowances, and pensions of expatriates (and Fijians with pensions from overseas). Personal receipts through salaries and allowances accounted for more than two-thirds of the total remittances, whereas gifts and maintenance received by individuals accounted for a little less than one-third in 2004 (RBF 2005).<sup>9</sup>

### 4.3 Poverty and national policies for poverty alleviation and economic development

#### 4.3.1 Poverty

Poverty levels in Fiji have been on the rise, from 25% of the population living below the basic needs poverty line in 1991 to 36% in 2002, when an income of FJ\$60 per head per month was considered the minimum to meet basic needs.<sup>10</sup> The poverty line is defined as a household income of FJ\$8,062 (US\$4,400) per year for a 4-member household (Strategic Development Plan 2007-2011), equivalent to a poverty line of FJ\$2,015 (US\$1,100) per year per capita. While there is no current measure, it is common for officials and the media to assume that poverty levels are now between 40% and 50%. Poverty levels in Fiji are not directly linked to hunger, as the population thrives on abundant and agriculturally productive communal land, especially in rural areas. For this reason, the term poverty is also not readily used in the Fijian context; the term low-income is preferred.

The term low-income in Fiji can be applied to the following groups of people:

- people with sufficient resources to meet most basic needs, often from communal lands, but limited economic opportunities to move beyond that level – affluent subsistence
- people who are not part of communal land-holding systems and who do not have access to land, or have been forced off the land because leases expired
- people struggling to grow new cash crops in a sufficiently profitable way
- people who are (under-) employed as day labourers in seasonal agriculture or with limited job opportunities in cities (usually retailing, domestic services, transport and security).

Increasing income is linked to generating sufficient economic growth to create employment opportunities. Unfortunately, the economy has been stagnant or shrinking in recent years.

Using the basic needs poverty line (BNPL), 36% of the population fell below this level in 2002-03, according to FIBOS. This BNPL rate of poverty is 40% in rural areas, significantly higher than the 29% in urban areas. Using current population estimates and conservatively holding these rates the same, this translates to about 297,000 people below the poverty line in Fiji, of which 186,000 are in rural areas and 111,000 are in urban areas. The poverty also has an ethnic component; 37% of Indo-Fijians were below the poverty line in 2002-03 compared to 34% of

<sup>9</sup> Taken from Mohanty, Monoranjan. Globalisation, new labour migration and development in Fiji.

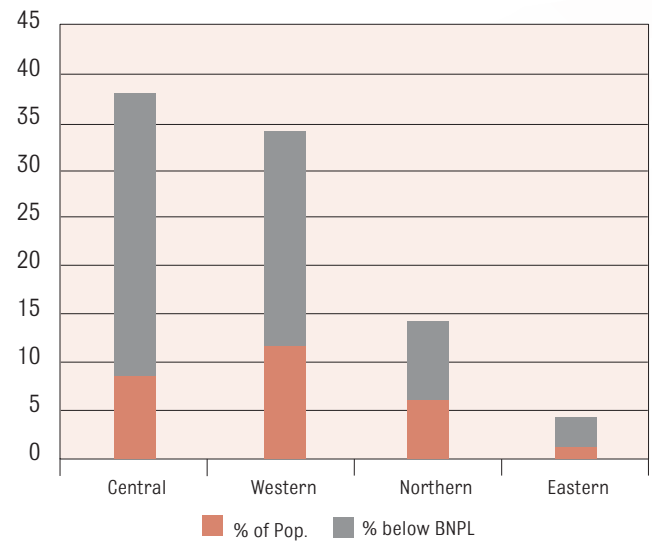
<sup>10</sup> From Narsey, 2008. [http://www.statsfiji.gov.fj/Economic/ecostats\\_index.htm](http://www.statsfiji.gov.fj/Economic/ecostats_index.htm)

indigenous Fijians. The incidence of poverty rises to 47% for rural Indo-Fijians, making them the poorest sub-group. This can be explained by their lack of access to resources in rural areas, especially land. When analysed on the basis of income source, 77% of family workers (engaged primarily in family farming) lived below the BNPL, while the rate was 58% for irregular wage earners.

The incidence of poverty in rural areas varies by geographical area, as shown in Figure 2. The columns show how population is distributed across Fiji's geographic regions, and the blue band on each column represents the proportion of that population that is living below the BNPL. This highlights the relatively high level of poverty in the Northern district.

- The Central Division (includes Suva-Nausori) constitutes of about 41% of the total population and 26% of that population are living below the BNPL
- The Western Division (includes Nadi, Lautoka, Ba, Sigatoka) has 37% of population with 38% below the BNPL
- The Northern Division has 16% of the population with 56% below the BNPL
- The Eastern Divison has only 5% of the population, with 35% below the BNPL.

Figure 2: Percentages of the population living below the BNPL by division



Source: Narsey

This information is relevant for financial inclusion in that households and individuals at or below the BNPL (306,000 Fijians) are less likely to be economically active and may have limited capacity for microcredit, but a higher demand for products that promote financial security (e.g. savings, insurance).

#### 4.3.2 Millennium Development Goals

The GoF has made various commitments to global bodies such as the United Nations, the World Trade Organisation (WTO), the EU and the Commonwealth, as well as to regional bodies such as the Pacific Islands Forum. Among the commitments, achieving the Millennium Development Goals (MDGs) as per UN Millennium Declaration in 2000 is one of the key developmental drivers. The GoF conducted a household and income survey (HIES) in 2002-03, which has formed the basis of government support to poverty alleviation in the National Strategic Plan. Despite the changes in leadership, the government still considers the plan and its goals to be valid. Outlined below are some of the key indicators, including microfinance, upon which the GoF has focused to fulfil its commitment to the MDGs.

#### a. Eradicate extreme poverty and hunger

- The proportion of the population below the HIES-defined basic needs poverty line to be reduced from 34.4% to 24% (MDG)<sup>11</sup>
- The poverty gap ratio to be reduced from FJ\$2,600 to FJ\$2,000 (MDG)
- The percentage share of consumption held by the poorest 20% to increase from 7% to 10% (MDG)
- Not less than 1,500 recipients of family assistance to graduate from assistance programmes through income-generating projects.

#### b. Promote gender equality and empower women

- The share of women wage earners in the non-agricultural sector to be increased to 38% in 2011 from its level of 30% in 2002-03
- The number of women supported through microfinance to be increased to 19,000 from 5,600 in 2006
- The combined primary and secondary school girls to boys ratio of 1:1 to be achieved
- The percentage of principals and vice/assistant principals to be 25% female by 2011 and the figure for female CEOs in government to be at least 20% in 2011
- The proportion of seats held by women in national parliament and municipal elections should be at least 20% and there ought to be a women representative in each board, commission, tribunal or trust

#### c. Provision of housing or shelter

- At least 350 families to benefit from new housing under governmental or non-government sponsored poverty housing programmes
- The upgrading of sSquatter settlements in Eastern and Central Division to be increased from 2 (2005) to 5 by 2011

<sup>11</sup> As stated in the Plan, which differs from the FIBOS statistics



d. Small and microenterprise development

The involvement of people in MSMEs can also contribute towards achieving MGD 1: eradication of poverty. Some of the key output indicators the government is working towards are:

- the establishment of 500 SMEs every year
- the number of jobs in the SME sector increased to 200,000
- the creation of business incubation centres to support the development of 200 new enterprises, of which 50 would be medium enterprises.

e. Provision of microfinance services

Access to financial services, especially by the poor, as well as by small enterprises, can help in income-generation and employment and thus would contribute towards achieving MDG 1. In addition, financial inclusion, especially in remote locations, also contributes to poverty reduction. The GoF has put forward the following indicators:

- the client base of MFIs increased to 30,000 in 2011 from a figure of 22,000 in 2006
- the number of rural and outer island households with savings in institutions, banks and MFIs increased from 30% to 50% by 2011
- the number of rural and outer island households borrowing increased from 6% to 15% by 2001
- 50% of the export finance financed at competitive rates.

f. Employment and labour market

The GoF emphasis on the creation of employment through investment and growth in particular sectors will help in achieving MDG 1. Some of the indicators which government is working towards are:

- the unemployment rate reduced to 4.2% in 2011 from the 6% projected in the HIES survey
- an increase in paid employment by 5% from its current status or rate of GDP, whichever is higher
- an increase in apprenticeship from 100 to 300 every year
- an increase in the intake at tertiary and vocational institutions by 10% each year, beginning in 2007.

4.3.3 Fiji’s Strategic Development Plan and its implementation

The GOF’s Strategic Development Plan (SDP) for 2007 to 2011 has been endorsed at a National Economic Summit, given final approval by the Cabinet, and also supported by the two major political parties. The impetus of the plan is to fuel higher growth in order to create additional jobs and improved incomes for low-income households and consequently reduce the incidence of poverty. Some of the key strategies enumerated for poverty alleviation in the Strategic Plan and also reflected in the annual corporate plans of various ministries are:

- continued funding of poverty alleviation programmes, especially in the rural areas and outer islands
- the creation of sustainable employment, especially in the urban areas where traditional support systems are not as strong as they are in the rural areas
- renewed support to medium, small and microenterprises, both for building the economy and for creating employment in the semi-formal sector, with a focus on women
- fostering international trade through the devaluation of the Fiji dollar, supportive legislation to protect investors, adequate market support and a conducive environment for private sector development
- a focus on infrastructure development, especially in telecommunications, prioritising rural and outer island infrastructure development as well as sea, air and road transport
- access to financial services through the extension of formal retail banking services to rural areas and outer islands, and the provision of microfinance through formal and informal institutions.

4.3.4 The People’s Charter

The People’s Charter was put forward by the interim government in April 2007. The Charter highlighted the damage of “race-based politics, policies and institutions,” (The People’s Charter) including a constitution that maintained racial architecture. Its top priority, however, is economic. The Charter highlights the need to support strategic sectors and rationalise the legal, institutional and land tenure frameworks that constrain the private sector, including entrepreneurs. Without detail, it commits to reforming public financial institutions, including the RBF, the Fiji Development Bank (FDB) and the Fiji National Provident Fund (FNPF). Where the interim government appears to have moved most aggressively is in the reform of the public sector. In April, the government enforced a mandatory government retirement age of 55 years, affecting 1,614 civil servants. It is also consolidating ministries and agencies in order to reduce the size of the bureaucracy.

4.3.5 Policies and legislation for enabling private sector development

Compared to many PICs, Fiji’s economy is open and free. In general, it has a flexible labour market that operates with minor restrictions on hiring and firing. Government expenditures are relatively low, although state-owned enterprises play a large part in the private sector through

| Table 3: Doing Business Index - Fiji 2009 |                          |                          |                |
|---|--------------------------|--------------------------|----------------|
| Ease of...                                | Doing Business 2009 rank | Doing Business 2008 rank | Change in rank |
| Doing Business                            | 39                       | 34                       | -5             |
| Starting a Business                       | 87                       | 73                       | -14            |
| Dealing with Construction Permits         | 55                       | 34                       | -21            |
| Employing Workers                         | 32                       | 16                       | -16            |
| Registering Property                      | 40                       | 37                       | -3             |
| Getting Credit                            | 12                       | 13                       | 1              |
| Protecting Investors                      | 38                       | 33                       | -5             |
| Paying Taxes                              | 71                       | 62                       | -9             |
| Trading Across Borders                    | 108                      | 113                      | 5              |
| Enforcing Contracts                       | 64                       | 62                       | -2             |
| Closing a Business                        | 119                      | 117                      | -2             |

Source: <http://www.doingbusiness.org/ExploreEconomies/?economyid=68>

permits and permission rather than any capital requirements. Interestingly, getting credit is not viewed as a constraint by the index. The index considers the extent to which the rules of a credit information system facilitate lending, based on the scope of information distributed, the ease of access to information and the quality of information. Because of Fiji’s private credit bureau coverage (40% of adults) and the degree to which collateral and bankruptcy laws protect borrowers, it has consistently rated high.

Although the role of the private sector in growth and development of the economy is recognised by key stakeholders, including the government, there are key issues in the environment, which limit the development of the private sector in Fiji.

- Socio-political uncertainty: The uncertain political climate due to a series of military coups since 1987 with resultant poor governance and instability of policy directives has limited the private sector and foreign direct investment in key sectors such as tourism and exports. Corruption is perceived as significant. Fiji was ranked 55th out of 158 countries in Transparency International’s Corruption Perceptions Index for 2005—it was not ranked by Transparency International in 2006 or 2007. Fiji has a small population and a limited number of persons in positions of power, and personal relationships can be a significant factor in business and government decisions.
- Land issues: One of the key impediments is inefficiency in the land-lease market in Fiji. The Agricultural Land Trustee Act (ALTA) hinders investment in agriculture because of uncertainties over lease renewal and the low rate of compensation for any investment in leased land. This uncertainty also affects private sector investment with consequent lower benefits to both indigenous land-owners and prospective investors. A government lease for industrial purposes is normally given for up to 99 years and rental is reassessed every ten years. A Native Land Trust Board (NLTB) lease is shorter for land near urban locations and the lease is for a 50-75 year period. Annual rent is reassessed every five years. The maximum rental that can be levied in both cases is 6% of unimproved capital value. Leases also generally require lessees to effect improvements within a specified time.
- Access to financial services: Small businesses and entrepreneurs interviewed complained about access to credit and the relative lack of long-term credit in the market. High interest spreads have come down as result of the RBF directive; however, the lack of land tenure rights remains a deterrent to medium and long-term finance.
- Infrastructure bottlenecks: Infrastructure is generally of poor quality and even where it is adequate, such as telecommunications, it is expensive. For a private investor, other services, such as air transport and port charges, are comparatively high.

4.3.6 Legislation and regulation of the financial system

The RBF is the overall regulator of the financial system in Fiji. It oversees commercial banks, non-banking financial institutions, the FNPF and the insurance companies. The RBF generally gets high marks in the IMF and World Bank’s Financial Services Assessment, although the need to continue to build staff expertise, given the breadth of its responsibilities, is emphasised.

The RBF has adopted international standards of supervision for financial systems (Basle Committee on Banking Supervision) and insurance companies (International Association of Insurance). Independent studies have confirmed that Fiji has a well-managed banking regulatory regime in place. With the introduction of capital adequacy norms, offsite and on-site supervision, the RBF continues to monitor the financial

system in Fiji efficiently. The banks are regulated under the Banking Act and the RBF has been given the necessary power under the law to issue licenses, set prudential norms and take remedial action as necessary. The six banks currently operational are supervised by the RBF on a regular basis. Banks are required to have FJ\$2 million in minimum capital. They are also restricted from doing unsecured lending (i.e. typical microfinance) in excess of a total of 1% of their paid-in capital.

The non-banking financial institutions are also regulated under the Banking Act and are authorised to take deposits. The minimum capital is FJ\$500,000. The three institutions under this category also adhere to regulatory norms and supervision. As with all other PICs, there is no special law or regulation for microfinance.

The insurance companies and brokerage firms are licensed under the provisions of the Insurance Act of 1998 and are regulated by the Financial Institutions Group in the RBF. Off-site surveillance is done through regular returns filed by the insurance companies. On-site supervision is somewhat constrained by the lack of skill and knowledge of the staff in this group. The RBF is taking steps to build the capacity of the people engaged in supervision of the insurance sector.

Since 2004, the FNPF has been supervised by the RBF. In the initial period, the RBF focused on corporate governance and risk management mechanisms.

One weak area in both regulation and supervision in the overall financial system is that of the credit unions. The regulatory framework is outdated and the supervision by Registrar of Credit Unions is weak. Regular data have not been collected and are therefore not analysed. The same is true of the MFIs under NCSMED. Both credit unions and MFIs may accept deposits, although the latter must deposit 100% of deposits with one of the banks.

4.3.7 Know your customer and anti-money laundering

Fiji has a strong legislative framework for anti-money laundering and combating the financing of terrorism (AML/CFT). The GoF has committed substantial resources to bringing its AML/CFT system up to international standards. With the entry into force of the Financial Transactions Reporting Act (FTRA) in 2004, Fiji added a central piece to a strong AML/CFT legislative framework.

Financial institutions are required under Section 4 of the FTRA to identify their customers and verify their customers’ identity. The 2009 Guidelines on Customer Due Diligence permit a minimum of two forms of verification (birth certificate and a letter from a referee). Alternatively, banks may choose from a number of identification and address verification options, provided customers provide one of each. While many Fijians are not in possession of birth certificates, they can be obtained on-site at a post office for a fee. Banks are allowed to open provisional accounts, delaying customer verification for a time. Some types of transactions are exempt from the due diligences requirements, including money-lending (registered money lenders only), non-investment insurance, consumer credit less than FJ\$5,000 and money transfers and remittances less than \$5,000. While small savings accounts are not exempt, there is a precedent for relaxed know your customer (KYC) regulations with the ANZ Rural Banking service, which allows for third party verification of information (e.g. the local village head). Regulations also permit simplified due diligence processes for “lower risk customers”.<sup>12</sup> A challenge, however, is that most banks follow the Australian Transactions Reports and Analysis Centre (AUSTRAC) guidelines for KYC that involve a full 100 point check under the Australian Financial Transactions Reporting Act (FTRA).

There are no regulations or guidance in place for agent banking relationships or mobile money. There is, however, a precedent for the former with Post Fiji acting as agent on behalf of the CNB (see below).

4.3.7.1 Policy

The RBF pursues the twin goals of inflation control and maintaining adequate foreign currency reserves. Its ability to pursue monetary policy is constrained by the predominance of the FNPF in the money markets. It relies on reserve requirements and, more recently, bank directives to achieve its goals. While the RBF has generally been independent, the government can override monetary policy decisions and dismiss the Governor at will. It did so in April 2009. Under new leadership, the RBF devalued the Fijian dollar by 20% with an eye to boosting foreign currency reserves, particularly tourism receipts. The RBF also gave three directives.

- 1. The weighted average lending rates of banks and other lending institutions including FNPF will be kept at the level as at 31 December 2008 within three months’ time. <sup>13</sup>
- 2. The interest rate spread of banks must be reduced to 4% or below by 31 December 2009. This policy will be reviewed in 12 months’ time.
- 3. Banks are directed to set up specialised micro-finance service centres in all their branches by January 2010.

<sup>12</sup> Regulation 21 of the Financial Transactions Reporting Act.

<sup>13</sup> Bank rates were around 7-8% in 2008.

The broad requirement for commercial banks to directly offer microfinance services is unprecedented globally.<sup>14</sup> Combined with interest rate caps, which are statistically proven to slow the growth in access to financial services, this has led to some consternation among commercial banks, particularly those which have not participated in microfinance in the past. The new RBF Governor acknowledged that the interest rate and spread limits were an unusual and unfortunate step, but highlighted the fact that, as the economy had been declining, bank profits had been holding steady or rising. The RBF rescinded the caps in late 2009 but made it clear that any spread in excess of 4% would need to be justified to the RBF. At the same time, the RBF increased the required deposit reserve ratio (Statutory Required Deposits Ratio) from 5% to 7%.

The April directive also noted that the RBF will support this by setting up a Micro-finance Research and Development Unit headed by a Chief Manager. This was done under a new Chief Manager of Financial Systems Development and Compliance in May, who has shown a keen interest in microfinance best practices and participated in an AusAID-sponsored Consultative Group to Assist the Poor(CGAP) training.

4.4 The role and contribution of microfinance in Fiji

4.4.1 Strategy

Historically, microfinance in Fiji focused on microcredit and savings and had limited success although it has proved to be a dynamic tool to reduce poverty in countries around the world. The profile of microfinance in Fiji faded until the late 1990s, when it began to receive greater attention, the economic troubles of the previous few years having rekindled policy-makers’ interest in it. In 1998, 150 representatives of civil society organisations, private businesses, financial institutions, government agencies and development partners met in Suva to contribute towards the preparation of an action plan for the development of microfinance services in Fiji. Following presentations by the Grameen Bank, UNDP and the Foundation for Development Cooperation (FDC), working groups authored a National Plan of Action. The Plan contained specific recommendations in the areas of creating an enabling policy environment, how to expand outreach to the poor and disadvantaged and how to mobilise resources. The conference also reached consensus on the roles and responsibilities of government, microfinance institutions, NGOs and other actors. On the specific role of donors, it was agreed that UNDP would take the lead role among the donor community in developing a coordinated strategy for microfinance.

Following the conference, the GoF in its 1999 Annual Budget allocated the sum of FJ\$3 million for microfinance development. The National Microfinance Unit (NMFU) was established in the Ministry of Finance and National Planning and a National Microfinance Task Force was tasked with promoting microfinance in Fiji by providing technical support and training. The UNDP offered technical support to the NMFU and MFIs through its Pacific Sustainable Microfinance & Livelihoods through Empowerment (SMILE) Programme. From 2000 to 2004, the NMFU (now just the Microfinance Unit) was housed under two different ministries before merging with the National Centre for Small and Micro-Enterprise Development (NCSMED) in 2004 with the objectives of institutionalising the NMFU by bringing all of SME-related activities under one roof, and, especially, of improving access to finance for these enterprises in rural areas. The NCSMED was incorporated under its own Act and it provides the legal framework for making credit available to micro-finance institutions for lending purposes.

4.4.2 Implementation of the NMFU

The NMFU has played an instrumental role in developing micro-finance institutions and to date has promoted and/or supported nine institutions. It was designed with three objectives in mind:

- to develop, promote and initiate MF programmes that will help foster the growth of small and microenterprises
- to work towards the development of an integrated framework through government and non-government bodies that will assist in the promotion, development and sustenance of a healthy microfinance sector
- to conceive, test and operate mechanisms that will continuously improve the technical competence, creativity and effectiveness of staff.

With FJ\$3 million in its first year, the NMFU understandably focused on the operational issues of moving credit, neglecting the need to build the framework for the sector or its capacity to support it. The NFMU established three microfinance institutions in urban centres, four village banks, two microfinance units with the Cooperatives Department and one credit union model. It found that creating new Grameen-style MFIs is a slow and difficult process for NGOs. The new institutions could not absorb the funds available for lending, which led to a greater preoccupation with directly supporting operations. An external review of NMFU operations ending in March 2002<sup>15</sup> cited NMFU's hands-on micro-management style and tensions with the NGOs as concerns. This led to interruptions and delays in NMFU disbursing on lending capital to its NGO partners (World Bank, 2003). NMFU’s attempt to provide direct lending failed and informal village banks recorded poor performance. Unfortunately, in neglecting systemic issues such as capacity-building and the creation of an enabling policy and regulatory environment, the NMFU had difficulty in establishing the conditions in which its initiatives might have flourished. Nor did it establish its own capacity to provide quality support to its partners (World Bank, 2003).

<sup>14</sup> Other governments, such as India, have enforced “priority sector” lending policies which include microfinance as one of several sectors. The singular focus on retail microfinance is unique.

<sup>15</sup> Garcia, Willie M. (2002), Programme Evaluation Report: An in-depth assessment of the operations of the NMFU and of the micro finance programs implemented through local NGOs. Suva: UNDP/UNV.



In 2003, the mandate of the NMFU changed to its being:

- a coordinating body for the delivery of microfinance programmes in Fiji
- the government arm for the implementation of a savings campaign
- a promoter for strategic alliances for poverty alleviation programmes.

There has been no recent independent evaluation of NCSMED or its microfinance partners since the brief 2005 review by the Punla sa Tao Foundation. That review made a few clear recommendations, pointing out the need to improve the methodology, test new methodologies with existing intermediaries such as credit unions, broaden the range of services, and rationalise the operations of existing MFIs. It also placed a greater emphasis on linking NMFU work to NCSMED for business training and business development services.

No funds were allocated for implementation of the recommendations. While the NCSMED has played a key role in building the foundation of a microfinance industry, critics suggest that it has failed to play the role of building the sector and has become too embroiled in the day-to-day operation of its partners.

To some degree, the NMFU is an example of a failure to adapt a technology to the environment. Fiji does not have a large traditional microentrepreneur and microenterprise sector. Rather, urban dwellers are largely wage earners and rural households enjoy fairly affluent subsistence with few opportunities for trade. This, combined with the relatively low population density and inadequate, expensive transportation networks in most areas, made the credit-led, group-based Grameen model difficult to implement. A major impediment to the formal financial sector servicing lower-income clients is the high transaction cost. This is reflected in the performance of the nine MFIs, none of which is sustainable and all of which have failed to reach significant numbers of the unserved.

The NMFU also demonstrates the pitfalls of excessive government intervention in the sector. The MFIs were mostly funded and overseen by the NMFU, whose focus was on poverty alleviation and enterprise development rather than financial sustainability. The government effectively became the primary provider through wholesale lending and, in the case of several MFIs, taking over operations. There has been no strong oversight nor any incentive to improve both outreach and efficiency, and little investment in improving technical capacity. The NMFU became involved in the day-to-day activities of most of the entities it created without having the technical capacity to do so.

#### **4.4.2.1 Medium-term Strategy for Financial Inclusion 2010-2014**

A slightly smaller group of stakeholders met in November 2009 to revive the national plan and agree on the basic outline of a medium-term strategy for financial inclusion through to 2014. The RBF and PFIIP brought together a group that included representatives from all the commercial banks, several insurance agencies, the credit unions, the larger MFIs, government and donor agencies. At the meeting the stakeholders agreed to a goal of reaching 150,000 unbanked clients by 2014 through a nationally coordinated effort, supported by a variety of financial service providers, offering a broad range of relevant, accessible, affordable and cost-effective financial services.

The draft statement includes twelve specific actions to be taken, identifying the leader for each action. The last item was to establish a National Financial Inclusion Task Force, comprising a spectrum of public and private stakeholders and donor agencies with the support and leadership of the RBF. It will include a Permanent Secretary from the Prime Minister's Office, and representatives from the Association of Banks in Fiji (ABIF), the Insurance Council, and a donor. Other working groups will be created, consisting of relevant members to address the actions relating to financial literacy, branchless banking, etc. As of the writing of this report, that Task Force has not been convened.

### **4.5 Support Infrastructure for microfinance**

#### **4.5.1 Information services**

Fiji has the most advanced financial infrastructure in the Pacific. There is one privately funded credit information bureau in Fiji. The Data Bureau has enrolled key public and private institutions and has built a database covering most registered companies with over 200,000 consumer files. It provides credit information, both positive and negative, to subscribers on a cost-per-usage basis. The coverage is still limited; a number of larger private and state-owned institutions (including utilities) remain outside the bureau.

#### **4.5.2 Payments and clearing**

The implementation of a real-time gross settlements (RTGS) system to replace the existing clearing house netting arrangement for large-value payments in Fiji is in progress. FijiClear was started in 2008, housed in the RBF and limited to the five commercial banks. The cost for domestic payments ranges from FJ\$2 for up to FJ\$100 to FJ\$15 for FJ\$10,000 or more. While initially designed for larger, interbank settlements, the system is already being used by some banks for smaller payments and there is discussion about opening up the system to non-bank actors. A robust clearance system will also help in supporting any micro-banking in rural areas in the future.

There over a thousand POS devices in the country and over 120 ATMs, mostly in the cities and large towns. POS devices are not widespread because of the lack of interchange among systems; there are often three or more POS devices in one location, one for each bank. The banks are currently discussing linking their ATM and POS networks to increase the total number of service points for clients. This could free up hundreds of POS devices for broader geographic placement. POS merchants commonly offer cash back, particularly supermarkets and larger stores. There is no reverse electronic funds transfer (EFTPOS) in Fiji at present that would enable clients to make deposits or pay bills at merchants. The two mobile network operators are now linked to most ATMs, enabling their customers to top up electronically.

#### **4.5.3 Telecommunications**

Telecommunications in Fiji are the strongest in the Pacific and most likely the least expensive, despite the dominance of state-owned enterprises in the sector. In the past year, mobile network operators (MNOs) have increased cover to over 70% of the geographic area, including fairly remote islands. In addition to the state-owned company, Telecom Fiji, Ltd. (TFL), there are two other major MNOs: Vodafone Fiji and Digicel. Landline use remains limited to urban areas, where lines are still fairly expensive. TFL also operates Inkk, a CDMA<sup>16</sup> mobile network. The largest GSM operator, Vodafone Fiji, is majority-owned by the FNPF through Amalgamated Telecom Holdings (ATH). Digicel Pacific entered Fiji in October 2008 and now claims to be close to matching Vodafone's customer base with its broader coverage. Its entry has also led to a significant increase in the number of handheld devices in Fiji—including handheld data devices such as Blackberry.<sup>17</sup> Vodafone Fiji has countered with better pricing and service which has led to a significant reduction in calling rates in the past year. The rapid expansion of increasingly affordable mobile coverage makes mobile money solutions possible. Both Vodafone and Digicel have launched GPRS (general packet radio service) for higher speed data.

International voice and data remain controlled by Fiji International Telecommunications Ltd. (FINTEL), also under the ATH group. FINTEL has exclusive rights to access the Southern Cross Cable Network that provides most of Fiji's international voice and high speed data communication. Its subsidiary, Kidanet, is the main broadband internet provider nationally. Other wireless broadband providers, such as Unwired Fiji and Connect.com, lease bandwidth from Kidanet and compete on providing better wireless coverage and service. While internet access remains expensive, it is now available in all the major population areas and the most populated islands. Part of the telecommunications liberalisation plan included opening up the cable network to other operators which could further reduce international data transmission costs.

#### **4.5.4 Post Fiji**

Post Fiji has the most extensive network of offices in Fiji, covering all the inhabited islands. It has 56 post offices and 113 agencies. Most post offices are full service, offering mail, money transfer, bill payment, retail (stationery, etc.) and even internet service in wired locations. They also act as a government outlet, making copies of birth certificates available to citizens. Agencies are generally limited to the postal services only. Post Fiji also offers a number of financial services. It is the paymaster of many government agencies and has collaborated with the CNB (the former Postal Bank) to provide savings services. It offers bill payment for the government and many large vendors in Fiji (mobile phone, water, TV, insurance, internet, etc.) and collaborates with the MNOs for airtime sales. The rural offices also act as Western Union agents, offering international remittances.

#### **4.5.5 Training and wholesale funding**

The NCSMED through the NMFU now has the multiple roles of a funding agency, technical support provider and monitoring agency. There has been no recent independent evaluation of the consistency or quality of NFMU support, but those interviewed were critical of its lack of services and capacity. It is primarily occupied with managing a number of MFIs that it began, and with maintaining its wholesale funding window. The NCSMED provides general business development services, including the CEFE training (Competency based Economies through the Formation of Enterprises).

There is no definitive report on the availability of micro enterprise training outside the NCSMED. The Integrated Human Resource Development Programme, working out of the Ministry of Finance and National Planning, works with rural communities and private sector partners in developing market-based microenterprises. Other government agencies, such as the Department of Cooperatives and the Ministry of Agriculture, have a mandate to provide training, but field visits revealed little evidence of their presence or impact.

#### **4.5.6 Associations**

##### **4.5.6.1 The Microfinance Pasifika Network**

The regional Microfinance Pasifika Network (MNP) is based in Fiji. It has 22 members throughout the region. Several of Fiji's MFIs are members and most MFIs and banks participated in this year's Pacific Microfinance Week held in Nadi. The network does not currently offer any regular services to members but recent support from the PFIIP will help it to increase its activities as an information clearing house for the region and formulate a strategic plan for its future sustainability. The MPN does, however, offer an opportunity to network not only locally but regionally to share important and vital information for the microfinance service providers in the Pacific, including Fiji.

<sup>16</sup> CDMA (Code-Division Multiple Access) and GSM (Global System for Mobile Communications) are competing protocols used in so-called second-generation (2G) and third-generation (3G) wireless communications. CDMA phones are activated remotely, by the carrier, using the phone's serial number. GSM phones are activated differently, through a Subscriber Identity Module (SIM card), which is located in the device and carries an encrypted version of all the information needed to identify the wireless account to the network. This makes it easier for GSM users to "roam" many networks.



4.5.6.2 The Fiji Savings and Credit Union League

The Fiji Savings and Credit Union League (FSCUL) had a strong past, but at present does very little, despite its membership of 28. The Credit Union movement started in the 1950s in the Pacific with Fiji at the centre. This led to the Credit Union Act and linking the Fijian credit unions with the Credit Union League, the South Pacific Credit Union Association and the Credit Union National Association (CUNA) mutual life insurance. The League traditionally offered training and technical support through the Credit Union and Training Centre (established in 1970). All of this has ceased to function, including the relationship with CUNA life insurance. A few of the larger employer-based credit unions have dropped out of FSCUL, citing the lack of any benefit to membership.

FSCUL is a co-sponsor a the Pacific Credit Union Conference held in Fiji in 2009 with support from the Credit Union Foundation of Australia (CUFA) and the World Council of Credit Unions (WOCCU).

5 The demand for financial services

There is no definitive study of the demand for microfinance in Fiji. It is not known how many households or individuals are currently served by existing financial service providers or the level of service. The following sections attempt to estimate the size and type of demand, using available statistics.

5.1 Size and composition of the market

Based on the Household Income and Expenditure Survey (HIES, 2002-2003), keeping the same proportion of households in each income decile and using the 2007 census information, the data were extrapolated and showed that the economically active population in 2008 was approximately 340,000 persons.

It is safe to assume that all economically active persons could benefit from one or more financial services. The proportion of those employed in the formal sector (15%) and regular wage earners (20% as opposed to occasional wage earners, which account for 22%) is approximately 35%,<sup>17</sup> most of whom are likely to have at least one savings account set up by their employer. Hence 65%, or 221,000 of economically active persons employed in the informal sector, may not have access to formal banking services. A closer estimate of the current number of unserved households can be extrapolated from the HIES data, using the income deciles. For estimation purposes, it is assumed that all households in the rural areas have less access to financial services than do those in urban areas, and that banking access is directly correlated to income. The data in Table 4 suggest that nearly 109,000 households do not have access to financial services.

| Table 4: Estimation of households without access to banking services |                      |        |   |       |  |        |
|--|----------------------|--------|---|-------|--|--------|
|  | Number of households |        | Percentage of households with banking access (est.) |       | Number of households without banking access (est.) |        |
|  | Rural                | Urban  | Rural   | Urban | Rural  | Urban  |
| Dec AE1  | 12,926               | 5,665  | 10%   | 20%   | 11,633   | 4,532  |
| Dec AE2  | 11,079               | 5,665  | 10%   | 20%   | 9,971  | 4,532  |
| Dec AE3  | 11,079               | 6,475  | 10%   | 20%   | 9,971  | 5,180  |
| Dec AE4  | 10,156               | 7,284  | 20%   | 40%   | 8,125  | 4,370  |
| Dec AE5  | 10,156               | 7,284  | 20%   | 40%   | 8,125  | 4,370  |
| Dec AE6  | 8,309                | 8,902  | 20%   | 40%   | 6,647  | 5,341  |
| Dec AE7  | 8,309                | 8,902  | 20%   | 40%   | 6,647  | 5,341  |
| Dec AE8  | 8,309                | 8,902  | 60%   | 80%   | 3,324  | 1,780  |
| Dec AE9  | 6,463                | 10,521 | 60%   | 80%   | 2,585  | 2,104  |
| Dec AE10   | 5,540                | 11,330 | 60%   | 80%   | 2,216  | 2,266  |
| Total HH   | 92,325               | 80,931 |   |       | 69,244   | 39,818 |

Source: BASIX, 2009

<sup>17</sup> As per the data from Fiji on-line, 60-75% are employed in the informal sector.

As Table 5 shows, the untapped market for annual saving is estimated to range from approximately FJ\$70 million to FJ\$86 million from these households based on the savings rate of other households in that decile. 5.3

| Table 5: Untapped savings estimate in Fiji |                               |       |                        |       |                        |       |   |   |
|--|-------------------------------|-------|------------------------|-------|------------------------|-------|---|---|
| Deciles                                    | Number of households untapped |       | Minimum savings (FJ\$) |       | Maximum savings (FJ\$) |       | Total untapped market at minimum (FJ\$) | Total untapped market at maximum (FJ\$) |
|  | Rural                         | Urban | Rural                  | Urban | Rural                  | Urban |   |   |
| Dec AE1                                    | 11,633                        | 4,532 | 100                    | 100   | 150                    | 150   | 1,616,512                               | 2,424,767                               |
| Dec AE2                                    | 9,971                         | 4,532 | 100                    | 100   | 150                    | 150   | 1,450,326                               | 2,175,490                               |
| Dec AE3                                    | 9,971                         | 5,180 | 100                    | 100   | 150                    | 150   | 1,515,072                               | 2,272,607                               |
| Dec AE4                                    | 8,125                         | 4,370 | 550                    | 300   | 650                    | 400   | 5,780,933                               | 7,029,112                               |
| Dec AE5                                    | 8,125                         | 4,370 | 1475                   | 850   | 1650                   | 900   | 15,698,544                              | 17,338,865                              |
| Dec AE6                                    | 6,647                         | 5,341 | 2200                   | 875   | 2500                   | 1050  | 19,298,078                              | 22,227,057                              |
| Dec AE7                                    | 6,647                         | 5,341 | 3000                   | 1000  | 3700                   | 1500  | 25,283,686                              | 32,607,605                              |
| Total Savings Potential                    |                               |       |                        |       |                        |       | 70,643,151                              | 86,075,504                              |

Source: BASIX, 2009

5.3 The demand for credit

In the HIES data, credit as percentage of income was also highlighted. The lower and middle income deciles tend to rely on credit for both consumption and production purposes. The interesting features of the credit phenomena are twofold.

- Credit as a percentage of income is lower in rural areas than in urban areas across all income deciles. This may signify fewer avenues for productive use of credit in rural areas, less availability of credit, or both. Given that most of the family workers (11% of the economically active population) are in rural areas and mostly dependent on subsistence farming, it is likely that the low percentage in the rural areas has more to do with quality demand than supply.
- In urban areas, this credit as a percentage of income decreases as one goes higher up in the income brackets—the poorest borrow the most, relative to income. It increases, however, in the topmost decile, indicating that this group borrows mainly for investing in housing or other consumption purposes. It may also indicate the relatively higher cost of living in urban areas, which results in the use of credit to smooth consumption.

The demand for credit is skewed towards urban areas from which 90% of the total met demand originates. Loans as a percentage of income for all deciles range from only 1% to 3% in rural areas, whereas in urban areas the percentages are 8% to 25% among those reporting borrowing. The average loan size in rural areas ranges from as low as \$F48 to \$F124 in deciles 1 through 3 and increases marginally up to decile 7. In the same deciles in urban areas the average loans start at \$F947 and go as high as \$F2,387—nearly ten times that of rural areas. Hence there is a stronger needfor microcredit in urban areas than in rural areas.

To calculate the untapped potential for credit, the following assumptions were made. In the lowest three deciles, only 10% of households have access to credit whereas 25% of those in the middle deciles have access. The range of the untapped market for credit is therefore between approximately FJ\$57 million and \$F69 million and is primarily in the urban areas (see Table 6).

5.4 Other services

5.4.1 Remittances

The striking feature from the above analysis is that income is lower and savings are higher in rural areas than in urban areas across all income deciles. Moreover, the average loan is also higher in urban areas. This suggests that funds are flowing from urban to rural areas. The availability of remittances reduces the demand for credit in rural areas and creates instead a demand for savings.

| Table 6: Untapped credit estimate in Fiji    |                      |       |                     |       |                        |       |                                |                                |
|--|----------------------|-------|---------------------|-------|------------------------|-------|--------------------------------|--------------------------------|
|  | Number of Households |       | Minimum loan (FJ\$) |       | Maximum savings (FJ\$) |       | Minimum untapped credit (FJ\$) | Maximum untapped credit (FJ\$) |
|  | Rural                | Urban | Rural               | Urban | Rural                  | Urban |                                |                                |
| Dec AE1                                      | 11,633               | 5,099 | 105                 | 1,153 | 126                    | 1,441 | 7,102,223                      | 8,816,479                      |
| Dec AE2                                      | 9,971                | 5,099 | 49                  | 947   | 58                     | 1,184 | 5,316,277                      | 6,621,051                      |
| Dec AE3                                      | 9,971                | 5,827 | 124                 | 955   | 149                    | 1,194 | 6,806,113                      | 8,445,600                      |
| Dec AE4                                      | 7,617                | 5,463 | 72                  | 1,101 | 86                     | 1,321 | 6,563,575                      | 7,876,290                      |
| Dec AE5                                      | 7,617                | 5,463 | 84                  | 1,113 | 100                    | 1,336 | 6,717,802                      | 8,061,363                      |
| Dec AE6                                      | 6,232                | 6,677 | 193                 | 1,053 | 231                    | 1,263 | 8,229,078                      | 9,874,894                      |
| Dec AE7                                      | 6,232                | 6,677 | 116                 | 2,387 | 139                    | 2,864 | 16,657,943                     | 19,989,531                     |
| Total Untapped Market for Consumption Credit |                      |       |                     |       |                        |       | 57,393,010                     | 69,685,208                     |

Source: BASIX, 2009

Domestic remittances through the Post Fiji alone total nearly FJ\$50 million annually, with over 250,000 transfers per year. This does not include remittances provided through banks or informal means. According to RBF statistics, total personal foreign remittances are in excess of FJ\$200 million per annum and therefore are a significant part of the income of recipient families in both urban and rural areas – an average of over FJ\$1,000 per household. Remittances constitute a significant and growing contribution to the national income and reflect the strong family responsibilities and the traditional system of reciprocity which still exist in Fiji. While it is difficult to ascertain the use of these remittances, it is evident that they provide a vital support mechanism to the immediate and extended families of senders.

| Table 7: Potential for micro-insurance <sup>18</sup> |                |                    |                      |
|--|----------------|--------------------|----------------------|
| Categories of employment                             | Current status | Estimated have now | Market can reach now |
| Wage earner  | 146,098        | 20%                | 40%                  |
| Salary earner  | 48,884         | 50%                | 70%                  |
| Employer   | 3,236          | 30%                | 40%                  |
| Self-employed  | 91,818         | 0%                 | 20%                  |
| Family worker  | 37,957         | 0%                 | 5%                   |
| Other  | 2,235          | 0%                 | 5%                   |
| Total  | 330,228        | 54,632             | 133,500              |

Source: BASIX, 2009

An important component of demand for insurance relates to the perception of risk and the willingness and ability to pay to mitigate that risk. The perception of risk relating to the loss of a family member is changing as Fiji becomes increasingly urbanised. Traditionally, the system of mataqali or community support requires that the extended family takes the responsibility for supporting the family affected.<sup>19</sup> In the villages, this responsibility may extend to the entire community. Migration to urban areas is weakening this system and interviews suggest that this burden, including the significant burden of funeral expenses, is now less accepted and valued by Fijians than it was in the past. This may lessen the demand for insurance in rural areas. There has, however, been significant interest in a funeral insurance policy recently offered to low-income wage earners in rural and peri-urban areas.

The International Labour Organisation (ILO) conducted a study on the potential for health microinsurance in 2006 which indicated that only 1.5% of households surveyed had health insurance. Families had an average of five treatments per year for primary health care, primarily at hospitals and health centres, more than half of which were for viral illnesses, colds and flu. The average out-of-pocket expenses were FJ\$6-\$7 per treatment

<sup>18</sup> Numbers in this table, including the percentages of those who currently have insurance, and those who the market could either reach quickly or in time were submitted by BASIX without any reference or explanation. Therefore it is unclear how accurate they are and should just be viewed as a general starting point for discussion.

<sup>19</sup> The most basic Fijian traditional social group is the nuclear family (vuva). A number of vuva makes up a nuclear grouping called the tokatoka, a number of tokatoka constitute a mataqali and a number of these constitute a yavusa which form a koro or village. A group of villages form a tikina or district. In their totality all of these make up the yasana or province.

or FJ\$30-\$35 per year. Transportation accounted for 75% of the total cost. For secondary care, the average occurrence was 2.15 per household, mostly at hospitals, with an average cost of FJ\$13 per visit. The survey also indicated that the idea of personally funded insurance was broadly accepted (despite universal primary care) and that 71% of those surveyed would contribute if it were affordable. In terms of ability to pay, the average savings per week in MFIs in rural areas was about FJ\$3 amounting to about FJ\$150 per annum.

The study concluded that, given the lower cost of living in the rural areas and the reduced capacity of informal economy households to make voluntary contributions, it may be possible to develop microinsurance schemes that can cover the proportionately lower costs with a microscheme. The survey further suggests that people do make savings, are prepared to contribute to their social security scheme and are aware of their needs. This combination offers promise for the development of micro health insurance schemes.

6 The supply of financial services

Fiji has a well-developed financial system, governed and regulated by the RBF. This includes formal financial institutions such as the commercial banks, non-banking financial institutions, insurance companies, brokers and non-regulated entities such as the microfinance institutions, cooperatives and credit unions. The commercial banks and non-banking financial institutions have focused on the urban commercial business and salaried segments, leaving the majority of the population outside the banking system. Rough estimates indicate that about 35%-40% of the population has access to the formal banking sector (Honahan, 2008). The structure of the financial sector is outlined below.

6.1 Formal financial institutions

The formal financial institutions which provide financial services are shown in Table 7.

| Table 8: Formal financial institutions in Fiji <sup>20</sup> |     |
|--|-----|
| Licensed Financial Entities in 2007                          |     |
| Commercial Banks   | 6   |
| Credit Institutions  | 3   |
| Life Insurance Companies                                     | 2   |
| General Insurance Companies                                  | 7   |
| Insurance Brokers  | 5   |
| Insurance Agents   | 471 |
| Foreign Exchange Dealers                                     | 8   |
| Money Changers   | 3   |

Source: RBF website

The sector-wide composition of loans and advances in of commercial banks in 2008 shows that total business advances accounted for 7% of accounts and 64% of the total loan assets. Wholesale, retail and restaurants dominate business lending with real esate and manufacturing a distant second and third. Loans to the agricultural sector were at only 1% of the total assets. While there is no breakdown of business loans, it is likely that the tourism industry and large tourism-related real estate dominate lending. In 2010, banks will be required to report on SME and microenterprise loans as well.

Personal loans accounted for 92% of all accounts and 30% of total loan assets. Loans for housing purposes account for over 80% of personal loan assets. There is high volume of “other” personal loans, most of which are likely salary (11% accounts and 25% in terms of volume) ranked the highest.

The percentages of demand deposits, time deposits and savings deposits were 47%, 33% and 20% respectively. A noticeable trend is the increase in time and demand deposits since 2003, whereas the savings account has remained more or less stagnant. The time and demand deposits are largely held by commercial businesses and to some extent by the salaried class. The stagnation of savings accounts, usually held by individuals, indicates that the financial inclusion process is not showing much progress in increasing retail savers or savings.

<sup>20</sup> Updates may be found at <http://www.reservebank.gov.fj/default.aspx?page=licensedInstitutes>

<sup>21</sup> In May 2009, CNB’s owner Commonwealth Bank, announced it would sell its 100% holding in CBA. CBA announced it was in discussions with BSP regarding the potential sale of CBA’s banking and insurance businesses in Fiji. BSP is the largest retail bank in PNG and has a presence in Niue and Solomon Islands.



| Table 9: Credit flow to largest sectors from financial institutions, 2007 and 2008 |        |                   |        |                   |
|--|--------|-------------------|--------|-------------------|
| Loans and Advances   | 2007   |                   | 2008   |                   |
|  | Number | Value ('000 FJ\$) | Number | Value ('000 FJ\$) |
| Business Advances  |        |                   |        |                   |
| Wholesale Retail and Restaurants   | 1,856  | 602,942           | 1,632  | 649,317           |
| Manufacturing  | 789    | 271,335           | 731    | 294,551           |
| Real Estate  | 469    | 227,105           | 473    | 278,851           |
| Building and Construction  | 480    | 177,657           | 455    | 196,015           |
| Total Business Advances  | 5,718  | 1,569,452         | 5,218  | 1,687,574         |
| Personal Advances  |        |                   |        |                   |
| Housing  | 8,840  | 632,129           | 8,886  | 654,588           |
| Cars, Motorcycles and others Personal Transport                                    | 1,352  | 13,787            | 1,145  | 11,405            |
| Others   | 54,171 | 133,505           | 61,422 | 141,339           |
| Total Personal Advances  | 64,363 | 779,421           | 71,453 | 807,332           |
| Other Advances   |        |                   |        |                   |
| Fiji Govt, Central Government and Statutory bodies                                 | 53     | 73,710            | 97     | 81,767            |
| Others   | 349    | 51,590            | 788    | 76,327            |
| Total Other Advances   | 402    | 125,300           | 885    | 158,094           |
| Grand Total  | 70,483 | 2,474,173         | 77,556 | 2,653,000         |

Source: Key Statistics FIBOS

6.1.1.1 Commercial banks in microfinance

The CNB has a wider presence in rural areas than do other banks: part of its legacy as the former postal bank. The CNB also has an arrangement with Post Fiji for basic passbook services through the rural postal agencies, which also accept insurance premium payments and bank loan repayments. However, new accounts cannot be opened by Post Fiji and there is no promotion of this service.

ANZ initiated rural mobile (vehicular) banking in 2004. They have a team of 18 officers who travel in six teams with the banking vans to villages on the main islands. Each team serves two to three provinces and they visit villages fortnightly or monthly, depending on the accessibility of the village. ANZ, along with UNDP, also conducted village meetings to spread financial literacy among the villagers between 2004 and 2006.

While not publicised, the performance of the credit portfolio has been poor, leading ANZ to consider discontinuing microlending operations. To date, they have written off over 60% of the portfolio with a total value of FJ\$264,000. The recovery rate is approximately 11%. The portfolio has reduced to FJ\$73,000, with approximately 160 accounts. However, ANZ is currently reviewing its microloan policy with a view to introducing the product in 2010 under their microfinance scheme.

ANZ’s savings portfolio programme was, however, more successful, with over 60,000 accounts amounting to FJ\$9 million and widely praised as a successful, albeit expensive, model to reach rural clients, It has also led to success in opening youth accounts, mainly for children in rural schools. An estimated 25% of the total savings accounts have been opened by children under the age of 16. ANZ has also extended the service to rural civil servants and company employees located in the rural areas. A particular day is allocated once a fortnight to service this group of people, who are based in rural towns with no banking service. ANZ is predicting that its rural programme will break even in 2010.

All of the banks are required to submit their plan for providing greater microfinance services by the end of January 2010.

6.1.1.2 Other formal financial players

The other three formal credit institutions operating with their 11 branches in Fiji are listed below.

- The Merchant Finance and Investment Company Limited which was licensed in 1992 to mostly finance purchases of machinery, equipment and vehicles
- The Credit Corporation of Fiji is another institution which specialises in short-term equipment and vehicle finance. It is almost 70% foreign-owned by Credit Corporation (PNG) Limited.
- The Home Finance Company Limited was transformed into a credit institution in 1995 and provides housing loans to middle and upper-income households. It has approximately 1,200 deposit accounts, and 1,800 loans outstanding at a value of between FJ\$75,000 and FJ\$100,000.
- Finance Pacific uses a purchase-order finance model, allowing Fijian businesses to leverage purchase orders from abroad to borrow credit. It is currently lending about FJ\$2.5 million a year, of values between FJ\$5,000 and FJ\$50,000. It has three-month repayment periods and charges a 40% annual interest rate.

These operators focus their work primarily on salaried individuals rather than low-income earners.

6.1.2 Insurance companies

There are two life insurance companies, seven general insurance companies, five insurance brokers, and 471 insurance agents. The size of the industry as measured by the gross premium collected and total assets (2007) was \$F192 million and FJ\$825 million, respectively. Life insurance companies hold 70% of assets. Insurers offer a wide range of products, but few (other than mandatory auto insurance) are for non-salaried persons. The penetration of life insurance in terms of GDP stood at 1.4% in 2007 whilst for general insurance the figure stands at 2.0%. This compares with a global insurance penetration rate of 7.5%.

Life insurance

The two life insurance companies are Life Insurance Corporation of India (LICI) and Colonial Fiji Life Ltd, and both are foreign owned. Life insurance is considered to be an endowment and/or an investment policy. Both offer group and individual policies, primarily for the salaried and middle class, including term life and endowment policies. Term life insurance appears to be offered as part of health insurance and is not limited to the two life insurers. For instance, FijiCare offers term life (based on a multiple of salary) as part of its insurance package and recently announced a partnership with the Home Finance Company Limited to underwrite funeral insurance. The product was launched in September 2009, with a premium of FJ\$2 per week for FJ\$5,000 of coverage. Benefits are not paid for an initial exclusion period of six months and while there are exclusions on the cause of death, it is understood that verifying the cause of death is difficult. A number of the general insurers offer an individual accident policy which covers accidental death, dismemberment, and temporary or permanent disability.

A few large credit unions and the Fiji Savings Credit Union League (FSCUL) have established a credit-life insurance that offers a small death benefit. FSCUL has started a new scheme in which it charges 1.2% of the loan amounts of credit union members and in return pays the loan balance upon the death of the member. The Fiji Teachers’ Union Cooperative Thrift and Credit Society (FTUCTC) has a similar scheme for all mortgage loans for a fee of 1%.

Health insurance

Basic medical services are available to much of the population of Fiji and is provided free by the government, but the quality of care is not consistent. A WHO study indicates that Fijians still pay approximately 1/3 of their health expenses out-of-pocket, most likely in search of better quality or private facilities. The supplemental health insurance is dominated by FijiCare, which underwrites more than 70% of all health policies in Fiji, with over 100,000 members, both group and individual.<sup>22</sup> Coverage is primarily for major medical, recuperation and overseas treatment, as well as supplemental outpatient, dental and optical treatment etc. Policies tend to mix and match benefits, but all are focused on major medical events and private care. Colonial Fiji Life also provides individual policies, similar to those of FijiCare but with a greater focus on overseas treatment. Dominion Life and QBE Insurance develop group health policies. Dominion Life is a locally-owned company that works with public and private associations, including the police, the military, teachers, public servants and sugarcane growers. Usually, the sales, marketing and claims are handled by the associations (or the associations’ designated “welfare society” which receives a portion of the total premium).

Other general insurance

General insurance is primarily for corporations and the middle class. There is a wide range of insurance options from covererage for homeowners to hull insurance for boat owners. In addition, all automobiles are required to have third party insurance.

Box 2: Health care facilities in Fiji (2006)

- 900 village clinics
- 124 nursing stations
- 75 health centres
- 19 sub-divisional medical centres
- 3 divisional hospitals
- 3 area hospitals
- 3 speciality hospitals

<sup>22</sup> <http://www.fijicare.com.fj/AboutFijicare>



Informal

The ILO noted a number of informal or “self insurance” products. These include the associations, cooperatives and credit unions with health or life schemes that are not underwritten by an insurance company. These are not considered illegal, although they were not foreseen by the relevant Trades Union Act, Cooperatives Act or Credit Unions Act. Despite these informal mechanisms, the majority of Fijians surveyed had no insurance.

Of course the greatest source of informal insurance is the family and the mataqali. In Fiji, the extended family and community are often called upon to support others. This takes place around planned events, such as funerals and weddings, but also happens in emergency situations. While this familial system is pervasive, it is not always reliable, depending on the ability of the family or community to offer support at the time.

6.2 Semiformal/ otherwise regulated financial institutions

6.2.1 Fiji National Provident Fund

The Fiji National Provident Fund (FNPF), established in 1966, is the largest non-banking financial institution in Fiji. Its objective is to provide a universal provident fund for all employees in Fiji. It is financed primarily by mandatory contributions from both employees and employers and is the single player in the superannuation industry. It offers three primary benefits: for retirement, for permanent incapacity and a survivor’s (death) benefit. There are also supplementary benefits or schemes relating to housing, education and medical assistance that allow members to borrow against their savings.

FNPF’s total asset value is in the order of FJ\$3 billion, larger than the entire banking system and accounting for 60% of GDP, which means it wields influence over the entire financial sector. Its investments are mostly domestic: property; private sector investments; and equities and securities of the GoF, other statutory bodies and local authorities. It is the primary financier of the government and is the major institutional depositor in the banking sector. In 2007, 67% of its assets were in the form of funds with the GoF and loans to statutory bodies and local authorities, with only 12% in the form of equities.

As noted in the World Bank/IMF Financial Services Assessment, FNPF’s size and appetite in the domestic market can be distorting. FNPF has the power to bid up time deposit rates at commercial banks. At a time of interest rate caps, this squeezes commercial banks’ margins to 1%-2%, or less.

Given its size and mandate, the FNPF has been noticeably absent from the financial inclusion discussions.

The Fiji Development Bank (FDB) commenced operations in 1967 after it absorbed the Agriculture and Industrial Loans Board. Since the start of its operations, the FDB has been the principal source of long-term finance for the development of agriculture and industry. It has a number of targeted lending operations that reflect government priorities. The FDB is not permitted to take deposits. It has ten branches in the main provincial centres, giving it greater geographic outreach than any of the commercial banks other than CNB. The total asset value in 2007 was FJ\$439 million, which was mostly in the form of industrial advances (FJ\$251 million). The total advances to agriculture were FJ\$22 million, an area in which it has only recently reengaged. A large part of its lending (55%) goes to the commercial/industrial sector, followed by 20% loans to private persons. There has been a decline in agriculture lending, indicated by this portfolio dipping from 20% in 1998 to about 5% in 2007. Loans for leasing/working capital and for small businesses together stand at only 3% of the total loans extended (Key Statistic-FIBOS).

The FDB has a number of agricultural and small business loan schemes that often have concessional terms and are targeted at specific groups, including ethnic groups, such as the Commercial Loans to [indigenous] Fijians Scheme. It also has a subsidised Small Business Scheme to provide subsidised lending opportunities to other communities. Targeted small businesses are largely agricultural, such as beef, dairy, coconuts and chicken farms.

The FDB’s asset quality is significantly impaired, with 80% of their loans listed as non-current in 2007 and 10% of the loan portfolio fully covered by provisions. Provisions exceed 65% of FDB’s paid-in capital. Until recently, it relied on the GoF for annual capitalisation grants and it still borrows from the government. It has a single B rating from Standard &Poors rating agency.

6.3 Microfinance institutions

As noted above, specialised microfinance institutions were largely created by the NFMU and now fall under NCSMED. There are three urban and six rural MFIs (see Table 9). Collectively they cover 13 major areas in Fiji, giving access to 382 communities and villages. The two with the most clients are both located in urban areas: the Fiji Council of Social Services (FCOSS) and Microfinance West (MF West). They are described in sections 6.3.1 and 6.3.2 below.

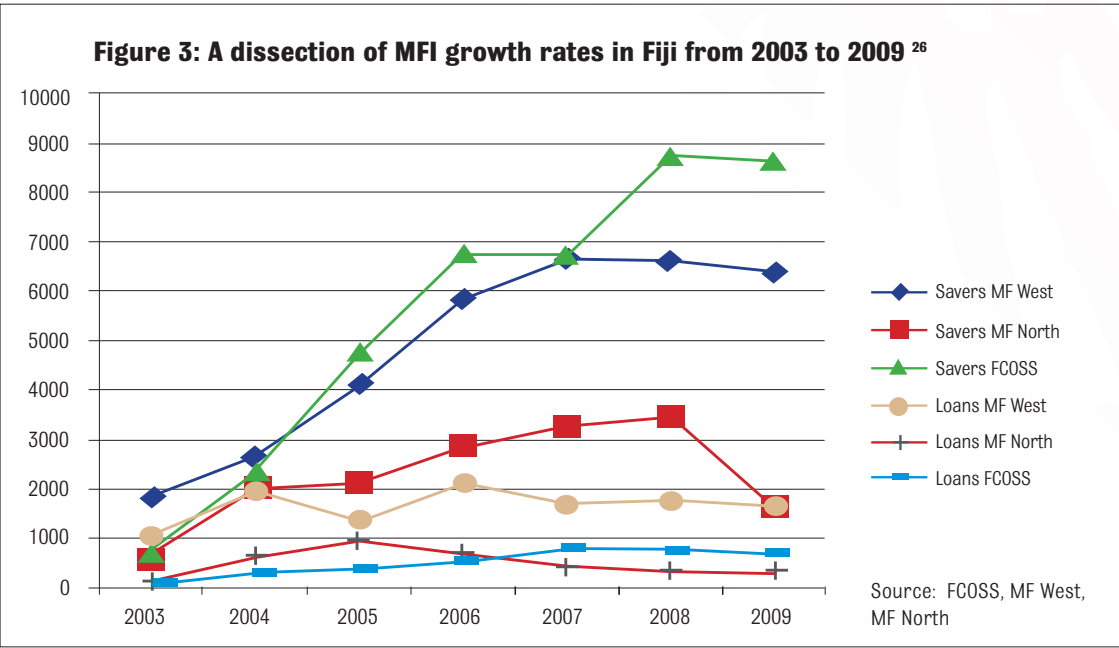
| Table 10 : Microfinance Institutions in Fiji |   |                                    |
|--|---|------------------------------------|
| Categories                                   | Partnership with NCSMED                 | Area of Operation                  |
| Urban  | Fiji Council of Social Services (FCOSS) | Suva, Nasinu, Tailevu, Rewa, Navua |
|  | MF West                                 | Ba, Lautoka, Nadi, Sigatoka        |
|  | MF North                                | Labasa, Seaqaqa, Savusavu          |
| Rural  | Nakuailava Microfinance Institution     | Ra Province                        |
|  | Tavuki Tikina Microfinance Institution  | Kadavu                             |
|  | Bua Microfinance Institution            | Bua Province                       |
|  | Rewa Microfinance Institution           | Rewa Province                      |
|  | Cakaudrove Womens Association*          | Taveuni                            |
|  | Cooperative Department                  | Macuata, Central Eastern Division  |

Source: Microfinance Policy Framework for Fiji, Luse Kinivuwai  
\*Defunct as of 2009, but maintain savings balances.

These microfinance units have been highly dependent on government grants to cover most of their operating costs. To date, none of the MFIs under NCSMED have achieved financial sustainability, offered new microfinance products, or significantly grown their client bases.

The nine MFIs collectively have currently over 1,700 borrowers with FJ\$509,460 of outstanding loans as of June 2009. Using figures provided by NCSMED<sup>23</sup> for the first half of 2009, the current recovery rate is 93% on these short term loans, suggesting an annual loan loss rate of over 20%.<sup>24</sup> showing that a very high percentage of money is lost each

year to default. Currently, of over 1,700 outstanding loans, 540 of them are delinquent. The nine MFIs claim some 20,658<sup>25</sup> savers as of June 2009. However, it is known that in some MFIs nearly 50% of the savings accounts are legacy accounts with minimum balances and no activity. Savings accounts are not intermediated and no interest is paid; the MFIs are prudently required to keep the value of savings (collectively FJ\$1 million) on deposit with a regulated institution. Clients pay fees for savings transactions, ostensibly for the convenience of banking closer to home.



The growth rates of the number of savers and the number of borrowers are graphed here over a five year period for the three biggest MFIs in Fiji. The graph shows clearly that, while there have been modest percentage gains in borrowers, their absolute numbers are still very low. Almost all growth since 2003 has been an increase in the number of savers. This has contributed to the creation of the high cost models in practice today.

Figure 4 shows the average income per client in red. It is lower than the average cost per client (in blue), meaning that on average it is costing both institutions more per new client than they are making from them. The next two bars explain why, showing that while borrowing is profitable, the savings programmes are not and are, therefore, lowering the overall income per client. Managers of these MFIs are aware of this, but have been pressured by the government (their major source of income) to focus on savings. Microfinance in Fiji is still very much seen as a social service as opposed to a business.

<sup>23</sup> In general some of the aggregated numbers NCSMED provides do not seem to match with individual reports from MFIs operating in Fiji. This is probably because of a large number of miscalculations and the use of different methods for calculating some statistics.  
<sup>24</sup> Calculation methodology was taken from: Rosenberg, Richard (June 2009) Measuring Results of Microfinance Institutions: minimum indicators that donors and investors should track. CGAP.  
<sup>25</sup> While this is the number that NCSMED reports, it very likely includes inactive accounts that have not been accessed in a year or more. For example at FCOSS, of their 8,638 current accounts, only 3,911 (December 2009) are active. Therefore a better estimate for NCSMED could be more around 14,500.  
<sup>26</sup> Figures used to calculate this graph were submitted to the PFIP by MF West. They are relatively accurate, except that they include inactive clients in their savings numbers. For FCOSS & MF West this increases their actual number of savers by about 1,500 each.

NCSMED does not use standard international ratios as part of its monitoring, and data by institution are not publicly available. A stronger study of NCSMED and the MFIs is needed to better understand the constraints of the past and the opportunities to increase outreach and improve performance.

6.3.1 FCOSS

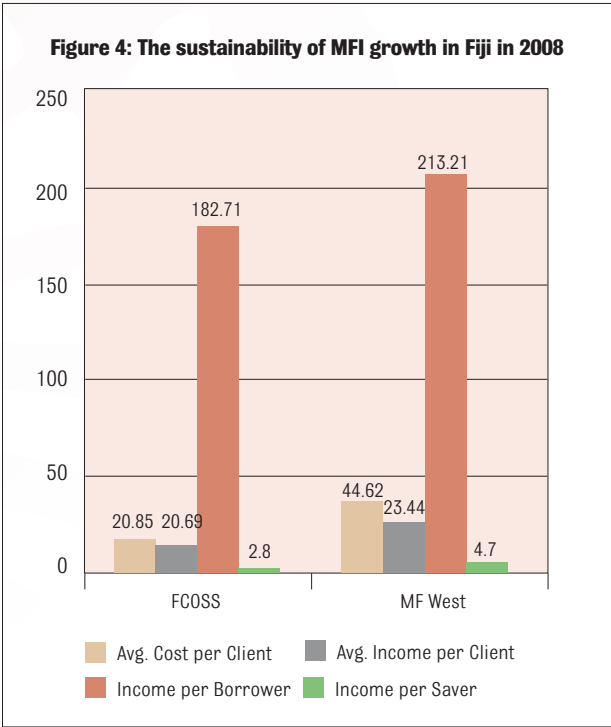
FCOSS was the first NGO to implement the microfinance programme in late November 1999, after receiving a government grant of FJ\$200,000. The MFI services the Navua/Suva/Nausori corridor and parts of Namosi, Naitasiri, Tailevu and Rewa. Like most of the NFMU projects, FCOSS used the Grameen model but switched to individual lending. Clients must save for three months prior to receiving a loan and a large number of former borrowers continue to maintain savings accounts with FCOSS. They currently charge a 25% interest rate on a six-month term loan, and have an average loan value of approximately FJ\$500. Savings are not used for on-lending, but are held in trust. FCOSS continues to rely on NCSMED grants for operations. These grants comprise the vast majority of FCOSS income. In 2007, the government grant was FJ\$113,830 which represented 63% of income that year. Without this grant FCOSS would have been able to cover only 38% of its expenses.<sup>27</sup> In 2008, the government grant fell to FJ\$70,000 (a decrease of 39%) and it is expected that support levels will probably decrease again significantly in the future. To cover this funding gap, FCOSS has begun extending large loans of FJ\$15,000 and fundraising from other sources. While they have won a contract from the Department of Social Welfare to administer some funds, it appears that FCOSS has decided to spend more time fundraising to fill this gap, instead of improving its operational model to cover costs. While they have shown interest in addressing some of the issues that are keeping operational costs high, they have still to draft a strategic plan to determine what their priorities are for the near and medium-term future and determine how they are going to generate more income.

Box 3: Inside FCOSS

In July 2009, the PFIP did an Activity Based Costing (ABC) analysis with FCOSS. The purpose of the analysis was to look at the different activities involved in collecting payments and determine their cost to the organisation. While it was determined that the payment system did need to be updated, many other systems were analyzed to determine how time consuming can costly they are. Credit officers are currently spending 22% of their time travelling to collect payments, and a further 42% of their time updating passbooks and ledger books, batching and issuing receipts. These activities must be re-designed so that credit officers can spend more time interacting with both existing and potential clients. Currently they only have one third of their time to do this. This is one of the reasons that FCOSS has low numbers of borrowers per staff member and per loan officer, and why they cannot mobilise much more than a loan portfolio equal to their operational expenses.

| Microbanking 2008 MFI Benchmarks  | Global Average <sup>28</sup> | FCOSS (2008) |
|-----------------------------------|------------------------------|--------------|
| Operating Expense/ Loan Portfolio | 15.8                         | 1            |
| Borrowers per loan officer        | 222                          | 71           |
| Borrowers per staff member        | 79                           | 41           |
| Average Salary/ GNI per capita    | 3.4                          | 1.54         |

It is also of note that they are paying their staff less than half the global average compared to their peers. FCOSS has the challenge of liberating its credit officers from the current high level of remedial task so that they are free to build a larger portfolio that in turn could enable them to receive higher compensation.



Source: FCOSS, MF West

6.3.2 Microfinance West

The MFU launched MF West in April 2000 in Lautoka. The MFI was formerly known as the Aglow Microfinance Unit. MF West is the largest MFI in terms of assets. The organisation operates through government funding to serve members living in urban, semi-urban, and rural areas of western Viti Levu. The Lautoka office serves as the regional hub and other offices are located in Nadi (Namaka), Sigatoka and Ba. Both, the main office in Lautoka and the satellite offices house credit officers.

As with most of the MFIs, MF West can receive savings and distribute loans. The savings are held in a separate trust and NCSMED grants provide the loan capital; there is no on-lending of savings deposits. MF West uses the same lending methodology as FCOSS and is therefore facing many of the same problems, including operational inefficiencies and decreasing grant money from the government. Operational sustainability is also a problem for MF West, which is currently covering about 55% of operating expenses through income generated. However, MF West is directly owned by NCSMED and so is not eligible to fundraise like FCOSS. It is therefore seeking approval from NCSMED to become independent. Currently it is not clear if NCSMED will grant this, but a few organisations have been speaking with MF West about future partnerships in anticipation of it.

6.4 Savings and loan cooperatives

Savings and loan cooperatives are registered under the Cooperatives Act and administered by the Department of Cooperatives. In rural areas, there are basically two types of co-operatives: sugarcane cooperatives and cooperatives serving the interests of other farmers. The cooperative movement was very strong during the 1980s but the movement lost pace as individual access to markets became easier for the farmer-members due to infrastructure development. The other reasons for the decline were that the members had limited financial understanding, differences emerged as the cooperatives grew in size, and government support for the movement declined significantly. As of 2008, 91 cooperatives are functional with a total membership of 7,689. The total savings of the cooperatives was FJ\$3.4 million and total credit given to about 4,494 members was approximately FJ\$16.6 million, mainly for general purposes. The cooperatives department is currently witnessing a surge in the number of applications for registration as a cooperative.<sup>29</sup>

The Department of Cooperatives is also facilitating the microfinance programme of NMFU in the northern and central division of Fiji. This scheme was launched as the Matasawalevu and Winisuka Cooperative in 2003. The co-op scheme provides microfinance services to cooperatives in Macuata. It has around 1,200 members in the Northern Division and 550 members in the Central Division under the microfinance programme and has dedicated one officer in each division to manage this programme. In the past few years the microfinance programme has been riddled by low repayment rates of between 50%-70%. In 2008, it disbursed just over 250 loans, at a value of approximately FJ\$74,000. It also currently holds around FJ\$56,000 in deposits.

6.5 Credit unions

Fiji’s credit unions (CUs) have been in decline, especially in rural areas. The number of CUs associated with FSCUL has declined from close to 180 in 1991 to 28 by 2009. The reasons for this decline are varied and include interest lost by members due to pulling out of CUNA mutual life insurance, poor manual record-keeping, weak official supervision, and low member administrative education. All of the strong CUs are linked to an employer, mostly from the public sector. As noted below in section 6.7 Range of roducts and services, CUs are very focused on raising regular “share” contributions from members through salary deductions and then allowing members to borrow back their savings with modest leverage, mostly for consumption purposes. The larger CUs invest in real estate. The employer-based CUs function more as pension funds against which members can borrow.

Credit union membership has been on the decrease since its peak (of 22,000) in 1977. Today, the FSCUL claims to have about 16,000 shareholders through its 28 members, although interviews with several members suggest that the number is lower, probably between 10,000 and 12,000. However, several of the larger CUs, including the FTUCTC and the Mataivalu Savings Credit Union, are no longer members of FSCUL. These two CUs alone contribute an additional 5,000 to the total number of members nationally. As a group, FSCUL members have assets of FJ\$45 million. The amount of captured savings is approximately FJ\$390,000 a fortnight. Members save mostly for Christmas and educational purposes. The demand for consumption credit is high and ranges from FJ\$100 to FJ\$500 per borrower. The FSCUL is attempting to recover ground in rural areas and is discussion with NFMU to access funds, technical assistance and other support.

The teachers’ CUs are the largest in terms of membership. Other large CUs include the Fiji Public Services Credit Union, the Fiji Nursing & Associates Credit Union and the Fiji Police Credit Union. The early retirement requirement mandated by the government in 2008 hurt all of the public sector CUs. At present, retiring members are usually required to take a lump sum payment and relinquish membership, unless they are able to maintain fortnightly contributions. Members of small CUs often leave without repaying loans, since the value of the payout was less than the amount owed.

There is still much to be learned about the remaining CUs, particularly the larger employee-based operations, and they merit a separate investigation. Three of these, the two teachers’ CUs and the Fiji Post and Telecom Employees Association Credit Union, are described below to show how they are structured.

<sup>27</sup> Fiji Council of Social Services Annual Report 2007.  
<sup>28</sup> MicroBanking Bulletin, Issue 19, December 2009. (Values used as benchmarking are those for organisations that are using the individual lending model)

<sup>29</sup> Based on conversations with the Dept. of Cooperatives



6.5.1 The Fiji Teachers’ Union Co-operative Thrift and Credit Society, Ltd.

The FTUCTC Society is the largest CU in Fiji with some 3,300 active members. It is not a member of FSCUL. Membership is limited to members of the Fiji Teachers’ Union, which is the union primarily for Indo-Fijian teachers. Its founding helped build the ranks of the FTU, which was originally smaller than the Fijian Teachers’ Association. It is possible for members to transfer shares to family members, but non-Union members cannot vote or apply for loans. In 2009 it had assets of FJ\$22.7 million and is over 80% funded through members’ shares (mandatory, regular contributions of FJ\$40 per month by members). Rather than interest, it pays dividends to its members that totalled \$730,418, or FJ\$133 per member, in 2008, The FTUCTC primarily lends to its members, representing FJ\$20.4 million of its assets. All loans are linked to the value of the members’ shares, but can be up to ten times the share value or FJ\$60,000 in some cases. It seeks collateral on all loans in excess of a member’s shares, including real estate, some other large assets, and life insurance (annuity) policies. However, it utilises its retained earnings for other investments, including real estate and shares in FijiTV. In 2009 it acquired the Hideaway Resort on Fiji’s Coral Coast for FJ\$12 million, in part with borrowings from the FNPF.<sup>30</sup> Currently it is in discussions with the Department of Energy to extend a loan to teachers working in rural areas so they can buy renewable energy systems.

6.5.2 The Fijian Teachers’ Association Credit Union

The Fijian Teachers’ Association (FTA) Credit Union has almost 2,400 members, of whom all are savers and some 2,100 are considered active. Its membership is linked to the (mostly indigenous) Fijian Teachers’ Association, but management is considering expanding membership. Mandatory share contributions make up over 90% of its funding; it requires members to increase shares from their salaries, usually FJ\$20 fortnightly. Recently, it also instituted a FJ\$5 monthly mandatory savings to counter the drop in membership with the mandated retirement of teachers. This enables it to accumulate some FJ\$1 million annually from its members for lending and investment. It has a loan portfolio of FJ\$3 million. There are different types of loan products, most of which are for consumption. Loans are primarily secured by shares and larger loans require loan insurance (issued by Colonial Fiji Life Ltd to the borrower) for up to a maximum loan amount of FJ\$50,000. It also invests for the long-term in some real estate.

6.5.3 The Fiji Post and Telecom Employees Association Credit Union

The Fiji Post and Telecom Employees Association Credit Union is typical of a medium-sized member of FSCUL. It has approximately 400 members. It was also hit hard by government layoffs and, although retirees can maintain membership with regular contributions, few do so. It recently opened up membership to family members of employees and plans to loosen the association requirement even further to attract new members. It has approximately FJ\$1 million in assets, most of which is lent to members and secured by shares. It instituted mandatory savings on top of regular share contributions in order to offset the impact of declining membership, and it offers a voluntary Christmas savings product that has seen only modest growth.

6.6 Informal sources

Registered money-lenders are governed by the Money-lenders Act and must be registered with the Registrar of Money-lenders. The legislation caps their interest rate at 12% per annum. The Act does not apply to MFIs, but the cap has probably prevented the emergence of a more transparent and competitive process of commercial money lending.

Informal money-lenders in both rural and urban areas have played a significant role in providing much-needed credit in the absence of formal banking systems. Informal money-lenders generally charge high interest rates and indulge in payday lending. Under this model the money-lender can collect his dues on payday the moment the borrowers steps out of the office or factory. Alternatively, borrowers surrender their passbooks to the money-lender with prepaid withdrawal slips or ATM cards with PIN numbers. This acts as security in the case of workers whose pay is automatically credited to a bank account and enables the money-lender to operate the account.

Based on a 2007 survey conducted by the Consumer Council of Fiji, the money-lending business in Fiji is worth \$2 million in revenue annually.<sup>31</sup> The survey showed that civil servants were the largest group of people turning to money-lenders regularly. The single largest reason for borrowing was cash flow problems in the household. Amounts borrowed from money-lenders ranged from FJ\$10 to FJ\$1500, the average loan being FJ\$152.

6.7 Range of product and services

6.7.1 Range of savings products

There is no definitive statistic on the number of microsavings deposits in Fiji, although commercial banks will be required to distinguish microsavings from other products in 2009. High maintenance and transaction fees, as well as negative real rates of interest on deposits, have acted as a disincentive to microsavings. This is largely due to the high-cost model of operations being used for servicing. Low-cost accounts with banks are increasingly available but are marketed at the urban educated class (e-savings, student savings). They require the AUSTRAC “100

<sup>30</sup> <http://www.fijilive.com/news/2009/03/28/14689.Fijilive>

<sup>31</sup> <http://www.fijitimes.com/story.aspx?id=81493>

points” of identification to open, which is not a significant obstacle in urban areas. Commercial banks generally charge a monthly maintenance fee on low-value accounts which entitles users to ATM cards and a limited number of transactions. MFIs frequently charge by transaction.

While there is no definitive survey of the general population’s attitudes toward banks, a 2009 study commissioned by PFIP of very low-income social welfare recipients revealed that, in general, these recipients have a positive attitude towards banks and savings accounts, believing them to be safe and fairly convenient. Those without bank accounts were more concerned about bank fees than those who actually have accounts and pay the fees. Bank fees were not found to be the primary predictor of whether a beneficiary opened a bank account; rather it related more to general financial competence, distance to the nearest branch and, in the case of Indo-Fijian households, the size and gender composition of the household. Interestingly, smaller, female-led households were found to be more likely to choose bank accounts and view them favourably than were larger, male-led households.

Only ANZ is actively marketing a microsavings account through its Rural Banking operation with low minimum balances but with a monthly FJ\$3 maintenance fee. This is similar to fees charged by other banks on their low-activity accounts offered in urban areas. Other banks are planning to introduce lower fee schemes and more points of service for depositors in the coming year in an effort to fulfil the new RBF policy. The MFIs provide savings services similar to those of ANZ Rural Banking and a similar fee structure. This includes a FJ\$3 fee per withdrawal. Interestingly, the MFIs tend to charge more for savings services than do banks, and they offer no interest. Despite this, they manage to retain over 20,000 savers on their books.

As noted above, CUs and cooperatives tend to require share contributions or share deposits that are mandatory and regular. The dividend rate for the co-operatives is pegged at 5%-6% while that of the CUs is restricted to between 3% and 6% of the profit. Voluntary savings is very limited and, when offered, does not appear to attract many members. Some comparative product terms are provided in Tables 10 and 11.

| Table 11: Types of microsavings products             |                        |                             |                                 |                         |  |  |
|--|------------------------|-----------------------------|---------------------------------|-------------------------|--|--|
| Company  | Name of the product    | Interest paid on savings    | Service charges                 | Minimum opening balance | Minimum operating balance                  | Total withdrawal penalty   |
| MF West  | Simple savings         | NIL                         | 5cents per dollar saved         | FJ\$5                   | FJ\$10                                     | FJ\$3 for withdrawals in 1st year of opening an account and FJ\$4 for closure of account later |
| FCOSS  |                        | NIL                         | FJ\$0.03 cents per dollar saved | FJ\$9.15                | FJ \$5                                     | FJ\$3  |
| ANZ  | Rural Everyday Account | < FJ\$250 – Nil             | FJ\$3 per month                 | FJ \$5                  |  | FJ\$3  |
|  |                        | FJ\$250 to FJ\$2000 - 0.10% |                                 |                         |  |  |
|  |                        | > \$2000 - 0.25%            |                                 |                         |  |  |
|  | Rural Savings Account  | 1.75%                       |                                 | Nil                     |  | FJ\$3 per withdrawal   |
| Fiji Teachers' Union Co-op Thrift and Credit Society | Shares                 | Dividends are paid          | Nil                             | FJ \$2                  | Nil  | No withdrawals; To be given at the end.  |
| Fiji Teachers' Association Credit Union              | Shares                 | Dividends are paid          | Nil                             | Nil                     | FJ\$5/fortnight compulsory minimum savings | No withdrawals; To be given at the end   |



| Table 12: Types of microloan products                |                         |   |                                    |                       |                                   |  |                        |
|--|-------------------------|---|------------------------------------|-----------------------|-----------------------------------|--|------------------------|
| Name of the company                                  | Types of credit product | Term of the loan                                | Minimum loan size                  | Maximum loan size     | Interest rate                     | Security/ Collateral   | Frequency of repayment |
| MF West  | Business Loans          | 6 months - 1 year for all types of loans        | FJ\$100                            | FJ\$6,000             | 25% flat*                         | Savings Held   | Weekly                 |
|  | Education Loans         |   | FJ\$200                            | FJ\$3,000             | 25% flat                          | Savings Held   | Weekly                 |
|  | Home Improvement        |   | FJ\$300                            | FJ\$1,500             | 25% flat                          | Savings Held   | Weekly                 |
|  | Social Loans            |   | FJ\$200                            | FJ\$2,000             | 25% flat                          | Savings Held   | Weekly                 |
| FCOSS  | Microenterprse Loans    | 26 – 52 weeks                                   | FJ\$250 -                          | FJ\$15,000            | 50% flat p.a.                     | Savings Held   | Weekly                 |
| ANZ  | Rural Banking microloan |   | FJ\$125                            | FJ\$1250              | 20%                               |  |                        |
| ANZ  | Renewable Energy Loan   | 5 years for individuals & 7 years for companies | FJ\$50                             | No maximum            | 10.5% secured and 13.2% unsecured | World Bank guarantees 50% of the loan.                             | Fortnightly or monthly |
| Fiji Teachers' Union Co-op Thrift and Credit Society | Soft Loans              | 6 to 138months depending on the loan amount     | Equal to contribution held         | Shares+ FJ\$200       | 6%                                | Shares   | Fortnightly            |
|  | Emergency Loan          |   | Equal to contribution held FJ\$700 | Shares value FJ\$700  | 6%                                | Shares   | Fortnightly            |
|  | Special Loan            |   | Total Contribution                 | Up to 10x shares      | 6%                                | Title of Motor Vehicles, Real Estate, Life Policy, Members surety) | Fortnightly            |
|  | Formula Loan            |   |                                    | (Max Cap of \$60,000) |                                   |  |                        |

6.7.2 Range of credit products

In line with the objectives of the Pilot Project Phase, the NMFU developed four methodologies in the pilot phase (1999-2003): the solidarity group, a Grameen Bank adapted model; individual direct lending; village banks; and a cooperatives model. The Grameen model dominated the discussion and practice in the early years. Initially, the Individual Direct Lending Programme under the Pilot Project was administered directly from the NMFU. This was introduced in 2001 and was closed within 12 months due to poor performance.<sup>32</sup> There are still a mixture of lending types being offered by the MFIs and cooperatives, but most take a “savings first” approach and may rely heavily on savings as collateral. The urban MFIs moved more towards the individual lending model after the pilot phase and MFIs are generally backed by the savings held by them, often up to 50% or more of the value of the loan. In addition, there has been a movement toward consumption lending. Most loans carry a flat rate of 25% per annum. With weekly repayments this can add up to more than a 50% effective rate – higher if the cost of restricted savings is considered.

ANZ bank provided individual loans through its Rural Banking at a flat rate of 20%, but has suspended lending due to poor repayment. The other banks have not offered microcredit. Salary loans are common throughout the Pacific, offered by banks and credit companies. They are based on a percentage of the applicant’s annual salary and are usually payable in 12 months or less. Some are offered directly by employers at more concessional rates.

As noted, most CU and cooperative loan products are guaranteed in full or in part by shares and are largely for consumption. Larger loans are backed by fixed assets, life or loan insurance. In the co-operatives, there are several types of loan products offered at a fairly low flat rate of 6% per annum.

6.7.3 Insurance products

There is no widely recognised microinsurance product. Individual life insurance is largely for middle-class borrowers, particularly salaried workers and homeowners. As noted above, term life can be offered by general insurance companies whereas the two life insurance companies focus more on endowment and investment insurance products. Perhaps the most accessible are individual accident policies offered by a number of general insurers. As an example, Dominion Insurance offers a benefit of FJ\$10,000 to FJ\$200,000 for a premium of FJ\$35-175. The new individual funeral insurance product offered by HFC and FijiCare is the closest product to typical microinsurance, charging FJ\$2 per week, and currently has around 150 clients.

<sup>32</sup> Adapted from Kinivuwai 2005.

Individual health insurance products tend to be quite expensive for a typical Fijian household. As an example, the lowest level of coverage for medical events by FijiCare (excluding optical and dental) is FJ\$400-FJ\$500 for a family or over FJ\$40 per month, covering up to FJ\$5,000 for a single event, FJ\$20,000 for a single condition and over FJ\$100,000 for medical evacuation. It also includes a death benefit of up to FJ\$12,000. Group coverage, such as that offered by Dominion Insurance to various associations of employees (teachers, farmers), offers lower premiums and benefits but is limited to salaried workers.

Both life and general insurance companies offer group life and health insurance products to corporations primarily managed by brokers or associations. Motor vehicle and house insurance for individual buyers is done in collaboration with leasing and finance companies managed by general insurance companies. Retail insurance through direct sales by agents is very limited.

In-house life insurance in CUs is being run by the FSCUL and the larger CUs. The insurance premium is 1.2% of the total outstanding and, in the event of death, the loan is offset through in-house insurance. A similar scheme is run by cooperatives, where one percent on the loan outstanding is charged as the premium.

6.7.4 Transfers and remittances

Most domestic money transfers are assumed to happen by hand. The low-volume transfer business is dominated by Post Fiji, which transfers approximately FJ\$5 million per month domestically. The cost of a Post Fiji transfer starts at FJ\$3 and increases according to the amount transferred. It is likely that the average cost falls between 3% and 7% of the value of the transfer.

As noted, personal foreign remittances are a significant source of support for Fijians, and mostly originates from Australia, New Zealand, the USA and Fijians serving in the United Nations peacekeeping operations.<sup>33</sup> This official figure may underestimate the actual volume as it is still common for Fijians to personally carry money home or send it with friends and relatives. Official, personal foreign remittances equate to nearly FJ\$250 per person per year or FJ\$100 per month per household. There are a number of remittance providers, including all the major banks and international remittances companies, such as MoneyGram and Western Union. The cost of remittances of these providers ranges from 9% to 35%, with an average of close to 18%.<sup>34</sup> It can take anywhere from one hour to five days to receive remittances and there is no apparent link between the cost and the speed of service. Post Fiji operates with Western Union and has the greatest reach, whereas MoneyGram operates out of Westpac and large retailers. While Westpac offers a “two card” remittance solution for those with relatives in New Zealand, it has not actively marketed the product due to concerns over KYC imposed by AUSTRAC.

7 Opportunities for the future

**Meeting the demand for financial services:** The analysis by BASIX suggests that there is still a large, unmet demand for financial services – very roughly estimated at 109,000 households. In urban areas, there is a greater need for credit services than in rural areas, although the quality of that demand requires further study. The reverse is true in rural areas, where the need for savings services exceeds that in urban areas. In either case, it is safe to assume that tens of thousands of households would benefit from savings services. There is also a largely untapped market for funeral, life and supplemental health insurance, as well as a high dependence on domestic transfers across all households. Aside from the overall low penetration rate of insurance, the ILO surveys indicate a willingness of households to pay for life or supplemental health insurance. For savings, transfers, remittances and insurance, the financial services providers must look beyond microenterprises to wage earners, many of whom are concentrated in the tourism, restaurant and personal services industry. These future clients might be reached more easily through the associations and cooperatives that serve them.

**RBF directive on microfinance and the medium-term strategy for financial inclusion:** The directive to commercial banks to set up a microfinance unit in every branch can be viewed as an opportunity—it highlights the commitment of the RBF to build a more inclusive financial system and to integrate microfinance into the formal financial sector. The regulations issued at the end of 2009 focus on the structure of banks’ microfinance units and the reporting requirements, but placed equal emphasis on savings and credit. The impact of the directive will depend on how the banks respond. Commercial banks are taking proactive steps to identify ways to support the directive and implement it. As the banks find their way, there may be ways to work with them and other partners to more effectively serve low-income clients, particularly with low-cost, accessible savings services.

At the same time, the five-year strategy under development should help focus stakeholders on their particular role in achieving greater financial inclusion. Should the Task Force be created, some oversight on whether it is achieving the proposed objectives may prevent this current national strategy from suffering the fate of its predecessor, which was largely forgotten and left to the government to pursue.

**Rapid development of the mobile network:** As in many developing countries, the expansion of MNOs has opened up opportunities for new models of delivery of financial services. There are currently more SIM cards in Fiji than citizens; while there are no statistics available, it is assumed that

<sup>33</sup> This number is expected to fall as Fiji is currently banned from sending peace-keeping troops to the UN.

<sup>34</sup> Taken from <http://www.sendmoneypacific.org/> based on AUD200.

more than 70% of Fijian households have at least one mobile phone. The PFIP-commissioned study of social welfare beneficiaries revealed that 38% of beneficiaries own a mobile phone and that number is likely to grow (Sibley, 2009). Collaborative efforts between MNOs and commercial banks are moving forward behind the scenes and are likely to be essential in improving the outreach of much needed savings and transfer services. The two major MNOs, Digicel and Vodafone, will both have the technology necessary for money transfers. The challenge for the MNOs and others will be to make mobile phone banking products accessible and attractive to low-income and rural clients.

**Interest in new delivery mechanisms:** Donors and commercial banks in Fiji have already designed new models of enhanced outreach for microfinance and rural finance, such as the ANZ Rural Banking initiative. Greater emphasis can be given to branchless banking and agent banking mechanisms that enable banks and third parties to provide basic financial services. This may be through mobile phone or EFTPOS devices. These efforts should include both bank-led and non-bank-led models. There are a number of interested parties, including the MNOs, Transtel, the banks, Post Fiji and a few MFIs, looking to such a solution that is “bank agnostic” (i.e. not linked to only one bank) and the RBF has expressed a willingness to see non-banks in this market.

**Opening up credit unions:** Fiji’s biggest CUs have largely self-imposed restrictions on membership that limit their outreach. The structure of the share-based savings also limits participation. These are fairly large institutions that follow conservative lending principles and have the potential to serve more Fijians. There is already some movement to broaden membership requirements and a few have offered greater leverage to share-linked loans. It is probably wiser to expand the activities of these CUs than try to build up or start new ones in secondary towns.

**Remittances and transfers:** Domestic transfers and international remittances remain a vital source of support for low-income households, particularly in rural areas. Domestic remittances require a more convenient mechanism that can accommodate high-volume, low-value transfers that are often hand-carried. Despite the recent decline, remittances exceed the revenue of all industries other than tourism. Conservatively assuming annual international remittances of FJ\$200 million at an average of 18%, a total of FJ\$36 million is currently being paid by Fijians and their relatives overseas to transfer funds. Reducing this cost to a reasonable 10% would save households FJ\$16 million, or nearly FJ\$95 per year per household. There are also interesting possibilities to link remittance receipts to other financial services, starting with savings and leading potentially to insurance and credit. Bundling such products with remittances, particularly basic life insurance and savings, would lower the transaction cost and help in bringing out cost-effective models. One of the greatest constraints to accessing credit is the lack of cash flow and financial assets. Remittances help low-income households create both.

**Greenfield MFI:** The NGO-led approach to building MFIs had limited success in Fiji, in part due to the lack of technical capacity of the founders as well as the lack of financial resources for growth. Moreover, they have certainly lacked the incentive to improve their performance. The existing MFIs do not have a sustainable model for growth. Experience elsewhere suggests that it is easier and more successful to start a new institution than to try to revamp or revitalise an existing local organisation. Starting a “greenfield” institution is costly and is likely to require donor assistance, but it may find partners in the commercial banks which recognise the benefits of housing any microlending activities in a specialised entity. The potential market in Fiji suggests there is room for a strong microfinance institution, particularly if it is linked to the commercial banks, other financial service providers and new technologies.

**Government as a buyer of services:** The GoF through several ministries has a financial relationship with thousands of unserved Fijians. The greatest opportunity lies with the Department of Social Welfare, whose ranks include an estimated 20,000 unserved, low-income clients. The NTLB and other agencies also serve low-income communities. The GoF is the largest employer in the country, paying all Fiji’s public school teachers. Should the government commit to doing so using new technologies, it could quickly help build a market and justify private sector investment in innovative delivery mechanisms. Structuring these transfers to maximise financial inclusion, encouraging recipients to open and grow savings accounts is a powerful means to increase the financial power of households.

**Financial Literacy:** Both the study of ANZ Rural Banking clients and the more recent study of social welfare beneficiaries suggest that overall financial literacy and competency are the greatest inhibiting factors to households having a savings account. The studies also show that those with a savings account manage their money better than those without. There is great value in these findings alone because they justify an investment in building the financial competency of Fijian households as part of an overall financial inclusion strategy. Discussion on developing a baseline for financial competency and a means to measure progress are under way with donors and the government. There is, however, a need to develop innovative and cost-effective methods to reach youth and adults with the basic lessons of money management, savings and financial planning. The ANZ has plans to launch a financial literacy campaign with a module called “Money Minded”.

## 7.1 The role of stakeholders

There is a need for all stakeholders to come together and work towards achieving the goal of financial inclusion in Fiji. More specific roles that can be played by the stakeholders are outlined below.

### 7.1.1 Regulatory authority/government

Experience around the world is clear. The best role for government is to create an enabling environment and avoid the direct provision of financial services, particularly those that are subsidised or politically motivated. There are three primary players at present, namely the NCSMED, the RBF, and the Fiji Development Bank. Each has a role to play, albeit perhaps not the role it currently plays.

**The RBF** is now taking the lead in microfinance, having sponsored the 2009 stakeholders’ workshop. It has also pressured the commercial banks to do more in microfinance and has shown flexibility in permitting pilots of branchless banking technologies. It will also monitor commercial banks’ progress in reaching low-income clients and may be willing to do the same (or mandate the same) for other providers. The challenge for the RBF is to recognise that commercial banks will not be and should not be the primary solution to financial inclusion, just as the government was unable to develop the microfinance sector alone. Financial services activities are most successful when done on a sustainable basis and priced according to the market. The approach should be consultative rather than directive, supplying potential providers with enough certainty to invest in new products, delivery mechanisms and entities, while requiring significant transparency in operations to avoid any risk to clients or to the system as a whole. This will facilitate private sector investment and better public-private partnership for efficient service delivery.

**State owned institutions** can continue to play more proactive and supportive roles, provided they are held accountable for results and are judged against defined benchmarks and performance indicators. This should start with an honest, external evaluation of the operations of the NCSMED (and the NMFU) as well as the FDB’s microfinance and sector support. Rather than play an operational or retail role, these institutions are better suited to catalyse or provide investment in innovative models, support capacity-building and be part of the policy decisions and strategic dialogues among various stakeholders. Similarly, they should require high standards and transparency from the partners they support. This requires a retooling of their role so that one of these bodies, most likely the NCSMED, focuses on advocacy and sector development while the other manages any wholesale lending. This would also require spinning off the existing MFIs and making them functionally and financially autonomous, either as individual institutions or as a single institution.

**Network associations** such as the FSCUL and the NMFU are well suited to set standards for their members and require transparent and standard reporting. Over time, they may be able to take on a more active role in overseeing or certifying their members. They also have a significant role to play in requiring codes of conduct of their members to ensure better treatment of clients.

**Government** can provide incentives for collaboration and product development, such as tax incentives or holidays for certain activities or product lines. Government also has the primary role to support financial literacy at customer level. Only government has the resources and outreach to reach hundreds of thousands of Fijians, either through schools, community centres or national campaigns. PFIP and the Pacific Financial Technical Assistance Centre (PFTAC) of the IMF are working closely with regional stakeholders to develop strategies and plans for governments to work toward this goal. Financial capacity-building and literacy programmes are already being supported by the private sector, but they need more support. Finally, the GoF has a role to protect consumers. While education is the best protection, there is also a need for adequate disclosure and transparency of all financial service providers. Codes of conduct are best left to the industry itself. However, it is still government’s duty to stay alert to unscrupulous and risky providers who try to sell their services as microfinance.

### 7.1.2 Donors

Donors should continue to support the research and development process, especially in new delivery methods, such as branchless banking and agent banking. This support could be bringing in new ideas from other countries, sourcing of appropriate technological solutions, and even capacity-building of stakeholders to enable them to implement new business solutions. Starting a “greenfield” institution is costly and is likely to require donor assistance. This also applies to testing new approaches to financial literacy training. While government should take the lead role, donors can help pilot and test new approaches to financial education.

Donors can work to provide expert advice on regulation for financial inclusion. The RBF has indicated a desire to receive expert advice to this end and has encouraged a Pacific regional approach. Assessing the current regulatory environment and providing advice on how to remove impediments and enact enabling regulations is something donors can assist with.

Donors play an important role in the development of the meso-level by supporting governments in improving access to the credit bureau, and by enabling moveable and financial assets to be secured as collateral. This can also extend to supporting those associations, networks and training centres that show promise in serving the sector. Given the small market in Fiji and the high cost of building a specialised technical assistance centre for microfinance, it may be wise to support key stakeholders in gaining experience and exposure through technical exchanges and programmes offered elsewhere.

Perhaps the most important role donors can play is to facilitate policy and stakeholder dialogue that create better and more regular communication channels, institutional relationships and partnerships. A “virtuous circle” of intent to build an inclusive financial system often starts with donors’



efforts to put the issue on the agenda and make local stakeholders aware of how this is being accomplished in other parts of the world. At this stage, donors can use their convening power to bring people together and create a plan that keeps the clients' needs at the centre and balances the demands of all participants.

### 7.1.3 Retail service providers

Service providers themselves need to invest in research and development for devising a low-cost business model, particularly in the savings and remittance market.

**Commercial Banks.** It is true that commercial banks “lose” money on most of their retail savings accounts. At the same time, their corporate and high net worth banking business is quite lucrative. There is room for banks to investigate new technologies, most of which exist and could be made compatible with their systems, in order to reduce costs. There is a strong business case for this; remittances and transfers in particular offer a lucrative market as a volume business. On the margins, banks could also play a role in credit provision, either directly working with proven microenterprises and steady wage earners, while staying away from subsidised or targeted loan schemes.

**Telecommunications providers:** The MNOs, including TFL and its subsidiary Transtel, already see the benefit of adding financial services to their package of services. It is likely that one or more will act on this in 2010. The challenge is to work with these providers to ensure that products and services target the poor and that clients are protected. Solutions such as Transtel's prepaid solution (Yehdo) have shown that the technology can service the middle class. However, the mass market is with the some 40% of Fijians living at or below the poverty line.

**Microfinance institutions:** MFIs need better incentives for performance. On balance, MFIs in Fiji have not met expectations. It is important for them to be encouraged to take responsibility for their operations, improve performance and become sustainable. The average period for MFIs to reach sustainability has been reduced to three or four years—and most Fijian MFIs have been in business twice that long. This will require difficult decisions, including spinning off or merging operations, partnering with stronger institutions, changing methodologies and letting staff go. Ultimately, it will require ending government subsidies in order to force MFIs to cover their costs and source funds for growth from private sources.

**Credit unions and cooperatives:** These organisations already play a significant role in providing savings and credit services to their members. While most members are salaried, many are fairly low-income, such as teachers. The current CU system in Fiji has failed to evolve, following rigid practices that limit membership and services. In addition to working together to propose a new credit union law, they need to begin to innovate and look at ways to increase membership and products.

## 8 Constraints

The microfinance sector in Fiji is still in its primary stage of development after ten years. This embryonic state is characterised by a lack of sustainable service providers, products, services, and geographic coverage. The constraints to the development of the microfinance sector are best tackled using a financial systems approach and a greater role for private actors. The issues and analysis discussed in this assessment put forth need to be addressed by the appropriate stakeholders, including the government, regulators, commercial providers and non-profit providers.

### 8.1 The macro level

**Problems of defining microfinance:** With other stakeholders, the RBF as a regulatory body should have and provide a clear understanding of microfinance by defining the boundaries of microfinance in terms of the range of products and services included. A good starting point is Key Principles of Microfinance developed by CGAP.<sup>35</sup> This will help the players to better identify where to position their institution. For financial institutions, a common and uniform understanding of the scope of various services will help them to take more concrete steps to support the sector. Banks require the flexibility to achieve results that make sense not only for Fiji's short-term need, but also for their long-term business strategy.

**Measuring financial inclusion.** The GoF should embrace microfinance as part of the larger goal of an inclusive financial system. Such an approach looks beyond the poor and considers how the financial sector can best serve all of its citizenry. This is particularly relevant in an economy where there is a fairly high economic dependency ratio; one person may support up to five or six others. Any service that helps the main income earner is also indirectly helping the lower-income relatives that he or she supports. Inclusive finance may also be easier to measure as it looks at the reduction in the number of the unserved.

**Lack of rigour with non-commercial microfinance:** Microfinance has been viewed as the territory of the traditional MFIs, but that border is blurring as a result of the RBF directive. Rather than relying on the banks alone, there is a need to create acceptable norms and regulations for

MFIs and CUs that encourage their closer integration with the formal financial sector. Currently the MFIs and CUs are not treated as financial intermediaries; they are not subject to proper control mechanisms, such as internal and external audits and reporting systems. Cooperatives and CUs are barely monitored and not many statistics are available on their performance. There is no obvious monitoring body other than the RBF, which currently has no mandate to oversee CUs or MFIs. If they are unwilling or legally unable to take on this task, it is not clear who else has the capacity.

**No branchless banking regulation:** Few countries in the world have adequate guidance or regulations to address the technologies driving branchless banking, and Fiji is no exception. There is a need for the RBF to produce guidelines and support branchless banking, particularly agent banking and regulations on e-money. It may also require a closer review of the Financial Transactions Reporting regulations, particularly as they relate to non-bank actors involved in small-scale financial transactions. The RBF may need assistance with this new area of regulation and donor agencies should be prepared to offer it.

### 8.2 Financial institutions

**Belief that microfinance is a non-viable business line:** Elsewhere in the world microfinance has proven not only to be profitable, but also more stable than corporate banking. Still, commercial institutions in Fiji do not perceive microfinance as a profitable business venture. It is, therefore, understandable that there has been no or little strategic planning by the top management, and low or limited investment in research and development, or in market analysis, or in looking for innovative distribution mechanisms. Suitable models and pricing mechanisms have to be developed, tested and stabilised to serve these segments. While this takes time and the break-even point is definitely higher than their current business, it can be a profitable venture as shown in models in other countries.

**Lack of transparency and governance among MFIs and credit unions:** The MFIs and most CUs fail to produce audited financial statements. Neither do they provide regular financial reporting, even to their members. In part this is due to lack of capacity. However, there is also a certain culture of lax governance and, in the case of CUs, the inability of members to hold management accountable. Without financial transparency, it is difficult to know if the costs are unavoidable or merely the result of inefficiency. The problems faced by MFIs and CUs have not been analysed and addressed, and any assessment will be difficult, given the current state of financial reporting. Without incentives to build operational, financial and institutional self-sufficiency in the medium or long term, any financial institution will perform poorly.

**High dependency syndrome and lack of incentives:** Historically, MFIs have been promoted by the government as a means of poverty alleviation, without paying attention to their role as effective financial service providers. A close look at the products and services offered by the non-commercial sector highlights that they are costly and not well-suited for most clients. MFIs and the NCSMED itself depend on the government for funding. For clients, there is still a persistent grant mentality which results in poor repayment. MFIs expect coverage of administrative costs and on-lending funds. As a pilot to build the sector, it was probably a correct step, but this arrangement can be a hindrance to institutional sustainability. As a strategy, GoF support has to be reduced over a period of time; otherwise, it would run in a project mode without any accountability of the institution itself and its staff.

**Lack of practitioner champions in microfinance:** As shown in other countries, the development of the microfinance sector was made possible through the proactive role taken by MFIs, government, associations and donor agencies. Advocacy and promotion of the sector work best when it is driven by the practitioners themselves, with a close eye on the client. In Fiji, only FCOSS qualifies as a “private” MFI and there is no obvious private sector champion to this effort. The RBF has now taken on this role from the NMFU, but there is neither a practitioner champion nor a large practitioner constituency for microfinance.

### 8.3 Other constraints

**Lack of knowledge about financial needs:** The exact needs of customers in both urban and rural areas are yet to be studied or analysed so that appropriate products and services can be provided. The understanding of the cash flow in economy, its sources and fluctuation, routine and emergency cash requirements can help in building appropriate products and services. Institutions need to understand these issues and build more customer-oriented appropriate services. For example, there is a huge remittance market in rural areas in Fiji, which has not been explored by the financial institutions in a meaningful way. To date, there has been no market demand study for microinsurance or savings.

**Weakness of NCSMED:** There is no recent definitive evaluation of the NCSMED's performance in microfinance. With the NMFU's merger into the NCSMED, the unit was supposed to focus on coordinating the government's involvement, managing a nationwide savings campaign, and promoting strategic alliances for poverty alleviation. It has remained, however, primarily a grant-making entity. It has also not enforced the needed standards on MFIs to reward good performance, building its partners' financial and institutional sustainability. A greater focus is needed on prudential norms and guidelines, and on fund management, including its sourcing, which are basic tenets of finance. This requires a change in mindset from the poverty reduction role to a sector development responsibility.

<sup>35</sup> January 2004 available at [http://www.cgap.org/gm/document-1.9.2747/KeyPrincMicrofinance\\_CG\\_eng.pdf](http://www.cgap.org/gm/document-1.9.2747/KeyPrincMicrofinance_CG_eng.pdf)



**High transaction cost:** Due to poor infrastructure and the use of traditional models of delivery, coupled with low volume, the transaction cost of operations is high at present. Product and process innovation can help in the reduction of the transaction cost, even in poor infrastructure environments. In addition to a better use of communications technology and the possibility of creating agent networks, other possibilities are: bundling products/transactions, selling more than one product, and reaching out to clients beyond normal microfinance clients.

**Low financial literacy among the customers:** The concept of finance and its need has to be developed among customers, especially in rural areas where traditional support and barter systems still prevail. This is another impediment which results in the low volume of transaction on the ground. More financial literacy programmes can be useful to tackle this issue. Also, product designs, such as a savings-linked remittance programme, can catalyse more financial transactions and literacy among the customers.

8.4 Environmental constraints

Jobs versus self-employment; As evident from the employment statistics, indigenous Fijians are mostly looking for jobs rather than self-employment. Therefore, the need for investment or working capital is limited in both the rural and urban economy and is reflected in the financial needs of the people, mostly for savings and remittances in urban areas and savings in rural areas. The credit volume is often lower than savings, indicating the low self-employment phenomenon in the economy. While this is a constraint to traditional microfinance, it can be viewed as an opportunity for financial inclusion—particularly through the provision of non-credit services.

**Predominance of subsistence economy:** The Fiji rural economy as described earlier is subsistence in nature, and is influenced by cultural values and traditions. Even though the production is at subsistence level, there is no food poverty in the villages, so there is no incentive to move beyond current levels to any commercial approach. Commercial agriculture as a whole is in decline. There is little investment in value-added services or diversification in the rural and peri-urban areas, which are the main contributors to growth in small and micro-enterprises.

**Poor infrastructure in rural areas:** The poor infrastructure in terms of roads, electricity and access to outer islands has resulted in inadequate services by the financial institutions. Servicing microfinance clients under such conditions involves high transaction costs and higher risks. This also results in servicing the clients infrequently and thus decreases client interest. This has been exemplified in ANZ’s Rural Banking service. Better access through proper infrastructure will foster the development of microfinance in Fiji.

**Uncertainty of land-lease systems:** The current land ownership and leasing system also has its impact on the rural economy. This has been propelled by the uncertainties of renewal of land tenure, which has forced farmers, predominantly sugarcane growers, to look for other employment avenues, especially in urban areas and overseas. Moreover, this uncertainty has limited investment in the land by lease holders, resulting in less than optimal use of the land. Since agriculture is the predominant activity in the rural areas, and is mainly subsistence in nature, the demand for various services, including financial services, has been low.

**Uncertain political scenario:** The political scenario since the coup in 1987 has created an uncertain environment in the country which is reflected in poor growth and low investment by potential investors. Although some sectors, such as tourism, are picking up, this uncertainty has affected other sectors and has limited the growth of the economy. The uncertainty has also had an impact on the demand for various good and services, especially in the small and micro-enterprise sector, which has been low.

Annex 1 Persons Consulted

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|--|----------------------|---|--|
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| Ministry of National Planning                            | Pita Wise            | Permanent Secretary                                   | Tel: 3313411<br>E-mail: pwise@govnet.gov.fj                |
|  | Shivraj              | Chief Economist                                       | Tel: 3313411   |
|  | Krishna Prasad       | Deputy Secretary                                      | Tel: 3111314   |

## Annex 2 Resources

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