

# Can Fiji's MFIs Be Sustainable?

Microfinance in Fiji developed in the late 1990s as a result of the efforts of the Fijian government and donor agencies, including UNDP. Despite some early successes, microfinance institutions have not reached their full potential, actively serving only 10,000 clients at present. This compares to the nearly 80,000 clients actively served through commercial bank programs to reach rural and low income savers since 2004.

At the National Microfinance Workshop in Fiji in November 2009 public and private stakeholder participants renewed their commitment to inclusive finance and put forward a common vision: reaching at least 150,000 unbanked citizens through a coordinated national effort by the year 2014.

The ability to reach this goal depends on the capability of the current and future providers of microfinance services. Stakeholders agreed that more analysis was needed of the current efforts of the Microfinance Institutions (MFIs) and credit unions to better understand their capabilities and constraints. The purpose of this note is to examine the financial and operational performance of the Fiji's MFIs. A second note will focus on the Fiji's credit unions.

This analysis is limited to five out of ten MFIs which are operating in Fiji today, namely The Fiji Council of Social Services MFI (FCOSS), Microfinance Unit North (MFN), Microfinance Unit West (MFW), Co-operative Microfinance North (CMN), and Rewa Micro-Finance Institution (RMI). All of them were founded with the assistance of the National Microfinance Unit (NMU) which sits within the National Centre for Small and Micro-Enterprise Development (NCSMED). The first three were created in the early 2000s. CMN and RMI were founded in 2007. While, the selected MFIs differ significantly in terms of outreach and asset size, they share many similarities in their products and services.

## The Rise and Fall of Lending

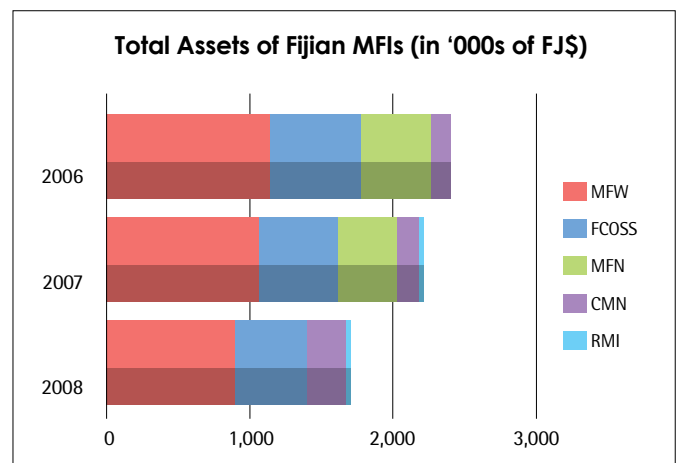
Initially, MFIs used different business models and lending methodologies; however, currently all are following a similar approach. All MFIs give individual loan products, though in some cases clients are still required to form groups. Loans are typically given for either six months or one year, but terms from three months up to three years are available. Repayments are made weekly or fortnightly in installments of principal and interest.

While application fees are not usually applied, interest is calculated on a flat basis at fixed percentage rates regardless of term and with no adjustment of interest

rates for early repayment. Therefore effective rates range from as low as 10% for a three-year loan to as high as 140% per annum for a three-month loan. MFIs' portfolio yields came close to or exceeded 80% in past years—suggesting the average loan term is six months—though these have fallen significantly in 2007 to 2008.

Beginning in 2009, there is a disturbing decline in total loans disbursed and outstanding which limits MFIs' potential to earn revenue in 2010.

The cause of this, as well as the decline in portfolio yields, is linked to delinquency levels and lack of adequate funding for growth.



## Difficulty with Delinquency

All MFIs follow non-standard calculations of portfolio at risk (PAR) and arrears, making it difficult to accurately compare performance with international best practices, but in all cases, PAR (greater than 30 days) is high, ranging from 15% to over 85%. Delinquency levels this high suggest problems with loan approval policies, loan collection practices or both. MFIs report that they are tightening lending policies in an effort to improve portfolio quality. Bad debt is not written-off systematically and may remain on the books for years, inflating PAR ratios. None of the MFIs charge a late fee for delinquent loan repayments.

Outreach and Performance of Fijian MFIs									
MFI	Members (2009)	Active Savers (2009)	Loans Outstanding (2009)	Av. Loan Value per Borrower (2009)	As Part of GNI (2008)	Borrowers per Loan Officer (2009)	Loans per Loan Officer	PAR 2009 (%)**	PAR 2008 (%)
<b>FCOSS</b>	8638	3911	318	FJ\$699	18%	45	103	15.44	N/A
<b>MFW</b>	6367	5042	657	FJ\$289	7%	41	84	32.07	17.72
<b>MFN</b>	1656	N/A	89	FJ\$500	13%	15	25	84.69	82.90
<b>CMN</b>	1316	N/A	164	FJ\$409	10%	67	66	14.48	23.51
<b>RMI*</b>	1006	N/A	127	FJ\$94	2%	21	N/A	N/A	N/A
<b>MIX***</b>			9064	US\$131	13%	218	218		4.7%

\*RMI data on value of loan portfolio 'estimated';

\*\*PAR taken from individual Financial Reports, often not in line with international standards and calculations unclear

## Meeting the Demand for Savings

Legally, MFIs are not allowed to intermediate savings in Fiji, yet most do. In order to become eligible for credit, clients usually must first contribute to regular savings, reaching a minimum of FJ\$150 – FJ\$250, over a three month period. Several MFIs follow a policy that the value of a loan (including the full value of interest due) must not exceed a client's savings balance by more than 25%. Among MFIs, the maximum loan (plus interest) to deposit balance ratio is 2 to 1. In most cases no other collateral is required.

Many former borrowers choose to maintain their savings with MFIs after their loans are repaid. As a result, the savings under management is nearly six times the loan portfolio, suggesting a high demand for the service. The MFIs offer one standard savings product, which pays no interest. Clients are charged a fee each time they deposit or withdraw savings. Deposit fees are around 3-5% of the amount deposited and withdrawal fees can be as high as FJ\$3 per withdrawal during the first year. Although the cost of managing client deposits is partially recovered through these fees, they are still insufficient to cover the full cost of providing these services given the wide geographic area served by most of the MFIs

## Stalled Self-Sufficiency

No MFI has managed to break even since inception, failing to reach a critical mass of clients to benefit from economies of scale.

In many cases MFIs can grow their way into self-sufficiency. A close look at two MFIs noted every client they added on average actually decreased self-sufficiency over time. While the average revenue per borrower was between FJ\$180 and FJ\$215, the average revenue per saver was only F\$3 to F\$5. This has become problematic when savers now outnumber borrowers by almost 10 to 1. The average revenue per client is F\$24, slightly less than the average cost per client, and declining.

The MFIs are heavily dependent on external funding, primarily grants by NMU. The value and timing of grants from the government has been unpredictable and declining in recent years limiting their ability to plan. As a result, MFIs have used their loan funds to cover the operational shortfall for several years. This creates a cycle of the erosion of the MFI's lending base, a steady decline in loans and a reduction in financial revenues, exacerbating operating deficits. Three MFIs have resorted to using client savings to fill short-term cash flow gaps, returning the money once they receive further grants. These MFIs are now faced with serious cash shortages and may face difficulties in returning those funds.

## Governance and Monitoring Shortcomings

All MFIs are overseen, at least in part, by the NMU. In the case of MFW and MFN, the government effectively assumed ownership when it severed its partnership with the founding Non-Governmental Organizations (NGOs).

There is a general lack of expertise in microfinance and awareness of financial performance in MFI's governing bodies. Reports to the

NMU are focused on outreach indicators rather than financial performance. There has also been no attempt to link MFIs' grant funding to performance.

Although four of the five MFIs have audited financial statements for 2007 and 2008, a review of audit reports suggests that some auditors do not understand the operations of the institutions, failing to note irregularities in use of funds (such as use of savings to cover cash shortfalls) and accepting incorrect accounting procedures. In one case, financial data for 2008 was still not available in late 2009. MFIs reported disagreements with their Boards of Directors related to their level of independence. Several reported Board interference in daily operations and a general concern over poor communication. At the other extreme, one MFI noted that its board had not met since 2008.

## Struggling with Staffing

The size of staff varies greatly among MFIs but all comment on having insufficient staff to serve the large areas covered. MFIs face significant pressure from NCSMED to expand geographically, including to distant islands. This has resulted in high transportation costs and significant time spent in transit. Field Credit Officer's work is constrained by the lack of vehicles, licensed drivers and reliance on unreliable public transport. If motor vehicles are available, they are not always designed for given road conditions which, in turn, raises maintenance and repair costs.

A look at the activities of personnel at one MFI showed that significant time is spent in transit (22%), and servicing deposits (37%), while only (19%) of time was spent making and servicing loans. From a revenue perspective, very little time is spent building a loan portfolio.

Personnel expenses relative to revenue are high; however this is more a reflection on revenue than costs. On average some managers and most staff are paid well below the national Gross National Income (GNI) per capita and do not receive incentive or bonus for good performance. Most staff and managers have no background in microfinance and lack access to adequate training or technical support. Four MFIs have been cutting personnel expenses by reducing the size of staff or hours worked. This has resulted in a decrease in the volume of loans issued and frequency of client training.

MFI	Return on Equity (2008)	Return on Assets (2008)	Operational Self-Sufficiency (2008)	Personnel Expenses/ Loan Portfolio (2008)
<b>FCOSS</b>	-42%	-13%	66%	64%
<b>MFW</b>	-44%	-15%	57%	105%
<b>MFN*</b>	-23%	-16%	34%	48%
<b>CMN</b>	-3%	-2%	91%	23%
<b>RMI</b>	-148%	-143%	13%	227%

\*MFN data is from 2007.



# Outlook for Fiji's MFIs

Clients of MFIs, past and present, mostly believe they have benefited from their services. This positive contribution has led many to overlook the failure of Fijian MFIs to become self-sufficient. Fijian MFIs have faced considerable external constraints, including challenging geography, lack of technical support and funding constraints. Stabilizing the MFIs involves a reorientation of their business model and incentive structures.

- **Innovate or outsource savings services**

The savings services MFIs offer are clearly important—clients have shown a willingness to pay fairly high fees to have their money collected and kept. But the growth of savers relative to borrowers is hurting the MFI's self-sufficiency. The MFIs are increasingly using client savings to meet cash flow shortfalls putting savers' money at risk.

An interesting development is the use of a Village Collector system used by some MFIs. Collectors are nominated by the village itself to collect deposits and loan payments. In return for their support, they may receive a commission paid from deposit and withdrawal fees or bus fares to the MFI office. By utilizing a community member as a collection agent, MFIs have the potential to lower operational costs while extending services. To date, insufficient monitoring mechanisms of (direct) staff and daily operations led to at least one case to the misuse of funds. Although some control issues have been addressed, collectors are not adequately monitored and there is no field audit system in place.

The introduction of mobile phone money transfer systems in Fiji may offer MFIs a lower cost means for MFI clients to access savings and reduce the amount of time spent by MFIs managing savings. Such partnerships could also provide greater security and accessibility of savings to clients. In fact, the entrance of telecommunications providers into microfinance and the increase in banks' efforts to offer microsavings suggest that MFIs non-borrowing clients may ultimately look elsewhere for savings services.

- **Expand the portfolio, not the network**

MFIs can no longer afford to expand geographically. They need to consolidate their operations and focus on building their lending activities in the most promising (and most populated) areas. This may require difficult choices such as ceasing to serve more costly and remote areas in the short term. MFIs quickly need to build quality loan portfolios and grow their way into self-sufficiency. As portfolios grow, so does revenue.

- **Incentivise staff and link funding to performance**

Management and staff are committed to their clients. However, staff and management need better direction and appropriate incentives so that more than 20% of their time is dedicated to portfolio growth and quality.

Despite the problems with governments' involvement, the government has been the primary source of funding and support for the MFIs. Given the MFIs' current state, it is likely to remain so. More funding of MFIs is needed for them to survive, but only if the future funding is based on performance, rewarding those which improve financial performance.

In the long-term, the government should consider divesting itself of ownership and control to socially-conscious owners. The social mission is the foundation of the MFIs and should not be forgotten; however, the MFIs long-term future is in doubt unless they can first get their financial houses in order.

*The current situation has MFIs on a path toward insolvency; portfolios are shrinking which reduces revenue and increases operating deficits. This all erodes MFIs' funding base which will lead them to reduce lending even more.*

## Pacific Financial Inclusion Program

The Pacific Financial Inclusion Programme (PFIP) is a Pacific-wide programme funded by the United Nations Capital Development Fund (UNCDF), the Australian Agency for International Development (AusAID), European Union and the United Nations Development Programme (UNDP) and operates from the UNDP Pacific Centre. PFIP is helping provide sustainable financial services to 80% of Pacific islanders, mainly rural people and low income earners, who have limited access to banking services and are consequently unable to achieve their full economic potential or attain a productive and dignified living.

This document has been produced with the financial assistance of its four donors. The views expressed herein can in no way be taken to reflect the official opinion of these contributors.

**Authors:** Dennis Fischer and Till Bruett

**Source:** Interviews and analysis of Fiji's MFIs

**Where to go to learn more:** Fiji Financial Services Sector Assessment on PFIP's website

**Contact:** Till Bruett

UNDP Pacific Centre  
7th Floor, Kadavu House, 414 Victoria Parade,  
Private Mail Bag, Suva, Fiji  
Tel: (679) 330 0399  
Fax: (679) 330 1976  
Website: [www.pfip.org](http://www.pfip.org)



Pacific Financial  
Inclusion Programme

Supported by

