

**National Centre for Small and Micro-Enterprises  
Development**

**NATIONAL CONFERENCE  
ON  
« MICRO-FINANCE: THE WAY FORWARD »**

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**by**

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## **General Background**

Fifteen years ago, microfinance did not get much attention from the Government of Fiji and the public sector, let alone from the financial industry. However, there were already a few encouraging signs that the tide was turning in favour of a better understanding and a more effective use of more innovative approaches to the banking business.

Such one was pioneered in Bangladesh by Professor Mohammed Yunus through his Grameen Banks as early as 1976. Under Yunus' innovative scheme, entire populations of very poor farmers whom banks dubbed not creditworthy were proven to be reliable borrowers, after all, if one could design banking products and services that were adapted to them and develop alternative means to collateralise loans, for example, peers' pressure and group solidarity. Although the Grameen Bank approach would fail in Fiji, its introduction had a long lasting effect there. It helped mainstream microfinance in the mind of Government decision-makers.

In 1993, funded and assisted by New Zealand Aid and put under the supervision of the Ministry of Women, Social Welfare and Poverty Alleviation, women's groups were organised for the first time in Fiji, following the model of the Grameen Banks that was beginning to be acclaimed worldwide as a major breakthrough in the banking industry. This joint public-private operation was soon followed by two private initiatives: SEEDS and Anandpur.

In 1996, the Reserve Bank of Fiji conducted a national survey on the existing microfinance scheme with the technical assistance of ESCAP. In 1996, three staff from the Fiji National Planning Office of the Ministry of Finance, the Reserve Bank and the Ministry of Commerce participated in a joint ESCAP-SPC regional workshop on microfinance in Nouméa where the idea of organising in Fiji a national conference on microfinance was mooted for the first time.

In November 1998, a national conference was eventually organised by the Reserve Bank with the support of the United Nations Development Program. NGOs, the RBF, donors and the Fiji Government met and discussed on this issue, and the then Minister of Finance subsequently decided to set-up a National Microfinance Unit that would explore the best ways and means to promote micro-credit through a three year pilot-phase. This decision has been the landmark of the development of microfinance in Fiji, as it was recognising microfinance as a valuable investment of public funds. The National Microfinance Unit was set-up in 1999 and was fully operational in 2000.

However, this Unit, hard-pressed to show results, staffed with inexperienced personnel and lacking strategic focus switched in 2001 from slow moving projects with NGOs to rapid lending to individuals, a strategy that ended with bad debts which the Unit is still trying to recover. As loans to NGOs were not based on appropriate contractual arrangements, it resulted sometimes in acrimonious conflicts between the Unit and some of its clients, which led to further emphasis on individual micro-credits.

The first three years had been costly and somehow disappointing, but in 2003, despite these setbacks, the Government of Fiji saw merit in extending the pilot-phase while taking the momentous decisions to change the management and the policy of the Unit. The arrival of a technical assistant who had experience of microfinance in the Solomon Islands, the revision of the long term strategy, the introduction of a 'savings first' policy and the redirection of Unit's support to NGOs, helped achieve better results. Today, it intervenes in 12 of the 15 Fiji provinces.

The unit and the National Centre for Small and Micro-Enterprise Development merged in 2004, putting under the same roof teams and means capable of supporting both MFIs and SMEs, two complementary aspects of economic development and people's welfare. Synergies between their activities are now being developed. The rationale of the Ministry's decision to pursue its efforts can be traced back to 2002; Microfinance was included in the Strategic Development Plan 2003-2005, in a context where the issue of growing poverty, despite reluctance to use the word "poor", was becoming more obvious from various studies and indicators such as the Human Development Index. This also prompted the Government of Fiji to agree on tax subsidies to ANZ Bank, a private bank that saw value in servicing customers which banks had ignored until recently through using mobile banks.

Meanwhile, microfinance was gathering momentum in the Pacific and the world. Developed countries began to use it to solve their own unemployment problems. In 2000, an international conference held in Lyon in France demonstrated the growing importance and visibility of microfinance in the economy. Microfinance filled an important function in the pursuit of the UN Millennium Development Goals to alleviate poverty by 2015 set at Johannesburg in 2000.

The 2005 National Conference on "Microfinance: the way forward" organised by the National Centre for Small and Micro-Enterprise Development as part of the celebrations of the UN International Year of Micro-credit 2005, comes at a time when a relative indifference has been replaced by a flurry of initiatives that poses new problems and challenges to lawmakers and stakeholders. This flurry of projects – sometimes old copra in new bags – has been the hallmark of the industry since 2000 and it has also heralded major changes in the micro-finance sector.

### **The latest developments**

In the last five years, Fiji financial industry has pursued its shifts towards market-oriented practices. At the same time, commercial banks have been under public pressure to uplift the quality and coverage of their services. In 1999, a report of a Committee of Enquiry into the banking system exposed the insufficient number of products and services offered by banks to lower income and expressed concern about their pull-out of rural areas. During the same period, Fiji Post was also pointed at for closing agencies in remote areas. Notably, these trends predated the 2000 coup and were not one of its consequences. Many other weaknesses were exposed by the Sharma report that forced banks to respond, often under the pressure of customers and media, and to make quick improvements. Then, one of them, ANZ Bank sets the objective to return to rural areas on a grand scale with mobile banks.

Meanwhile, the Fiji Development Bank was suffering a long and slow decline in customer numbers, profits and profitability, prompting the management to direct a wholesale review in 2002-2003. The major outcome of the review was the decision to head for more commercial business and in 2005, to raise the minimum individual loan amount to 5,000 Fiji dollars, thus de facto excluding micro-business from the scope of its activities. The Bank now focuses on small business (3,495 clients representing 68% of its total bank portfolio number); it lends 43% to rural business, out of which 67% goes to agricultural sector. It sponsors an Annual FDB National Small Business Awards. For the Bank, micro-businesses are subsistence schemes with a savings component of which the purpose should grow to a commercial level.

In the last decade, the Fiji Credit Union Movement has experienced the same misfortunes as other national movements in the Pacific region. After an embezzlement that forced its apex

body to sell assets in the nineties, a financially beleaguered and distrusted League has been unable to provide its members with the training and auditing services they are entitled to receive in exchange of their contributions, causing large unions to break or stay away while attempts to cover rural areas with savings clubs failed to deliver as expected. Most successful Credit Unions were developed in the public service and statutory agencies, where regular wages allow loan repayment to be made at source, thus reducing the risks of default.

The hundred and four 12-15 people strong Thrift and Credit Cooperatives (TCC) established since the 1960s in the sugar cane belt have been a lasting success as they responded to a genuine growers' demand to escape from the grip of onerous informal money-lenders. In 2002, the Lautoka based Canefarmers Cooperative Savings and Loans Association had nearly 5,000 members and could see confidently in the future, more than 2,000 being TCC members.

At the same time, the first generation of micro-finance projects has disappeared: Anandpur, Wosed and Seeds were short-lived and inactive by 2003. The replication of foreign practices was giving way to the development of more thoughtful home-grown approaches that would incorporate alien good practices as and when required and justified. The era of doctrinal and prescriptive approaches is unlikely to end, but the credibility and authority of their advocates has been somehow dented by lacklustre performances and frequent reversal of fortunes of the many models they have sponsored. While some organisations continue to herald the virtues of 'best' practices, others refer more modestly and more pragmatically to the necessity to apply 'good' practices that are relevant to the context in which MFI operates.

In 2003, individual lending programmes of the NMFU were discontinued and a new strategy was conceived and implemented. Being since 2004 a division of the NCSMED, the MFU developed a package of training, technical and financial assistance to the benefit of NGOs and Tikinas. About 11,000 clients are savers and another 4,000 are savers and borrowers. Total savings exceeded the one million marks in 2004. Recovery rates have been close to 100% while interest rates have remained competitive.

Microfinance is being slowly mainstreamed into the financial industry and yet it is not fully clear whether it is part of the financial system or an exception to it. In a sense, it is part of the financial galaxy by the very nature of its basic savings and lending operations, but it is not part of the banking sector by the present standards of the banking profession and under the current legal frameworks that distinguishes between 'banks' supervised by the Reserve Bank, quasi-banks (Credit Unions, Cooperatives, thrifts and loans associations) and money-lenders.

In fact, MFI look like the first historical banks and they seem to develop from scratch all over again. Their very simplicity and flexibility makes them both attractive to their members and vulnerable to external and internal shocks. They are often operated by relatives, friends and well-known acquaintance of the community and they do not elicit the fear that clouds the banks, because they are unsophisticated and unpretentious.

However, MFIs' size is often Lilliputian compared with formal banks and their rationale is not exclusively financial. Unlike banks, they are not always profit maximising organisations; they are more modestly, at least at the beginning, non loss-making organisation. Immersed in the community, they cannot escape an environment where social obligations do matter, and they are less inclined to run roughshod over delinquent borrowers to protect their bottom-line. Though their management is hesitant because of their limited technical skills and experience, they have a better understanding and knowledge of actual needs and resources of their mem-

bers and a more accurate perception of the risks involved in lending to them. They are also more sensitive to the social ramifications of their lending decisions and therefore less likely to hurt unknowingly or intentionally their groups.

Since 2000, microfinance has been promoted from a marginal and experimental business into a core activity in the development policy and institutional setting of Fiji. Some commercial banks are exploring alternative ways to provide financial services to the rural poor (Colonial Bank and Westpac) and to engage MFIs while another has begun to operate the age-honoured concept of rural mobile banks (ANZ-Bank) in partnership with an international organisation (UNDP). The Fiji Muslim League is trialling a no interest banking system. The Salvation Army provides also zero-interest micro-loans to any business other than Kava bars. Factory and school based schemes have been established. Employers in the manufacturing and clothing business are spearheading a new movement of MF services for their staff. The Fiji Council of Social Services, NGOs are joining the ranks of older institutions such as the Thrift and Credit Co-operatives first formed in the 1960s, the Cane Farmers Cooperative Savings and Loan Association established in 1968, the Savings and Credit Unions and the registered and unregistered money lenders. A Compulsory Savings Scheme has been proposed under the Affirmative Action Social Justice Act 2001.

This late success raises several issues that deserve close scrutiny: the issues of competition and its limits, guarantees and subsidies and legal framework.

### **The role of the Reserve Bank of Fiji**

Historically, the Reserve Bank played a pivotal and highly visible role in the development of the financial sector through organising the national survey on microfinance systems of 1995 and the 1998 national conference on microfinance. After 2000, the economic fallouts of the coup caused it to refocus on its core objectives, i.e. to promote monetary stability and a sound financial structure through prudential supervision and regulation, to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country, and to regulate the issue of currency, and the supply, availability and international exchange of money.

Since 2000, RBF has been supportive, although not directly involved in the expansion of the sector. In 2001, it turned its attention to the inadequacies of commercial banks and in 2002 considered a rural banking infrastructure funds to which banks could contribute.

RBF monitors the evolution of microfinance through the Working Group on Rural Banking as its role in the financial system is becoming more apparent. There is a growing awareness that small and medium enterprises are key factors to reduce unemployment and deserve close attention. However, micro-business and micro-finance may have to develop further before their socio-economic size can justify more RBF interventionism. However, the Reserve Bank is now reviewing its role in the light of the late development in the micro-finance sector.

As always, its unequalled research capacities can be of great help in fostering a better grasp and understanding of the sector and in finding out the optimal ways and means to promote solutions to the inherent constraints of microfinance: high lending risks and lack of collateral, high transaction costs and mortality rate, lack of business strategy and book and record keeping, and high vulnerability to changes in the environment. The access to RBF resources

may be limited by the priority given to the monitoring of national economy in the face of challenging times.

As the supervisor of the banking systems, RBF is setting and enforcing the standards of the banking profession. As such, it has a huge knowledge and expertise of the latest techniques in use in the financial industry to solve specific technical and systemic difficulties. Although MFI has not reached the same level of technical sophistication, some devices used by banks may be considered for adaptation to MFI context for the purpose of safeguarding the interests of MFIs members and the sustainability of their operations. It is a field where the RBF could continue to contribute much.

### **The role of the Government and local governments**

The Government of Fiji launched in the beginning of the 1990s the first microfinance scheme ever in Fiji. The Women's Social and Economic Development Economic Programme was designed to be a private initiative supervised of the Ministry of Women, Social Justice and Poverty Alleviation. But, the division of work between women's groups and the Ministry lacked the clarity needed to face the serious difficulties that brought the project to a halt.

The NCSMED of the Ministry for Commerce, Business Development and Investments has taken the relay of the Reserve Bank in the promotion and monitoring of microfinance and small and micro-business development.

The Government is committed to the U.N. Millennium Development Goals by 2015 and to a peaceful and prosperous Fiji. It is also intent to bridge the gap that separate Fijians from the other groups living in Fiji. This gap is seen as a major stumbling block in Fiji economic development and a major cause of past unrest in the country. The Government has formulated a policy of positive discrimination to accelerate the closing of these educational, economic and professional gaps.

From this perspective, microfinance and SMEs are privileged mechanisms to reach out to these segments of the population that are too small to appear on the radar of most financial institutions. The Ministry of Agriculture, Sugar and Land Resettlement, the Ministry of Tourism, Culture, Heritage and Civil Aviation, the Ministry of Fijian Affairs and the Ministry of Women, Social Welfare and Poverty Alleviation have been providing financial assistance to the populations though schemes that are mere grants cannot be classified as MFI and some are suspended, notably in the Ministry of Fijian Affairs. Ministries face a problem. Though each has a strategic plan, they do not use a uniform practices to monitor and evaluate the impact of their MF activities and their staff lack the skills required to handle MF projects, schemes and issues. Through more coordination and professionalism and through working together with the NCSMED, it is widely thought that they could achieve better performances.

In the NCSMED, the State has created the national apex organisation that was the missing link between the State on one side, MFIs and SMEs on the other. The NCSMED does centralise all projects and matters pertaining to MFIs and SMEs; its role should be to gather and process data and information from the field and other stakeholders, to be in the front line of action-research and to provide guidelines to the Government of Fiji on how to maximise stakeholders' interventions. This last function is crucial in the present time when the proliferation of initiatives is not matched by an equally important global vision of the direction to follow.

The conference noted that the role of the State in the development of MFIs and SMEs goes beyond the MF sector. Proper infrastructure – roads and bridges – communication lines and adequate power supply are the prerequisites of the emergence of successful SMEs and MFIs. Poor market structures, poor transport services making travelling expensive have been identified as threats to MFIs and SMEs. In 2005, the Fiji Agromarketing received 2 millions dollars to buy products from rural areas not served by private sector exporters, to develop infrastructure and to outsource functions such as packaging, transport and logistic. After three years, the organisation should finance its mission to provide access to market to farmers.

There is also a consensus that the role of the Government is to create the conditions that enable MFIs and MF service providers to operate safely and profitably. Direct interventions into the nitty-gritty of the industry are however challenged as unwelcome interferences by free-market thinkers. In this respect, it is worth remembering that microfinance innovations and institutions were not the brainchild of banks and private institutions, but of lateral thinkers and non-profit-making organisations. This is true for the Pacific and the rest of the world.

It is of course most fortunate that, among the Johnny-come-lately, private banks figure in a prominent place. It is the sign that MF has become an industry that can stimulate interest beyond its birth place, but it also underlines the leading role of the NGOs and the Government in promoting solutions that are off the beaten tracks and to support them until they are adopted by the financial industry, especially in respect of the services of the poor people that are of much concern to the Government of Fiji.

For 2005, the NCSMED has allocated 1.4 million dollars plus 200,000 dollars for the Small Business Incubator, 1.5 millions for the IHRDPEP and the Department of Cooperative and Youth 200,000 dollars. Considering the importance on SMEs and MFIs development, a decrease in budget for 2006 is unlikely.

The conference also heard the report of the C.E.O of the NCSMED who reported some progress in making Fiji rural districts and City and Town's councils more sensitive and friendly to SMEs development.

### **The role of second-tier organisations: NGOs, villages and tikina banks,**

NGOs capacity to deliver microfinance services is exemplified by the Aglow Microfinance Fiji in the Western Division. Launched on the 29<sup>th</sup> of April 2000, it covers rural, sub-urban and urban areas from Sigatoka to Vatukula. In four years, it has collected nearly one million dollar and lend 1.4 million recovered at a rate of 98 percent, operating at a very competitive cost of 41 cents per transaction. Above 3,300 accounts are exclusive savings accounts while 2,400 save and borrow to undertake cottage-based micro-enterprises (canteen, tailoring, bee-keeping, bakery), ecotourism projects (home stays, backpackers), retail shops (yaqona, vegetables and root crops, handicraft), farming (fishing, orchid, vegetables) and gardening), and transportation services (hire vans, boat hire, taxis). During this period, clients have changed their mind and come with business ideas after half a year of savings and do not expect any longer grants and subsidies. The NGOs under the guidance of NCSMED has developed a package of services that explain this success: technical assistance, training, monitoring, organisation setting and linkage-building with other stakeholders. It has bet on a long term presence and combination of skills and intervention. The scheme is being emulated in the Northern Division around Labasa.

In the province of Bua, the NCSMED has encouraged the population of 12 villages and 2 tikinas to set up a structure made up of a board with representatives from each village and the government, a management team that include Manager, treasurer, secretary and collectors and clients. From the end of October 2004 to the end of June 2005, 337 members had saved 22,593 dollars and 39 loans had been disbursed for a total of 8,100 dollars. It is a pilot-project that tries to assess the feasibility of a villagers' organisation that can manage the financial resources of the village for productive and provident purposes.

This type of project covers one aspect that is often forgotten by MF developers, the need to develop synergies between cash economy and traditional society, instead of opposing them. Villagers' MFIs may be a good place to try to reconcile the satisfaction of individual banking needs and the preservation of social structure. They illustrate the need for long term unflinching commitment of NGOs to entrench cash management skills at the grassroots level.

### **The role of donors**

Donors have been instrumental in the development of micro-finance in three major ways. New Zealand Aid through supporting the first experiment in the field, EPOC through conducting and encouraging conceptual research and thinking among supervising agencies and decision-makers and UNDP through its catalytic role in the organisation of the national conference of 1998 and its subsequent efforts to assist the private sector in re-investing into rural areas.

Other donors are now contributing directly and indirectly to the development of microfinance activities. The Asian Development Bank has pledged 90 millions dollars to implement a Sustainable Livelihood Project to help sugar cane growers that are exiting the industry to develop alternative farming and other business. The International Labour Organisation is formulating a project to develop micro-insurance to complement micro-credit activities. The UNDP is working in partnership with a private bank, ANZ Bank.

The French Embassy invited Fiji representatives to participate in an international conference on micro-finance in Paris in July 2005. The Japanese International Cooperation is providing technical assistance to the NCSMED. The Peace Corps Volunteers that are the development arm of the US Government have shown some interest in this field.

Donors' intents are good, but their interventions are often volatile and overambitious. They sometimes rush to help when an opportunity appears and rush to pull out when difficulties looks unsurpassable or when their agenda changes<sup>1</sup>. They lack patience and persistence and tend to adopt universal and prescriptive approaches which they think are best for all. Their genuine desire of better donors' coordination goes often unheeded.

The conference recorded that donors want a coordinated approach from the MF industry to implement joint programmes of action that are reflecting the concerns of the Fiji strategic development plan. They want to see more pugnacity from MFIs and apex organisation in their efforts to showcase their performances and achievements and to convince donors of the need to include MFIs in their programmes. They want more evidence that MFI have a positive impact to disadvantages people. In return, they are ready to acknowledge the importance of MF for creation sustainable livelihoods alternative and they indicated their willingness to

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<sup>1</sup> During the conference, NZ Aid explained that the New Zealand Government reviews its policies every 5 years.

work with and through the NCSMED. However, they want to retain the possibility to work directly with MFI's for small grants. Last, but not least, they can facilitate the sharing of data, information and experience and the building of linkage between local and overseas partners.

### **Competition: curse or blessing?**

The renewed interest in microfinance has increased the number of players in the field. While new players are usually most welcome to reach out to previously neglected populations and remote areas, as it helps improve the global delivery of banking services to the nation, there is no consensus on the policy to follow when a new player ventures in areas and populations that are already serviced by another player.

Some argue that new players bring more competition and that competition is good *per se* for consumers. It is economics by the books that pretends to solve the variety of situations by simply ignoring it. Others contend that competition would wreak havoc in the communities that try to organise their microfinance business. It is recognition that such schemes are quite vulnerable in the face of an external challenges and that their emergence is slow and requires long and expensive nurturing.

Competition starts from two players. It is a misnomer if it merely substitutes one player for another, leaving potential clients to be doing the same battle with another monopoly. What happens if a newcomer decides to serve villages already served by another player? Well, it depends on the respective strengths of competitors. If they are of equal strengths, competition may result in better and cheaper services followed by a temporary stabilisation of market shares. A tacit pact of non aggression may restore balance among them. If the established player is stronger than the challenger, then the challenger may have to leave the field, as did Bank of Hawaii a couple of years ago. If it is weaker, *it* may have to leave the field. It is this last scenario which the promoters of grassroots microfinance schemes fear most when they see a commercial bank landing and lending in the villages where they operate.

They convincingly argue that this last form of competition is self-destructive and counter-effective, usually leaving villages in a globally worse position, even though some villagers may find some advantages in the process. If a bank collects savings in a village already equipped with a self-help microfinance scheme, these savings are, once collected, no longer available to this scheme. Depositors may prefer the perceived safety and discretion of commercial banks to the more open villagers' banks and be willing to pay more commissions and fees for such services. But, a smart marketing campaign can suffice to bring in the fold financially illiterate people. Two hours one-off induction courses to banking services may improve awareness on the needs for savings and loan reimbursement discipline, but it is unlikely to change them into well-informed and good managers of their cash resources. And it may be more beneficial to the banks that can assess every client than to the clients themselves.

Anyway, the argument goes on, the net result is that villagers' savings are siphoned off the community and diverted from villagers' borrowers to customers outside the villages. Even if a few villagers receive loans, banks would be less inclined and more cautious to lend than a villagers informal financial system would. And banks lend to villagers too on criteria, terms and conditions which villagers do not control. Consistent with their claim to defend their depositors' interests first, banks tend naturally to lend to lower risk – higher profit borrowers, many of which may be outside the villages, while in villages, they cream off the best.

Moreover, the bank may try to trap savings through raising the cost of cash withdrawals, which can be done easily through charging the costs of deposits and withdrawals on the sole withdrawals instead of charging them on both.

The emergence of self-managed villagers and tikinas savings and credit groups is relatively slow and involves awareness, technical assistance and training programmes, much dedication and self-discipline from the group. Clients are also community members, which complicates the decision-making process, but facilitates the assessment of borrowers' needs and lending risks. Amounts saved and lent are often small and the learning curve on how to make the optimal use of them steep. Nevertheless, in these systems, by design, the circulation of cash remains within the village, as depositors and borrowers belong to the same community that remains in control of its financial resources and does not depend on the rules and criteria of some external agency to formulate its savings and lending policy. This group approach to the domestication of cash does not clash with Fijian communitarian mechanisms.

By contrast, founding their strategy and operations on individual preferences and interests, banks tend to encourage the very individualism that is seen elsewhere to tear apart Fijian traditional social arrangement and to outpace the progress of communities that try to adapt to cash economy without being disintegrated by it. During the conference, the divide and conflicts between banks and self-managed MFIs has been articulated with great strengths by the latter.

Commercial banks can muster more resources to implement their long term strategies than any microfinance scheme. They can enrol to their services international agencies that will support their business through providing complementary training. In less than a year, ANZ Bank could boast 35,000 clients for its 6 mobile banks, compared with 11,000 clients for the MFI supported by the MFU after five years of activities. But, the latter have also developed skills that go far beyond the skills required from a smart client to manage his accounts and a few are evolving towards a fine balance between the promotion of individual interests and the safeguard of social cohesion that matters most in a Fijian context. And the NCSMED has been contracted to conduct the financial literacy campaign that complement ANZ fieldwork.

Banks tend to offer cheaper lending rates than microfinance systems, but merely because their customers are perceived to be lower risks and their loans are large enough to allow economies of scales. The acid test of lending policies is loan recovery and profitability. Banks lend if the risk/profit ratio is optimum. High risk and low profit transactions are not sustainable, low risk and low profit deals are unattractive, high risk and high profit operations are a gamble. Only low risk and high profit loans are appealing businesses, which is why banks systematically demand collaterals, guarantees and pledges on their loans. How high profits and how low risks should be depends ultimately on managers' risk-assessment and shareholders' approval.

As small loans cost the same as large one for a lesser profit, they are less profitable. Lending small is the second best when large loans opportunities are being exhausted. Only time will tell if small commercial banks loans (between 100 and 2000 Fiji dollars) have a future in Fiji and if the bet that a sufficient number of small clients will become large enough to make the whole operation profitable is a winning bet. It will tell if one can adapt for commercial purposes the methods developed by the pioneers of microfinance: compulsory savings first, small loans, good recovery rates.

Where banks succeed without subsidies, self-help microfinance schemes will be less needed.

And ANZ Bank was commended for being the first to take the bold step to move into remote areas and for asserting that one can do well and one can do the good at the same time. If and where banks fail, microfinance self-managed groups will remain the last resort for the people. So it is vital that MFIs received support, however, any programme of technical and financial assistance should include from the beginning a provision and a schedule phasing out support, that is practical, reasonable, adaptable and context-sensitive, but with a definitive deadline.

### **The limits of competition and market**

In Fiji, accurate data on the extent and degree of poverty are few and efforts are made by the Government of Fiji, with the help of donors such as UNDP, to assess the magnitude of needs and problems. But, whatever the findings are, some participants of the conference have already challenged the view that those who live below the poverty line of less than one dollar a day could ever be served by banks and microfinance systems. The same would consider the assistance of these populations as a social and not an economic issue.

Similar views on the non bankability of the very poor were held until the resounding success of Grameen Banks. It is worth remembering that micro-finance is about micro-businesses and micro-incomes, micro-savings and micro-loans. It often deals with two-digit rather than three-digit figures. Among self-employed, squatters, street vendors, street kids and working widows many belong to this category and yet work hard to eke out a living. They are economic agents who given a chance may contribute substantially to the creation of national wealth.

Indeed, it is true that there is not much competition when it comes to serve these populations though their number seems to grow at an alarming rate. Micro-finance sounds suited for these micro-entrepreneurs and it can make the difference through providing the capital required to strengthen their business. They are the ultimate frontier of microfinance and the voiceless that tend to be the last served and the first dropped when the pressure is mounting on service providers to make choices. There is a real risk that emphasis is imperceptibly shifting towards small and medium entrepreneurs and businesses, more visible, more familiar and more likely to show quickly gratifying progress.

### **Diversification of products and methods**

Microfinance is often equated to micro-credits. Typically, the UN declared 2005 the international year of micro-credit, not micro-finance. But, it is the savings components of microfinance that has attracted much attention in Fiji recently, partly because of the macro-economic concern that the population does not save and invest enough at a time when foreign investors are, despite recent improvements in tourism, still by and large shunning the country.

In the last twenty years, microfinance has become an industry that proposes a vast range of products: micro-savings bearing interests or not, micro-insurance for health, accidents of life and social obligations, micro-equity, micro-credit for a variety of economic and social purposes coupled with a variety of guarantee schemes that involve cash and kind, peers' pressure and future incomes. Most of these products are, technically speaking, miniature replica of their commercial banking equivalents, and they can be offered alone or in combination.

But there is more than that. Subsidies are held responsible for the relaxation of savings habits in Fiji, especially among Fijians. They have become synonymous for grants and hand-outs.

This sounds quite unquestionable, except that some would disagree. Rural Fijian communities do save although it may not be in cash, but in kind – tarot, cattle, pigs, mats, etc. – and they can mobilise very large amounts for social and religious purposes through the ‘*soli*’ system. So, what they need is not so much to develop savings habits than to adjust their behaviours to the new instrument that they have at their disposal: money. In short, it is not savings, but cash savings that are not sufficient although it is not clear who is benefiting most from such savings when depositors have to pay to use the service.

Saving first has become the new adage. Loans granted without savings discipline are said to impoverish indebted borrowers and to be dead losses for lenders. Life is more complicated. For example, those who are heavily indebted to money-lenders and pay high interest rates to them are unlikely to break out of the cycle of increasing debts and interest rates, unless a lender writes off the debt or restructures it to make it repayable. What applies to countries does apply to individuals too.

It sounds logical that those who have savings capacities do save so that their savings can be used to collateralise their loan. However, from the point of view of customers, borrowing instead of withdrawing money does not make sense unless the interest rate structure of loans and deposits is inverted – i.e. lending rates are lower than deposit rates – or unless loan amounts are a multiple of deposit amounts. Most banks don’t make such margin loans if they cannot collateralise the net difference with clients’ assets, third party’s guarantee or insurance. Collectively, lending less than has been deposited is better than no lending at all especially if borrowers are not the same people as depositors. Moreover, although the purpose of each individual loan does not matter as long as loans are repaid, only economic investments may generate eventually more wealth and savings, while social and consumption loans are merely redistributive mechanisms.

Savers are postponing consumption. Borrowers are betting on future earnings. In a small rural community, MFIs establishes a direct link between savers and borrowers. Villagers’ savings become villagers’ investments. Their quick unimpaired and secure revolving may offer an answer to local businesses. MFIs that link savings and credit needs to be maintained and nurtured until they are mature and resilient enough to being exposed to competition and the various fiscal and administrative duties attached to formal business. MFIs, like SMEs, need to incubate before they are fully equipped to put a good fight and survive on their own.

There is a consensus that MF products and services must be simple, affordable and designed by or with the help of customers themselves. Provision must be made to ensure that they do not rely on equipments that are not available yet in an environment devoid of electricity, communication links, data lines and buildings. Vernacular language need to be used more extensively to reach grassroots people. And relationships need to be based on contractual arrangements and on the respect of partners. Humbleness is not so much the issue as self-respect and mutual respect.

### **Guarantees schemes**

“Moral hazard” is the term used to describe a mechanism that leads people to think and believe that they can do what one does not want them to do. The conference reminded that, in the banking industry, it is attached to Government guarantees schemes that, in the mind of borrowers, remove their obligation to reimburse their loan. Actually, “moral hazard” is the

name equally given to the consequences of a defective scheme or application of a scheme, to clients' ignorance and confusion of priorities and to their ensuing deviant behaviour.

But, guarantee schemes operate successfully if the disbursement of the guarantee is subject to the fulfilment of certain criteria and obligations on the side of the lenders so that they can feel immune from the risk if they play by the rules and still exposed if they don't. In their haste to find a quick fix, promoters of these schemes usually underestimated two factors: the necessity of stringent conditions attached to the guarantee and the strength of the message to borrowers that guarantee cannot be used if the borrower has not

Commercial banks lend on merit, not because of guarantees that are "collateral" to the loans. It should be clear for all that guarantees can be called only if the borrowers can prove beyond reasonable doubts that his failure is not due to his borrowers' negligence. For instance, proper recording and bookkeeping, proof of the use of money and satisfactory description of the causes of failure should be part of contractual arrangements whereby state guarantee is called after other third party guarantees are called. In other countries, decisions have been made to set up such schemes, knowing that they would generate losses, but as an attempt to boost SMEs and MFIs start-ups and to offset their usually high mortality rate.

### **Insurance schemes**

Low incomes are usually associated with school failures, malnutrition, domestic violence and unemployment. It is among these populations that micro-finance can have the higher leverage on people life and where the promotion of economic activities is most likely to result in immediate social improvements. But it is also them that accidents of life prevent from moving out of their poverty. MFIs and SMEs are financially weak and most vulnerable to shocks that account for their high mortality rate.

While savings can be equally used to invest and to cover risks, they are rarely used by SMEs and MFIs for both at the same time. Using savings to cover an accident of life often delays productive investments, investing leaves financially weak businesses exposed to the fateful consequences of life accidents. Until such business can afford insurance while investing, its proneness to economic sudden death is very high indeed.

During the conference, I.L.O proposed to differentiate between social security systems, social safety nets and poverty programmes. The first category includes private and state provident funds and insurance schemes that enrol those who can contribute to the funding of their protection and future pensions. The second includes subsidies and benefits in cash and kind, in food and fuel and health care that are given to those who cannot qualify for the benefits of the first category, because they have insufficient incomes or no income at all. In the third category, one can find micro-insurance, micro-credit, revolving funds, special employment projects and infrastructure development.

These systems are different by design; social security and poverty programmes demand that users help themselves through contributions and forced savings while social safety nets are designed for emergency purposes and situations created by an Act of God or Nature, or by the inability of society to provide more to its dispossessed members. But they have one common goal; to remove or alleviate the consequences of accidents of life and inherited misfortunes. At an early stage of their development, SMEs and MFIs members are most vulnerable and unable to fend for themselves. More research and work is needed to understand the

mechanisms and benefits of the social solidarity networks that exist in Fiji villages and communities and to develop ways and means to reinforce and complement them.

Market economists tell us that subsidies are distorting market competition and as such that they are sources of inefficiencies. Real life tells us a different story. Subsidies are the most entrenched form of social and economic protectionism even among the most market-oriented governments. They are political and economic instruments that are defying time and doctrinal condemnations. Even commercial banks ask for, and sometimes get more than their fair share of subsidies in the form of tax exemptions and benefits, waivers of import duties and free services from development partners before accepting to venture into new businesses or into a new market.

Guarantees and insurance schemes are means to an end and become a moral hazard if used systematically, unconditionally and too easily. Subsidies can only be accessory and/or temporary in the mind and professional life of both the subsidizers and the beneficiaries, but they can provide the security and help avert the most catastrophic effects of adversity through the provision of a temporary relief.

### **Legal framework**

Commercial banks and finance and HP lenders are regulated by RBF under the Banking Act. Credit Unions are regulated by the Ministry of Justice under the Credit Union Act (2003). Thrift and Credit Cooperatives, the Canefarmers Cooperative Savings and Loans Association and Cooperative Microfinance Project are regulated by the Department of Cooperatives of the Ministry of Commerce, Business Development and Investment under the Cooperative Act 1996. Money-lenders are registered under the Money Lender Act (1938). MFIs, villagers' and tikina banks, informal money lenders and solidarity groups are not subject to financial regulations.

In 1999, an EPOC report<sup>2</sup> cautioned Fiji lawmakers against rushing to regulate an industry that was still in its infancy and not well-known. It argued that a legal framework was premature and would be counterproductive if it were designed in such a way that it would freeze the emergence of alternative methodologies and systems and stifle the creativity of would-be promoters. It would weaken further MFIs through adding more administrative hardship and costs on their limited skills and resources. However, the conference noted that MFIs operations are like bank's retail operation and that they should be regulated on that account; it would protect the interests of savers, MFIs and their creditors.

No definitive conclusion was reached although the formulation of a legal framework should be guided by a few principles: simplicity of reporting and auditing requirements, flexibility in the definition and scope of MFIs, allowance for many organisations and methods to co-exist provided that they include the basic requirements of the law. Lawmakers should recognise the differences among the various systems and reject the temptation to use one as the model and destination for all the others. There is a belief that MFIs are primitive and early forms of banking that eventually will graduate into higher forms of banking, namely commercial banking. The 'gradualist' approach does not recognise that MFIs may be systems that bear little resemblance with the existing systems and that follow a specific development path.

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<sup>2</sup> Belloni S. (2001) About the opportunity to enact a specific law for microfinancial institutions, ESCAP-POC.

The introduction of a new Law and the revision of the existing Laws is not an easy task. To be successful, the wording of the bill requires extensive consultation with stakeholders, decision on which direction microfinance should follow.

### **The economic base of microfinance**

While microfinance drew attention as early as in the early 1990's, micro-business attracted attention at the end of the decade, when it became obvious that the public sector, foreign investors and the formal private sector were unable to provide sufficient employment for the population and that the situation would not improve in the near future.

The need for a broader approach to tackle poverty through economic activities became more evident and in 1999, Robin Yarrow proposed a policy framework for SMEs development. In 2003, the World Bank made a review that was being updated at the time of the conference. Since then, the concept of 'incubator', 'mentoring' have been mooted to catalyse the formation of a class of SMEs.

The focus of donors turned to small and micro-enterprises and microfinance came to be seen as a possible channel of savings to fund business purposes. Actually, MFIs survive if they can recover their loans and if their cash flow well managed. How borrowers find the resources to pay back their loans matters less than the repayment itself. However, there is no viable microfinance system without viable business base and no viable business base without capital investment, i.e. savings. One of problem is that, in Fiji, there are not enough bankable propositions, i.e. propositions that have a reasonable chance to generate long-term profits. The long term challenge of both MFIs and MF service providers is to find sufficient lending opportunities. It is the core function of the NCSMED to co-generate ideas of business with potential entrepreneurs and to supplement their inherent capacity to identify and produce marketable products.

The entanglement of activities and the commonality of purposes of MFIs and SMEs can be analysed and exploited by the NCSMED that is equipped since the merger with the National Microfinance Unit to pursue simultaneously the development of SMEs and MFIs. But to do so, it needs also to dissipate the confusion that reigns in the terminology and clarify the special distinct needs of micro-businesses, small businesses and medium businesses and to ensure that the potential of each category is fully exploited. Each of these categories present different profiles and may require different socio-technical and financial packages and the NCSMED need to design these packages accordingly.

The logical end of disaggregating the business into such categories is recognition that reality is multifarious and that an integrated programme of action is most often necessary to increase the chance of survival of individual business people, SMEs and MFIs alike. At the same time individual borrowing entrepreneurs or household, MFIs and SMEs are supported, the social environment in which they develop their activity, be it provinces, tikina, villages, urban district, squat or solidarity groups, need to be supported and treated as well. And these concurrent actions need to be designed carefully to have cumulative effects.

### **The challenge of Microfinance Industry**

The first challenge of Microfinance industry is to know itself better. While microfinance is a popular topic these days, the conference noted that there is no national mechanism to collect

systematically global information on Fiji MFIs and MF service delivery though the NCSMED reported some progress in this respect. Good professionals sense profitable opportunities and respond swiftly to perceived needs, but they often lack information as regards the actual needs of the people. Efforts are being made by UNDP in cooperation with the Ministry of Women to improve data collection on the real extent of poverty and to update the 1997 UNDP Fiji Poverty Report. And the Foundation for Development Cooperation presented its 'Microfinance Pasifika' project aimed

The disclosure of information is also an issue. While public institutions have a duty to disclose their results and performances as regards MFIs in great details, the same constraint does not seem to be put on banks. Although nobody would ask for information on individual cases, there is a need for more disaggregated figures with respect to MFIs and MF service delivery. Without such data, it is difficult to compare results and performances and to draw conclusions. Strategies and policies are then made on assumptions and ideological biases. Before MFIs and MF services are documented, it would be wise to agree on a standard set of data that permit comparisons, and a set of information on the socio-economic impact of each scheme, a set that goes beyond the familiar commercial claims of victory. The present hype around microfinance might be deceptive and it is only when the dust clears thanks to a better information system that it will be possible to separate the shaft and the wheat.

The increasing complexity of microfinance industry can only be matched by a fine-tuning of the policies aimed at encouraging the economic growth of both SMEs and MFIs sector. It may go against the search for economies of scales and blanket prescriptions about the best system, but in the long term, it may be help create a resilient industry based on diversity.

### **The recommendations of the Conference on the Future of Microfinance**

The future and the shape of microfinance institutions will depend on how the stakeholders answer to the following questions, but from the debates and recommendations of the conference, it seems that some consensus has been reached on the following issue.

#### **1. Should microfinance be considered a temporary stage in the development of Fiji financial sector or a lasting phenomenon?**

*Microfinance institutions will last as long there will be a real need for them, and to the extent that the need of micro-business at the grassroots level for savings and loans seems to be enormous and increasing, MFIs are likely to become more entrenched and a permanent feature of rural and urban economy. And although rural populations and Fijians are primary targets of the Government, the swelling number of squatters and the urbanisation of poverty deserve closer scrutiny. A special line of action-research should also be opened by the NCSMED. Pilot-projects should be conceived, tested and evaluated to perfect the methods to develop urban-based MFIs and SMEs.*

#### **2. Should we expect MFIs to follow the same cycle of slow start, quick expansion, plateau and decline to a new found niche that was previously followed by cooperatives and credit unions?**

*The fate of self-help and self-managed microfinance institutions will depend on their usefulness to the successive generations of members. If they can provide a **range** of services that nobody else can provide and if they can offer better conditions, then the*

*foundations of their long-term development are strong. Other factors than individual interests will no doubt play a role: the sense of togetherness in the ownership of the system, the pride of collective achievement, the satisfaction of reconciling cash economy and customary social order, the confidence of being in control of its own resources. In a Fijian context, these are values that counts and building on them will also contribute to the sustainability of microfinance systems.*

*It would also help much that funds commitments and disbursements are commensurable with MFIs absorptive capacities, that donors balance and synchronise more carefully their technical and financial assistance and that they provide a precise schedule on the downscaling and the end of their involvement.*

**3. Should microfinance institutions development be accelerated into the formal financial sector or should MFI be allowed to remain in the informal sector?**

*On one side, some small organisations may never grow enough to cope with the constraints associated with formal economy and finance even under simplified rules. On the other side, MFIs that grow in strength, membership, skills and volume of operations should be subject to appropriate forms of supervision. At that stage, it will be up to the appointed regulatory agency to define in consultation with the sponsors, promoters and representatives of MFIs the criteria of successful pass into the formal financial world. A study on the conditions, the mechanisms and the criteria of registration should be conducted with the largest and most successful MFIs.*

**4. Should the State continue to intervene in the promotion of the development of Microfinance Schemes?**

*The State has already a statutory arm that addresses this issue, the NCSMED. Its importance is increasing by the day and its achievements after a painful start are outstanding. The State would lose its previous investments if it were to discontinue its effort now. Therefore, it should be ready to provide budgetary support over the long haul and at the same time it should encourage NCSMED to diversify its portfolio of financial and technical sponsors and supporters.*

*The conference recommended that the distribution of financial services to all parts of Fiji should be encouraged and for that purpose noted that a long term plan and a proper budget are urgently needed.*

*It is further recommended that MFIs draw the lessons from past successes and failures to guide future policy formulation and implementation and that they remain cost-conscious in the conduct of their activities. At the same time, banks should be reminded extreme cautious before they decide to serve villages in which such MFI are operational.*

*The Government of Fiji should develop policies to integrate and coordinate better the different types of MFIs at provincial and municipal levels.*

**5. Should the State regulate competition in the development of Microfinance Schemes?**

*The State needs to defend its financial interest and the interest of its people. As taxpayers' money is used to finance both MFIs through the NCSMED and other statutory agencies*

*and commercial banks schemes through tax relief and training, it is in its interest to ensure that banks and MFIs do not spend precious resources competing with one another at the expenses of their common sponsor.*

*As a consequence, the State needs to provide guidelines that prevent players to pursue destructive and counter-productive strategies where someone's gain is somebody else loss. There are enough needs to cover not to allow this to happen. Suasion should be favoured; direction and prescription should be a solution of last resort against uncooperative players.*

**6. Should the Government encourage MFIs and other financial services providers to divide the work among themselves so as to cover as many people as possible before thinking of overlapping?**

*It is suggested that under the long term plan proposed in the above paragraph 4, microfinance institutions focus on rural areas that are not served yet and are unlikely to be served by banks, and on populations that are committed to help themselves and that have a solid economic base and sound business projects.*

*In consideration of the imbalance of resources and skills between banks and MFIs at the early stage of MFIs development, it is recommended that commercial banks and MFI avoid encroaching on each others' zone of intervention through providing the same services and to develop in these zones complementary business rather than competition.*

*However, MFIs and banks are encouraged to build links based on the meetings of their respective objectives and criteria as regards the profitability and exposure of their business. It is understood that banks should not be subsidised to expand their activities on a long term basis, and that they should be consistent with their own premises.*

**7. Should microfinance institutions be subsidised? How long? At what cost?**

*Free services should be discouraged and reserved to extreme forms of destitution, but subsidised services will not disappear soon. Training, technical assistance, representation, networking and coordination are costing more than can be charged on their beneficiaries. And even banks get subsidies to reach out rural folk.*

*However, MFIs should plan a quick phasing out of financial subsidies and a more progressive phasing out of subsidies included in other services until such a time they can afford the services of private services providers. As NCSMED is already contracting out trainers and educators, it can encourage the development of a profession that provide supports to MFIs and SMEs.*

*The Government of Fiji should explore in consultation with MFI practitioners the possibility to introduce tax incentives as it was done for ANZ Banking Group.*

*It should also review income tax thresholds for MFI users and MFIs, duty concessions for MFI and MFI clients, e.g. MFI that need a vehicle or a rice farmer that borrows from an MFI to import machinery and tools from overseas.*

## **8. Should microfinance institutions be protected?**

*Members, creditors and partners of MFIs' interests need to be protected as much as MFIs interests for the sake of sustaining the credibility of the whole movement. The safeguard of their respective economic interest depends primarily on the successful growth of MFIs, which in turn depends on savings capacities and willingness and lending opportunities. Lending opportunities will depend on the emergence of SMEs that can invest and grow. The success of MFIs and SMEs is entwined and complementary policies and projects needs to be formulated, tested, implemented, monitored and evaluated. Success stories need to be documented and disseminated. Ideas of business need to be fostered and the minimal conditions of their development created.*

*The Government of Fiji should develop a framework that cordons off the MFIs and their supporting agencies from politically partisan interferences.*

## **9. How long should be the incubation period? At what cost?**

*Both SMEs and MFIs need to be incubated and while there are incubators projects for the former and none for the latter, the same spirit should preside over the approach to both. There is no definitive prescription as regards the length of the incubation period. Experiences elsewhere are only indicative and not necessarily transferable without adaptation.*

*MFI must be studied case by case on their merits. What is sought is the evidence of a financially sound and technically manageable growth that is congruent with the ability of MFIs' owners, management, staff and with the expansion of its economic and business base.*

*However the Government of Fiji should formulate a policy on the use of public funds for the development of MFIs that encourages MFIs to seek financial independence and to be technically self-reliant, that provides guidelines and deadlines to reach such financial independence and that clearly specifies the limits and the terms and conditions of any long-term intervention from the State agencies.*

*Funds should be secure on a multi-annual basis so that risks of discontinuing assistance and unravelling the achievements of MFIs are minimised. Indicative Multi-annual budget should be developed for all projects and programme of actions.*

## **10. Should microfinance be shielded from competition of much stronger institution?**

*The Government of Fiji should encourage MFIs and other development state agencies, NGOs and Donors to coordinate their efforts through holding annual meetings such as the National Forum and regular meetings so as to avoid unnecessary conflicts and counter-productive competition that would defeat the socio-economic goals and waste the budgetary resources of the government.*

*The NCSMED should be the organiser of such meetings and the participation of the other agencies should be a Government criterion in the apportionment of the budget with respect to MFI development.*

**11. Should microfinance institutions be operating in a tailor-made legal framework or under the existing laws?**

*First, adapted guidelines and rules for MFIs should be conceived as MFIs are dealing with peoples' money. It does need to be a piece of legislation, but more a contractual approach to the relationship between MFIs, their partners and clients.*

*Second, a specific piece of legislation that is suitable for MFI is required in the middle term.*

*Third, such legislation should be passed only if the State is satisfied that it can also provide enforcement means and that this piece is simple and flexible enough to enforce.*

**12. Should other stakeholders change the size and nature of their support of MFIs?**

*The financial sector should be encouraged to provide microfinance services, but operational rules and regulations have to be formulated especially for NGOs and banks. Besides, the complementation of financial institutions and NGOs that provide services related to environmental and humanitarian issues needs to be encouraged.*

*Support should go primarily to those organisations that are creative, socially minded and devoid of preconceived ideas, but MFI should be assigned from the onset the goal of financial autonomy and prove the value of their services and products within a set time frame that takes into account the slow pace of their growth and development.*

*The Government of Fiji should formulate through the Ministry of Education in consultation with MFIs and NCSMED a policy that develop peoples' skills required to manage cash – family budget, savings, loans, debts – from the school age.*

**13. How should donors get involved?**

*They should reinforce preliminary field research, surveys and studies before implementing a programme, be slower and more progressive during the implementation and remain involved during start-up and growth phases, and coordinate their interventions better..*

*They should work with MFIs and NGOs that have a successful track record, a good management system in place. They should disclose the criteria and methods that they use to select them and attach clear and strict conditions to on-lending and operational costs subsidising policies.*

*The conference recommended that donors*

- *Include systematically an MFI and SMEs component in their projects*
- *Add micro-insurance to the MF product line, to cover health care and lifecycle events.*
- *Provide fellowships for MF practitioners*
- *Disseminate information of technologies and practices from around the world*
- *Make research and impact assessment, e.g. on remittances*
- *Support the development of Information Management Systems*
- *Facilitate consultations between partners and contribute to forums*
- *Finance capacity-building efforts that target MFIs and NGOs*
- *Encourage simple credit rating methods, affordable, reliable and accessible products*

**14. Should Fiji MFIs and MF service-providers network with each other and with overseas partners?**

*The conference answered unanimously that cross-fertilisation is a potent contributor to the success of MFIs. Commercial banks do have a regional development policy: ANZ Bank is active in Fiji and in the Solomon Islands and plans to intervene in other Pacific Islands nations, most multilateral donors have a regional policy and regionalism is becoming an issue for the Pacific Forum.*

*The Conference recommended that the Government of Fiji, the NCSMED and the other stakeholders present at the conference link with the 'Microfinance Pasifika' initiative of the Brisbane-based Foundation for Development Cooperation that aims to establish a multi-shareholder network that will become a regional platform for partnership for bringing together all microfinance players in the Pacific Region, sharing information, experience and knowledge, raising awareness, improving action-research capabilities and increasing cross-fertilisation opportunities.*

*It also recommended that the NCSMED organises a follow-up of this conference on MFIs possibly on a yearly basis and increases the frequency of workshops and meetings so that stakeholders can exchange information, discuss specific topics and issues of common interests and formulate proposals to influence the policies and practices of government, monetary authorities, financial sectors institutions and NGOs.*

*The disclosure of information related to MFIs and MF service providers should be mandatory. A standard presentation and minimum information and data requirements should be proposed, discussed, adopted and implemented for the education and information of MFIs and the public at large.*

**15. What should be the role of banks in the development of MF industry?**

*Banks should continue their commercial activities which include existing partnership such as maintenance of MFIs cheque and savings accounts, loans and credit services.*

*Banks and MFIs should pursue together the following objectives:*

- *To participate in a collective effort to define their respective role and the rules of interaction.*
- *To avoid the duplication of services as long as some populations are not properly served.*
- *To exchange their respective forces: technical assistance on banking activities and products versus social knowledge of community rules.*
- *To seek acceptance by and support from tikinas and provincial offices before starting to do business in villages.*
- *To respect the social organisation of Fijian villages and tikinas.*
- *To provide advisory services, technical assistance and training beyond the induction period and the disbursement of the first loans.*
- *To define and agree on the minimum standards of information disclosure as regards their microfinance activities.*

## **Concluding remarks**

Successful microfinance development policies around the world are those that can adapt to local societies and apply consistently a set of basic and universal management rules and financial techniques. While technical rules are usually easy to understand and explain, social adaptation is a more elusive concept and its importance is systematically underestimated. Nevertheless, it is the single major factor behind the failures of many projects based on imported concepts and practices whose appeal resides in their success in other context, the haste of decision-makers to deliver short term results and the selling craftsmanship of their promoters. However, without adaptive capabilities, micro-finance institutions development has been stalled.

Successful microfinance institutions are also those whose development is thought of in the long term, in generations rather than annual budgets and electoral cycles. To have the eyes riveted on short term quick-fixes is to be blind to the need for long term achievements. Let's think of all that can be done if goodwill, ideas and energies are channelled towards home-conceived, home-grown and long term projects. As long as the policy of the Government of Fiji continues to be pragmatic, inclusive of all systems, devoid of geographical preferences and ethnic biases, weary of mutually destructive and collectively costly individual corporate strategies, suspicious of quick-fixes, miraculous models and doctrinal excesses, it can make a good use of these powerful instruments of growth and social welfare: MFIs and SMEs.

## GLOSSARY

ADB	:	Asian Development Bank
CEO	:	Chief Executive Officer
EPOC	:	ESCAP Pacific Operations Centre
ESCAP	:	Economic and Social Commission for Asia and the Pacific
FDB	:	Fiji Development Bank
FDC	:	Foundation for Development Corporation
IHRDPEP	:	Integrated Human Resources Development Projects and Employment Project
ILO	:	International Labour Organisation
MF	:	Microfinance
MFI	:	Microfinance Institutions
NCSMED	:	National Centre for Small and Micro-Enterprises Development
NGOs	:	Non Governmental Organisation
RBF	:	Reserve Bank of Fiji
SMEs	:	Small and Micro Enterprises
SPC	:	Secretariat of the Pacific Community (ex South Pacific Commission)
TCC	:	Thrift and Credit Cooperatives
UN	:	United Nations
UNDP	:	United Nation Development Programme