

CENTRAL BANK OF SOLOMON ISLANDS

**REPORT ON THE NATIONAL CONFERENCE ON
REVITALIZING RURAL FINANCE IN
SOLOMON ISLANDS**

Honiara, Solomon Islands

13 – 14 April 2005

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SUMMARY OF THE CONFERENCE

Background

1. On April 13-14 2005, a conference was organized by the Central Bank of Solomon Islands (CBSI) to examine options to enable improved financial services in Solomon Islands, and particularly outside Honiara. The main objective of the conference was to solicit the help of experts and practitioners in making recommendations to the Solomon Islands Government on how to overcome the many impediments to rural financial services delivery. The conference was preceded by two preparatory workshops with indigenous Solomon Islands business operators. In the context of those workshops, CBSI also conducted a small survey of SME operators to determine attitudes towards financial institutions in the country.
2. Financial institutions that attended included ANZ, Westpac, National Bank of Solomon Islands, Asian Development Bank, Bank of Papua New Guinea, National Bank of Vanuatu, Bank of South Pacific, the Fiji Micro-finance Division of the National Centre for Small and Medium Enterprise Development, and a range of local credit unions. Several donors, Government departments and NGOs with an interest in promoting rural livelihoods also attended.

View from the Government

3. The Minister for Finance (the Honourable Peter Boyers) acknowledged that a sound financial system would be an important part of Solomon's economic development. Financial services, however, are only one part of the environment required for economic development. Access to banking would not solve all the development problems in Solomon Islands, and particularly in provincial areas. Financial services generally follow, rather than precede, economic development. As economic development spreads, so will the spread of financial services. An economic environment was needed in which businesses can flourish, unhindered by excessive or inappropriate regulation.
4. The Minister outlined how the Solomon Islands Government is working generally to make the regulatory environment conducive to enabling the expansion of financial services. These reforms include (i) a new Foreign Investment Bill scheduled to be tabled in Parliament in 2005, which introduces a simpler registration process to reduce uncertainty for foreign investors, while at the same time protecting Solomon Islanders, (ii) an independent review of the Solomon Islands taxation system so as to reduce widespread discretionary tax exemptions and indirect taxes that are fuelling the uncertainty among investors and taxpayers, (iii) ways to improve the affordability of capital items (iv) a strategy to revitalise transport systems.¹
5. The Government owns and operates more than twenty corporations, including power, water and postal utilities, most of which are run down. With the help of ADB and World Bank, the Government is exploring ways to make these companies more efficient and effective in providing services, including increasing private sector participation. The reactivation of the Guadalcanal Plains Palm Oil plantations has now taken place, and steps to develop major palm oil projects in Malaita and Western Province are also being pursued. The finalisation of the negotiations with the new owner of the Gold Ridge Mine on Guadalcanal is expected soon and reactivation of the mine is scheduled for late 2006.

¹ Address to the CBSI Conference on Revitalizing Rural Finance, Hon. Peter Boyers, Minister of Finance and Treasury Conference on the revitalising of rural finance, 13th-14th April 2005.

View from the Community

6. The conference acknowledged that the delivery of financial services had generally worsened in the past decade, particularly in rural areas.² Banking and financial services in Solomon Islands are now only accessible to about 20 percent of the population, and these are mostly in urban centres. Most of the rural financial institutions that existed in the past have declined or have closed down. A series of maps prepared for the conference³ showing the distribution of financial institutions in Solomon Islands indicate that Honiara and Gizo are the principal sites for most of the commercial banks, while, amongst the 33 credit unions that are still active, the largest are in Honiara. Banks have generally reduced their presence in the provinces. DBSI is in financial difficulties, which has also reduced its provincial representation, and is now focused on recovering its existing loans, not on lending. One province (Rennell/Bellona) has no financial institutions at all.
7. Nevertheless, there are some encouraging signs of renewed interest by financial institutions in providing outreach to the provinces, including:
 - Re-opening of an NBSI agency in Central Province,
 - Westpac's establishment of an electronic network in Solomon Islands,
 - ANZ's announcement of an impending mobile banking initiative in selected rural areas,
 - UNDP's announcement of a financial literacy campaign on the Guadalcanal Plains,
 - Several credit unions are seeking to reactivate/expand their rural coverage e.g. on Malaita,
 - Since the conference, there have also been agreements between the Post Office and Western Union and ANZ on the use of post offices throughout the country for some financial services.
8. The conference went on to note that the need for financial services is not equally intense everywhere in Solomon Islands. Strong social safety nets still exist in many rural areas, where the easy access to land and sea resources under the traditional pattern of community ownership helps to maintain a functional subsistence economy. However, the move to the cash economy in towns is now well established, and there is an increasing prevalence of cash transactions in rural areas⁴. Moreover, demographic pressure and the penetration of new ideas, goods and services may erode the capacity of the "wantok system" to deliver on growing economic expectations in the community.⁵ Already, to secure access to cash, many rural households are prepared to seek out small livelihood loans and to pay high interest rates⁶.
9. But while the development of a cash income base is now becoming increasingly necessary for rural livelihoods, this does not necessarily generate savings behaviour. When rural people earn cash, savings are often not a priority. Immediate consumption is more prevalent. Financial illiteracy, the fear of the unknown (banks) and the absence of safe deposit facilities are all impediments in the emergence of savings habits. Rural people have saved before, but typically their savings have been in kind, not cash. If they save cash, it tends to be for traditional ceremonies, church duties, health and education. People do not link forward business planning to their savings programs.

² "Revitalizing financial services: A brief review of the current situation", presentation of Serge Belloni, Conference on the revitalising of rural finance, 13th-14th April 2005.

³ Appendix 3

⁴ "Revitalizing financial services: The views of the entrepreneurs" Central Bank of Solomon Islands, Serge Belloni, Conference on the revitalising of rural finance, 13th-14th April 2005.

⁵ "Submerged Problems to Socio-Economic Development in Rural Solomon Islands Today" Father Maaka, unpublished, 2005, Conference on the revitalising of rural finance, 13th-14th April 2005.

⁶ Working groups' sessions – Conference on the revitalising of rural finance, 13th-14th April 2005.

10. The CBSI survey commissioned before the conference confirmed that rural business enterprises need cash, but they also need basic financial products, (bank accounts and loans, money transfers and foreign exchange services). The degree of consumer dissatisfaction with the banks is deep. High service commissions and transaction fees, and insufficient access to credit are major sources of concern. Bank attitudes towards customers (and especially rural customers) are not seen as friendly, and banking is an unpleasant experience for most. Peak time rushes, the absence of SME-specific products and services, and the cash flow problems of branches/agencies were frequently cited as problems.
11. Customers in Solomon Islands are requesting more time, discretion, confidentiality and security for their transactions. Banking attitudes towards customers (and especially rural customers) are not seen as friendly. Small bank premises, short opening hours, the potential bias of long-serving staff members that are also members of a close-knit community and the poor enforcement of internal rules of confidentiality are seen as impediments to quality services, especially in agencies. So there is considerable room for improvement in the quality and range of services provided by banks.
12. While it would be inappropriate (and probably impractical) for the Government to try and put pressure on financial institutions to change their attitudes, banks should consider the possibility of consumers organising themselves to demand better standards of products and services, and the potential loss of business over time. There may be a role for the Government to work with banks and other financial institutions on defining minimum standards on these issues.

The Regional Experience

13. Bank services have been reduced during the social tensions; however banks maintained a presence throughout this difficult period. And there are encouraging signs that financial services were now starting to improve. The conference noted the tremendous potential to forge mutually beneficial partnerships between financial institutions, the Government and possibly with donors to enable a better economic environment to develop in Solomon Islands. Several presentations were made illustrating the variety of options being tried elsewhere in the region to overcome poor access to credit and low levels of loan repayments. The ADB warned the conference against the transformation of potentially profitable private lending programs into small, money-losing, politically vulnerable state-run programs. Dismal experiences worldwide and in the Pacific have repeatedly shown that direct government approaches are ineffective at solving the access to credit problem.
14. In 2003, the National Bank of Vanuatu ¹⁰ (NBV) developed and tested new financial products to meet the need of indigenous entrepreneurs on the island of Tanna. NBV provides micro-loans and small finance loans to applicants, so long as the applicant has a prior banking record, with minimal arrears. NBV regards itself as a commercial bank and prides itself on marketing its products as fully commercial loans. All NBV loans must be recovered and must be profitable. The Vanuatu Government is not involved in the running of the scheme – though it should be noted that there was ongoing subsidy by the ADB for technical assistance and infrastructure in developing the scheme.
15. NBV would rather lend to established businesses than fund new business start-ups (as start-ups are less secure). Applicants' honesty, reliability and ability to manage their project, their cash flow security and their capacity to repay the loans are critical in lending decisions. NBV also seeks loan guarantees to protect against defaulting borrowers and has not hesitated to enrol chiefs and community leaders as debt collectors; the bank retains the right to seize and sell

individual property pledged as credit collateral to recover a bad loan. And NBV has indicated a willingness to blacklist entire villages if one member defaults - although to date the low levels of default on loan repayments have not required such action. NBV has had considerable success in this blending of commercial discipline and the judicious use of tradition, and considers that it has redeveloped bank credit principles and loan documentation to suit the local conditions.

16. The ANZ Bank also sees banking the un-banked as a commercially viable approach – but advocates innovative thinking and action on the part of the banks. Collaboration with local groups makes reaching out to the rural areas possible. The ANZ Bank⁷ excludes nobody, nor targets anybody in particular. It is simply using mobile banks to bring banking services to rural people who can now open accounts, deposit and withdraw cash, and get loans. ANZ demands that customers save for six months before they get a loan. To reach small customers at acceptable transaction costs, the bank has obtained from the Fiji Government a 150 per cent tax rebate, and has teamed up with the UNDP on implementation of a financial literacy campaign. It plans to replicate this approach in the Solomon Islands.
17. The Pacific Enterprise Development Facility⁸ (PEDF) is supporting the development of an expert based credit appraisal system within a regional bank, to increase the number of loans approvals, diversify the geographical distribution of loans, reduce the time for application turnaround and improve staff productivity. Based on detailed analysis of current and past credit performance, the new system has standardised and institutionalised a more flexible credit decision-making process in the bank. Operators have to be financially and computer literate. However, specific training is required, the system requires maintenance of equipment, and power is necessary. Nevertheless, this new system seems to offer the promise of more flexible approaches for rural borrowers within established financial institutions. And the motivation and willingness of loans officers within the bank to extend loans to rural people improved dramatically. A significant and positive attitudinal change towards rural borrowers appeared to have taken place.
18. Several presentations by banks underlined the need for lending decisions to be based on careful analysis of the merits and demerits of loan applications. Clear processes for the assessment of business propositions and applicants need to be established before any increase in the volume of loans. Better security of title over land, more flexibility about the use of movable assets as collateral and improved financial literacy of consumers all might improve the viability of loan approaches for financial institutions. Communities would benefit from working constructively with the institutions to ensure that land and/or other assets can be used as effective security for loans. Local people have a role in endorsing innovative leasing arrangements for land, and helping to explore the use of existing social organisations to guarantee loans, and possibly to help set out appropriate strategies to deal with loan defaulters. It is to the benefit of the entire community if credit systems can be made to work.
19. From these presentations, it was clear that banks seek to maximise their profits and minimise their risks – just like other businesses. ANZ⁹ and NBV¹⁰ underlined the imperative of profitability as a condition of service provision. CBSI, ADB and PEDF all underlined the

⁷ « Bank blo evriwan – Big Challenge – Great Opportunities » Carolyn Blacklock, presentation at the Conference on the revitalising of rural finance, 13th-14th April 2005.

⁸ “Access to Finance”, Robert Simms, International Finance Corporations, Pacific Enterprise Development Facilities, World Bank Group, presentation at the Conference on the revitalising of rural finance, 13th-14th April 2005.

⁹ « Bank blo evriwan – Big Challenge – Great Opportunities » Carolyn Blacklock, presentation at the Conference on the revitalising of rural finance, 13th-14th April 2005.

¹⁰ National Bank of Vanuatu

predictable response of banks (reduction/withdrawal of services) when political instability and social unrest undermine the economy. Several of the presentations showed that other banks in the region seem perfectly willing to try innovative approaches, and genuinely want to help rural customers – but it should be emphasised that a commitment to social outcomes does not mean that a bank will continue providing a service if it perpetually makes a loss. Banks cannot exist without profits. If there are no profits, there will eventually be no banks left to provide any services.

Views of Credit Unions and Micro-Finance Institutions

20. The conference also considered the potential role of credit unions and dedicated micro-finance institutions for rural financial service delivery. Credit unions and cooperatives tend to have a different approach to banks. Profit is still pursued, is necessary and welcome, but is seen more as a means to promoting the organisation of economically efficient and effective services to its members. The members and the consumers are also the shareholders.
21. Credit unions tend to operate better with a client base of professional bodies, such as teachers, nurses and public servants who have regular incomes, and whose contributions and loan repayments are easily and automatically withdrawn from their salaries. Credit unions also have the advantage that their lending procedures tend to be quicker, simpler and more flexible than bank procedures. Credit unions were also considered to provide a useful training ground for improving financial literacy amongst Solomon Islanders.
22. The past performance of many rural credit unions in Solomon Islands has been disappointing. But the conference found that there are successes that could be replicated, provided that the relevant legislation is reviewed to give credit unions more flexibility in the running their business, that governance provisions are enforced, and if tighter control on restricting managerial overheads can be established. Under these conditions, the conference considered that credit unions might eventually position themselves as SME focused institutions.¹¹
23. There was some discussion as to whether credit unions might provide the most appropriate framework for delivering effective micro-finance in Solomon Islands. Most models that have been tested in Solomon Islands tended to not live up to expectations. The conference took the view that locally appropriate approaches for micro-finance deserve more attention.
24. In Fiji¹², when it was recognised that traditional bank approaches for micro-credit were cumbersome and fraught with risks of default, the Government took a leading role in developing a rural micro-finance program. Initially, the Fiji Development Bank was seen as an appropriate channel for this initiative, but it was eventually decided that a more commercial approach was needed. To facilitate this, the Government set up the National Micro-finance Unit (NMFU) to foster rural finance approaches. This unit has developed a strategy of contracting out the delivery of financial services to Non-Governmental Organisations that can demonstrate their commitment and capacity in the development of micro-finance activities. Pressure groups such as affinity groups, villages and other traditional structures are utilised to assist in the repayment of loans.

¹¹ Working groups reports during the conference.

¹² “Microfinance in Fiji: 1999 to 2004”, Luse Kinivuwai, Director, Micro finance Unit, National Centre for Small and Micro-Enterprise Development, 2005. National Conference on Revitalising, Rural Financial Services in Solomon Islands, April 2005.

25. The Fiji experience has shown that women are more trustworthy than men as borrowers, and that financial services for youth and the poor can be improved dramatically. The NMU continually updates its methods and products to reflect the needs of these populations. After a shaky start, the NMU has had considerable success. During the process, however, a degree of subsidy has been required. Various donors have helped and subsidised the unit to enhance the capacity of its staff.
26. In Papua New Guinea, there have been a number of trial projects in micro-finance. But after the collapse in 1992 of the Liklik Dinau Abitore Trust (LLDAT) – a project modelled on the Grameen Bank - the PNG Government came to the conclusion that micro-finance is different from commercial banking and must be managed differently. The Government established a Micro-finance Competence Centre (MCC), a Micro Banking Pilot Scheme (MBPS) and a Revolving Finance Facility (RFF). The MCC provides in-house training courses, rates the performance of MFIs and promotes an appropriate legal framework for micro-finance oversight. The MPBS is a micro-finance ‘laboratory’ that utilizes ‘savings-first approaches’ and is used as a pilot that can be used as a replicable model. The RFF is expected to provide an ongoing source of funds to support the operation.
27. The PNG Government realised that what matters most for effective finance is good management. But a close second is the way in which such projects relate to the local situation. Peer group pressure to repay, and even customary obligations could be used effectively for the benefit of micro-finance projects and institutions. For example, repayment rates were found to be higher if a clan member co-signs the credit application for a loan by another clan member.

Main Issues to be Addressed

28. The conference noted that a number of approaches had been put forward to improve rural financial services, and that appropriate support structures were needed. Encouraging the circulation of cash in rural areas was seen as critical, as was security for cash transactions and for customer confidentiality. The issue of subsidies was discussed. Subsidies can take many forms: below-market credit interest rates, grants, tax holidays, tax rebates and other exemptions. The conference remained ambivalent on the issue of subsidies. While banking may be commercially viable in some parts of the country, this was not the case everywhere. Transferring resources from urban taxpayers to rural communities through soft loans or grants via DBSI-style institutions and government projects was seen by many as a necessary financial cost to maintain the rural economy and promote social cohesion. But the efficiency of subsidies as a driver of economic development is open to doubt. There were strong views expressed that subsidies simply act as a disincentive to effort and self-reliance, and that they create a handout mentality. The dominant view was that subsidies should be temporary, highly transparent and strictly limited to economic purposes. It was recognised that subsidies are expensive, tend to be badly managed, and are subject to political interference, but it was accepted that subsidies, including Government and donor subsidy, will remain a feature of the sector for some time. Making the most effective use of subsidy was the real issue.

(a) The Need for Regulatory Structures and More Enforcement

29. The role of the Government in reforming regulatory licensing and legal structures for financial institutions was underlined. Entrepreneurs put a strong case for a reduction in number and amounts of licensing fees, and for simplification of procedures to encourage other potential entrepreneurs to start businesses. The registered entrepreneurs complained that they are not on

a level playing field with informal operators who do not pay any rates and taxes. On the other hand, people in the informal sector trying to eke out a living from small activities see themselves as disadvantaged compared to those in the formal sector. The roles of formal, registered business and the roles of informal, casual and unregistered business both need to be clarified, and suitable fiscal and policy initiatives for reform to support both need to be developed.

30. There was universal agreement on the necessity to revise existing laws – the Financial Institutions Act, Credit Unions Act, the National Provident Funds Act, the Co-operatives Act and so on. The rationale for revision varied. Banks want a revision of the law to clarify the rules of the game for the various types of financial institutions, based on a comprehensive review of the current legal framework. Credit unions want more flexibility in the Credit Unions Act to facilitate expansion, hopefully to rural areas. Suggestions were made that a specific micro-finance act was required. There was disagreement as to whether new laws were necessary, however. Some contended that there was no need for new laws, and saw the existing Financial Institutions Act as adequate. Some participants criticised the existing excess of regulations, and saw more value in the improved enforcement of existing laws, rather than trying to draw up new ones. It was noted that there are existing programs through CBSI, PEDF, the World Bank and other regional bodies to review the necessary legislation – but there was also agreement that these reviews needed acceleration.
31. By contrast, unanimity was reached on having laws severe enough to deter con artists from operating. It was underlined that the appropriate education of users is an indispensable complement to the law in this matter. The conference wanted protection against pyramid schemes and other scams that have been tried in the past. Improved regulation of money lending activities was another requirement identified by the conference.
32. CBSI's primary role in administering the laws that govern commercial banking, DBSI, credit unions and insurance companies was acknowledged. The conference expressed its confidence in CBSI's integrity and professionalism. In addition to this regulatory role, however, CBSI has a supervisory role to ensure that institutions are managed according to prudential rules. Participants insisted on a greater role for the CBSI in the identification and promotion of alternative rural credit delivery institutions, in their initial establishment, and in the education of people. CBSI was identified as a potential point of contact with donors on rural finance. However, it was acknowledged that by asking the Central Bank to deal with all these issues may in the end overload the institution, which is a real risk. A balanced division of work and responsibility between regulatory stakeholders is required. The developing state of Solomon Islands may justify additional functions for the CBSI, but continually offloading responsibilities onto an institution simply because it is perceived as efficient will eventually be counterproductive.
33. The CBSI Small Business Finance Scheme was discussed in this context. The scheme, which still exists, provides a CBSI guarantee for up to 80% of the unsecured portion of a commercial bank loan to an eligible small business. The scheme fell into disuse during the late 1990s after the interest of commercial banks in encouraging small businesses faded. Its past record showed successes for those borrowers with good managerial skills and a few failures in respect borrowers who abused the scheme. That resulted in the concerned commercial banks and CBSI having to take the losses under the terms of the scheme. However, many participants felt that it might be timely to reactivate the scheme in cooperation with commercial banks and other financial institutions, in an environment of improved governance.

(b) General Economic Environment/Infrastructure Issues

34. There is a critical need for improved economic infrastructure in Solomon Islands. All participants called for better roads, wharves, telecommunications and electricity supply. The poor transportation systems at present are particularly testing the resilience of rural people. The costs of poor transport services are significant, especially for civil servants that work in rural areas – nurses, teachers, officials – who need to travel to the closest bank agency to withdraw their salary or to get cheques cashed. Although there is no detailed study on the cost of this inefficiency to the economy, it may be as high as 2 per cent of GDP. Many of Solomon Islands public servants live in the rural areas, and often they have to take long and dangerous trips simply to have access to a financial institution to withdraw their funds. These travel costs represent a substantial tax on those people who are without ready access to financial services. The insufficiency of telecommunications infrastructure is another major impediment to the expansion of financial services in Solomon Islands.

(c) Potential of New Technologies

35. Better telecommunication networks are needed to introduce user-friendly technologies such as mobile phones, and internet/e-mail/web facilities. However, there was disagreement between users who demand a minimum level of service delivery, and service providers who insisted that services could only be provided if the costs in doing that are fully covered - without cross-subsidisation.

36. The conference noted that modern technologies would inevitably play a major role in improving the banking of rural people. While most attention tends to be on the new computer / information technology / internet approaches, there are other innovative technologies available that can also assist e.g. phone banking, remittances cards, EFTPOS, and Automatic Teller Machines (ATMs). The experience of banks and financial institutions is that when these new technologies are introduced, some of the difficulties currently experienced in rural areas in getting access to financial services can be overcome. Banks can reduce their transaction costs dramatically, and can enhance their rural outreach without investing in large physical presence. Many of these savings can be passed onto the customer.

37. Via internet and e-mail, it is possible to facilitate customers' account enquiries and credit applications, to provide on-line advisory services and to collect data for monitoring and reporting. The establishment of Distance Learning Centres (DLCs)¹³ in the provinces, in conjunction with banks could also facilitate rural cash transactions and banking. A two-year old pilot project implemented by People First Network (PFNet/RDVA) has established DLCs in five provinces, in schools of highly populated rural communities. Each centre has fully solar powered equipment: computers, printers and a scanner, linked to broadband satellite Internet access (VSAT), HF radio communications and a permanent supervisor. Cost sharing between the private sector and the community for the DLC could be a solution to promote sustainability, although Government subsidies at the early stage of development of this essential service could also be justified.

¹³ "Rural IT Networks and Rural Finance: The People First Network (PFnet) and Distance Learning Centres Project (DLCP)", Randall Biliki and David Leeming, National Conference on Revitalising, Rural Financial Services in Solomon Islands, April 2005.

(d) The Role of Donors

38. There was considerable discussion on the appropriate role for donors in the finance industry. It was noted that current high levels of donor funding in programs elsewhere appear to have contributed very little towards a viable and sustainable micro finance industry. However, the conference concluded that donor's technical assistance and financial support for finance industry development approaches continues to be required. Donor development approaches should however be tempered with an appreciation of the need for economic and social sustainability of projects, and the likelihood that capacity building for a commercial result in the Solomon Islands environment would be time-consuming and difficult.
39. The ADB¹⁴ presented their views in the context of a case study from Timor Leste. In the ADB's view, there is no generic or best model for donor driven financial institutional reform, but rather a large number of methodologies, predicated on basic principles that can be adapted to various populations and circumstances. Financial institutions need to have a clear mission and common objective, sound corporate governance and rigorous delinquency management. If a proposal is put forward to the ADB that demonstrates these characteristics, the ADB will consider supporting a pilot project that seeks to invest in under-served markets for financial services. Such projects usually involve a transfer of technology, the development of locally sustainable methodologies and set out a divestment strategy for ownership and control of the project be handed over to the end users. The ADB are currently undertaking a regional study (including in Solomon Islands) in the area of secured transactions, to find ways to use different forms of collateral.

(e) Education /Public Awareness/Advocacy

40. The need for universal basic education on finance was frequently raised. The cash economy has its own basic concepts and language. There is a need to make financial services accessible and understood by all, and to prevent exploitation of consumers by con men. The Ministry of Education, assisted by the CBSI, was requested to include in its school curricula topics such as family budgeting, credit mechanisms, an explanation of savings and the basic principles of cash exchanges. Many adults also require a better understanding of the basic concepts surrounding monetary transactions, credit and savings. Channels for this sort of training could include rural training centres, distance learning centres (as proposed by PF-Net), training programmes hosted by credit unions, awareness campaigns on radio and newspapers and financial literacy programmes such as the one sponsored by UNDP. Other stakeholders in civil society (e.g. churches) could play an education and awareness role in these matters, as local organisations familiar with grass roots people's needs and motivated by the desire to help.
41. The key role of SMEs in the economic development of rural areas was acknowledged by the conference. SMEs are the most likely avenue for the development of any potential income-base and pool of business in the provinces. And when SMEs are created, they attract financial services – such services follow rather than precede economic development¹⁵. But as significant customers, SMEs also provide a key element in the public awareness and perception of financial services. Unfortunately, whereas a few large corporations in Honiara have a strong

¹⁴ "Sustainable credit", Naomi Chakwin, Regional Director, ADB Sydney, presentation at the Conference on the revitalising of rural finance, 13th-14th April 2005

¹⁵ "Economic Development and Provincial Financial Services", Department of Finance and Treasury Paper for Conference on Revitalising Rural Finance.

influence on banks, many thousands of small people throughout the country do not have a voice.

42. Following the CBSI workshops, several entrepreneurs have begun to work together to establish their own representative organisation - 'National Association of Small and Medium Enterprises' (NASME) whose main functions will be representation, advocacy, awareness, education and training and legal advisory services. NASME will hopefully play a collective role in the formulation, implementation, monitoring and evaluation of finance policies aimed at revitalising rural areas. The success of this effort will depend primarily on the SMEs themselves, but better advocacy with the Government on financial issues for SMEs will no doubt occur as a result of this initiative.

(f) Conclusions

43. The desire of CBSI, the Government, NGOs, SMEs, existing financial institutions and donors to work together effectively to set the wheels in motion on improved rural finance services was clear. There was agreement that public-private partnerships to enable better rural financial services are not only possible, but are being tried elsewhere in the region right now. The challenge for Solomon Islands stakeholders is to enable these sorts of initiatives to occur and to work to make them viable and sustainable.
44. It was agreed, after considerable debate, that it is worthwhile developing home-grown micro-finance institutions (hopefully owned by rural communities themselves) as a way to foster savings habits, to improve access to a regular source of credit, to secure loan recovery, and to educate people on cash and credit management. It was considered that credit union revitalisation would be the most likely means of establishing micro-finance institutions in Solomon Islands in the medium term.
45. The conference welcomed the creative use and adaptation of traditional structures by commercial banks to improve financial services and micro-credit approaches in rural areas. The conference recognised the distinction between commercial approaches that see rural finance products as opportunities to make a profit, and non-commercial approaches that sees such finance products primarily as a means to educate, enrich and empower rural people in their environment. But whichever approach is taken, such services must be viable, be appropriate to the local situation, and made more sustainable.
46. Banking and financial services are part and parcel of the overall investment climate that is essential for economic growth. The conference acknowledged that the financial industry as a whole benefits from fresh ideas and innovative approaches. Micro-finance needs to be promoted as an industry on a par with other financial institutions. Banks need help in establishing how "Banking the un-banked" can become commercially viable, and to find new products to deal with populations that live in a difficult environment and who are not accustomed to banks. The public should be encouraged by private and state agencies to approach financial institutions with more confidence, knowledge and assertiveness - but customers also need to learn to save and to be good borrowers. Both SMEs and the public need to make their voices heard in the corridors of power, and in the various donor and regional consultations on social and economic development. And it is vitally important that the Government, CBSI and financial institutions continue to receive feedback from the public – so that they are made aware of problems in banking services.

Where to from here?

CBSI is keen to use the findings of this conference as the basis for specific activities to move the issues of improved rural financing forward. The conference recommendations (presented in full at Appendix F) were somewhat redrafted to take account of subsequent discussions within CBSI and are given below. These will be presented to the relevant stakeholders by CBSI, with a view to evolving a specific plan of action in conjunction with the Government, with the financial sector and with the community. A strategy to target the appropriate stakeholders for these specific actions will be incorporated.

Recommendations

General Economic Environment/Infrastructure

- ❖ The Solomon Islands Government to work to make the economic environment more conducive to the expansion of financial services by;
 - ❑ Providing an enabling environment for private sector growth, i.e. an appropriate regulatory framework, an equitable tax system,
 - ❑ Providing infrastructure that financial services and users can rely on,
 - ❑ Ensuring that there is no longer political interference in financial institutions' policies and projects.

Action – SIG

- ❖ More specifically, SIG should remove barriers to investment in the short-term

- ❑ Through tax reforms, *Action –DOFT*
- ❑ Through reforms to the Foreign Investment Act, *Action – DCIE*
- ❑ Reform the current policy impediments and high cost structures on communications capacities. *Action - DCAM*

(g) Need for Regulatory Structures and Enforcement

- ❖ The SIG and CBSI to work together with regional and local institutions to develop an appropriate regulatory framework for financial services delivery (including rural services) including:
 - ❑ To modernise and enforce the Credit Unions Act,
 - ❑ To review and amend the Cooperative Act, if necessary,
 - ❑ To review the Charitable Act, if necessary,
 - ❑ To review the NPF Act.

Action – SIG/CBSI

- ❖ A Micro-Finance Unit to be established within the Central Bank of the Solomon Islands to formulate policy for, train and supervise Micro-Finance Institutions,
 - ❑ This unit could work to a steering committee made up of CBSI, the Ministry of Finance and Treasury and representatives from business community,
 - ❑ A specific CBSI taskforce based in the Unit will seek to pursue the implementation of the recommendations from this conference.

Action – CBSI

(h) Potential New Technologies

- ❖ Information technology and other potential technologies aimed at developing applications for rural finance will be encouraged and pursued by the SIG,

Action – DCAM

- ❑ Telekom will be approached by CBSI to investigate the use of remittances cards in Solomon Islands, in conjunction with the banks,

Action – CBSI/Telekom

- ❑ Banks will be encouraged by DCIE and CBSI to increase the use of EFTPOS terminals in rural/provincial retail centres,

Action – CBSI/DCIE

- ❑ Internet and web based applications will be supported and utilised by SIG / donors / banks as a means of improving communications and reducing overheads for financial institutions.

Action – Donors/DCAM

(i) Public –Private Partnership

- ❖ The Solomon Islands Government will work with commercial financial institutions and donors to eliminate impediments to, and to promote public-private partnership arrangements for, the delivery of rural financial services,

Action – SIG

- ❑ SIG, in consultation with banks and donors, should encourage commercial banks (present and potential) to implement more flexible delivery of rural finance, similar to what has been done elsewhere in the region,

Action – CBSI/MOF

- ❑ SIG should consider establishing a new financial institutional arrangement for delivery of rural credit/finance to benefit rural communities. Appropriate consideration should be given to concessioning out this arrangement to existing finance institutions, and establishing a public/private partnership agreement rather than setting up a new DBSI style government style institution.

Action – CBSI/MOF

- ❑ CBSI should consult with banks about re-establishing the Small Business Guarantee Scheme.

Action – CBSI

(j) Education/Research/Public Awareness

- ❖ The Business Division of DCIE to encourage and support the National Association of Small and Medium Enterprises (NASME) as a vehicle for public awareness of SME issues.
Action – DCIE
- ❖ SIG should promote better communication, awareness, and information exchange on the issues of financial literacy in its dealings with the community.
 - Ministry of Education should develop financial literacy campaigns for schools, rural training centres and adult education institutions. *Action – DOE*

Acknowledgments

The Conference is grateful for the contributions from many people and groups who made it a successful meeting. To the resource persons who shared their invaluable experiences on the topic: Ms Naomi Chackwin, Regional Director of ADB Pacific Liaison Coordination Office; Ms Luce Kinivuwai, Director of the Fiji Micro-Finance Unit of the National Centre for Small and Micro-Enterprises Development; Ms Carolyn Blacklock Regional Executive – Banking the Un-banked, Asia-Pacific of the ANZ Bank Group; Mr Robert Simms, Manager of the “Access to Finance Programme” of the PEDF (IFC-World Bank Group); Mr Steven Avel, Manager of the Micro-Finance Unit of the Bank of Papua New Guinea; Mr Joel Frederick Nobetau, Assistant Manager of the PNG-ADB Micro-Finance Project; Mr Peter Dundas, Manager of Finance and Risk Management of the National Bank of Vanuatu; Mr Randall Biliki, PF-Net manager; Mr David Leeming, PF-Net Technical Advisor; and Father Francis Maaka, General Secretary of SINTA. And to all the participants both from overseas and from various interest groups in Solomon Islands for their participation.

The Organisers acknowledge the financial assistance by AusAID and PEDF towards the running expenses of the Conference, and thank the Department of Lands for providing the maps that were used during the presentations.

The Conference is grateful to the Steering Committee¹⁶ for organising the conference, overseeing and guiding its management to the end, and would like to express gratitude to Mr Rick Houenipwela under whose chairmanship the Conference was a success.

Finally, the Conference acknowledges the contribution of The Secretariat¹⁷, which ensured all technical and administrative matters are in order.

¹⁶ The Steering Committee comprises the Governor, Deputy-Governor, Mr Anthony Hughes and Mr Francis Kairi (CBSI Board); Mr Andrew Thomas, Mr Tony O’Dowd and Mr Harry Kuma (Economic Reform Unit, MOF; Mr. Gane Simbe and Mr. Edward Ronia (CBSI Management) and Mr. Serge Belloni (Consultant).

¹⁷ This is headed by Mr Serge Belloni, who was assisted by Mr Edward Ronia, Mr David Gapirongo, Ms Ruth Kaukui, Ms Freda Diau and Ms Louisa Rade-Sulega

**Address to the CBSI Conference on Revitalizing Rural Finance by the Hon. Peter Boyers,
Minister of Finance and Treasury (13 April 2005)**

Governor,

Distinguished Representatives of the Diplomatic Corps,
Distinguished Representatives of International Financial Institutions and Banks,
Distinguished Representatives National Financial Institutions and Banks,
Distinguished Representatives of the Solomon Islands National and Provincial Governments,
Distinguished Representatives of the Business Sector, Churches and NGOs,

Ladies and Gentlemen

It is indeed a great pleasure to be provided the opportunity to make the opening address at the CBSI Conference on Revitalizing Rural Finance. This is a crucial issue for the prosperity of the Solomon Islands economy and the well-being of our people.

I would like to take this opportunity to thank the CBSI and in particular Governor Rick Hou and the CBSI Board for the initiative and leadership they have taken on this issue. I would also like to thank you all for participating.

All of you will be aware that the Solomon Islands economy has been through a very difficult time in recent years. The return to law and order in the last two years, combined with the positive economic indicators of late have provided us with another opportunity to re-establish our economy on a more sustainable basis.

I wish to assure you that this Government is determined to seize this opportunity, and to deliver economic benefits for all Solomon Islanders. We recognize that 80 per cent of Solomon Islanders live in rural areas. We now also recognize and understand how important it is that future economic development be spread across the whole country, and not just contained within Honiara.

I understand that over today and tomorrow, this Conference will consider how we can improve access to financial services in Solomon Islands particularly in the rural areas. I would like to make it clear right from the beginning that this Government sees improving financial services as only one part of the task required to deliver sustainable economic development to our people. Banking and credit services should not be seen as a magic solution that will solve all development problems in Solomon Islands, particularly in rural areas.

We know that economic development principally depends on Solomon Islands creating and sustaining a robust and thriving private sector.

The National Economic Recovery, Reform and Development Plan 2003-2006 (NERRDP) recognizes that creating an enabling environment for business and encouraging private sector participation is the best way to achieve economic development. Businesses need to flourish, unhindered by excessive or inappropriate regulations, and other unreasonable costs, if economic growth is to occur.

Creating the right environment for economic and business development

We recognize that the current business environment is not conducive to economic development. The tax system is too complicated and in some key areas the rates are too high. It takes too long to get approvals to start a business and there is too much uncertainty for investors. Inadequate transportation also is undermining economic development, particularly in the provinces.

Consistent with the NERRDP, the Government has a comprehensive program of economic reform aimed at providing the private sector with the right environment in which to prosper and, most importantly, provide jobs and services for Solomon Islanders. Allow me to highlight some of these economic reform programs:

Taxation and Foreign Investment

A new Foreign Investment Bill has already been drafted and is scheduled to be tabled in Parliament in mid 2005. This Bill will introduce a simpler registration and approval process to reduce uncertainty for foreign investors, while at the same time protecting Solomon Islanders.

In relation to this, I have also requested an independent review of the Solomon Islands taxation system. Widespread discretionary tax exemptions and indirect taxes are fueling the uncertainty for investors and taxpayers. We need to reduce this uncertainty.

This Government understands that taxation issues impact particularly heavily on ordinary people out in the provinces and rural areas. For example, import duties and goods taxes significantly increase the cost of importing outboard motors and ships. We are therefore determined to find ways to improve the affordability of capital items used for transport services.

Improving inter-island transportation

We know that more private sector investment in inter-island transportation services is particularly important.

A revitalisation strategy to improve the operational and financial management of Solomon Airlines has now been developed and approved. This should improve the quality of aviation services in Solomon Islands, which is essential to economic development in the rural areas.

Reform to our shipping services is also critical. The current level of reliability of our shipping services is simply not sufficient for our economic development. Successive Governments have heard this message repeatedly for years. This Government is adamant to do something about it. The Government will shortly consider policy options for improving shipping services, and for reducing the impact of inappropriate shipping regulations.

Reforming State Owned Enterprises

The Government currently owns and operates more than 20 enterprises or businesses. These include the power, water and postal utilities. Most of these companies, however, are run down and have incurred substantial debts. The Government, thus, gains little benefit from them at present.

The Government is presently exploring ways to make these companies more efficient and effective in providing services, including increasing private sector participation. The Asian Development Bank is providing technical assistance to my Department to develop a comprehensive strategy that is expected to improve the financial and managerial governance of these companies.

The World Bank also is currently providing technical assistance to SIEA and SIWA to develop and implement financial restructuring plans for both utilities, as well as undertaking a Private Sector Participation Study on structural reform options. Such reforms should improve service delivery to consumers both in Honiara and the provinces.

Major Projects of national significance

The Government will continue to support the reactivation of key industries and businesses, as an impetus to the Solomon Islands economy.

An example is the reactivation of the Guadalcanal Plains Palm Oil plantations, which will provide over 2,700 jobs to the people of the Solomon Islands when fully operational, and provide hundreds of millions of dollars to resources owners over the next 15 years.

The Government is also assisting with the reactivation of the Gold Ridge Mining on Guadalcanal. The new owner is expected to finalise negotiations in the near future, and is seeking to begin reconstruction shortly, with reactivation of the mine scheduled for late 2006.

Other major palm oil projects in Malaita and Western Province will also be progressed later this year. The Government has already budgeted funds to facilitate the start-up of these projects.

As you would note, this Government is coming to grips with the necessary reforms that are required to move the economy into a more sustainable growth path.

Financial Services Reform

Returning to the specific theme of this Conference revitalizing rural financial services, the reforms I have just outlined will be vital to generating sustainable economic growth that will substantially lift the living standards of Solomon Islanders. Increasing availability of financial services will also be important to the development of the Solomon Islands economy.

In considering why Solomon Islands has limited access to financial services, it is always important, as it will be for this Conference, to consider the impediments to increased services delivery.

Just as there are impediments to private sector development, there are also many barriers to the expansion of financial services. Banks and financial institutions face many of the same barriers as other businesses. In addition to facing specific prudential regulations, banks face much the same taxes, barriers and licensing arrangements as other businesses do.

As an example, one of the biggest impediments to the operation of banking services in the rural areas is security. Financial institutions often need to move cash between banking locations. These transfers require reliable security services.

In the Solomon Islands there are few (if any) existing firms with the managerial and administrative expertise capable of supporting such cash transfers. Banks, therefore, have looked to existing private security operators in PNG, Vanuatu and Australia to come to the Solomon Islands in order to provide these services. However, these firms currently are barred by Regulations under the Investment Act of 1990 from providing such services.

The new Foreign Investment Bill will address this problem by streamlining the application process and opening up this sector to overseas operators. Not only will this reform provide better security to our banks, it will also allow overseas security operators to employ, train and pass on their operational and managerial skills to our people.

Similarly, other reforms that I have outlined – such as tax reform and improvements to state owned enterprises and transportation services – will do much to reduce the barriers to increased financial services in the Solomon Islands.

In addition to the general barriers to broad economic development, there are a number of issues that impact more specifically on banking.

Increased security of title over land, promoting the use of movable assets for collateral, and improved financial literacy of consumers would also improve the viability of financial institutions.

Communities need to work constructively with financial institutions to ensure land and/or other assets can be used as effective security for loans, and to investigate the innovative use of leasing arrangements for land.

Improved regulatory supervision of financial institutions will also help to reduce mismanagement, thus making the use of all financial institutions more attractive to Solomon Islanders. As I understand, CBSI is again taking leadership in this area through a review of its overarching legislation. Moreover, the CBSI is also looking at improved regulation of credit unions.

Thus, while I await with very keen interest the specific findings of this conference, I want to reassure you all that this Government fully intends to pursue a wide range of reforms that should assist the financial sector and the private sector generally.

As the Minister responsible for financial services, I am determined to take the opportunity to get the Solomon Islands economy back on its feet, and bring in an era of positive economic development for all of us.

Reform aimed at establishing an economic environment in which businesses can flourish is the primary objective. Pursuing these reforms should increase the number of bankable business opportunities and increase the overall demand for financial services. I believe this will provide a platform for better outcomes and services for all Solomon Islanders.

On this note, I thank you sincerely for your attendance here today and for your support and commitment in getting an important economic reform underway. May I therefore take this opportunity to wish you all rewarding and fruitful outcomes in this Conference.

Thank You

**Hon. Peter Boyers, Minister of Finance and Treasury
(13 April 2005)**

Opening Remarks by Chairman, Steering Committee

Theme: “Access to Credit and Financial Services by Rural and Small Business Enterprises in Solomon Islands”

Welcome,

The Minister of Finance, Honourable Peter Boyers, Representatives of Diplomatic Missions and High Commissions, Development Partner Representatives, Senior Government Officials, our Overseas Guests, and all participants.

I am very pleased to welcome you – to Honiara, SI [for those who have not been to our country before]. The Bank is honoured and extremely grateful to all of you for accepting our invitation to participate in this conference.

On behalf of the Board and management of the Bank I am very pleased that the Minister is able to make time to be with us this morning. Hon. Minister, your presence is already an inspiration to the organisers and has provided an impetus to this Conference. This is very important to us.

Purpose and Thrust for the Conference:

Participants, you would have seen a brief background paper, which has been provided in your pack of papers – if not already sent you with our invitation. That paper has provided the background, purpose and thrust for this Conference.

This Conference is very important to us, not only in terms of the Central Bank role and functions, but more importantly in our quest to try and make our financial systems more responsive to and effectively cater for our economic needs.

Our experience in SI has not been a happy one. The history of our financial system has been plagued by examples of failed credit schemes, an insolvent development bank, accusations that our banks are too pre-occupied with their profit margins, criticisms that the financial system is unresponsive to the needs of investors, criticisms that the wheels to savings mobilisation are not turning and that access to credit is either limited or selective.

We are informed told that partly in response to this somewhat stalemate, this country was almost overwhelmed with pyramid selling schemes and other financial schemes. These have caused havoc to the banks, and threatened the financial system.

We have of course curbed this insurgency on the financial system - at least for the time being. However, we need a long-term solution – rather than to curb the pyramid schemes per se, we are looking for alternatives to engage the population in real economic activities. We are looking for practical alternatives that can be applied in SI to ensure the financial system is responsive to our investors' needs; alternatives to loosen up savings mobilisation and alternatives, which will see credit more accessible. This is the thrust of this Conference.

As a central bank in a small developing economy, the CBSI has over the years performed functions outside its core mandate, to the extent that it has assumed responsibilities on which the Bank's knowledge is very thin on the ground. Furthermore, we have carried out functions, which have not only conflicting objectives, but also can undermine each other. One such example is the dual function to supervise and regulate the financial system, and at the same time to pursue the objective of banks and financial institutions to be proactive in lending, to be developmental and expansion of their network. We in the Bank have to tactfully apply ourselves to these evolving circumstances to ensure that while pursuing one objective we do not shoot ourselves in the foot on another.

Under current policy direction, the focus is making sure the banking system becomes part of the overall objective of "providing an enabling environment" for investment. In this objective, particular emphasis is placed on how the financial system can better meet the needs of the rural and small business enterprises.

Included in your information pack are several papers that should provide you a feel of what is currently on the ground in SI: a map of the financial system in SI, a paper on the relationship between use of money and traditional/social responsibilities, a paper on the public and private sector investment situation – especially in terms of the rural sector, and a paper on the critical needs in our financial system.

In order to give you a better understanding of the present situation, and to provide the platform for our Conference, a number of these papers will be delivered in brief presentations by the authors after the opening ceremony this morning.

Envisaged outcomes from the Conference

The Conference is organised to ensure active interaction between participants. It would have been very good to hear from different ones of their experiences. However, given that we do not have the luxury of time, not everyone will be able to make a presentation. Nevertheless, this interactive process is expected to be at the group level discussion. I would therefore encourage you all to make full use of these discussions.

The Conference would be looking at banking & financial services – including access to credit – as part and parcel of the investment environment. The overarching question for the Conference though is, how can this be geared towards providing an enabling environment? Are there practical lessons that can be learnt from our past mistakes? Are there alternatives to DBSI and other failed micro finance schemes we can learn from other similar situations like SI?

With that in mind, the Conference should identify policy questions to be addressed by the financial institutions – individually and corporately, the Donor Community, the SI Government, and of course the public, including the private sector players.

Action plans

It is intended that these outcomes and recommendations will be turned into action plans and translated into tasks for the financial institutions: the banks and the CBSI, the donor community and for the SI Government.

Acknowledgement

Finally, just word of acknowledgement for the contributions of those who have made this Conference come a reality.

Organising Committee:

The Committee comprises of members from the CBSI Board, members of the senior Management of the Bank, and representatives from the Economic Reform Unit of the Department of Finance & Treasury. Over the past few months, this group has sat and planned this gathering. Apart from ensuring the policy framework for the Conference, this group had steered the work of the Secretariat to ensure Conference preparations are in order. I would like to thank fellow directors – D Rarawa, A V Hughes, F Kairi; and Mr. A Thomas, Mr T O'Dowd and Mr. H Kuma from the ERU, who spared nothing to ensure the preparations and background work are done. And then Mr. G Simbe and Mr E Ronia of the CBSI management.

Secretariat

This small team, headed by Mr S Belloni, are the people who have made the Conference really happen. Without their untiring devotion it would have been difficult host this. Mr Belloni is assisted by Mr E Ronia and Mr D Gapirongo, Mrs Ruth Kaukui and two secretarial assistants – Freda Diau and Louisa Sale-Kalega. Apart from helping us keep to the program, they will be here to assist in administrative matters – your accommodation, return tickets, internal transportation etc.

Finally I wish to acknowledge the direct financial assistance by AusAid [AUD\$30K] and PEDF [AUD\$5K] for helping pay for various expenses in the staging the Conference. We are very grateful indeed for this assistance.

Closing

In closing, let me again welcome you all to the Conference, and thank you all for kindly accepting our invitation. I hope the next two days will be useful to you all. And of course we are looking forward to the outcomes of your deliberations.

Thank you very much.

APPENDICES

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Central Bank of the Solomon Islands
National Conference on 'Revitalizing
Rural Finance'

APPENDIX A

REVITALIZING RURAL FINANCE

The views of entrepreneurs

HONIARA

(13 – 14 of April 2005)

by

Mr Serge Louis Belloni
Consultant

Errors and omissions are of the sole responsibility of the author of the report

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1 Introduction

The 1999-2003 ethnic tensions have sent spine-chilling signals that social inequalities caused by an insufficient growth and an imbalanced development can trigger violence among the people whose needs are not satisfied and that ignoring their claims to a fair share of the national wealth would eventually backfire on all.

The political and corporate leadership that focus exclusively on the short term, be it the next elections or the bottom line of their profit and loss accounts, do so at their risks and expenses, if society is no longer on their radar. The cost of the last crisis has been high for everybody. The cost of future crisis could be even higher in the future if solutions to the problems that became apparent lately are not found quickly. The political and economic leadership bears a collective responsibility in the social tremors that shook the foundations of the nation.

In conformity to its quest to facilitate the development of the economy and to ensure the financial stability of the country, the Central Bank of the Solomon Islands that retained during the crisis its reputation of integrity and professionalism has invited representatives of small and medium enterprises to brainstorm on the economic and financial root causes of the lacklustre economic performances of the last decade, to express their views on the present delivery of financial services in the country, and to make proposals on the revitalizing of rural finance and Small and Medium Enterprises (SMEs) development in rural areas.

For that purpose, it organised two workshops in Honiara and Gizo on that topic in February and March 2005. Sixty entrepreneurs, business people, employees and farmers brainstormed and shared their knowledge and experience.

The main objective of these workshops was to let participants speak freely on various themes: (a) today's SME corporate and environmental needs and constraints, (b) the positive and negative roles of tradition in their development, (c) the legal and administrative barriers to their emergence and growth, (d) the current situation of financial services in their business environment, (e) the present delivery and adequacy of banking services and financial products to their needs and expectations, (f) the role of the national and provincial Governments, and the Central Bank, in the revitalising of financial services in rural areas and (g) the role of SME in modelling a more small and medium business-friendly environment. The second objective of these workshops was to survey their financial and banking needs. The participants were invited to fill questionnaires. The last objective was to help mapping the financial services available in their province and islands.

Before reporting on the debates, I wish to express my genuine gratitude to all participants for their openness, frankness and thoughtfulness in expressing their views and opinions on a subject as complex and delicate as the revitalising of rural finance. Without their active contributions, this paper could not have been written.

2 The corporate and environmental needs and constraints of SMEs.

Complaints about the quality of business environment are no news, but the list seems to become longer day after day. However, entrepreneurs put an emphasis on the issues that are in their view the most important and perhaps the most difficult to solve quickly.

Infrastructures are in an appalling state. Roads and bridges need urgent repair. In a country where sea travels is a way of life, wharves are not maintained properly. Big holes are a constant threat for trucks. Often, platforms are destroyed, which restricts the movement of vehicles and goods. The cost of travelling and shipping is compounded by the loss of time, the accelerated decay of equipments and accidents.

Transportation services are characterized by high fares and freight rates that are changed at short notice with little explanation and justification, and by a poor scheduling that generates extra-costs in lost goods and opportunities. The poor quality of the service is seen as a major hindrance to business development in all provinces.

There is no proper marketing mechanism to supply local and overseas market; in the past, cattle heads had to be slaughtered because of the lack of outlets. Copra is still exported, but like many other exports of raw materials, it has been losing its purchasing power – Farmers must produce to earn less. Production costs have increased and prices decreased.

Although importing a large variety of new and cheap – possibly subsidised – goods is not a problem, diversifying exports seems much more difficult; maintaining the value of exports seems even more challenging. It applies especially to the cash crops from which the rural population derives a cash income. In the case of gold output, its price is benefiting from a favourable conjuncture, but it would be used to settle debts and not to improve the welfare of the population.

SMEs face unfair competition from unregistered vendors. They cannot compete against them, because they alone bear the cost of compliance with the Law. The present system penalizes those who operate within the rule of Law and it encourages the development of informal business. Some local traders and shopkeepers are heavily suspected of practicing dumping to beat their competitors. And local products compete with imported products. According to SMEs, fair competition is a mirage, as there is a lot of colluding and price-fixing in the economy. The ‘true price’ (market price), the ‘friend’s prices’ (sales at a discount) and the dumping price (below-market price) are all used by certain businesses.

3 The legal and administrative barriers to their emergence and growth,

SMEs get lumbered with the job of dealing with an awesome bureaucracy when they want to start and run a business. Entrepreneurs must have a lot of patience to put up with an often absent and always slow public service. To register a business, a land, people from the provinces have to travel long distance to the capital where the civil service is concentrated. They have also to run from one office to the next often to be told to come back “later”. Travel, accommodation and food expenses are naturally increasing operating costs and add uncertainty to their business. In their view, the least that public servants could do to help is to be at their work, to expedite the handling of files which require no further information and to help users whose file is incomplete to complete them through directing them to the right services and pointing to possible solutions. But, then more skilled public servants are needed to provide the required services.¹⁸

Entrepreneurs who start a business are too soon harassed by the tax office, the central and provincial administrations, the NPF and the Banks. They enjoy no grace period. Taxes have to be

¹⁸ “the establishment of a “one stop shop” approach for business licensing, regulation, support and advice to replace the complex list of Ministry and Departmental regulations and requirements has long been mooted but never fully actioned” SIG National Economic Recovery, Reform and Development Plan 2003-2006 Strategic and Action Framework, p 112; it is not established in 2005;

paid even if the business has yet to generate incomes. And there is no reprieve as regards NPF contributions and loans instalments. Among entrepreneurs, there is a sense that public officials and many institutions act like hungry “parasites” that scramble for the spoils. And taxpayers would like to be informed by the Government on how taxes are used.

4 The positive and negative roles of tradition in their development,

The cultural norms of the society in which the entrepreneur works may be another constraint. Many chiefs do not understand the economic and commercial spin off which SMEs create in their village. They are often part of the problem, rather than part of the solution, as they lack knowledge to help and guide small business. They dislike success of which they and their community have no immediate share.

Tradition hinders business development when the community claims ownership of business. By the time you set up business, everybody else lodges a claim supported by tribal, family and communal ties; and everybody contends that your business should be set up and operate for the benefit of the group. Such claims derive from traditional obligations; so if anything happens to a relative or a kin, the business people has to pay compensations. Conversely, but much more rarely, the community helps the business.

Land disputes and communal ownership are frequent sources of deadlocks; if only one person disagrees on the allocation of land, endless land disputes start. Whether communal values and personal gains or wealth can reconcile with business requirements is difficult to assess, but, for all their complaints about traditional thinking, many entrepreneurs still do believe that both should be treated with equal respect.

Tradition may in some ways help promote native SMEs’ development in as far as it grants access to land and sea resources and to cheap labour as youth and unemployed are ready to undertake activities that may contribute to the building up and welfare of the community.

As SMEs are often constituted by a family unit of six workers that invests between SID 60,000 and SID 100,000 and decides of the functions of the business, it has to co-exist and to co-operate with other families.

With the community or tribal support, entrepreneurs can safely develop their business, but the contribution and the responsibilities of SMEs need to be agreed between entrepreneurs and the rest of the village, and the approval of the Chief is critical to secure the future safety of the business there. Peoples who “run contrary to the needs of the community” will be isolated while persons who are seen to be helpful might be helped in return.

Besides, tradition offers more flexibility when it comes to access traditional resources and ‘commodities’ as resources for developing a business, e.g. fishing grounds, forests, and in the tourism sector dancing, carving, mats and nuts. Tradition can help in many other ways. And the values of respect, if applied to business relationships can protect businesses from damaging practices, such as customers’ abuse of credit, thefts and ‘borrowings’. Any preferential treatment of local business people by its community can help keep competitors at bay.

Officially, the Church does not interfere in the daily operations of a business, but they create a mood around SMEs so that they feel obliged to pay the expenses of sometimes semi-literate or illiterate pastors, if only for fear of public criticism. Thus, they have to reply to countless “appeal letters” and solicitations.

Uneducated, unaware and inexperienced chiefs, pastors and members of the community are taxing business people to the extent that they seriously hamper their growth.

However the Solomon Islands Government, the tradition, banks and market inefficiencies do not bear all responsibilities for SMEs' difficulties.

There is also a persistent attitudinal problem among entrepreneurs. There is a strong demand for hands-out among the population, including the entrepreneurs, and it is reflected both in the poor credit recovery records and in the expectations that money should be a gift in the form of a "grant" or a "non-refundable loan". If many borrowers did not pay back their loans to DBSI, it is partly because they thought that it was their banks and somehow under no obligation to reimburse, and that they would be immune from reproach and prosecution. Besides, every-body criticises political funds while many look forward to having a share of it.

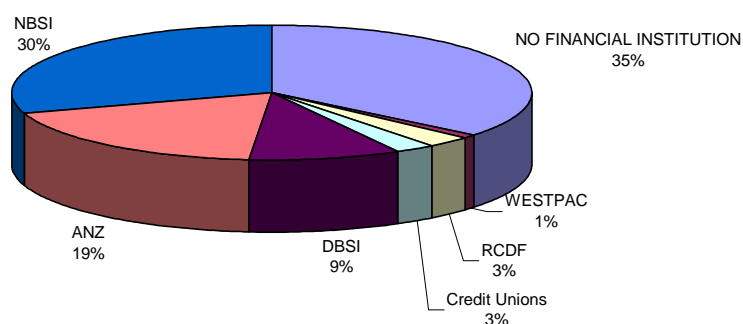
Thus, unless the population is educated in the ways and means of the cash economy, there will be no progress. "Human development precedes economic development". And while business ideas are often good, their implementation is wanting. Some people complain bitterly that they "are not told the secret of business". And the fact that there is no secret, but that it requires hard work, discipline, commitment, skills and a bit of luck and that despite all these efforts, there is no guarantee of success is not palatable for them.

SMEs entrepreneurs are immersed in a collective way of life and fiercely individualistic. They don't support each others. They are prone to complain and to recriminate, they are quick to point fingers at scapegoats and to blame the others for their own failures, but they do not act in unison nor do they help each other. Successful entrepreneurs break ranks with other entrepreneurs. Success breeds selfishness and individualism among entrepreneurs, and resentment and frustrations in the community surrounding them.

5 The current situation of financial services in their business environment.

The current situation in the country in terms of financial services can be best described as alarming.

Some islands have no financial institutions at all, others have lost theirs. This vacuum is hardly filled by the thirty three active credit unions still active in the country. The geographical distribution of commercial banks does not match exactly the demographic distribution of SMEs. Even in Honiara, banks and SMEs do not operate in the same districts.



Commercial banks are privately owned profit-making organizations that consider the good quality of risks and cost-effectiveness as the yardsticks of all their decisions. They seek the maximum profit at the minimum risk under any circumstances¹⁹. Banks would rather expect and wait that SMEs grow up to their standards of profitability than reach out to them to finance their risky business.

Commercial banks have strict and stiff policies that are aimed to immunize themselves against losses. As a consequence, their lending policies may not be friendly to the needs of rural SMEs. As a rule, banks lend if, and only if, they are satisfied that lending is as safe and secure as possible and that it can generate profits worth the risk.

Their management is cost-conscious and confidentiality is an essential part of their corporate culture. It makes them effective and efficient, but also demanding, careful, conservative and expensive purveyors of funds. It also explains why they pulled out from insecure and unprofitable locations of the country during the crisis and why they are now absent from many areas of the country. However, to their credit, unlike other businesses, they downgraded their branches to agencies, but they did not close them down.

Their profit target, their risk-assessment and their lending policies might be altered only if the SIG (i) becomes an influential shareholder, (ii) gives them subsidies to run rural agencies and to on-lend to SMEs, and (iii) through market competition. If competition increased with the arrival of more commercial banks, rural communities' banks and credit unions, they may decide to service more categories of people. If such challengers poach in and outside the traditional field of the existing commercial banks, banks may try to reach new markets, including those SMEs that are not served yet. Competition might force banks to react.

Banks concentrate in towns like Honiara, Auki, Gizo, Noro, Munda, because here are business opportunities, administrative authorities and basic utilities and services. They don't move in where

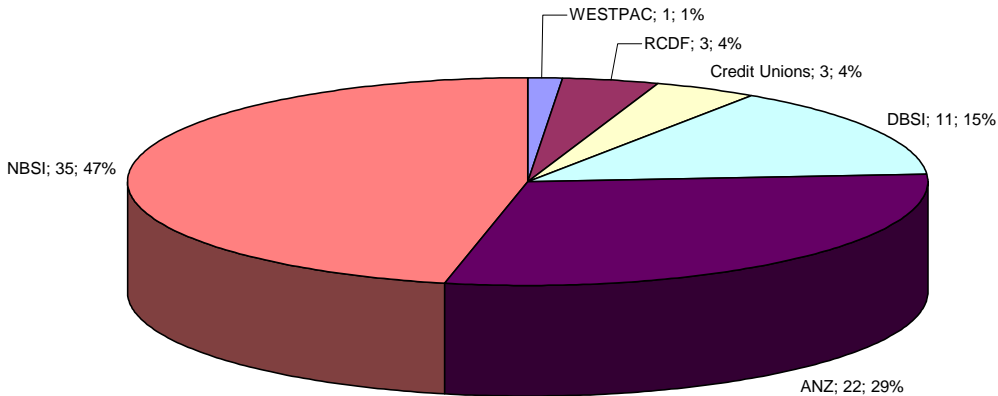
¹⁹ "Despite the reduced operations, the banks continued to maintain profitability. In 2002, the after-tax profit of commercial banks together increased by 46.6 percent from the previous year to SI\$22 millions." SIG National Economic Recovery, Reform and Development Plan 2003-2006 Strategic and Action Framework, p 46.

there is big temporary business, typically logging activities that can be conveniently handled from their branch. They avoid sparsely populated zones where they would spread themselves too thinly and where volumes of operations are small. Civil servants working in the bush and receiving their pay twice a month are not really a good business for them. In the past NBSI used to service rural people with a mobile bank (boat), but the service was discontinued, probably for various reasons: increasing cost of oil, repair and maintenance, small volume of transactions, long distance and safety risks. In short, banks like cost-effective business and prefer a small number of large loans to a large number of small loans, which puts naturally SMEs at a disadvantage compared with large companies.

In search for profit, they pay little attention to, and do not try to understand, SMEs needs, especially in rural areas. In the end, they put so much emphasis on the security of their loans that some wonder whether their intent is to force Solomon Islanders to renounce to their tradition and culture, especially as regards the land ownership and its use as collateral. As one participant noticed, “land belongs to rural folk and we do not understand banks; banks should accept that customary land is first and foremost rural peoples’ security and not banks’ collate-ral”. While it is a matter of life and death for villagers, it is only a matter of corporate profit for the bank. According to another participant, bank staff should also go inside the bush, look and see by themselves what rural business means. Banks officials all too often reside in towns and they are mostly ignorant of the reality. They are ill-placed to rate the loan applications from rural areas.” They have become so risk-averse that they would not lend if they did not have 100% security or more.

Being exceedingly cautious, banks are also expensive. Since 1997, well before the crisis, interests paid on loans are mostly above 15% and interests received on deposits are below one percent per annum. This margin is puzzling entrepreneurs since banks charge also high transactions fees and commissions. Excessive costs are the major single source of dissatisfaction among SMEs.

FINANCIAL INSTITUTIONS MOST PRESENT IN THE AREAS OF THE SURVEYED SMEs.



To the question “Why are they [the banks] here for?” somebody mused that their policy is not conducive to developing savings’ habits and that it is understandable that many people prefer to put their savings under a pillow or a stone rather than on a bank account. At least, if they are not

robbed, they will find the same amount when they come, and not a balance reduced by commissions and fees.

A participant at Gizo workshop gave an insight into how and why *DBSI* went awry. For him and a few others, “DBSI is the dead bank”. Banking business is all about trust between the bank and its customer. It is a partnership between borrowers and banks. In his view, the DBSI “kept rolling” at the time of expatriate managers, but when the management was localised, trust and external money supply vanished. The problems of DBSI were the management, the borrowers and the system, a codename for politicians’ interferences.

It was crippled by a combination of poor supervision and bad borrowers. Most borrowers that went bankrupt put the blame at the doorstep of DBSI. Among these delinquents, there are people who had knowledge and power, but never intended to pay back. Among the rest, up to 15% are ignorant borrowers who were however clever enough not to repay their loan either. Their smartness consisted to escape their obligations. Decent borrowers would be found among local people with a Form 2 and Form 3 educational level. They were repaying correctly, and they were very good borrowers indeed. About 70% of the borrowers of this middle range were repaying well.

By contrast, the loans that were absolutely non-performing were given to the “big fishes” that are now being caught by justice, under RAMSI. This former DBSI staff reminded the audience that the same attitude would produce the same results in the future if SMEs debts were written off and if borrowers are dispensed from paying back their loans. Little progress will be made before “we change our attitude” and “get the right mentality”. “Sweat, not spoon feeding is the road to success”.

These days, DBSI is perceived to try to force delinquent borrowers to pay back their loans, irrespective of their past records as borrowers. Although not all defaults are due to the recent ethnic tensions, some are obviously a fall-out of the crisis. Since the crisis has affected good and bad SMEs, it seems fair that SME’s loans repayment of principal and / or interest should be frozen for the next six months with immediate effect, at least to allow the good ones to recover quickly.

Even in normal times, every business goes through difficult times and their weaknesses appear only with the passage of time. But instead of sitting down and threatening to sue delinquents, bank officials should rather meet borrowers and discuss solutions to their problems. In this respect, DBSI was more flexible and conciliatory toward SMEs than commercial banks. Terms of loans were more favorable, and this lending policy was naturally much appreciated by SMEs that could easily obtain quick and cheap loans. However, such a policy was fraught with dangers and it may have sealed the fate of the DBSI. DBSI ceased to operate several years ago and is now under the direct management of the Central Bank. It is recovering unpaid loans and liquidating its assets to pay back depositors. Its survival is most problematic. The new organization that may emerge from the wreckage should be built through using the lessons learnt from the past.

Non commercial banks, such as credit unions and savings clubs, do not usually lend money to SMEs. And their services are restricted to their members. They are usually small and lack resources to pursue a pro-active lending policy. In the absence of financial expertise and training, they are left in the hand of managers who may be unscrupulous or unaware of the consequences of their decisions. In one instance, a small business has been set-up by the management of a credit union to subsidize the credit-union and make up for its losses. It is an upside-down situation where the financial institution is bailed out by small business.

Unless the Credit Union Act is amended, membership is increased through active promotional campaigns, training is provided to managers and staff, creditors and debtors are better followed-up

and more effective communication is established between credit unions, it is unlikely that the credit unions' movement can play a major role in the development of SMEs in the Solomon Islands. Although some claim that credit unions are the best option available, they agree that their claim does not stand up to scrutiny.

When credit unions' members have irregular incomes, surviving is even more difficult. In fact, few credit unions have survived. Their mortality rate is high. The Solomon Islands Credit Union League that was set up to provide auditing, training and monitoring to credit unions is no longer operational. In view of this sore state of affairs, a remedy is urgently required. The SIG and the CBSI may seek the amendment of the Credit Union Act and the enactment of a Law that would allow the creation of rural communities' / people's bank.

Other institutional providers include the Rural Community Development Funds and the Ward Development Fund. The former are fully controlled by Members of Parliament who disburse grants up to SID 20,000, mostly to their supporters. Although reporting to Parliament on the use of these funds is mandatory, reports seems to be irregular and not always genuine. SMEs entrepreneurs noted that sometimes, SMEs can get up to SI\$ 20,000 provided that they give a front fee of SI\$ 2,000 to the Member of Parliament. This smacks of bribes and corruption.

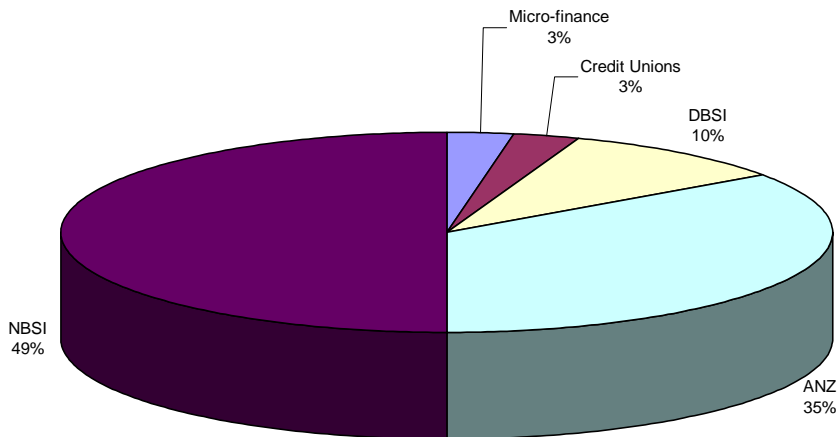
The Church usually collects savings and does not lend money. It operates informal trust funds and safe custody where savings accumulate until they are withdrawn for some investments. It is of little help to SMEs.

Most entrepreneurs support the idea that it is worth piloting micro-finance programs in rural areas as they could provide useful services to SMEs and villagers, especially the poor. And for themselves, they can see the usefulness of an association of SMEs that would collect savings and contributions from, and lend to, SMEs according to rules and procedures carefully worded and crafted with, perhaps, external technical assistance.

Thus, SMEs would have their own financial institutions. The key to success is the proper training of management and staff under the supervision of microfinance experts hired for that purpose. To have members from the business community may facilitate the running of the SME-dedicated financial institution. SMEs would probably understand quickly the rationale of a disciplined, well-organized, and professionally managed savings and credit institution. If properly run, such an institution would seek refinance from commercial banks, aid agencies and other large financial institutions. Loan size would increase, loan number decrease, which is what all financial institutions want.

For the time being, NBSI, ANZ and DBSI share the market of SMEs and entrepreneurs. Micro-finance and credit unions pale in comparison.

USERS PER BANK

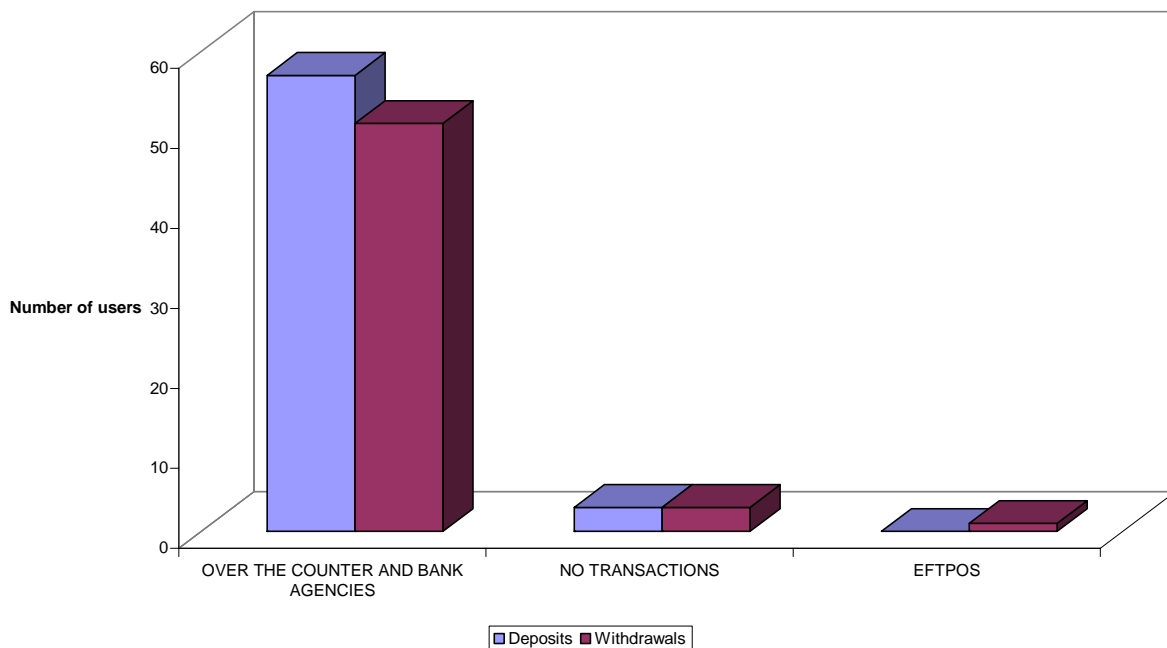


6 The present delivery and adequacy of banking services and financial products to their needs and expectations.

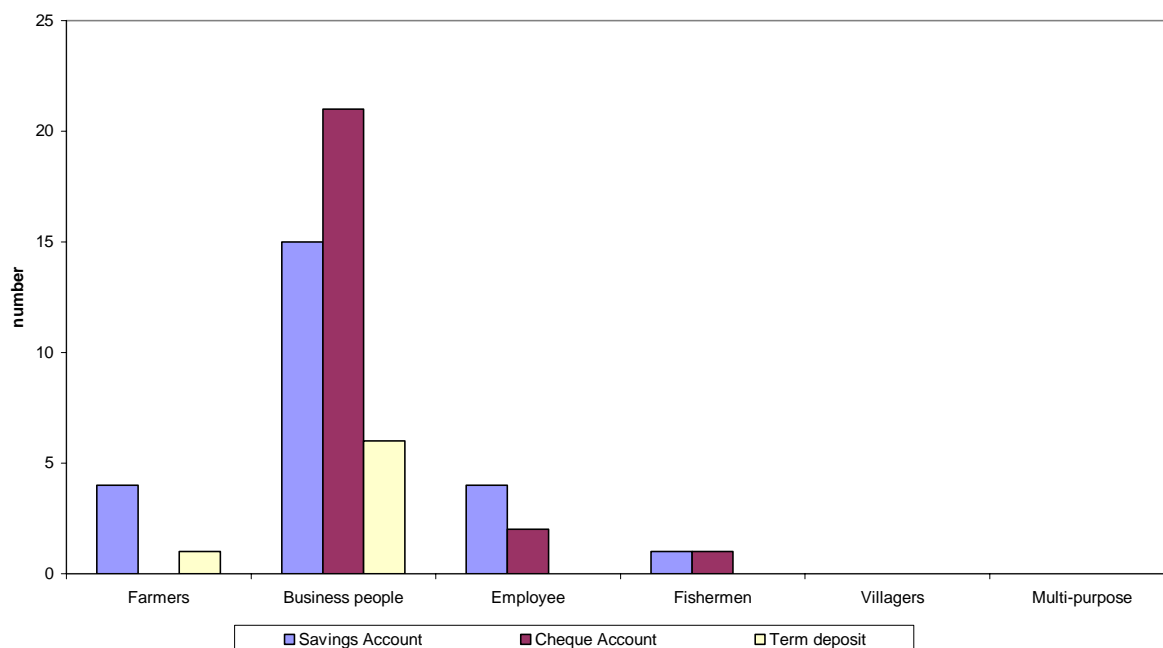
Many Solomon Islanders have no safe place where they can conveniently and cheaply deposit their money. They hoard their money for want of better alternatives.

Those people who maintain a bank account limit their activity to over the counter transactions deposits and withdrawals, borrowing and reimbursement. Electronic banking is unknown in the provinces. Heavy costs of transactions make the use of banking services sticky. Even in Honiara, entrepreneurs would make as few transactions as possible.

DEPOSIT AND WITHDRAWALS



DEPOSIT PER CATEGORY OF BUSINESS



For SMEs, the major problem is to get loans. Getting a loan may be a painful hurdle race for applicants. The access to credit is limited by the absence of financial institutions in Central Province and by their insufficiency in Renell and Bellona, Temotu and Choiseul.

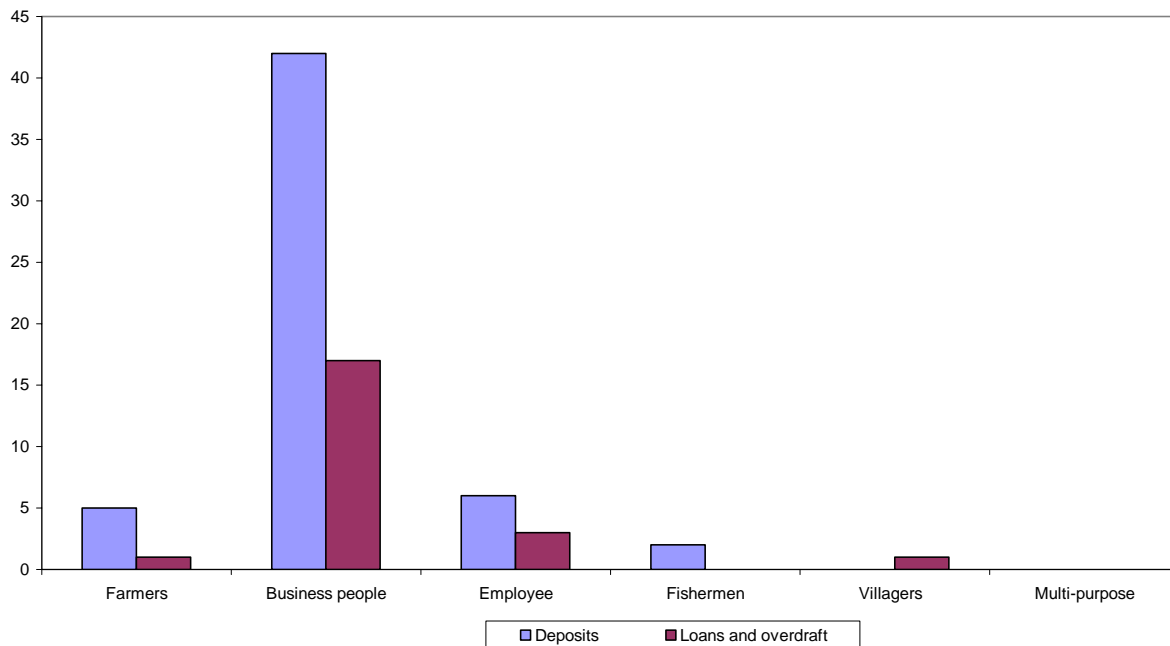
In Malaita, and Isabel, there are commercial banks and credit unions, but they do not cover the whole islands. Banks are clustered in the administrative while SMEs are dispersed outside as cottage-industries. Where weather and roads are bad, these branches are hardly accessible and transportation cost is taxing the income of pensioners, civil servants and the operating costs of SMEs. Shipping services and flight schedule are irregular, unreliable and expensive.

When clients have to come to the bank, and not the opposite, banks operate more profitably, but the cost and in convenience is borne by their clientele, especially SMEs.

Banks have no specific services for SMEs. But SMEs are wary that large businesses do receive better banking service and the consideration which they are denied.

They complain that the stigma of incompetence often sticks to the SMEs entrepreneurs despite their obvious resilience during the recent troubles and their ability to overcome them.

FINANCIAL POSITION PER CATEGORY



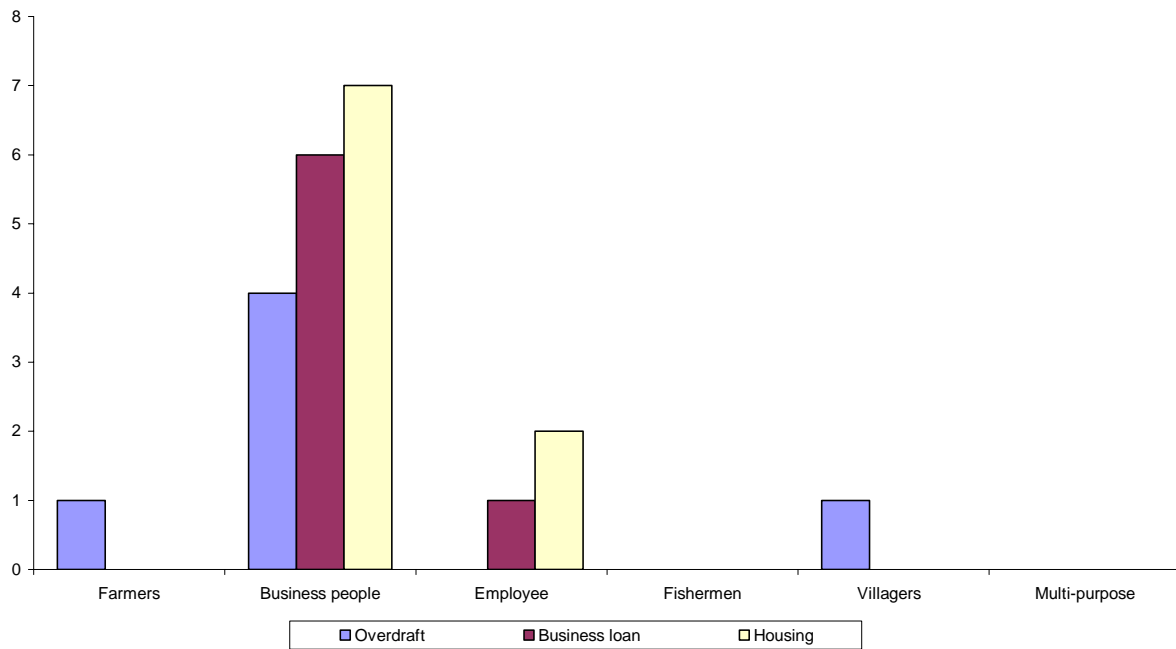
Then, a bank objects to giving a loan if the applicant brings only land as collateral – customary land cannot be seized and sold and therefore offers no guarantee of loan recovery if the borrower defaults. Equipments can be collateralized, but their value is usually small.

Surveyed SMEs have collectively more cash deposited on their bank accounts than outstanding loans and yet, getting a loan is most difficult. So, it seems that banks collect savings easily, but do not lend that easily. The surveyed SMEs questioned their motives to do so, especially when their savings is the most evident sign of their business successes and should embolden banks to trust their business.

Interests, commissions and fees are real deterrents to the applicants. They discourage the cost-conscious entrepreneurs from borrowing while not dissuading the careless ones. Since the banks can refuse an application that it does not consider as creditworthy, meaning opportune, feasible, reasonably safe and profitable, the onus is on the applicant to convince the banker that its project is sound and robust. A business plan is required that is usually expensive to complete.

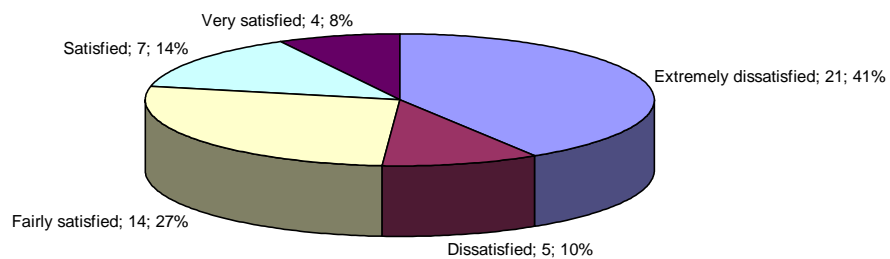
Generally speaking most SMEs entrepreneurs are dissatisfied by the services provided by financial institutions, especially banks. Some note local differences among the banks. For example, in Gizo and Munda, ANZ is credited for its relative readiness to give loans, but not before the new customer has undergone a lengthy process of screening that may last two months, while NBSI seems to apply more strict conditions to both account opening and lending. ANZ's offices are smaller and less comfortable than NBSI's offices. However, there seems to be a convergence in the type and quality of services provided by the banks; in the end, there is no marked difference.

**LIABILITIES
PER CATEGORY**

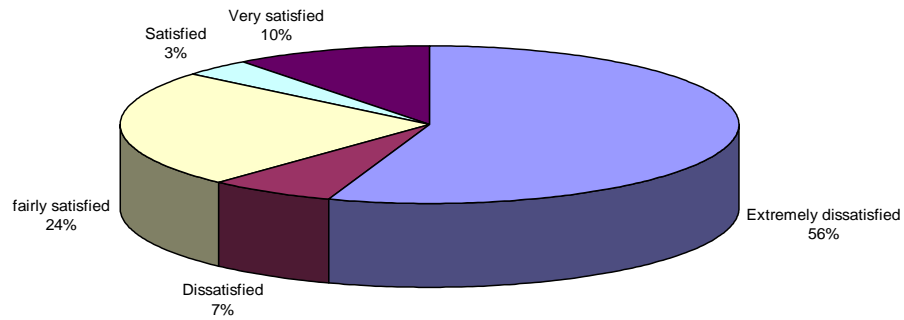


Entrepreneurs gathered at Honiara were much more dissatisfied than entrepreneurs invited to attend Gizo workshop. The former came from Honiara and Guadalcanal, Malaita, Renell & Bellona, Isabel, Makira and Temotu, while the latter came from Western Province and Choiseul. The discrepancy is important, yet it is difficult to explain. It may be due to the total absence of financial institutions in several islands of the first group.

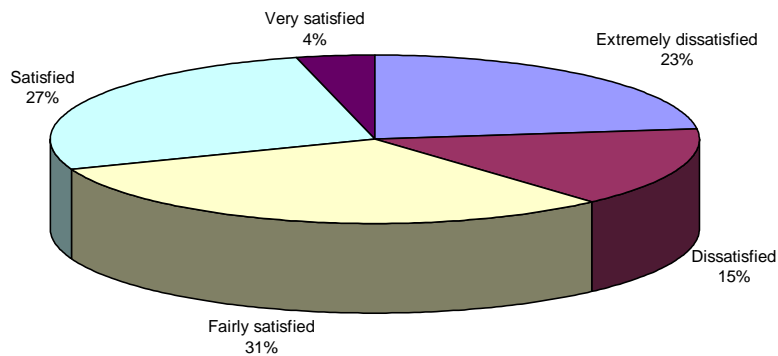
**SME SATISFACTION REGARDING BANKING SERVICES
IN SOLOMON ISLANDS**



SMEs DIS/SATISFACTION IN ALL COUNTRY EXCEPT WESTERN PROVINCE AND CHOISEUL

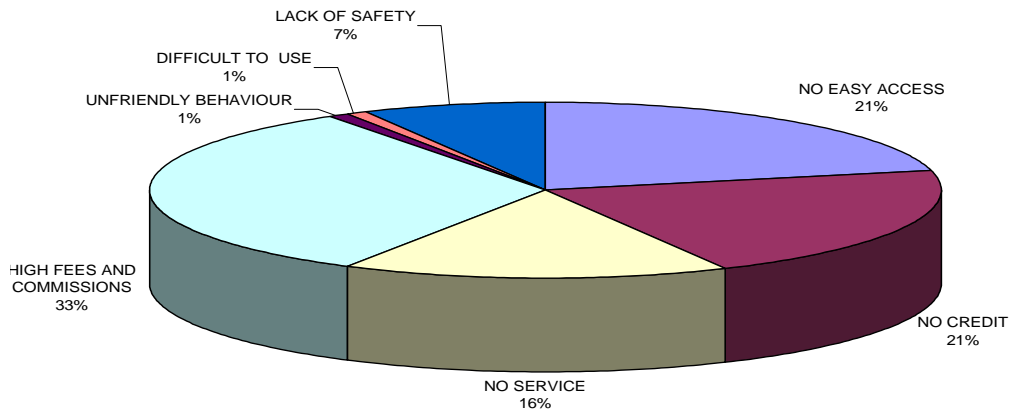


DEGREE OF DIS/SATISFACTION IN THE WESTERN PROVINCE AND CHOISEUL

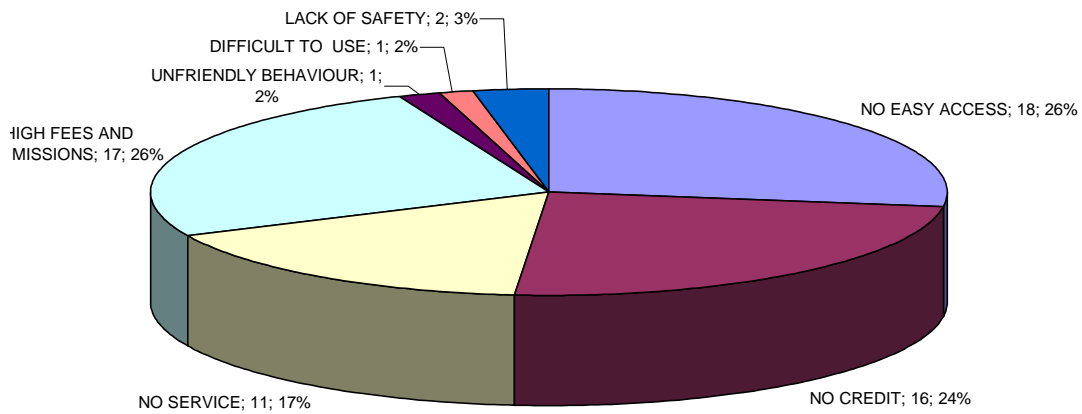


The sources of dissatisfaction are poor accessibility, poor service, high fees and commissions and restricted lending activities. There are differences between the regions: the lack of safety and the high commissions and fees are more a preoccupation in the Western Province and Choiseul than in the rest of the country. Accessibility is less a preoccupation in the two Northern provinces than in the rest of the country.

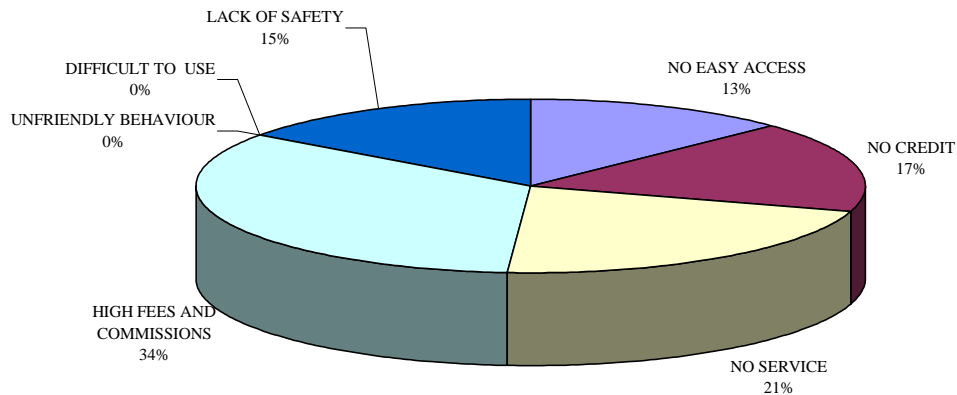
SMEs' SOURCE OF DISSATISFACTION



**SMEs' SOURCE OF DISSATISFACTION
ALL COUNTRY EXCEPT WESTERN PROVINCE AND CHOISEUL**



**SMEs' SOURCE OF DISSATISFACTION
(WESTERN PROVINCE AND CHOISEUL)**



What do SMEs expect from financial institutions?

SMEs demand an upgrading of financial services in rural areas, which means

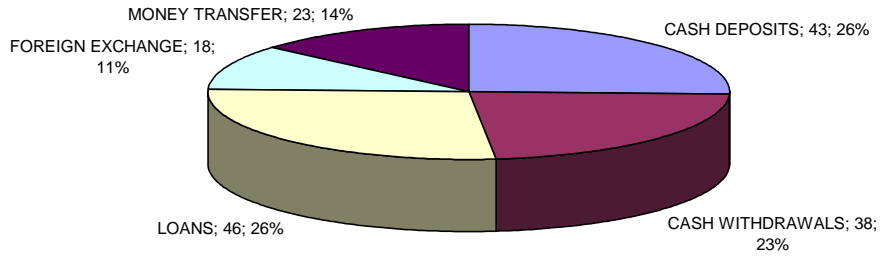
- The return of financial agencies that would have the authority and autonomy to lend.
- The development of alternatives to commercial banks facilities,
- The redirection of 'political funds' towards productive purposes,
- The revitalising of Credit Unions that have broken down and their close control and monitoring by CBSI,
- The access to micro-credit ranging from SI\$ 10,000 to SI\$ 100,000, interest free for start-ups and subsidized interests for a while, with 5 to 15 years repayment period,

They expect from commercial banks that they provide the usual basic services

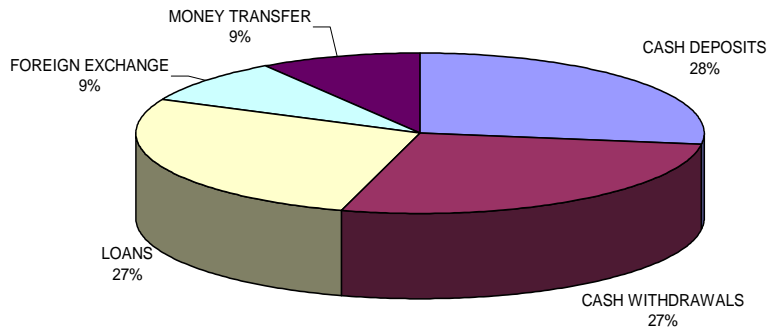
- Safe deposits facilities that are simple enough and cheap to use and handle,
- The possibility to deposit money without abusive commissions and fees,
- The possibility to borrow
 - o For existing SMEs, overdraft facility for your shortfalls and cash flows
 - o For new SMEs, fully drawn loans for initial stocking and equipments
- Basic foreign exchange transactions
 - o Purchase and sale of foreign currencies
 - o International money transfer
 - o Payment for international trade transactions
- Other products may include
 - o Insurance facilities for business, home, assets, stocks and properties
 - o Advisory services really qualified technical personnel, not clerks

There are differences between business people, farmers and people who have multiple activities. Farmers are more interested in loans, deposits and withdrawals, and business people have also a need for foreign exchange transactions and money transfer.

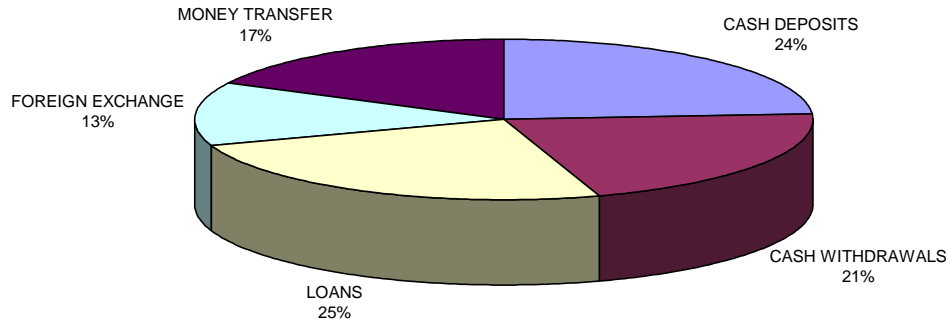
OPERATIONS EXPECTED FROM FINANCIAL INSTITUTIONS BY SMEs



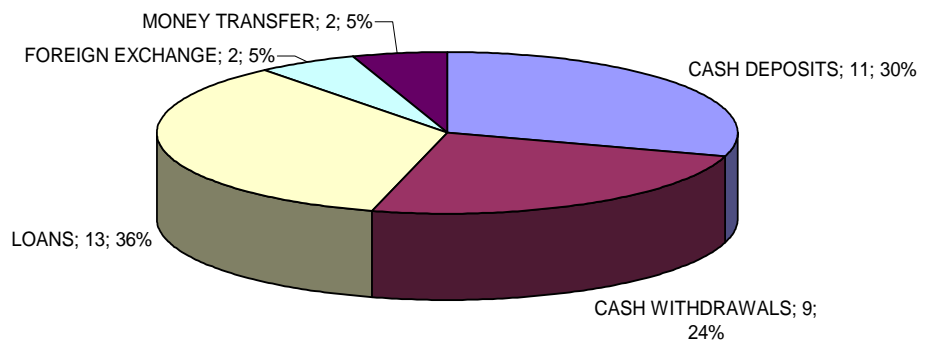
OPERATIONS EXPECTED FROM FINANCIAL INSTITUTIONS BY FARMERS



OPERATIONS EXPECTED FROM FINANCIAL INSTITUTIONS BY BUSINESS PEOPLE

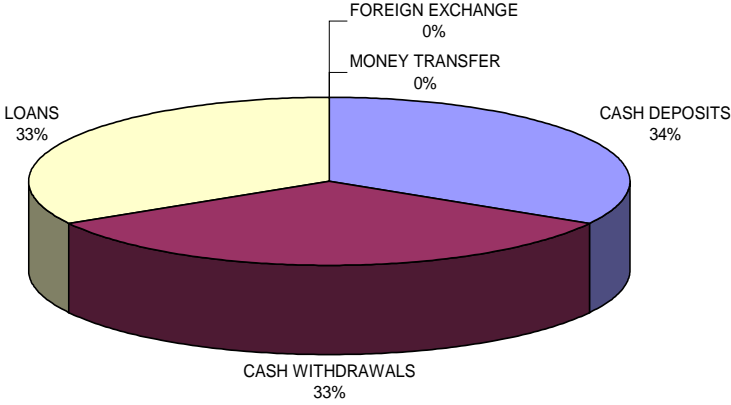


OPERATIONS EXPECTED FROM FINANCIAL INSTITUTIONS BY EMPLOYEES AND MULTI-ACTIVITIES



The difference of preoccupations is most obvious in the Western Province and Choiseul where foreign exchange transactions and money transfers are completely ignored by farmers.

OPERATIONS EXPECTED FROM FINANCIAL INSTITUTIONS BY FARMERS
(WESTERN PROVINCE AND CHOISEUL)

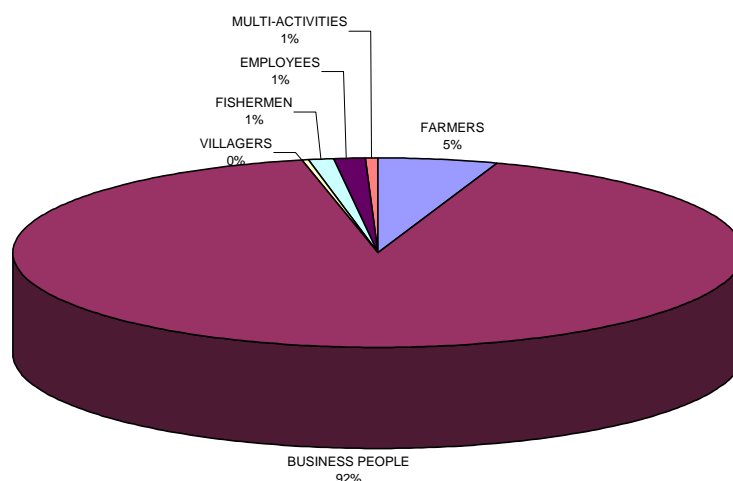


The major constraint that SMEs face is the lack of capital to start up a business. Money can buy everything therefore having money is having the opportunity to purchase everything, consumption goods, equipments, skills and insurance on the future.

Most entrepreneurs are quite often not skilled enough to convince funding agencies and banks to assist them financially. Entrepreneurs lack the required drafting capacities to prepare their project proposals and they have no knowledge of and intelligence on the Aid Donors and Banks specificities.

Although banks have standard forms with standard requirements, they do not interpret the substance in the same way. They ponder the information differently, according to their lending policy. It is somehow confusing for people who are not well-informed on these differences.

NEED FOR LOANS IN SIS
PER CATEGORY OF ECONOMIC ACTIVITIES



By contrast, every aid donor is developing its criteria and ways to select those who should benefit from its assistance. Here, there is no standard and the variety of forms and procedures is very confusing. Mastering it is time-consuming while SMEs cannot waste time the least.

Often, aid agencies help the poor at great length and tend to ignore the existing entrepreneurs, inferring that the latter are successful and can manage without help. Many entrepreneurs think that this view is biased and fallacious in as far as it diverts scarce resources to people who may make the most of it for themselves, but not the most of it for the commonwealth, while financially starving people with much greater capacity to create wealth and jobs, if given the opportunity to grow.

Funding agencies have a good geographical coverage of the country, but they prefer to assist groups and communities rather than individuals, as the former are large and visible projects and the latter small, less cost-effective and more risky. Furthermore, many Aid Donors believe that they don't want to be seen as giving favors to some individuals and not to others. The only sanction to poor performances is the discontinuation of the funding of the delinquents and a tarnished reputation that blocks access to the other aid donors. Once bitten, twice cautious! Here, the shyness of the donors to discriminate meets the preoccupations of a culture that does not like success that they see as a source of confrontation and social breakdown.

Merit and past performances become then irrelevant in the eyes of donors; and the money goes to the socially needy rather than to the economically productive. Donors emphasize poverty alleviation rather than wealth increase. In this respect, they have to take much of the blame of what they call the 'free money mentality' when they meet it, because their socially-driven approach helped create and perpetuate it. This being said, the concept of 'free money mentality' may have some truth in it, but is becoming a sweeping generalization made by donors, that does not reflect the diversity of situation. It is a convenient alibi and excuse to pursue lending policies that are characterized by severe selection, punishing charges, fees and commissions, dissuasive interest rates and a rough service. On the other hand, there is no empathy and no sympathy for clients among the financial institutions, only calculated risks.

Every aid donor has its own idea on how its funds should be used. They are perceived to put too much emphasis on hospitals, clinics, schools and other social and community-based projects and not enough stress on income-generating activities and small business people.

Among politicians and in the public service, political and personal biases are interfering with the allocation of funds. Naturally, sympathetic voters benefit from the largesse of politicians although they may not be the most performing members of the community. Officials in high position with little or no experience and knowledge of business may rebuff the application of business people who, to their displeasure, know better than them. Personal ill-feelings and lack of affinity, kinship and friendship do interfere with the disbursement of loans and grants.

Information on funding sources and assistance policies is piecemeal, late and insufficient and the little information available is not widely disseminated – for example, it is hard to know in time if and when grants and loans will be disbursed for certain categories of projects. It results in many missed opportunities. Moreover, officials whose job is to release such information seems to lock it so that there is no free access to it any more. Information on seminars, training programmes and awareness seminars for business does not circulate quickly. The information does not need to come always from banks; it may be provided for instance by the Health department for hygiene matters. But the fact of the matter is that this job is not done properly. It is as if information did not belong to the person who is supposed to receive it.

7. The role of the national and provincial Governments, and the Central Bank, in the revitalising of financial services in rural areas.

In the past, the SIG has been offering wrong solutions to real problems. The disbursement of political funds to supporters on non economic grounds is a discouraging practice for those who sweat to eke out a living by doing business. It is a misallocation of resources to non-sustainable activities.

These hands outs are usually wasted as, in entrepreneurs' eyes, it is a rule that nobody cares for what it did not sweat. The total amount of political funds is amazing. The Republic of China's Regional Constituency Development Funds is equal to SI\$ 20 millions for the 50 constituencies of the nation and the Ward Development Grants allocated to each ward is equal to SI\$ 60,000, which represents SI\$ 1,4 millions for the 24 wards of the Western Province. About SI\$ 95,000,000 has been allocated to these funds in the last four years. Where did these funds go? It is a recurrent question that has received no clear and convincing answer.

Despite these mistakes, the National and Provincial Governments have a vital role to play in promoting and financing rural credit and financial services and SMEs. Even if SMEs organize themselves to lobby their bankers and funding agencies, they cannot convince them to adopt more friendly policies unless the SIG is teaming with them for that purpose. SMEs have insufficient resources to face all the costs that their upgrading requires: training and capacity-building, and a cluster-approach would help solve the problems.

In the past, the Government has drafted policy papers for SMEs, but it has not committed the dollars needed for the implementation of such policies. A clear and strong commitment to implement policies is imperative. Implementation requires prioritizing and planning. Not everything can be done at the same time. Some will have to wait more, but a revision of the company registration is long overdue: fees are too high and procedures too complicated – they require unnecessarily the services of expensive lawyers. Complication has a too high cost to SMEs. High licenses fees and taxes are also a serious hindrance for the development of SMEs under the current economic circumstances.

The departments of the civil service established by the Solomon Islands Government to deal with matters pertaining to SMEs development are not doing their share of work. They are not efficient and useful. They need to lift up their performances and deliver services which they are supposed to provide.

Entrepreneurs who were participating in the workshop were convinced that they would have to 'push around' the Members of Parliament, the Government Ministries, the CBSI, the commercial banks and the credit unions if they want to meet these goals. Besides, the Government has not reinforced enough the capacity of the CBSI and the judiciary to identify, track and crack financial crime in the country.

8 The role of SME in modelling a more small and medium business-friendly environment.

How can SMEs influence the course of event? SMEs need to take a more active role in the monitoring and the evaluation of national and provincial policies, and they need an avenue for that purpose. An "SME Association" should be established in each province. Provincial associations should then affiliate with a National Association of SMEs that speaks on behalf of every SME. The Provincial and National Associations should have a legal constitution that insulates it from the politics of the day. If they wish to survive, they must avoid political interferences. Moreover, they should set for themselves and follow clear and simple administrative and operational guidelines that comply with the principles of sound management. The three levels of the movement would be the National Association, the Provincial Associations and the local associations.

- 1 The SI SMEs Association with representatives of the provincial associations liaises with ministries, statutory agencies and other industrial bodies such as bankers' associations.
- 2 The Provincial SMEs Association with representatives from the associations formulates the claims and proposals of the local associations and conveys them to the national association.
- 3 The local associations are the site where the SMEs congregate and discuss their common problems and issues of common interest.

The national and provincial policies affecting SMEs' development should be reviewed and discussed during the meetings of the Provincial Association. Feedback of meetings and discussions should be provided to the SIG through the National Association and supported by practical cases studies and issues. Every province should have an association that links with the fellow associations of the other provinces. Regular formal and informal meetings between association members and policy makers should be organised. SMEs representatives should be informed sufficiently in advance on all changes of policies. SMEs should push to be represented in the boards of credit institution, utilities companies and other public institutions and state agencies that affect their lives and feedback. The SMEs could link with other associations such as Women in business Association, Indigenous Business Association, Chamber of Commerce and Manufacturing Associations.

Actually, pragmatic entrepreneurs endorse the view that there is no ideal type of financial organization. Commercial banks, credit unions, cooperative societies, savings clubs and savings and credit associations are many types of organizations that can be alternatively used to collect savings from and channel credit to SMEs.

Other possibilities include the management of public subsidies by commercial banks for on-lending to SMEs, the use of church infrastructure and staff for the same purpose, and the use of

post-offices. These systems can co-exist and can also be combined to produce hybrid forms of organizations that suit the need of SMEs and people in their actual environment. A prerequisite of their emergence and growth is that politicians are in a way or another prevented from interfering in their activities.

Today, SMEs are not collectively well organized to defend their interests and to lobby local provincial and national governments to make their views prevail. There are a few associations in the country, but they are not well organized and equipped either. Many don't have an office, a permanent address, a telephone line and a full-time contact person. They have no printing supplies and have a limited influence. Their bargaining power is limited. One of the key obstacles to progress is the low profile of SMEs. SMEs are small and often content to remain small; they have "little dreams" and "lack ambition".

Besides, inter- and intra-island divisions are crippling their collective efforts. There is no result without team work and fight. Division weakens the cause of SMEs. If SMEs want to score, they need to overcome their differences and to collaborate with one another. They must start thinking out of the box and acting on their words.

Under the present circumstances SMEs expectations are difficult to meet. In order of descending priority, they need (1) access to lending services, (2) facilities to make deposits and withdrawals, (3) counseling, advisory services and educational visits and supports, (4) a specific unit for SMEs in the Government, (5) PF-net type of telecommunication services, and (6) ways and means to draft project's proposals that comply with the requirements of the lending agencies.

These needs cannot be satisfactorily met unless there is a bank branch or a financial institution in each provincial center that can provide the above range of services and unless there are also agencies at sub-stations. Considering the current cost of borrowing from the banks, it is obvious that an element of subsidy in the loans would help greatly the SMEs in their development.

9 Concluding remarks and recommendations

After the commotion and the emotion, it is time for motion. Motion is action, and action is the persistent and focused application of efforts towards a clear objective over a long time. It requires dedication, energy and patience. Blame apportionment, finger-pointing, lame excuses will do no good to the businesses and the people. On the positive side, many entrepreneurs reject past-oriented minds. For these self-made people, repeated excuses is only a sign of repeated offences and repeated offenders may be forgiven, but they need not be entrusted again with the responsibilities whom they already failed to discharge many times.

Looking into the future and into constructive action and thoughts, the group of sixty entrepreneurs who participated in the Honiara and Gizo workshops made the following recommendations to the April 2005 Conference on the Revitalising of Rural Finance:

I. To all participants

1. For all to apply in their respective business and professional activities the principles and practices of good government and good management, encompassed these days in the concept of “good governance”.
2. For all responsible bodies to commit oneself and to ensure that the information and assistance meant for benefit of people reaches them eventually.

II. Aid donors are challenged (1) to put pressure on the SIG to allow them to channel funds directly to SMEs, as the effectiveness and efficiency of the allocation of aid donors’ funds is subject to much reservation and (2) to drop their bias towards large projects and to re-direct their attention on SMEs that create jobs, the cornerstone of social stability and (3) to organize an annual aid donors’ and SMEs’ forum where issues of SMEs development are scrutinized.

III. It is hoped that the National and Provincial Governments, and the Central Bank will

1. Help establish a task force composed of SMEs and reputed resource persons whose responsibility will be to make recommendations on behalf of all SMEs, and
2. Will recognize and listen to this taskforce. The Ministry of Trade should be made responsible for the achievement of these objectives.
3. Pay more attention to SMEs’ needs when it formulates, debates, and proposes to the lawmakers its economic policies.
4. Encourage the establishment of Micro-Finance Scheme with interest free principle payment.
5. Establish standards so that all financial institutions provide the following services for SMEs in rural and urban areas
 - i. Savings and withdrawals
 - ii. Loans and overdraft facilities
 - iii. International transactions
 - iv. Advisory services
 - v. To revisit opening of bank agencies with possible subsidies from SIG and CBSI as a last resort after having considered all other alternatives.
6. Freeze principal / interest repayment on DBSI loans for a while or to assist debt write-off or debt restructure.
7. Assist resource-owners to harvest their resources.

IV. The National Government should create a favorable environment that enables banks to operate throughout the nation

1. Though formulating and implementing policies aimed at improving the supply of energy, telecommunication and transportation services, i.e.
 - a. To build roads first in populated islands and then in areas where there are none yet,
 - b. To push the Solomon Telecom to increase its coverage of rural areas or to give license to other operators to do so,
 - c. To push the Solomon Islands Electricity to proceed at a quicker pace with the electrification of rural areas.

2. Through persuading commercial banks to adopt SME-friendly policies and procedures, for example through providing specific tellers and/or opening hours to entrepreneurs, adapted advisory services and facilities to help them prepare and file their applications for loans. The Ministry of Finance and the Central Bank would play a major role in this respect.
3. Through reviewing and simplifying the tax system so as to eliminate duplicates (e.g. business licenses) and to boost the development of SMEs.
4. Through supporting actively the creation of soundly managed SME-owned and based financial institutions. The assistance should encompass the legal, financial, communication and organizational aspects of the creation of provincial associations.
5. Through adopting a more positive attitude towards SMEs and a more balanced allocation of resources that would not overly favor large projects and large companies.
6. Through ensuring that designated funds for SMEs development reach SMEs and for that purpose
 - a. To review existing procedures and practices in this respect in order to cut unnecessary intermediaries.
 - b. To proceed with the implementation of the reform at the appropriate pace.
7. Through formulating and implementing awareness and training programmes, aimed at enabling technically and intellectually people, especially grassroots people to understand and operate money and business and to identify unfair economic and financial practices.
8. Through recognising officially and publicly Credit Unions and other Non Financial Institutions as possible alternative vehicles to commercial banks for providing financial services.
9. Through enacting and amending laws on the establishment of SMEs / Other Financial Institutions and through redirecting political funds (RCDF, WDF) to productive activities. At least, the SIG should consider putting aside part of RCDF and WDF for the purpose of developing and strengthening SMEs. If they are a gratuity in disguise, let it be said so. Otherwise, let's find a productive use for them.
10. Through lifting the administrative and fiscal burden on SMEs : temporary tax holidays and exemptions, tax and loans grace periods, simplification of procedures of land and business registration.
11. Through giving even more power and resources to CBSI to prevent major failures from financial institutions and to react more quickly and efficiently to fraudulent financial activities, including abuses emanating from boards, management and politicians.
12. Through protecting SMEs from foreign business intervention and competition (exemption duty, tax holidays, protection policies (manufacturing and subsidies for local business)).
13. Through establishing a separate "Ministry of Rural Development" that will formulate the relevant policies inspired by the above demands, coordinate the efforts of the public and private sector to revitalise the financial services throughout the nation, and act as an umbrella body for the SMEs and SMEs related financial institutions. This Ministry should promote a better education of present and future generations of entrepreneurs through encouraging the

relevant ministries – Ministry of Education – to include basic management course in the secondary school curriculum (Form 3).

V. The SIG should ensure that the environment in which SMEs operate enables them to grow. It should

1. Reserve economic sectors and activities such as bus, taxis and van operators to indigenous Solomon Islanders.
2. Encourage SMEs to share their skills.
3. Identify SMEs with export potential and to help them market and export their products.
4. Facilitate the marketing of their products through appropriate action on the infrastructure and logistics. The SIG could subsidize shipping services that services the outer islands.
5. Give more power to the CBSI to prosecute quickly offenders and con-artists that develop fraudulent schemes, e.g. pyramid schemes, and change the law for that purpose if necessary. (see in the above III.11)
6. Set-up a coordination, supervision, monitoring, evaluation and reporting unit under CBSI and/or donors' wing to provide some advisory services, audits, and independent supervision of SME's associations and SME's related financial institutions.

VI. The Central Bank of Solomon Islands should

1. Exert tighter control over financial institutions such as DBSI, SICUL, NPF and commercial banks. The public should be better informed on any mismanagement through an early warning system and on remedies put in place so as to avoid a depositors' run.
2. Look for alternative service providers if the DBSI is wound down.
3. Promote a better education of present and future generations of entrepreneurs through encouraging the relevant ministries – Ministry of Education – to include basic management course in the secondary school curriculum (Form 3).
4. Supervise the development of advisory services in commercial banks through a cooperative effort with them and the representatives of the SMEs.
5. Improve the accessibility of the credit guarantee scheme to SMEs.
6. Set standards with financial institutions that are more adapted to SMEs requirements.
7. Encourage the credit unions' movement in its efforts to re-organize and revitalize its activities through out the country. The more ambitious goal target to set-up one credit union per constituency should be left to the credit union movement.
8. Ensure that commercial banks recognize their collective responsibility in providing a minimal service to all provinces without exception through using the most appropriate organization and technology. As far as possible, bank should re-open their branches in the islands.

- 14 Speed up the review of, deliberation and decision on the future of DBSI so as to move on and propose viable and alternative solutions that resuscitates the spirit of development in providing financial services, if not the institution itself. DBSI has become a financial and strategic liability and it is time to turn the page.
- 15 Ensure that the existing CBSI guarantee scheme is fully utilised by SMEs, to increase the guarantee limit of the scheme from SID 250,000 to SID 500,000 and for immediate effect. CBSI and commercial banks must decide jointly on this matter.
- 16 At a second stage, sign with commercial banks and other financial institutions a Memorandum of Understanding for the implementation of an updated Small Business Guarantee Scheme.

VII. The Provincial government should

1. Identify sites to establish tax-free zones where SMEs could expand their business, or to give a five year tax holidays.
2. Be held accountable for the use of the business licenses which it collects from SMEs.
3. Demonstrate its interest in economic development through contributions that are proportionate to its financial capacities.
4. Clarify the division of responsibilities between the SIG and Provincial administration, as overlapping are a source of confusion, delay and cumbersome procedures.
5. Help set-up cost-effective working groups and associations of SMEs and supporting NGOs within their provinces.

VIII. The Small and Medium Enterprises to move on effectively towards a self-organized and self-managed representative institution that would defend and promote their interests nationwide. Pioneering SMEs should

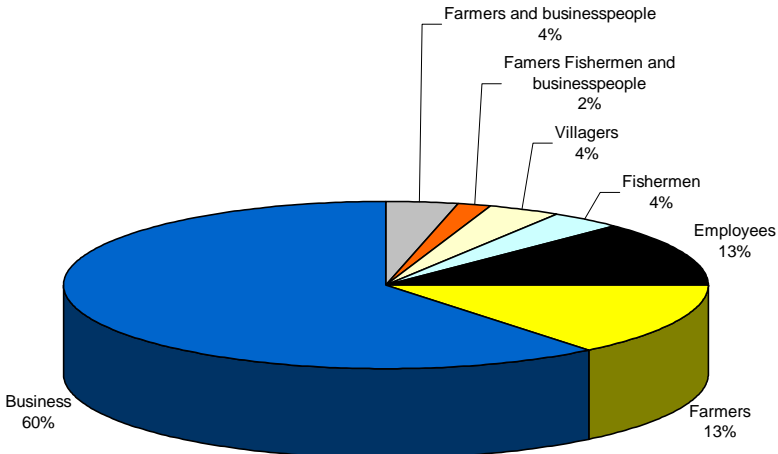
1. Liaise with one another at the end of the workshop on a voluntary and benevolent basis to break ethnic and professional barriers and to start networking for the commonwealth of SMEs.
2. Ensure that the provincial associations of the nine provinces are represented in an action-research group/working committee in Honiara (S.M.E.A.G) and liaise with relevant authorities, which may be for instance the SIG, the CBSI or the Provincial Government.
3. Ensure that SME's representatives are present during the 2005 April Conference.
4. Establish a working committee during the 2005 April Conference.
5. Request that the Ministry of Commerce brief them on the institutional options available for SMEs willing to join in a collective institution-building effort. The SMEs' body should be officially recognized and responsible for the affairs of SMEs. This body should have a furnished office, be equipped with a landline and supplied with the basic stationery and it should be staffed with a permanent staff. Operational subsidies such as a credit for phone calls, a low rental fee or no rental fee should be negotiated with the Ministry. This body should formulate a clear policy and strategy. It should have official connections and have the capacity to deal with aid donors, SIG, CBSI, Banks and other partners. Provinces, industries and sectors

should be fairly represented in its ruling instances. There is a need for a one-stop shop / focus point for SMEs.

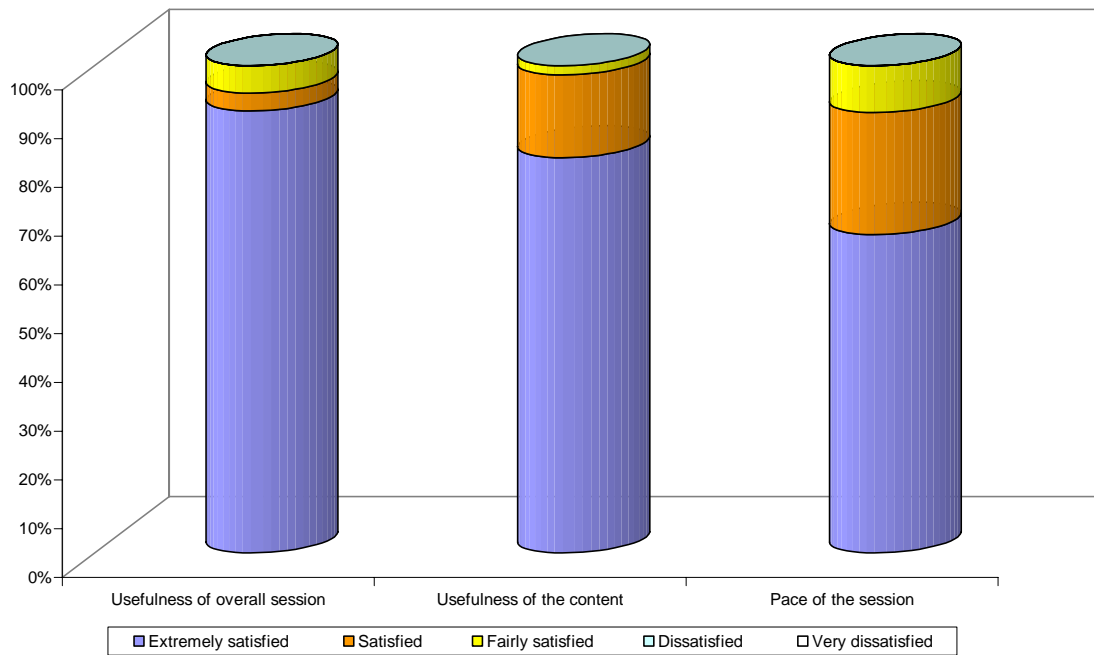
6. For SMEs to establish a NATIONAL SMALL & MEDIUM ENTERPRISE Financial Institution (Credit Union/Bank/other) in collaboration with SIG, Provincial Governments and CBSI
7. Seek funds for training and technical assistance in matters pertaining to the monitoring and evaluation of Government policies related to SMEs development.
8. Lobby the Government so that civil servants and independent experts work with SMEs associations on the monitoring and evaluation of their SMEs development policies.
9. Link with the media and to learn how to use the media to voice their concerns and preoccupations and to make recommendations and proposals.
10. Put a special emphasis on the emergence of an indigenous business council / organization as it is already the case in Fiji and Samoa.
11. Lobby for the re-introduction of the Business Advisory Section so that Government and SMEs' associations can work together. SMEs would benefit for having their own lawyer(s) to whom they could guarantee a flow of activity and from whom they could negotiate a discount on their honorary fees.
12. Should the DBSI survive under the same or another name, or a replacement be established, elected representatives of SMEs should be Boards members. Decisions on interest rates and legal issues are of paramount importance to SMEs which should be included in the consultative loops for that purpose.
13. Consult with SIG and CBSI to revisit the idea of re-opening bank agencies in rural areas.
14. To fund SMEs associations for them to assist small business.

10. Appendix: sample of the survey and evaluation of the workshop.

Sample of the survey



Participants' satisfaction as regards workshops on revitalising rural finance



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Central Bank of the Solomon Islands
 National Conference on 'Revitalizing
 Rural Finance'

APPENDIX B

REVITALIZING RURAL FINANCE

A brief review of the present situation

HONIARA

(13 – 14th of April 2005)

by

Mr Serge Belloni

Errors and omissions are of the sole responsibility of the author of the report

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1. Introduction

In 1999, the multilingual and multiethnic Solomon Islands descended into chaos after migrants from Malaita and other islands clashed with landowners from Guadalcanal. Subsequently, a spiral of violence and the polarisation of the country led to a coup d'état in June 2000.

The national economy went into recession in the following four years; infrastructure and properties suffered extensive damages, exports and imports fell, foreign reserves dropped, public debt and inflation soared, and the currency depreciated sharply over the period. The Central Bank of Solomon Islands had to reinstate control over foreign exchange transactions, and the Government defaulted once again on the payment of a ballooning foreign debt. It had already defaulted in 1993, but then, its debt was restructured. The crisis undid the benefits of that restructure and posed a serious problem of confidence between the Government and the financial industry.

As it failed to contain expenditures and to collect incomes, Solomon Islands Government sought to finance its expenditures through borrowings. Its fiscal position deteriorated quickly. Eventually, it requested foreign assistance to solve the crisis.

Since its arrival in 2003, the Regional Assistance Mission to Solomon Islands has helped the Government restore public safety, promote reconciliation and secure peace among warring factions. It also helped decommission weapons, prosecute the corrupt and criminal elements of State and society and restore some control on the public service and a stringent discipline on the budget formulation and implementation. The restoration of Government fiscal and financial stability through fiscal discipline, budgetary self-restraint and debt control is under way. The Government and the nation have now to uproot the political and economic causes and dynamics of the 1999-2003 social tensions.

The return to moderate economic growth in 2003 (+3.8 per cent) that predates the arrival of RAMSI gained momentum in 2004 (~ 6 per cent) thanks to the continuous improvement in law and order and political stability, the favourable external conditions, substantial donors' inflows and private sector resilience. However, building, forestry, logging and fishing that are the major

driving forces behind the growth are also either cyclical activities or conducted at an unsustainable pace.

The implementation of long term reforms is now necessary to sustain growth and to deliver a balanced development. While the State focuses on the formulation of enabling policies and on the efficient and cost-effective delivery of public services, utilities and infrastructure, it also needs to recapture the confidence of foreign investors and the trust of the local business community so that they can expand their activities throughout the nation once again. What nobody would want to see again is the past behaviours and practices that caused the demise of the State: shadowy and corrupt deals, political horse trading with destabilising consequences, nepotism and embezzlement. What is required is the pursuit of individual and corporate initiatives that did and could not rely on a functional government and public service.

The national conference on “Revitalising Rural Finance” organised by the CBSI in April 2005 is a defining moment in its quest to try and make the financial system of Solomon Islands more responsive to and effectively cater for the economic needs. And the full support of the Government through the Ministry of Finance and Treasury is a materialisation of its effort to implement the National Economic Recovery, Reform and Development Plan 2003-2006.

2. **Latest development**

The Government’s recent macro-economic stabilization policies herald the long-awaited return to fiscal discipline. The SIG has resumed the reimbursement of its public and foreign debt. In 2004, the economy grew by about six percent; the inflation rate decreased to below six per cent per annum; trade balance recorded a surplus, while foreign exchange reserves now represent a healthy seven months of imports of goods and services. Large companies may be planning a come back in the palm oil and gold industry and the induced spin-off from their operations on employment, wages, exports and taxes should prove a powerful incentive for banks and credit unions to lend more to business and individuals.

The current structure of the SI financial industry is based on four tiers: First the Central Bank, Second the commercial banks (NBSI, ANZ, WESTAC), third Financial Institutions (DBSI, NPF, HFC, credit unions) and fourth the other (ICSI, Insurance Companies and Micro-Finance Institutions). The industry remains highly vulnerable. Three major institutions, NPF, DBSI and NBSI are still facing serious difficulties. Smaller ones like the credit unions and micro-finance have been weakened by the crisis. In the short term, the stabilisation of the financial system is the top priority of the SIG. It is a delicate and slow exercise since the SI financial sector is characterised by the entanglement of its various stakeholders through reciprocal holdings and/or financial commitments.

In the long-term, SIG’s challenge is to enhance the willingness and capacity of commercial banks and other financial institutions to service the provinces and rural populations where economic development is lagging behind. In this respect, macro-economic trends will play a major role in the decisions of financial institutions. Total net foreign assets of the banks rose from 127.8 million at the end of 2002 to 266.0 and 304.9 million at the end of 2003 and the end of March 2004 respectively. Both margins and profits increased.

But, today, the users of banking services are extremely frustrated by the conditions applied to savings and loans. The real interest rates paid on deposits are negative. Current nominal interest rates paid on deposits by banks are between 0.25 and 2 per cent per annum and they are 4 to 5 per cent lower than the current inflation rate that is at 5.8 per cent per annum as of February 2005.

Negative real interest rates may eventually discourage public savings and encourage immediate expenses. Unfortunately, there is seemingly more liquidity (about SI\$160 million deposited with the Central Bank) than low risk lending opportunities.

Double-digit interest rates charged on loans and advances are too high for many small and medium entrepreneurs to contemplate borrowing from banks. They were above 15 percent from 1997 to 2003. At the end of 2003 banks announced a cut in interest rates on loans, and they are now set at around 12 percent. However, figures published by the CBSI show a large dispersion of interest rates. Individuals pay between 14 and 17.5 percent, business between 5.9 and 21.5 percent per annum. Overdraft rates are between 10 and 20.5 percent. It is a normal way for banks to reward good risks and penalise not so good ones.

As a result, banks receive a positive return on loans and depositors a negative one. In real terms, banks gain an average margin of 11 per cent per annum and depositors lose about 5 per cent per annum to inflation. Borrowers are charged a real positive 6 percent annual interest rate on their loans. The commercial banks' margin between deposits and loans has been increasing constantly since 1999.

Part of this helps offset the bad performances of SIG securities. In the past, the SIG defaulted twice, causing banks to be more cautious about purchasing SIG financial paper. Large interest spreads and margins are usually associated with high uncertainty and volatility of the market (see appendix III). Thus, before they reduce their spread and use their liquidity, banks need to be convinced that macro-economic stability is restored in the country and that interests earned on future loans will not be wiped out again by a loss of capital.

In terms of volumes, there is enough liquidity in the financial system for the finance sector to resume its lending to the private sector. Doubtful debts are being provisioned and bad debts are being written off, and yet, the finance sector is wary to lend. One reason is the high level of SIG indebtedness to banks, which is still a cause of grave concern, despite the return to a more prudent public debt management. The Government needs to maintain its efforts and to improve its records in order to ensure that more confident banks use their liquidity to finance economic growth and profitable investments. If it can deliver, it will be also in a strong position to demand that financial institutions provide quality services throughout the country. Until then, its suasion power will remain weak.

During the troubles, *commercial banks* have pulled out from several islands or downgraded the status of their offices from branch to agencies. The "temporary closedowns of some bank branches at the height of the ethnic conflict"²⁰ is lasting. The NBSI has its head office and a branch in Honiara, branches and agencies in the Western Province (3+1) and Malaita (1+2), and agencies in Choiseul (1) and Makira (1). In March 2005, NBSI opened an agency in Tulagi. ANZ has two branches in the Western Province and one in Malaita. ANZ announced an ambitious programme to cover many areas of the Solomon Islands. Westpac is not yet represented outside Honiara.

The economic slump justified cautious lending policies. But, "despite the reduced operations, the banks continued to maintain or slightly increase their profitability"²¹. In 2002, the after-tax profit of commercial banks together increased by 46.6 percent from the previous year to SI\$22 millions"²²,

²⁰ SIG National Economic Recovery, Reform and Development Plan 2003-2006 Strategic and Action Framework, p 46

²¹ Their profits, if converted into Australian dollar are reduced by the depreciation of the SI dollar.

²² SIG National Economic Recovery, Reform and Development Plan 2003-2006 Strategic and Action Framework, p 46.

and today, commercial banks are in a sound financial position. In 2004, they continued to generate profits.

However, they remain prudent in the face of uncertainties and hold back from lending the large amounts of non-interest bearing deposits with the Central Bank. What they need before they can expand their activities once again, is the confirmation that the political establishment is committed to reforms and that economy is bottoming up.

Banks face the same constraints as any other business in the islands. High transport costs, insufficient business and limited creation of enterprises, land inalienability and absence of collateral need to be solved urgently. Being no venture-capital companies, banks cannot create business themselves, nor take more risk than the entrepreneurs themselves.

Most have yet to be convinced that it is truly safe and opportune to invest the liquidity in the real economy. However, being instrumental to the recovery through lending, their waiting is also delaying to some extent the economic recovery of the country. Fortunately, banks are now showing signs that they are ready to expand again.

The *Development Bank of the Solomon Islands* ran into difficulties long before the tensions. Its lending and loan recovery policies were not always based on sufficient evidence of the soundness of the borrowers' business. Risk was underestimated, especially as land cannot be used as collateral. Lending decisions were biased by political interference. Development and banking standards conflicted. The Bank soon upset the delicate balance between exposure and profitability. It has also suffered as a result of SIG default of payment of its debts.

In 1995, the DBSI had no choice, but to restructure doubtful loans and to pursue aggressively the collection of savings through paying interest rates higher than rates paid by commercial banks, until deposits could no longer fill the gap caused by defaulting borrowers. The CBSI is now supervising the DBSI efforts to recover unpaid loans, to repay its depositors, to downsize and reorganise the administration of the bank and to sell its assets to pay creditors.

This consolidation may take a couple of years to complete and until then, the future of the DBSI is a matter of conjecture and the SIG has yet to decide about it. However, as long as no decision is reached, the DBSI is not only a financial liability, but also a strategic one, as many wait for its revival to move on. SIG has many options: it may recapitalise it, privatise it, wind it down and sell its assets to another bank or business interests, or even to transform it into a People's bank.

In all cases, there is a consensus that the old version of the DBSI is no longer attractive. In a country where commercial banks are not rushing the re-opening of their branches, and where competition is weak, there is still some merit to have a well-managed DBSI in the forgotten islands. But nobody wants the future institution to go through the same problems again.

A new bank should operate on commercial basis and, at the same time, be creative enough to reach low income-earners. There are examples of banks that have succeeded in developing profitable services for self-employed people, and micro-, small and medium enterprises. The management of a new development bank would have to seek inspiration, if not guidance, from overseas experiences conducted in similar context and circumstances²³.

The *Solomon Islands National Provident Funds'* main mission is to hold in trust the contributions of its members and to ensure that their purchasing power is protected until they retire. SINPF portfolio includes SIG securities, loans for housing and commercial activities. It has lent to its

²³ Bank Rakyat Indonesia and other similar Indonesian banks for example.

staff, management and to its members. However, although the SINPF represents more than 60% of the assets of all other financial institutions, its outreach is limited by strict prudential rules.

And for any government, the temptation is great to tap further into this seemingly inexhaustible cornucopia, but it leads to a dilemma. The SINPF can only contribute marginally to the financing of the economy unless and until it can find safe investments opportunities. The staff's proficiency in banking operations must also be recognised by the CBSI before it is involved in financial transactions. On the other hand, the SINPF must invest to secure the pensions of the next generations of retirees, and therefore it has no choice, but to invest the contributions of its members. In the end, SINPF may invest in not so profitable and high risk businesses, at the risk and expenses of its members.

The SINPF has been struck full force by the crisis. The closedown of large companies and redundancies in the public service and in the private sector has reduced the volume of employees' and employers' contributions, while laid-off members withdrew their funds. Out of necessity, the SIG has made three amendments that make the problems worse. It reduced the age of eligibility for automatic withdrawals of members' entire savings from 50 to 40 years of age; it made redundant members and members with no continuous employment for three months eligible to withdraw savings and it introduced a one-third pledge of contributions to provide security for members' commercial bank loans. If members default, banks can call one-third of their contributions to repay the loan. The inability of SIG to service its debts to SINPF made the situation worse.

Being prevented by law from investing overseas, the SINPF has had to buy Government securities the value of which is now estimated at a fraction of their nominal value²⁴. It had to invest in non-performing public enterprises such as energy (SIEA), ships (Ramos) and banking (DBSI). Short term actions include the provisioning of bad debts and the review of the prohibition of NPF overseas placements. On-site examinations of SINPF books are being carried out in conformity to the objectives of the NERRP.

In the medium term, only the privatisation of profitable public corporations might be an opportunity to strike a balance between SINPF's primary role to secure the pension of future generations, and its economic function to help finance growth.

The *Home Finance Corporation* suspended loan facilities in 1999 and faced a large number of defaulting borrowers and it is not in a position to make any contribution in the revitalising of rural economy. Its future is still uncertain.

The *Investment Corporation of the Solomon Islands* is the portfolio manager of the SIG and it is currently looking for potential investors that would acquire public corporations. The current policy is to disinvest from airlines, printing supplies and other activities. Common sense suggests that profitable businesses are easy to sell and unprofitable ones have no appeal to investors. The SIG will forego future revenues from the sale of profitable business and continue to carry losses incurred by unprofitable ones. Under the circumstances, despite the temptation to do so, the proceeds of a one-off sale cannot be used for recurrent expenditures. They may be used for the repayment of the debt to foreign lending institutions as a priority, but not for development purposes.

Over the last decade, the *Credit Union Movement* has expanded and shrunk dramatically. The initial financial and technical support from IFAD caused the League to encourage the creation of many more unions that it could service properly with its own resources. Funds were not managed

²⁴ Estimates are at great variance from 30 to 50 percent and are subject to revisions.

wisely but even in the absence of such problems, the pace of credit unions' establishment would have stretched its resources so thin that it would not have been able to discharge its duties. So, when the IFAD pulled out, the League found it hard to keep up with the former pace of development and it reacted disorderly to the pressure of its members, leaving many unsupervised, frustrated and left to their own devices. This movement faltered before the national crisis. The crisis only worsened the general picture.

From the 165 credit unions still registered in 2004, only 33 remained active, out of which 18 were based in Honiara and represented 98% of the total assets. Most successful survivors are credit unions created by public servants, state agencies and public corporations staff that benefit from office, equipment and accounting services free of charge from their employers, and the safety of the contributions and loan repayments at source. Despite these advantages, only three credit unions are financially sound, well managed and strong in Honiara and Malaita. Five others need small corrections to comply with the Credit Unions Act. Among the rest, records are either improperly kept or not kept at all; reporting is at best irregular; audits are missing; lending decisions are biased; and managers are suspected to misuse funds. And a couple of credit unions are under investigation.

Credit unions can provide useful financial services to the country, provided that they do what they are best at in their niche market, and that they adapt themselves before moving in rural areas where they have failed to take root in the past. Before expanding again, credit unions need to be well managed, well organised and profitable. They have to reduce their reliance on too few skilled staff. Credit unions are not well represented in Guadalcanal except Honiara, absent from Renell and Bellona, and Temotu; they are fewer than six in Isabel (5), Malaita (4), Central (1), Choiseul (1), Makira / Ulawa (3) and the Western Province (1). In September 2004, at the request of the CBSI, an expert of the Pacific Economic Development Fund made recommendations on how to revitalize the Credit Union Movement. The next step is to act on these recommendations.

The cooperative Society Movement started in 1952. After a slow start (5 societies in 1957), it expanded quickly until 1980 (313 registered societies), when it began its slow decline until now (215 societies liquidated). Only a handful exist today, under the Cooperative Societies Act (1953) modelled on the 1904 Indian legislation and revised in 1969 and 1987. The cooperative movement has no apex organisations and depended on the registrar for training, auditing and updating of accounts. Extreme reliance was perceived as subordination to Government and therefore, the 'movement gave the impression that cooperative societies existed for the benefit of the government and not primarily for the benefit of the community'.

Micro-Finance schemes existed before the crisis, e.g. UNDP project in Honiara; projects were closed during the troubles. In 2003, the Business and Cooperative Division of the Ministry of Commerce, Industry and Employment has formulated a Private Sector Business Rehabilitation Scheme and some funds have been allocated for that purpose in the current budget. It is difficult to assess the number and economic impact of micro-finance schemes, but they do have a role in improving the productive circulation of money. Even in places where there is no postal agency, no bank, no credit union and no savings club, people need facilities for the safe keeping of money and income-generation, for receiving loans and advances and for transferring money, and these schemes may be an answer to their needs. *Family, community and 'big men'* can also be a last resort help, but they could also be the base of self-organised and self-managed micro-finance projects.

Church, charities and NGOs are extensively covering the country, but most lack the will, the time, the organisation, the skills and the stamina to provide such financial services. There is a post office in each provincial capital, and many postal agencies, but talks of working with the Western Union

have not produced tangible results. *Tradition-al money* – red feather, shells, dolphin teeth and others – may be viable among the people of Solomon Islands, but it has no appeal to foreign trade partners. *Trade stores* remain an important source of small credit, but in rural areas, the extensive use of credit to consumers is also a handicap to the development of business.

The discretionary use of political *Rural Constituency Development Funds* has been subject to harsh criticism. And yet, each Member of Parliament can still spend up to SID 400,000 for his constituency. The mandatory reporting of the disbursement of the funds does not amount to an effective control and the criteria to give grants depend very much on each parliamentarian. Similar criticisms were directed against the *Ward Development Funds*, which allocates SI\$ 60,000 per ward. The absence of audit and public disclosure of the use of these funds has prompted sections of the population and businesses to recommend that they are used for productive purposes through alternative institutional channels. Many an observer is convinced that aid grants and public funds are used to the sole benefit of self-serving politicians.

3. Key issues.

The overarching economic goal of SIG should be to generate wealth and to create jobs, with the right strategy, decision, capital, skills and organisation. The services that a convalescent government can supply directly to the nation are limited. The SI Government cannot relax its fiscal discipline. Thus, it is up to the population, especially the entrepreneurs to generate ideas, projects and business and to create an economic base that entices banks to lend more and to open new branches and agencies.

The SIG, the NGOs and the aid agencies all know that they need to accelerate and facilitate the emergence of business ideas and to plan carefully their financial support so that beneficiaries do not become aid addicts. Business incubators, extension services, professional networks and associations have been used elsewhere to help entrepreneurs equip themselves with the skills and organisation required to run properly their businesses and to harness their collective strengths. These agencies need also to help SME organise themselves and rural communities adapt the traditional land tenure system to accommodate business development.

As regards financial institutions, it is their interest to provide the financial services that will make projects pay dividends. It is their duty to assess what they are good at, to design and customize carefully their products, to plan wisely their activities and resources and to interact resolutely with people and business. But, without capital, no project can start up and grow, no additional wealth and jobs can be created and there is no long-term prospect for social peace.

There is room for various approaches²⁵ and methods of providing financial services²⁶ and many types of institutional arrangements. Pragmatism and urgency necessitates the rejection of exclusive arrangements and to adopt an all-inclusive policy that allows different financial systems to find, develop and operate in their niches. Loans and deposit facilities are in great demand, and a one-sided blanket policy cannot succeed. It is critical that the demand for various financial services is matched by an equally diverse supply. Moreover, home-grown and imported schemes should be equally welcome as long as they clearly demonstrate their relevance and effectiveness, and compete fairly against one another.

4. The SIG policy.

²⁵ Profit-making and profit-maximisation approaches, non loss-making approach, break-even policy.

²⁶ Known as banking for the poor, banking with the poor, banking of the poor, banking by the poor.

The SIG had committed itself to an ambitious five-year programme of action (2002 – 2005) for the restoration of financial stability and the rehabilitation of the Financial Sector. Through the Ministry of Finance, its general objectives were to strengthen and restructure the financial sector²⁷, to revise the Law and to reinvigorate the industry²⁸. But, these recommendations were not implemented.

The programme of action for 2003-2006 focuses on the restoration of stability in the financial system through negotiating and settling government debt arrears with all financial institutions and the reimbursement of the debt to the SINPF and public service credit unions. The SIG is now in an environment more conducive to success.

It vows to apply the Financial Institutions Act to protect the integrity of banking system from pyramid schemes, money laundering and other illicit financial activities through an anti-corruption unit. It is a matter of will and skills. It also aims to finalise and enact amendments in the law for institutional strengthening – amendment in the Credit Unions Act, the NPF Act and Financial Institutions Acts. It aims to improve access to credit by rural people, by facilitating the provision of rural credit, by encouraging commercial banks lending to private sector, by strengthening SICUL's ability to assist credits unions, especially rural ones and by encouraging the establishment of micro-finance schemes supported by international aid agencies.

The SIG has put a lot of reforms on its plate and it is obviously intent on good government and wise policies. Both are necessary to do better in good times and to suffer less in hard times, but neither is sufficient to guarantee success. The fact is that the national economy is driven by a mass of individual and corporate decisions that are certainly influenced, but not controlled by government policies. The SIG policy tries to strike a balance between the promotion of business that generates growth and the defence of an increasingly not-so-silent majority that could burst out in anger again if its needs are ignored. The SIG is moving on many issues: NPF reserves and overseas placements, DBSI restructure, public debt issue, tax structure reform. The 4M²⁹ continues to meet and work on the problems identified by the plan.

5. Foreign partners.

In 2005, the United Nations officially proclaimed the year of micro-finance in recognition of the benefits that microfinance schemes can bring to low income communities in developing and developed countries; and yet micro-finance projects are rare in the Solomon Islands while other financial schemes that performed poorly in the past are given a second chance. It raises questions on the rationale of such strategies. The resumption and perpetuation of foreign aid depend on the capacity of the SIG to fulfil its commitment. In 1998, for instance, SIG failure caused the disbursement of loans to SICUL to be suspended. But today, aid agencies are resuming their assistance.

The European Union provides more than SI\$ 50 million in grants for micro-projects. Australia has been supporting savings clubs on an ad hoc basis through the Ausaid 'Community Peace and Restoration Funds (CRPF)' program. Japan has funded a Grassroots Projects Programme. However, many of these grants and small loans are used for social purposes and infrastructure and not productive activities.

²⁷ Points 1 – 9 of appendix II

²⁸ Points 3 and 4 of appendix II

²⁹ Monthly Monetary Management Meetings

6. Prospects and Concluding Remarks

The insufficient access to finance by the private sector is no news. In the nineties, it was already mentioned as a major constraint to development. But, the demise of the DBSI and the pull-out of commercial banks from provinces have made the situation worse. Once bitten, twice shy! The financial institutions are naturally more diffident about responding to SIG policies. They are all the more cautious as the SIG is still at the stage of cleaning up the financial industry after the shake-up caused by a decade of mismanagement that culminated in 1999-2003 troubles. It has several tasks on the go: budget restraint, tax law reform, SINPF strengthening and DBSI restructure, inflation control, domestic and foreign public debt restructuring on which the access to cheap international loans depends.

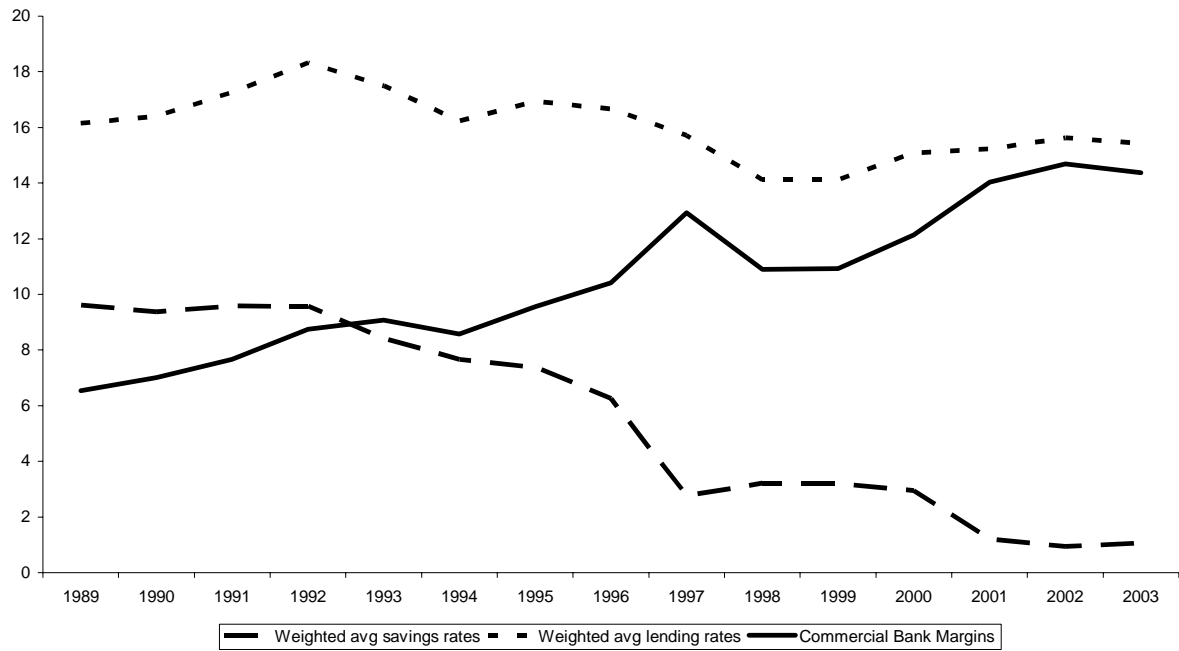
Meanwhile, the SIG is also groping for long-term solutions. To meet the long-term demand of the economy for financial services, it needs to prove its discipline, to nudge banks to lend and to attract more financial operators to stir up competition.

In the Solomon Islands, there is room for a large variety of financial service providers that can occupy the niche where they feel comfortable. However, the SIG also knows that competition among banks, credit unions, cooperatives, micro-finance schemes is a two-edged sword. It must be encouraged as long as it provides cheaper, more convenient, accessible and affordable services and discouraged when its results is to deny the poor access to banking services.

Through regular and extensive consultations and education, the SIG aims to convert individuals, communities and entrepreneurs from spectators and victims of the status quo into participants in the building of a profitable and socially responsible financial industry. To balance profitability and social responsibility is a challenge that the present global trends toward unbridled markets make even more daunting. As everybody has an idea of what the consequences of a failure would mean, there is some hope that this balance can be reached.

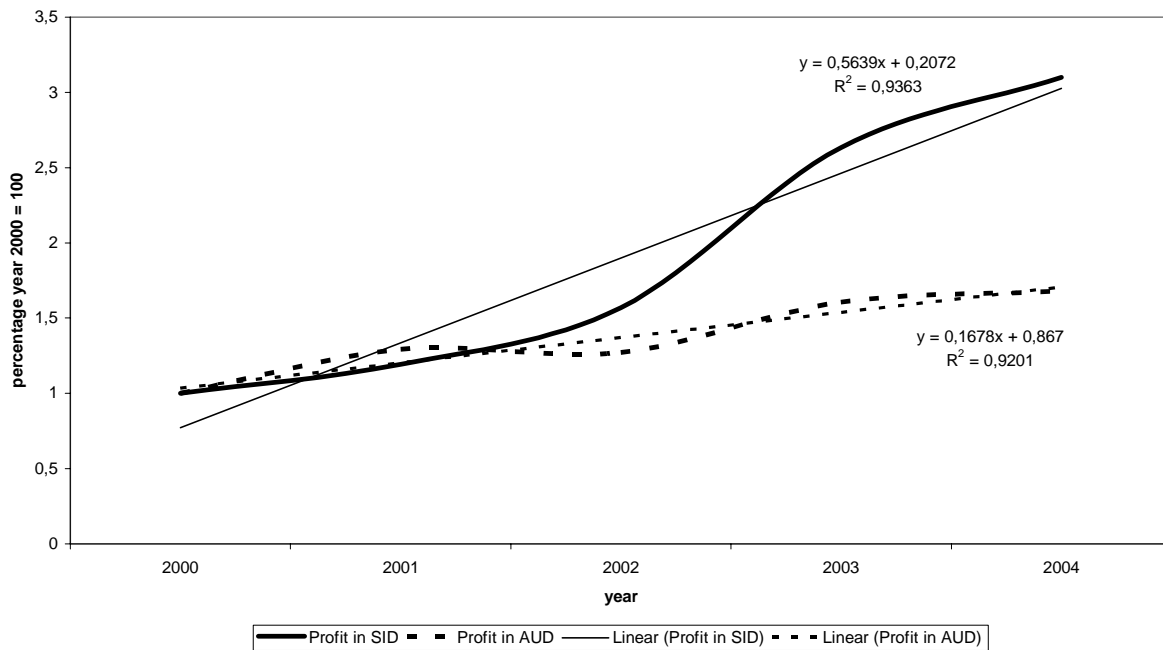
Appendix I: Interest rates on loans and deposits and margin (source: CBSI).

Interest Rates and Margins

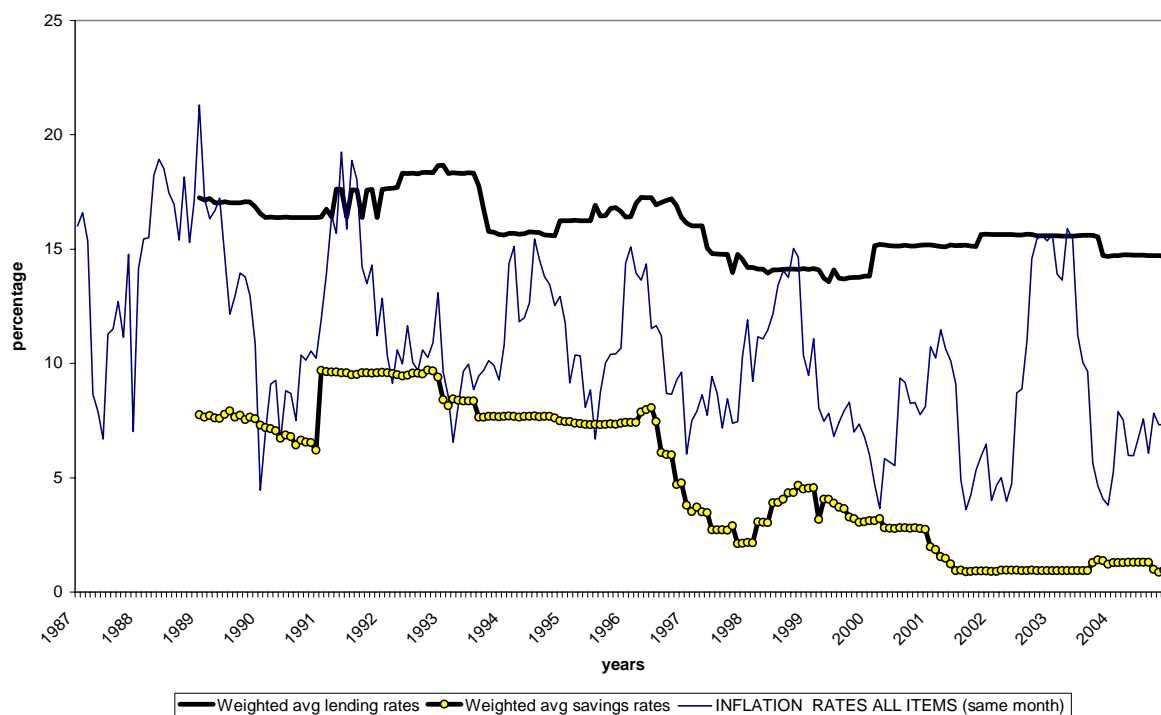


Appendix II: Profit before tax of commercial banks in Solomon Islands dollars and in Australian dollars (source: CBSI).

Profits in SI\$ and in AUS\$



Appendix III: inflation rates and lending and savings interests rates (source: CBSI).



Appendix IV: Five-year programme of action for the years 2002-2005

1. To encourage the establishment of financial institutions to increase competition and improve available services (4, e, 18).
2. To establish a Provincial Funding System (5,h,19).
3. To improve availability of credit facilities in rural areas (3, j, 18).
4. To establish and encourage credit facilities for rural resources owners to assist them develop their resources especially in the areas of tourism, cottage industries, small-scale commercial fishing, mining, shipping, rural mini-hydro power plants and honey, cocoa, rice and livestock. (5,k,19).
5. To privatise the DBSI and/or to transform it into a People's bank (5,1,19).
6. To undertake and revive the Peoples' bank (5, r,v,20).
7. To set-up a Home Credit Facility to improve housing conditions nationwide (5, n, 20).
8. To establish a Merchant Bank (5, r, iv, 20).
9. To review the NPF (5,m,19).
10. To review and revise banking and financial systems legislation (5,o,20).
11. To review the CBSI Act (5,p,20).

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APPENDIX C

REVITALIZING RURAL FINANCE

Economic Development and Provincial Financial Services

HONIARA

(13 – 14th of April 2005)

by

DEPARTMENT OF FINANCE AND TREASURY

Errors and omissions are of the sole responsibility of the author of the report

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Introduction

The Solomon Islands economy has been through a tumultuous time in recent years. This was preceded by many years of limited economic development. The economy has shrunk on average 3.1 per cent each of the last 6 years. Annual gross national product (GNP) per capita fell on average 0.4 per cent from 1970-2000. This has resulted in a reduction in the living standards of average Solomon Islanders.

A return to law and order has provided the Solomon Islands with a new opportunity to put its economy on a sustainable path of economic development. With 80 per cent of Solomon Islands living in rural areas, it is important that this economic development be spread across the whole country and not just in the major urban centres.

A sound financial system that provides services to the whole country will be an important part of Solomon's economic development. Financial services, however, are only one part of the environment required for economic development throughout the Solomon Islands. Access to banking should not be seen as the silver bullet that will magically solve all development problems in Solomon Islands, in particular in provincial areas.

Financial services generally follow, rather than precede, economic development. It is therefore important to focus more generally on the means of generating economic development. As economic development spreads, so will the spread of financial services, creating a virtuous circle of economic development and financial service growth. The National Economic Recovery, Reform & Development Plan 2003-2006 (NERRDP) recognises that creating an enabling environment for business and encouraging private sector participation is the best way to achieve economic development.

An economic environment needs to be established in which businesses can flourish, unhindered by excessive or inappropriate regulation, or other unreasonable costs of doing business.

Creating the right environment for economic and business development

The Government has identified several barriers to business and economic development. These include: excessive red tape and outdated and rigid business regulations and laws; high taxation rates and other government charges; unreliable and expensive transport and utility services; and difficulty in accessing a secure title to land for business operations. Lack of access to basic financial services, including credit, has also been identified.

The implementation of reforms that remove these barriers and create an environment conducive to business activity will facilitate economic growth through increasing investment in major projects and grassroots participation in the economy.

The Government, through the Department of Finance & Treasury, is already concentrating its efforts on several broad reform areas that are targeted to remove these barriers and encourage private sector business activity. Reforms undertaken to date and areas of priority include:

Reforming the regulatory environment

The current business environment in the Solomon Islands, while improved in the last year or so, is still not particularly conducive to business investment and economic development. There are significant economic impediments as a result of cumbersome or poorly administered regulation and licensing arrangements. These regulations limit the capacity of Solomon Islanders to benefit fully from their natural resources and improve their lives.

Significant work has already commenced to streamline and improve regulatory approaches, while ensuring adequate protections to consumers, resource owners, the environment, and investors.

Efforts to date include work with the Investment Division of the Department of Commerce, Industries and Employment to investigate better ways to regulate and facilitate foreign investment.

The priority to overhaul the investment legislation was identified by the Government in the NERRDP.

With assistance from the Foreign Investment Advisory Service and following extensive public consultations, a new Foreign Investment Bill has been drafted and is scheduled to go to parliament in mid 2005. The main intent of the Bill is to introduce a simple registration approval that reduces uncertainty and increases transparency for foreign investors, while protecting Solomon Islanders.

The Foreign Investment Advisory Service has also been invited to undertake two more projects in 2005. These include addressing administrative barriers to investment (focusing on the Labour and Immigration Divisions of DCIE and the Registrar-General's Office in the Department of Lands and Survey); and a review of investment incentives.

The Minister for Finance & Treasury has also requested an independent review of the taxation system. Widespread discretionary exemptions and cascading indirect taxes are undermining the systems integrity and fueling uncertainty for investors and taxpayers. Tax reform will help increase the pace of private sector development by reducing the costs of doing business and providing the taxpaying community with more certainty. This will lead to more jobs for Solomon Islanders and increased living standards.

Taxation issues impact particularly heavily on ordinary people out in the Provinces. For example, the cascading effect of import duties and Goods Tax significantly increases the cost of imported ships. Without any exemptions, anyone wanting to buy a ship, or even an outboard motor greater than 40 horsepower, faces an effective tax rate of over 43 percent. We believe this is a major reason for the lack of private investment in shipping, and helps explain the poor inter-island services for many Solomon Islanders.

Improving inter-island transportation and communication services

More effective management of and investment in transportation and communications infrastructure is crucial to the development of the Solomon Islands economy and the well being of people. Improving inter-island transportation and communications services (shipping, aviation and telecommunication) is also of critical importance to provincial economic development.

Well functioning transportation and communications services enhance and create new business opportunities outside the capital. Reliable access to these services helps to reduce the costs of doing business.

Recognising the importance of inter-island transportation services, a revitalisation strategy for Solomon Airlines has been developed and approved by the Minister for Finance & Treasury. This strategy, developed with the assistance of the Asian Development Bank (ADB), aims to improve the operational and financial management of the airline, as well as addressing underlying economic and safety regulatory matters. Most importantly it will improve the quality of aviation services in Solomon Islands.

The Solomon Airlines privatisation strategy is currently being implemented in conjunction with the Department of Communications, Aviation & Meteorology, the Investment Corporation of the Solomon Islands, Solomon Airlines and the ADB.

Reform to shipping services represents the second half of a broader Government - ADB strategy to improve inter-island transportation services. Many of the existing barriers to businesses are undermining shipping in Solomon Islands. In addition to reforms in these areas, the Government, with assistance from the ADB, is considering policy options specific to improving shipping services. These will be aimed at improving the regulatory environment, encouraging more private sector investment and providing training in commercial operation of shipping.

(i) Reforming our State Owned Enterprises

The Government currently owns and operates more than 20 State Owned Enterprises or businesses. These include the power, water and postal utilities, as well as several companies held by the Investment Corporation of Solomon Islands. A majority of these companies are run down and have incurred substantial debts.

The Government is exploring and implementing ways to bring about more efficient and effective provision of utility services, including through increasing private sector participation. This will assist with the development of a vibrant and competitive private sector and broad based economic development. It will also help to ensure improved service delivery to Solomon Islanders, in particular to those living in the provinces.

Efforts to date include the reengagement of the ADB in the Government's State Owned Enterprises privatisation strategy. The ADB is to provide technical assistance to the Department of Finance & Treasury to develop a comprehensive strategy that establishes the right regulatory environment, improves the financial and managerial governance of utilities and privatises some as appropriate.

The Department of Finance & Treasury and the Department of Mines & Energy have facilitated the reengagement of the World Bank in the review of Solomon Islands Electricity & Water Authorities (SIEA & SIWA). The World Bank is currently providing technical assistance to the Department of Mines & Energy, SIEA and SIWA to develop and implement financial restructuring plans for both utilities.

The World Bank is also undertaking a Private Sector Participation Study to explore and implement structural reform options for both utilities. The implementation of these reforms will improve the financial and operational management of both utilities, establish the right regulatory environment, and improve service delivery to consumers in Honiara and provincial areas.

The Government has also approved the privatisation of selected Investment Corporation of Solomon Islands portfolio companies. The ERU is currently working with ICSI to implement this important decision.

(ii) Projects of national significance

The Government will continue to look for opportunities to assist with the reactivation of key sectors/industries/businesses, to provide a strong impetus to the Solomon Islands economy and business activity.

The Government has signed a Memorandum of Understanding with New Britain Palm Oil Limited on the reactivation of Solomon Islands Plantation Limited. Guadalcanal Plains Palm Oil Limited (as the new company will be called) will provide over 2,700 jobs to the people of the Solomon Islands when fully operational, provide hundreds of millions of dollars to the landholders over the next 15 years, and represents a major achievement in revitalising the productive sector as identified in the NERRDP.

The Department of Finance & Treasury has assisted with the reactivation of the Gold Ridge Mine on Guadalcanal. The new owner is expected to finalise negotiations and to begin reconstruction in the near future, with mine reactivation scheduled for late 2006.

Improving access to financial services in provincial areas.

Improving access to financial services is also an important part of creating an environment conducive to economic development. Just as economic development will generate viable opportunities for increased financial services delivery, access to financial services will improve the prospects for economic development.

There are, however, many impediments to the expansion of financial services in the Solomon Islands. In addition to prudential standards, financial institutions face similar regulatory and legal frameworks as other businesses. Banks and other financial institutions face the same taxes, barriers and cumbersome or poorly administered regulation and licensing arrangements. These regulatory impediments increase the cost of doing business and tend to reduce the commercial viability of financial service delivery in provincial areas.

Identified barriers to financial services development include:

- Excessive red tape and outdated and rigid business regulations and laws;
- High effective taxation rates and other government charges
- Unreliable inter-island transportation
- Poor quality or non-existent utility services;
- Difficulties in providing security for loans – such as land with secure title;
- Poor financial literacy among Solomon Islanders; and
- Ineffective regulation of commercial financial operations by Government.

Government regulations in some areas place significant constraints on the operation of financial institutions. One of the biggest impediments to banking services in provincial areas is security. Financial institutions need to move cash between banking locations - and to guard these transfers, institutions need reliable security services.

In the Solomon Islands there are few if any existing firms with the managerial and administrative expertise capable of supporting cash transfers. Banks have therefore looked to proven private security operators in PNG, Vanuatu and Australia to come to the Solomon Islands and provide these services. Currently, however, these firms are barred by Regulations to the Investment Act of 1990 from providing such services.

The new Foreign Investment Bill will address this problem by streamlining the application process and opening up this sector to overseas operators. Not only will this reform provide security to our banks, it will allow overseas security operators to employ, train and pass on their operational and managerial skills to our people.

Foreign investment reform, combined with work addressing administrative barriers to investment and reviewing investment incentives, will remove overly cumbersome or poorly administered regulation and licensing arrangements. Reform to the taxation system, while reducing administrative costs on businesses, will also benefit banks and credit unions by reducing the cost of their inputs.

Government reforms to aviation and inter-island shipping will also assist the financial sector. Banks, like all other business, need to get their services to people and markets. Unreliable transportation services increase the cost of banking, making many provincial areas inaccessible and commercially unviable for financial services. Reducing the cost of doing business and enhancing the reliability of transportation services increases the financial viability of providing banking services.

The difficulty of transportation on land (poor roads) also provides an impediment to financial services. Banks, and more importantly customers, are unable to reach population centers regularly or reliably. This increases the costs to consumers of banking, which in turn reduces its commercial viability. There needs to be more money available to spend on critical infrastructure such as wharfs, roads and bridges, especially in rural areas. Some progress has been made with the Government's reactivation of an ADB loan facility to enhance the road network in Guadalcanal and Malaita, although much more needs to be done.

Unreliable and inefficient power and water utilities also affect the cost of doing banking business in provincial areas. Banks and credit unions need reliable power services to effectively run their computer systems and branch/agency networks. Reforms to SIEA & SIWA will improve the financial and operational management of both utilities, establish the right regulatory environment, and improve service delivery to consumers in Honiara and provincial areas. Similarly, the lack of adequate telecommunications coverage remains a significant barrier to financial sector development.

Security of title over land, the use of movable assets as collateral, and improved financial literacy of consumers would improve the viability of financial institutions in provincial areas. Communities need to work constructively together, and with financial institutions, to ensure land and/or other assets can be used as security for loans, and to investigate the innovative use of leasing arrangements for land.

It may also be necessary to review the regulatory environment in which financial institutions operate. Improved supervision will help to reduce mismanagement and corruption, thus making the use of all financial institutions more attractive to Solomon Islanders. The World Bank is currently assisting the CBSI with a review of its overarching legislation. The CBSI is also reviewing the regulation of credit unions. Improvements and enhanced enforcement of these laws will reduce mismanagement and corruption in such institutions and hopefully will increase the confidence of Solomon Islanders to use them.

Conclusion

The Solomon Islands has a new opportunity to improve the living standards of all Solomon Islanders. Creating an environment conducive to private sector development will be vital to delivering the economic development necessary to achieve this. The increased availability of financial services in rural areas will play an important part in this development.

Reforms are underway aimed at establishing an economic environment in which businesses can flourish is the primary objective. Pursuing these reforms should increase the number of bankable business opportunities and increase the overall demand for financial services. These reforms will also substantially address many of the impediments to the provision of financial services in provincial areas.

Financial services, however, are only one part of the environment required for economic development throughout the Solomon Islands. Access to banking or credit will not magically solve all development problems in Solomon Islands, in particular in provincial areas. It is only through providing an environment conducive to private sector growth through broad based economic reform that substantial development will occur.

Central Bank of the Solomon Islands
National Conference on 'Revitalizing
Rural Finance'

APPENDIX D

REVITALIZING RURAL FINANCE

**Submerged Problems to Socio-economic Development
in Rural Solomon Islands Today**

HONIARA

(13 – 14 of April 2005)

by

Fr. FrancisMaaka

Errors and omissions are of the sole responsibility of the author of the report

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0.0. Introduction

Thank you for inviting me to contribute to this conference, in a challenge and search we all share for the best possible ways and means we could find to empower to participate fully in developing themselves. My presentation is rather a small one, but one that I hope will encourage you to take radical steps as regards development of Solomon Islands in the twenty-first century.

Most of Solomon Islands population live in rural areas, on scattered islands, and covering most of coastal, mountainous and lagoon regions of the country. Access to any development activities in provincial rural areas is a question of geographical location where rural activities take place.

Before going into discussing rural SI situations today and how financial institutions could revitalise economic activities and productivity, I would like to first point out an area that many developers always overlook in economic planning in Solomon Islands.

Solomon Islands is a country that consists of family units and ethnic tribal groups, whose associations are based mainly on natural blood ties, much more than conventional ones based on economic, social, political or religious institutions. This traditional foundation of life has many good values. But it is also the foundation which undermines many development projects and even Solomon Islanders when it comes to talking about responsibility, accountability and transparency in economic development. It has something to do with the peoples' concept of values and where they bank their lives values.

1.0 Banking value concepts: traditional versus modern

1.1 Concept

Solomon Islanders [here Melanesians] have been taught from many generations to bank their lives values in human relationships and human communities. Traditional experience found that the response to any human needs and, at whatever time is much faster through the human relationship network.

This practice is still common today even by the highly educated and working class indigenous Solomon Islanders. Many today spend more than half of their salaries, or a good percentage of their business earnings on bride prices, feasts, funerals, paying schools fees on behalf of blood relatives and friends.

People are not used to banking their lives values in economic and administrative institutions as we have today

They are also taught by tradition to bank their lives n what nature and society provides for their daily welfare

Short term banking takes place only on occasions such as feasts, funerals, marriages, compensations, etc. Those who lend any valuable during such occasions are paid back the same amount by the borrower on the occasion of another event of the same nature.

Banking is more on bases of : value lent = same value returned not on IBD

Banking might need a lot of words in discussing issues and terms of transactions but not written agreements and documents.

What is really value for life for Solomon Islanders? It has to be peace, harmony, security, identity, love, dignity and integrity, traditional Solomon Islands communities, work towards keeping the Values for life in the community. People bank deep values as peace, harmony, security, identity, love, dignity and integrity in human relationships.

Economic life is subordinate to sustaining the above mentioned virtues.

Economic activity and productivity is basically about:

- Organising and sharing food production in the family and members of tribal community
- Sharing of obligations towards the upkeep of living members
- Using family and tribal members to provide manpower needed in economic productivity and manufacturing
- Traditional monetary is used purposefully to create, mend, reinforce and compensate human relationships networks.

- People do not or not yet live by money; it is a necessity but not a need. Many families in rural areas can live without a penny for one month or more;

I hope that the concept analysis made in the above lays the foundation to understanding why people in rural areas struggle with different problems in society from what planners and business houses would assume to be problems. There is truth in the saying that “Culture is a thing of the mind, not what we see in people’s way of life”. In other words, what we see in the traditions or the practice of people are responses to satisfy human needs because of oppressive conditions in peoples’ life.

1.2 It is a two-way traffic

1 You → Community

2 Community → You

Tradition has taught that people must invest their total human welfare in the human community first, rather than in things such as money, clothing, manufacturing companies, industrial development, natural resources.

The economy is secondary, it is regarded as a subordinate to sustain the tribal community welfare, not an individual’s basic human needs

The community structure and governance is the overall important value that enables a Solomon Islander to achieve ultimate personal, family, community life values of:

- Economic training and activities
- Social relationships and training
- Political organisations and relationships
- Cultural training and activities
- Spiritual training and activities

1.3 Subsistence economy

Who owns property? Who benefits?

In a subsistence society, the tribal community owns

- Land resources
- Forest resources
- Sea resources
- River resources
- Human resources

The individual person uses the community owned resources for his/her upkeep, or the upkeep of the community

It is life of “you work, you eat”

1.4 Cash economy

In the new cash economy, money controls life. Money is the means of getting things for life.

It is a life of “you buy in dollars, you eat”

1.5 Illiteracy

Another contributing factor to rural people’s disinterest in using modern banking systems is the high percentage of illiterate people:

- People cannot read and write
- Banking language is difficult to understand
- Banking procedure are complex
- Environment in banks looks scary

1.6 Economic constraints

Environmental issues also undermine people’s interest for money generating economic productivity. This causes people to have less marketing opportunities and less money to save in banks.

Land use patterns

- Some rural regions of the country consist of rugged mountainous interior flanked by plateaus, lightly dissected hills and narrow coastal terraces which intersperse swamps and valleys. They are broken in intervals by rivers valleys. Such geographical situations offer no easy way for economic productivity.
- Valleys are not well developed. At the coast, many small swamps occupy former lagoon sites.
- Offshore and inshore reef development is active in many lagoon areas causing general instability in the regions. This has resulted in irregular coastline of reefs, lagoons, estuaries and promontories.
- Some atoll islands consist of slightly raised reef complex. Surface drainage is negligible. Local water tables are shallow.
- On some mainland provinces, rock platforms of sedimentary rocks are extensive; drainage is absent as some streams disappear. Water from inland areas drain into the river and, in turn, the rivers deposit sediments in the already shallow lagoons.
- Primary forest is found in the interior of nearly all major islands whilst shifting cultivation is done continuously on the steep slopes facing the sea and lagoon areas. Some logging activities have been done in some of the small islands. Taro and sweet potato are mostly planted on steep slopes and others have secondary forests.
- Coconut and coconas are planted on ridges or the flat lands along the coast, whilst coconut trees are grown extensively as secondary cash crops.

1.7 Land disputes

Land disputes were recorded as far back as 1945; The use of courts neither solves nor puts an end to any land disputes. While court decisions might put an end to the dispute, it could lead to further disputes apart from land which slows down development and consequently end many of past efforts to rural development. Some common examples are the following:

- Halt to construction work on any community infrastructures, such as church, clinics, water supply bridges wharves, schools, community halls, roads
- Halt to proposed commercial logging operations, business operations, transport services
- Halt to people not growing enough food: small scale farming of cocoa, planting of coconut, reforestation

- Deferment of a many other money generating projects injected by the government in the rural areas

While the strengths of the legal system could be listed as:

- Qualified people handle cases
- Independent from the contending parties
- Recognises the responsibility of the council of chiefs
- Proper recording of cases and
- Possible inclusion in the land register

Past experience of rural people not to trust the courts and chiefs settlement of land disputes found weaknesses in resorting to the courts for the settlement of land dispute cases:

- Bribery is possible
- Favouritism
- Lack of knowledge of land matters as well as cultural practices
- Requires payments of legal fees
- Too long a process to settle the case
- Wantok business distorts the process

Many villagers seem to prefer only the kastom way of settling land disputes. However, despite the good knowledge of genealogies on the part of the chiefs or that chiefs are more approachable than lawyers and the legal environment is more kastom-oriented and does not require too much interpretation, there are other weaknesses to the system:

- Inadequate written documentation
- More heavily influenced by the wantok system
- Vested interests can influence decision
- Sometimes young chiefs, unfamiliar with land issues, hear cases

2.0 Government Administration and Political Authority

Frequent visits by government officers or any other technical peoples to rural areas of the country, is almost non existent. People need frequent visits to be made by government officers, technical experts and political leaders to note the success or failure of projects in their respective areas. Such visits could enhance provision of technical advice to rural peoples management of small scale money generating projects.

2.1 Provincial substations

To have access to government services, people usually go to the provincial substations. Some substations are not well furnished with the most needed administrative departments required in the regions.

Even in the presence of needed national agencies that should have officers placed on detail to the provincial government, such as those in physical and economic planning, health and medical services, education, public works, agriculture, fisheries, commerce and trade, lands and housing, banks agencies are lacking.

2.2 Peace and order

The insecurity the country has gone through during the past four years of national crisis has created great challenges to future scheme of services delivery to rural people. While in many rural regions of the country, justice is meted out by both legal and “kastom ways to curb rural crimes, security measures must be undertaken when in the process of the implementation stages of development projects.

3.0 Social services

3.1 Education

Those who would most need the use of bank agencies are teachers and schools. There are schools run by the provincial governments, and the churches in rural regions. The following type of schools would indeed need the services of bank agencies and other administrative bodies to assist their administrative needs:

- Primary schools
- Secondary community high schools
- National Secondary high schools
- Kindergarten and
- Rural training centres.

3.2 Health

There are nurses and doctors and other health workers who would need the services of bank agencies in rural areas. Many of these health services need the financial backing of financial institutes for capacity building. Many workers have to travel long distances and have to pay or hire transports with alarming taxes to reach the nearest bank services

There are situations also, due to lack of money or services of banks, where many adults or infants died of malaria; delays in seeking medical help; babies were delivered at home; pneumonia; and premature births before arriving at the nearest clinic.

3.3 Housing

Many rural dwellers who might have some savings in the banks or who might need some small loans from banks might not have access to the services of banks in their rural regions. With the help of health educators and the influence of western style housing, the following common housing types are found in rural communities:

- leaf-houses; semi-permanent and permanent. People have shown interest in improving their living standards. This is possible only when financial institutions such as banks could find some ways to assist them. The above mentioned type of housing indicate also a predominantly subsistence economy, with inadequate surplus cash.

3.4 Water supply and sanitation

Stand pipe is available in some rural communities in the country. For the rest of many villages, people have to walk from 80 to 400 meters to the source. Water sources are either, rivers, streams or springs. On sanitation, most villages use bush pits for toilets. In some villages, people depend on the sea and river for waste disposal.

4.0 Employment, trading and financial institutions

Self-employment takes up to 80% of economic activities in rural Solomon Islands communities. Men and women aged 18 to 65 years old comprising the labour force. Some are employed in cash jobs with NGO administrations or the few public services available in the rural areas. Many of these rural workers have to travel long distances to the nearest bank agencies.

4.1 Trading

There are small scale business people in rural areas that could need easy access to banking facilities. Trading shops with a combined inventory of goods is common in rural Solomon Islands communities. These stores can employ up to a total of 29 workers. Other traders who would need the assistance of banks would be those who trade products such as cocoa, copra, vegetables, timber from portable mills and chainsaws. Usually, due to lack of marketing facilities in rural areas, the produce is either bought by local buyers or transported to Honiara market. These people would need a lot of finance to purchase products and even to transport the products to the nearest port and to Honiara or Noro.

Common types of shops found in most rural regions and communities are categorised as follows: hawkers, retail canteen, wholesale/retail, village bakery and petrol/kerosene outlets.

Some vibrant economic regions indeed need the services of banks. An example is North Malaita. Annual exports of copra would net a monthly value at SI\$ 225,000 (250 tons); cocoa valued at SI\$86,000 (7,200kg) and cash crops valued at SI\$ 72,000 (500 kg). Copra and cocoa are sold to CEMA, whilst the cash crops and marine products are sold to general markets at the government substations. Other regions may be less due to the remoteness of their locations to provincial government substations or due to lack of infrastructure.

4.2 Status of local business

Banks could assist also with rural business. There are rural businesses that while struggling with inefficient rural setting could still be categorised as successful. There are others which are not so successful. Banks could count on business that are successful if well looked after while aware also of those that would undergo some financial or management problems. The common problems met by local entrepreneurs in the rural areas could be listed as follows:

- Lack of management skills
- Lack of knowledge in marketing*
- Lack of financial backing
- Inadequate transport
- Wantok business
- Payment of bride price
- Stealing
- High prices
- Too much competition
- Lack of business advices from government
- Use of witchcraft
- Effect of being involved in pyramid schemes

5.0 Cooperatives, credit unions, banks and other financial services

Approximately not more than half of the population of any provincial region in the country have access to bank services. In the remotest regions of the country there are neither bank agencies nor cooperatives, not credit unions. In many cases, these are never heard of. In other cases only government officers, teachers and local business deal with banks. Many local entrepreneurs transact business with the branch in the nearest government sub-station. Not all rural regions in the country have the privilege of the presence and services of bank.

5.1 Subsistence economy

Even families and communities in many rural areas could use the banks where given the opportunity. In vibrant regions, taking North Malaita as an example, may need the presence of bank agencies at Malu'u, Takwa or Gounatolo. Many rural families and communities in this region produce the following each month with an approximate income:

- Potato = SI\$ 10,000
- Taro = SI\$ 5,000
- Cassava = SI\$ 200
- Cabbage = SI\$ 400
- Yam = SI\$ 2,000
- Pana = SI\$ 5,000
- Banana = SI\$ 8,000
- Sugarcane = SI\$ 100
- Coconut = SI\$ 2,500
- Cocoa = SI\$ 10,000
- Pig = SI\$ 25,000
- Local chicken = SI\$ 2,500
- Forest products = SI\$ 1,000
- Handicraft = SI\$ 1,000
- Fish and other Marine products = SI\$ 5,000

All these figures amount to a total monthly production valued at SI\$ 54,025. It has been estimated that 58% of this monthly production or produce valued at SI\$ 31,000 is for home consumption.

With the assistance of banks to the different sectors of development, the measures recommended to improve or expand current subsistence production could be:

- Improve or create market outlets
- Provide fisheries facilities
- Provide transport
- Provide skills training
- Provide starting capital
- Conduct training on cash crops
- Provide basic tools and equipment for farming
- Support small businesses and
- Provide training on management.

6.0 Economic activities

6.1 Agriculture

As a traditional economic activity, commercial activities in this sector are not yet fully developed in rural areas. In nearly all rural regions of Solomon Islands, subsistence activities are dominant. Agricultural activities are done mostly by women.

6.2 Fisheries

This is another traditional economic activity. However, many rural people still employ traditional means of fishing until today. The villages have experienced over-exploitation of marine resources. Traditional conservation practices have been abandoned in many villages. Fishing activities are carried out day and night. The fishing grounds now do not yield enough fish;

6.3 Marketing

May subsistence fishermen supply fish to the local markets. In local markets, the reef fish always get better sales. The commercial fishermen sell to any government sponsored fish marketing station and at the government substations. Deep sea fish too might sell well at urban markets in Honiara.

Very few rural regions in some provinces have iced storage facilities. Sometimes, these few facilities cannot cope with excess fish catch. A block of ice sells at SI\$ 8 per block. Fish normally sells at SI\$ 4 per kilo. At some of the substation centre, 7,200kg of fish are sold each month which can net SI\$ 5,760 monthly for fishermen who have access to the facilities.

6.4 Donor assistance

The presence and services of bank agencies could facilitate also donor agencies that fund rural projects and receptor communities interact more efficiently with planning, implementation and productivity. Many communities that are funded by aid donors have to travel long distances to the nearest bank at the provincial substations or as far as Honiara to do the necessary financial transactions. Even donor's agents who should monitor the projects find it difficult either to travel or even to address immediate financial needs on the spot due to the remoteness of the regions to banking services. The difficulties people find where there is a lack of services either of banks or important technical services providers could raise other problems such as:

- Some projects are too expensive to operate
- Lack of management scheduled system for members to be active
- Markets for some type of products become a problem
- Overseas buyers for some products were practically nil.

Faced with current economic lag, many rural people supplement their income through other activities, e.g. copra making. Rural people have also realised that their resource base is dwindling. Many realise that they have to adopt measures to prevent too much exploitation of the marine and agriculture resources. For instance, many fishermen have identifies the following needs:

- Need to adopt aquaculture methods
- Need to move out to open sea fishng
- Need to develop other livelihood activities to supplement fishing
- Need to develop new markets

6.5 Forest resources

While some see logging as one major contributor to the financial power of the country, and while some call for sustainable harvesting of the forest as a means of investments for future generations, the rural masses are currently experiencing immediate problems that must be addressed by financial institutions as banks.

Some rural regions are densely populated both inland and along the coasts and on small islands. As a result, forest resources are getting scarce. Those inland can still have easy

access to forest products, but those along the coast have to walk farther to gather firewood. Land seems to be infertile and many water sources have dried up.

For many rural people, the forest remains a good source of herbal medicines, fuel woods, non timber products and fodder. It is also home to diverse flora and fauna. However, there are also threats to forest resources. Such threats include:

- Subsistence farming
- Agricultural development
- Logging
- Population increase.

7.0 Infrastructure

There are very few roads in rural Solomon Islands regions. Some are surface gravel roads, most are bush tracks which are also muddy and hilly. Trucks and motorcycles are the available means of transport. Fares could be within the range of SI\$ 2 to 5 for short distance or range from SI\$ 20 to 150 for several hours travelling. Trucks and motorised boats are also used to carry people and cargoes.

Nearly all rural regions in the Solomon Islands need development of more infrastructure facilities or even better infrastructure facilities to improve the flow of goods and services? Such facilities as markets, more roads and bridges, communication facilities, sea transports and infrastructure are much needed in rural areas.

To conclude this short presentation, I would say that most rural Solomon Islanders are more preoccupied with economic survival than with economic development in current Solomon Islands society. They are more preoccupied with how they could maintain investment of their lives values in human relations and the values that nature provides. If the banks have any future strategies at all to assist with development of rural Solomon Islands peoples now to the future, the following questions of concern must be considered with best abilities:

What can financial institutions do to transform rural Solomon Islands life from now to the future?

A- Could financial institutions assist village communities satisfy some of the following basic needs and how?

- Improvement/upgrade education facilities and staff housing
- Improve water supply
- New water supply projects
- Improve/upgrade existing health facilities
- Establish potential hydropowers schemes
- New kindergarten
- Extension to existing schools
- New rural training centres
- Improve access to potable drinking water
- Promote sanitation
- Train chiefs on the legal aspect of land disputes cases
- New feeder roads
- Rehabilitate existing roads
- Build wharves and improve sea transport facilities
- New communication facilities

- Build new airstrip
- Set up marketing centres
- Prepare existing markets
- Assist farmers and fishermen to improve production
- Assist women expand activities and improve skills
- Set up community policing
- Organise educational awareness programmes on
 - o Controlled harvesting of marine resources
 - o Land and soil management courses
 - o Training on management skills
 - o Conducting life style workshop

- Rehabilitation of beacons in lagoons to guard transport ships
- Blast passage with the lagoon to allow free movement of sea transport
- Improve existing local markets with permanent structure to promote marketing services
- Promote establishment of tribal land recording system
- Establish and improve village aid posts with permanent structural buildings plus related equipments
- Conduct educational awareness programme on environmental protection and conservation,
- Establishment of cultural training centres in provinces.

B- Could financial institutions assist constituency actions plans to address the following objectives and how?

- To orient village leaders and representatives of basic sectors (women, youth, fishermen, etc.) about bank objectives and activities
- To initiate discussions and identify development problems and needs as the villagers perceive them
- To gain insight into the local decision-making processes and structures
- To identify possible sources of primary and secondary data for constituency profile,
- To identify potential projects planners, local trainers and to confirm with villagers the participants for the profiling and action planning workshops.

C- Could financial institutions assist alleviate the following problems faced by village communities in particular geographical locations and how?

- They carry heavy loads of produces (taro, yam, potato, etc.) from their gardens in the bush to the market on the coast
- They want feeder roads, village health aide post and clinics
- The existing community spirit shown by villagers helping each other carry their produce to the market
- Farm gardening soils tat are quite fertile in inland areas and which are best for major agricultural projects
- Many coca and coconut plantations have high production but they have no road access; women carry bags or sacks of copra and cocoa to the market
- Sago palm supply decreasing as a source of housing materials
- Centre for women's groups
- Need for permanent church buildings
- Need for community rest houses
- Farmers needs to curb lots of problems in growing crops
- People want to engage in root crop farming and livestock raising

Coastal villages

- Need for fish preservation and ice-making machines by fishing communities
- Housing schemes for communities
- Copra driers
- Proper sanitation
- Chain saws for gathering timber materials for houses
- Need for roads and wharves

Inland communities

- Water supply to the island or artificial islands communities
- Establishment of primary school in remote islands or even artificial islands
- Establishment of mini-fisheries centres within the regions
 - o Establish safe water supply
 - o Build proper sanitation systems
 - o Establish village aide posts
 - o Promote new agricultural methods
 - o Mobilise government officers to provide skills training in the villages
 - o Need study for possibility of introducing solar system for lighting
- Need for provision of community fishing projects
- Provide community sea transport for goods and medical services
- Establish more market outlet for fishermen in provincial centres or sub-centres
- Need by Island communities to construct seawalls against high waves
- Need for fishing net and eskies

We have been talking about submerged problems that people are so preoccupied with to become obstacles to the use of banks.

D- How would financial institutions assist rural people come out of the following submerged development problems?

- Land dispute
- Lack of management skills
- Lack of proper education
- Lack of market outlets
- Lack of capital to start up a business
- Inadequate transport
- Wantok system
- Corruption
- Payment of bride price
- Lack of roads
- High transport costs
- Insecure tenure system
- Lack of community mobilisation
- Geographical constraints
- Soil erosion
- Lack of improved health services and healthy living standards
- Lack of leadership quality and skills
- Lack of political support
- Lack of proper training/knowledge on planning and management

- No understanding of development
- Lack of communication/transport – physical infrastructure
- Unfair distribution of resources – inequality
- Unsustainable harvesting of marine resources
- Need for environmental protection and conservation
- Need for adjustment in traditions and culture
- Inadequate education and facilities and services

8.0 Conclusion

Are financial institutions ready and willing to offer financial logistics or to substantiate any development goals and Strategies that are directed at addressing the following development needs in rural Solomon Islands today?

Social development

1.0 Education

- 1.1 To provide adequate facilities, instructional materials, enough classroom space and qualified personnel to the primary and community schools in the country
- 1.2 To reduce illiteracy by providing relevant non formal and alternative education programmes
- 1.3 To recognise and further encourage the participation of churches and local communities in the establishment of training centres/adult learning centres for the systematic provision of skills to out-of-school youth, as well as adults
- 1.4 To encourage donor agencies and NGOs to initiate scholarship programmes for financially handicapped but gifted students
- 1.5 To help identify professional growth opportunities to enable teachers to upgrade their teaching methods and make them relevant to the current situation of the country.

2.0 Health

- 2.1 To increase access to health services through the provision of more clinics, qualified staff and adequate services
- 2.2 To identify and train herb doctors and traditional birth attendants
- 2.3 To improve the data base on the situation of children and women in the country
- 2.4 To train, deploy and support primary health workers
- 2.5 To promote family planning

3.0 Housing

- 3.1 To assess the availability of indigenous materials for the housing requirements of the country
- 3.2 To encourage investment in housing programmes at affordable costs to the people
- 3.3 To assist in the proposed resettlement schemes through appropriate design of houses
- 3.4 To encourage landowners to allocate land for housing development

4.0 Water supply and sanitation

- 4.1 To raise public awareness about the importance of sanitation
- 4.2 To provide sanitary disposal of solid and human waste

- 4.3 To promote the construction of more water supply system using available springs and other water sources
- 4.4 To arrest the deterioration of existing water supply systems through repair and/or modifying the design
- 4.5 To promote greater efficiency in water collection and use
- 4.6 To work towards more judicious allocation of water supply and sanitation facilities
- 4.7 To mobilise people on the proper maintenance and operations of water and sanitation facilities

5.0 Social capital

- 5.1 To identify and promote cultural values which contribute to greater social welfare and progress
- 5.2 To promote greater participation of women, youth, and minority groups
- 5.3 To ensure support to appropriate programmes for children and other vulnerable groups, such as the elderly and the disabled
- 5.4 To improve the delivery of basic services and infrastructure to relatively disadvantaged villages and families
- 5.5 To encourage greater community-government partnership in development planning and implementation
- 5.6 To contribute to strengthening community and people's organisations and all institutions of civil society, e.g. churches, NGOs, indigenous institutions, etc. which can further increase social capital and advance the cause of human development.
- 5.7 To promote respect for cultural beliefs which will bring about the protection of fishing grounds and other natural resources, the care of the elderly and the weak, and the strengthening of social bonds and cohesiveness.
- 5.8 To contribute to the resolution of land conflicts

Economic development

6.0 Employment, trading and financial institutions

- 6.1 To support measures which will create cash employment within the constituencies
- 6.2 To support measures which will expand or improve the efficiency of the subsistence economy
- 6.3 To provide training and other support to local entrepreneurs
- 6.4 To encourage cooperatives, credit unions, banks and other financial services to be established in the constituencies

7.0 Agriculture

- 7.1 To provide adequate training and other support to farmers, especially those in remote villages
- 7.2 To increase markets outlets for copra, cocoa and other products
- 7.3 To improve the productivity of the existing agricultural land
- 7.4 To encourage the production and consumption of highly nutritious crops
- 7.5 To expand the outreach of agricultural extension services programmes
- 7.6 To expand subsistence food production by such measures as providing relevant skills to school drop-outs, training farmers on new technologies, creating new markets to stimulate production, etc.

8.0 Fisheries

- 8.1 To provide training on appropriate fishing methods and the conservation of marine resources
- 8.2 To reinforce kastom ruling on over-fishing and adopt measures to prevent fishing in taboo fishing grounds
- 8.3 To provide support to fishermen in terms of ice-making facilities whenever it is feasible to do so
- 8.4 To encourage fish processing so as to increase fishermen's incomes

9.0 Forestry

- 9.1 To contribute to the appropriate exploitation and conservation of forest resources
- 9.2 To encourage landowners and the people to carry out reforestation work in logged-over areas
- 9.3 To promote wood processing and diversification of wood products
- 9.4 To carry out public awareness campaigns on the importance of forest and forest products
- 9.5 To provide for the appropriate exploitation and conservation of mangroves resources

Infrastructure development

10.0 Roads

- 10.1 To link villages to market outlets, clinics, schools, potential development sites
- 10.2 To provide adequate feeder roads and ease transport of products and people
- 10.3 To coordinate with government authorities for the funding and technical assistance for infrastructure development in the country
- 10.4 To organise people contribution towards the construction and maintenance of roads and footpaths

11.0 Transportation

- 11.1 To encourage investment in public transport
- 11.2 To provide support facilities such as terminals, wharves, storage, etc;
- 11.3 To encourage the formation of co-operatives for the development of public transport systems

12.0 Energy

- 12.1 To study possible energy sources and encouraged investment in tapping these resources, e.g. hydropower,
- 12.2 To create public awareness on the sustainable use of firewood, charcoal from charcoal from coconuts
- 12.3 To study the possibility of installing radio communications systems in appropriate places in the constituency
- 12.4 To promote and establish a community-based development system to keep the villages abreast on issues affecting national and local welfare.

Environment management

13.0 Environmental planning and advocacy

- 13.1 To identify environmental threats and adopt measures to arrest them



To assess existing flora and fauna and encourage communities to preserve them

Asian Development Bank Environmental biodiversity and ensure sustainable livelihood for the present and future generations

13.4 To mobilise volunteers for environmental protection and conservation

Development administration

14.0 Institution-building and community mobilisation

14.1 To encourage the formation of community organisation

14.2 To further strengthen local institutions and development bodies at constituency/ward/village levels

14.3 To liaise with national and provincial authorities for the provision of funds and other support for the development needs of the constituencies

14.4 To strengthen the alliance of government and local communities and institutions in carrying out development objectives and activities

14.5 To enhance the capability of village chiefs and elders to participate in development activities

May I thank you once again for listening and reading these few lines of concern. I hope the facts presented here will enhance our discussions to find ways we can address the issues of grave concern in society. I hope that the facts also bring new light and ideas to services which financial institutions could assist in rural Solomon Islands communities now and into the future.

Thank You

APPENDIX E

REVITALIZING RURAL FINANCE

**Microfinance: A case study
Timor Leste**

HONIARA

(13 – 14 of April 2005)

by

Naomi Chakwin
Regional Director

Errors and omissions are of the sole responsibility of the author of the report

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Introduction

Over the past year or so I have been having a conversation with some of my colleagues about microfinance. Since my background is in the financial sector I always thought of microfinance institutions as the ones that muck up the financial sector with weak institutions, subsidized interest rates, and bad lending practices. I have become convinced that this is a legacy of microfinance but it does not have to be the future of microfinance. It can, and indeed is, being done better these days. Microfinance has a potentially important role to play, both in encouraging cash-generating activities in the informal sector of the economy, and in poverty alleviation.

Myth	Reality
Interest rates need to be subsidized	MF rates of interest must reflect operating costs to achieve sustainability. Organizations make costs and thus need to charge interest rates that are higher than commercial rates. However, MF rates are still lower than those charged by moneylenders and other sources from which the poor borrow.
The poor cannot be trusted with credit. The consumption needs of the poor are so pressing that any loan will quickly go to consumption.	The high repayment rate of millions of MF clients is empirical proof that the poor are creditworthy.

The poor are unable to save.	The high rate of savings reported by many MF organizations demonstrates that the poor can value savings as much as credit.
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Balancing Objectives

The big issue regardless of what structure is developed is how to balance outreach and sustainability. I will be going to go back and forth between the supply of and demand for credit. It is this balancing of objectives that will determine the reasonable frontier for MF. In the Pacific there are a number of major and unavoidable hurdles for accessing credit and achieving self-sufficiency. These include high cost structures, shortages of qualified workers, low population density and remoteness, (poor infrastructure and associated low economic activity base) and difficulties in achieving high repayment rates.

A lack of emphasis on viability is probably the most serious problem in the region. This is true for many NGOs, government directed micro credit programs, state-owned banks and cooperatives providing microfinance services. As a result only a few MF institutions are sustainable and most are not moving toward sustainability.

Many programs tend to have small numbers of borrowers spread over large areas, significantly increasing unit costs. Programs can establish themselves far more intensively with more borrowers in smaller areas. Ideally, programs should initially restrict themselves to a small number of districts. Within districts, programs can then establish themselves intensively in a small number of contiguous villages.

While repayment rates for many on-going programs in the Pacific are pretty good by Pacific standards (50-80%), they are low when compared to other successful programs outside the Pacific. Rural credit has to be monitored more rigorously than broader commercial lending. Many of the clients are first time borrowers and have little experience with panning and budgeting for loan repayments. Monitoring can be

Demand for microfinance: structure and characteristics

Sources of demand	Products and services and characteristics of demand
1. Households a. Poorest (rural and urban)	convenient access to safe and liquid deposit services passbook savings with unlimited withdrawal facility strong demand for consumption and emergency loans with no collateral small size loans for livelihood activities occasional loans to finance lumpy expenditures such as school fees service outlets at close proximity simple procedures low transaction costs
b. Poor (rural and urban)	convenient access to safe, liquid deposit facilities return on savings passbook savings with easy withdrawal facilities term deposits with small denominations and regular interest payments money transfer services, payment services insurance services for livestock consumption and emergency loans small loans for livelihood activities loans to finance lumpy expenditures low transaction costs
2. Enterprises a. Microfarms (rural)	small loans for working capital (fertilizer, seeds) small loans for fixed capital (purchase of simple tools, land improvements, etc.) below informal market interest rates easy access and minimal transaction costs seasonal demand deposit facilities (safe, liquid, convenient) return on deposits
b. Fisheries, Livestock and Poultry (mainly rural)	working capital loans for feed fixed capital loans (for tools, purchase of chicks) small loan size substantial demand from livestock sector deposit services (safe, liquid, convenient) insurance services
c. Nonfarm (rural and urban)	deposit services (safe, liquid, and convenient) money transfer, payment services insurance and leasing services a wide range of enterprises demand for loan is not seasonal demand is large for working capital loans relatively large loans within the confines of microcredit

This brings us to training. Staff needs to be trained in the systems for monitoring these delinquencies, financial reporting, core concepts of banking and lending policies and procedures.

Formal and Informal

I have broken this down into 2 types of borrowers and their different needs and the kind of products and activities that would be appropriate. You can see that I have included deposit taking as one of the demands at the household level. Over and over we have seen that this is at least as important as credit in remote rural areas. This raises regulatory concerns that we will get to later. But basically, people need a safe place to keep their money. The demand for credit increases when we look at micro enterprises. There is a need for working capital, tools, and short-term credit based upon seasonality of crops. From this we can see that we are really looking at different market segments and products for these different groups.

In almost all Pacific Island Countries there are both informal and formal financial institutions. Informal financial systems are the most common source of credit for poor and disadvantaged people living in both urban and rural areas. They are quick and convenient and often used to meet traditional obligations such as funerals, birthdays, weddings, school fees etc. The informal financial institutions such as credit/savings cooperatives and credit unions usually provide credit and savings services to people in rural areas and outer islands. The difference between these activities is the amount of regulation expected and required. Formal systems comprise financial institutions that are chartered by government and are subject to banking regulations and supervision, mostly development banks and commercial banks. The formal financial institutions are mainly based in urban areas and include central banks, commercial banks, development banks, offshore banks, housing finance and other finance companies, national provident funds and insurance companies.

Providers of Microfinance - An Overview

Informal	Semi-formal	Formal
Friends and relatives Unregistered money lenders Self help groups operating savings and loan activities (e.g., worker’/employees, women’ and youth, villagers, sectoral groups such as farmers and fisherman, and church/religious groups)	Credit unions or savings and loan societies Registered moneylenders or finance companies NGOs implementing microfinance schemes Registered village banks Government agencies directly implementing microfinance schemes	Development banks Commercial banks

The semi formal financial sector consists of individuals or institutions whose financial activities are licensed and supervised by government agencies, but who are not regulated by banking authorities. Depending on specific local conditions, credit unions or savings and loan societies, registered money-lenders small scale finance companies, NGOs implementing MF schemes, village banks, and government agencies involved in MF activities. The institutions in this sector are either governed by specific legislation (credit unions, savings and loan societies, village banks and money lenders) or by municipal or town councils. NGOs implementing MF schemes in Fiji, Samoa, Tonga and Vanuatu are registered by an Act of

Parliament (Charitable Act). NGOs in Kiribati are registered with the municipal or town councils. At this level, the capacity, resources, and responsibilities of the regulators have to be clearly defined. How much can they effectively regulate and/or effectively manage? And is this transparent to the public?

The Regional Situation

This table shows the very different models that are possible but each of these structures has benefits and limitations with implications for outreach and sustainability.

Modalities and Characteristics Adopted by Existing Microfinance Providers/Institutions in the Region

Principals / MFIs	Individual Lending	Grameen-style Solidarity Group Lending	Village Banking	Revolving Loan Funds	Savings and Loan Associations
Existing MFIs	Development bank offering microloans	Fiji: Dept for Women & Culture/WOSED & SEED Foundation PNG: Liklik Dinau Abitore Trust Fund Samoa: WIBF Solomon Is: YWCA/SIMIWODS Vanuatu: Dept of Culture, Religion, Women's Affairs and Archives/VANWODS	Kiribari: village banks	Tonga: TNYC	In Fiji Islands, Kiribati, Samoa, Solomon Islands, Vanuatu: Credit unions In PNG: Savings and loan societies In Fiji Islands: UNDP/SMILE initiated savings and loan Scheme
Clients	Individual	Individual through groups	Individual through village banks	Groups	Individual through credit union or SLS
Principals / MFIs	Individual Lending	Grameen-style Solidarity Group Lending	Village Banking	Revolving Loan Funds	Savings and Loan Associations
Credit officers' relation to client	Close, with individualized attention	Very close, through weekly/fortnightly meeting	Distant focus on committee members	Distant focus on group officers	Distant focus on officers of committees
Loan Approval	Based on analysis of project viability and client's capacity to repay Centralized loan approval	Group involved in loan appraisal and approval	Committee appraised loan applications & loans approved by members	Appraised and approved by agent/TNYC	Appraised and approved by credit committees
Loan Characteristics	Loans usually large & beyond the absorptive capacity of the poor Stringent loan requirements and procedures Longer loan processing Loans geared more for small-scale enterprises	Small loans taking into account paying capacity of clients Simplified requirements and streamlined procedures Loans mainly for income generating projects	Small loans Minimal loan requirements Loan disbursements depends on availability of funds Loan for productive or provident purposes	Group loan based on criteria Endorsement from umbrella organization Loan strictly for income generating activities	Loan size varies based on certain percentage of savings Simple loan requirements Fast disbursement of loan Loan for productive and provident purposes
Guarantees	Collateral and/or cosigners	Mutual guarantee of group/center members (in some cases group guarantee not enforced)	Easy to comply with collateral, at times not required – village pressure	Peer pressure Endorsement by umbrella organization	Collateral required most of the times but easy to comply with Peer pressure
Savings	Not essential	Key part of methodology	Not essential	Not required	Fundamental principle – save

Government Support for Broader Access to Credit

Macro stability is necessary for successful and durable development. Government's efforts to support price stability, adequate liquidity, and prudential safeguards are crucial for the regular functioning of economic activity. In our monetized economies, savings are in the form of money itself or assets with marketability. Savings held as idle money balances or in the form of land, precious metals or other goods do not add to an economy's productive capacity. The monetization of these assets leads to growth, innovation and development. The government can establish the legal and regulatory environment for better use of collateral including a secured transactions framework and collateral registry. In addition, the provision of rural infrastructure, establishing a competitive environment with predictable legal rights and protections is essential for all economic activity, including rural credit. Past experience has demonstrated that there is no role for government in the direct provision of credit to institutions or individuals.

ADB Operations –A Case Study of Timor - Leste

ADB's MF operations in the Pacific have been selective, providing support to the monetary and regulatory authorities as well as to pilot projects on the ground. Typically, the focus would be on institution building, starting with policy dialogue to ensure adequate support from, and engagement with, local counterparts, and sustaining this activity in parallel to support for MFIs.

Following the civil unrest in September 1999, half the population of Timor Leste had been displaced, homes were destroyed, infrastructure damaged, and the incidence of poverty had doubled to 80%. On 25 October 1999, the UN Transitional Administration in East Timor (UNTAET) was established to ensure stability, and restore the civil service, police and judiciary.

Donors pledged money to a Trust Fund (TFET) designed to finance the reconstruction of Timor Leste. Responsibilities were delineated, and ADB was given responsibility to manage TFET microfinance interventions. In the financial sector, donors recognized the lack of financial intermediation services caused by the departure of all Indonesian banks and a lack of other service providers. To mitigate this market failure, ADB identified the need for private sector microfinance and TA was mobilized with the objective of (i) creating sustainable policies and regulatory framework for microfinance, and (ii) studying the feasibility of establishing a microfinance bank.

The *Instituicao de Microfinancas de Timor-Leste (IMFTL)* was created and capitalized by TFET funds and operations started in May 2002. Given the gap in the market, IMFTL experienced rapid growth in business, especially savings mobilization. Today, IMFTL has some 3100 clients and a total portfolio of US\$580,000 consisting of 6 products catering to different client segments served from its 3 branches country-wide and is recognized as the leader in the microfinance sector. Portfolio at Risk is 15% and operating self-sufficiency is 75% underscoring the difficult working environment. IMFTL is regulated de facto as a bank, and will apply for a banking license as part of its strategic plan, which also involves whole or partial privatization when sufficient institutional and management capacity has been built, and confidence instilled among policymakers and the regulatory and supervisory authority.

The microfinance sector in Timor Leste remains in its infancy and is made up of a dozen NGOs and several Credit Unions catering to a population of 940,000. Faced with a challenging operating environment such as sparsely populated areas, difficult terrain, and low levels of monetization, none of these have yet been able to reach self-sufficiency. Notwithstanding the provision of salary loans, formal financial institutions are not yet active in microfinance, and with the exception of 2 IMFTL branches, banking services are only provided in the capital city Dili. Sustained donor support is therefore needed to catalyze the creation and expansion of microfinance service providers.

This experience provided several lessons learned for Greenfield MFI projects:

The importance of ensuring up-front and continuous dialogue with policy makers, as well as with the monetary authorities and financial sector regulatory and supervisory agencies to ensure that there is constant buy-in to sound practices and strategic plans.

The corporate governance set-up, including the presence of donors on the Board of Governors has provided substantial leverage vis-à-vis the authorities and has thus far succeeded in implementing principles of best practice in the governance of IMFTL – for example, avoiding directed lending and lax management of loan delinquencies.

Efficient bookkeeping and sound records management when operating in areas with low security is important as witnessed when IMFTL was able to recover data and continue operations despite complete destruction of its records during the riots of December 2002.

Cross subsidization of products from cash cows such as salary loans to microfinance group loans has proven necessary in the short-term, while efficiencies and scale are built in less profitable customer segments.

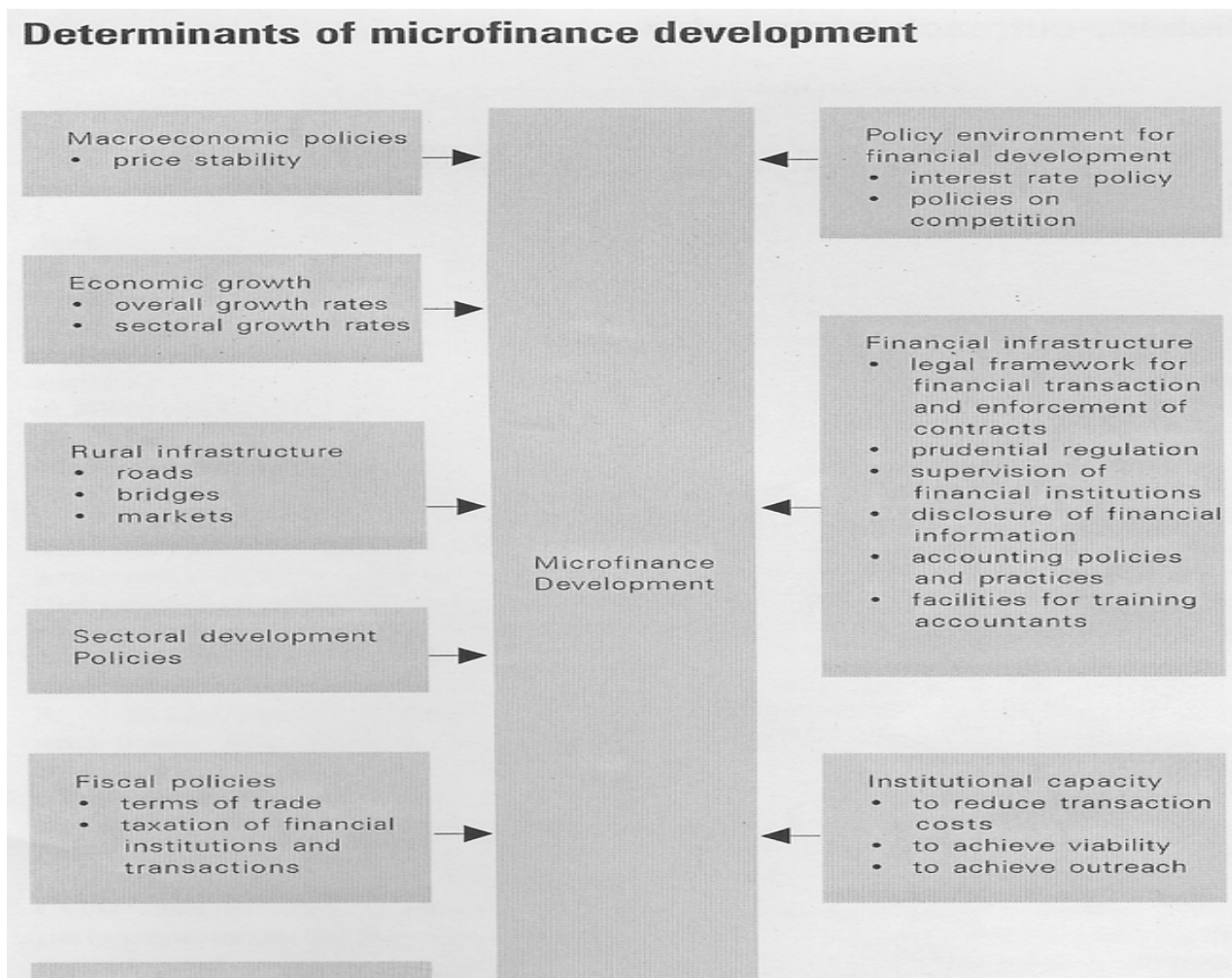
TA for capacity building at management level is critical and continued support for the medium to long-term must be foreseen in societies where there is a dearth of management capacity.

However, there are a number of constraints to sustainable microfinance in the Pacific countries, including low and highly dispersed populations, the lack of transport and communications infrastructure in many areas, and the continuing importance of the non-monetised subsistence economy in many countries.

Conclusions

No best model but some basic principles

- Clear mission and common objective
- Sound corporate governance
- Rigorous delinquency management



Appendix F: Recommendations of participants (36 recommendations from the 8 Groups of Participants at the Conference).

The transcript of the recommendations of the groups respects their presentation during the conference. They are not edited.

GROUP 1

1. To introduce a Pilot-project for Microfinance services.
Responsibility: Government for consultation, CBSI & NGOs for implementation, Donors agencies.
2. To review existing legislation to allow Microfinance to be regulated.
Responsibility: Government and CBSI.
3. To introduce financial literacy training (Home level...).
Responsibility: UNDP.
4. To coordinate cooperation between stakeholders.
Responsibility: CBSI.
5. To revitalise DBSI
Responsible: CBSI / Government

GROUP 2

1. Government should not influence financial institutions in the running of their operations.
2. Banks' consumers should communicate their concern (individually or collectively) to banks and regulatory authorities.
3. Government to amend the Credit Union Act and PEDF to continue its present support.

4. Government and financial institutions to provide training and technical assistance to Credit unions and Non Bank Financial Institutions.

GROUP 3

1. That a review of the CREDIT UNIONS is required – with the objective of strengthening Credit Union capacity in line with modern best practice.
Responsibility: CBSI, SICUL, MOF.
2. To encourage present commercial banks to implement more flexible delivery of RURAL FINANCE.
Responsibility: CBSI, Banks, Donors.
3. That Solomon Islands Government creates an enabling environment & policy reform & strategies in IT development to support RURAL FINANCE.
Responsibility: Ministry of Commerce, MOF, PFNet, Telekom (SI).
4. Implement Universal Financial Literacy Education (FLE).
Responsibility: NGOs, Ministry of Education and others, Donors.
5. That SIG plays a role in the planning, coordination & on-going initiatives pertaining to the provision of RURAL MICROFINANCE.
Responsibility: Relevant ministries, CBSI.

GROUP 4:

1. That SIG must cease all forms of providing financial handouts e.g. RCDF. If this is to be provided then the money should be channelled through a reputable organization like CBSI instead of through MP's.
2. That SIG must ensure that there is an environment for financial service delivery to expand
 - a. Regulatory framework,
 - b. Legal framework,
 - c. Security of Land Title,
 - d. Removal of economic barriers,
 - e. Rural Infrastructure.
3. That SIG must continue to establish financial institutions e.g. DBSI. These institutions must not be rigid to ensure that rural communities benefit.
Responsibility: a taskforce is to be set up comprising representatives from the Ministry of Finance, Ministry of Commerce and CBSI, to pursue implementation of the recommendations from the conference. CBSI is to coordinate the work of this committee.
4. There must be good governance and leadership, no political interference in any of the schemes.
5. That SIG must make a census of the operational of all other financial service providers.
Responsibility: this should be done by the CBSI or MOF.

GROUP 5

1. Establish a well-resourced Microfinance Unit within CBSI.
Responsibility: CBSI Board to be responsible.
2. Establish an Apex Body made up of CBSI, MOF and representatives from business community and funded by SIG and donors to promote, develop & train Microfinance Institutions on operational Matters.

3. Conduct feasibility study to identify the needs and the viability of Microfinance Institutions
Responsibility: Apex Body, SIG & CBSI to find the right people for assistance.
4. Secure donor funding and technical assistance to conduct a conference on micro-finance best practice.
Responsible: Apex Body

GROUP 6

1. National policy on rural financial services needs to be formulated to provide the framework and guidelines for the future development of Microfinance services.
Responsibility: CBSI / SIG
2. SME Association of Small & Medium Enterprises to become the vehicle for efficient and effective management of micro-financing services to rural community.
3. No more new legislation, but review and amend existing laws to create an enabling environment for business to flourish, e.g. Credit Union Act, Cooperative Act, Charitable Act.
4. Reinforce the importance of consultative process between stakeholders: SME / CBSI / Donors / Banks / Rural Communities.
5. Protect clients' interests through the promotion of best practices aimed at improving communication, awareness, information dissemination, etc.

GROUP 7

1. Have a Vision.
Responsibility: CBSI to coordinate a summit
2. Establish a growth bid fund.
Responsibility: CBSI
3. Develop incentives.
Responsibility: MOF
4. Improve security.
Responsibility: F.I.B, Immigration, Labour, Police
5. Develop in-school financial literacy.
Responsibility: M.O.E

GROUP 8

1. Have Banking services in rural centres and sub-centres (2006)
 - a. Promote savings first.
 - b. Promote financial literacy.
2. Microfinance Institutions policies to be formulated by civil society, commercial banks, SIG, business sector, NGOs, others (donors and consultants); One pilot scheme to be implemented by January 2006.
Responsibility: CBSI
3. To promote SME empowerment by encouraging, equipping National Association of Small en Medium Enterprises.
Responsibility: Ministry of Commerce, Business Division.

Appendix G: List of participants

Name	Institution/company	Position
AGITA Alex	Malaita Honey Farmers	Member
AREBONTO Joseph	Choiseul Province Government	
AVEL Steven	Bank of Papua New Guinea	Manager Microfinance Project
BELLONI Serge	Serge-Louis Belloni Consultancy Business	Director
BILIKI Randall	PF-Net	Manager
BLACKLOCK Carolyn	ANZ Bank Group (QUEST)	Regional Executive Pacific
CHAKWIN Naomi	Asian Development Bank	Regional Director
COLWELL Bill	Development Bank of the Solomon Islands	Banking and Financial Sector Consultant
CORCORAN Mark	National Bank of Solomon Islands	Manager Retail Banking
CRAIG Paul	EDF- Stabex Programme Management Unit	Project Manager
DUNDAS Peter	National Bank of Vanuatu	
DYER Colin	Pro-Solutions	Development Consultant
ENE Eddy	Isabel Province	Provincial Secretary
FA'ALIMAE Daniel	Province of Malaita	Manager Finance and Risk Management
FANEGA Shadrach	Ministry of Finance	Undersecretary
FINAU John Z	Solomon Islands Postal Corporation	Deputy Postmaster General
GEREA Robert	City Security Service (Fiji) Ltd	Company representative
GHEMU Eric	Western Provincial Government	Deputy Provincial Secretary
GOODWIN Peter	National Bank of Solomon Islands	Managing Director
HAOUIA Peter	Honiara SI City Council	City Clerk
HARIDI Daniel	Central Bank of the Solomon Islands	
HEROAU Joe	Department of Commerce, Industry and Development	Director Business & Coop Division
HILLY Helen	DORCAS Society	Vice-President
HILLY Rolance	Solomon Telecom	Provincial Manager
HOOMAYERS Cornelius	Catholic Diocese of Honiara SI	Financial Secretary
HORIWAPU Martha	Caritas Solomon Islands	National Training Office Co-ordinator
HOU Rick	Central Bank of the Solomon Islands	Governor
ILALA Sebastian	ANZ Bank	Project Officer
ILALA Solomon	Direct Management Limited	Director
ILAWA Fred	St Martins Training Centre	
IRO Sam	Solomon Motors Ltd / Manufacturers' Association	Director
IROGA James	TVNET / NFE	Director
IROGA Robert	Solomon Star	Journalist
ISINAHUA Neil	S.I. Shipbroker	Managing Director
JENKIN Tait	ANZ Bank	General Manager
KADAMANA Charles	Solomon Star	Journalist
KARI Francis	Central Bank of the Solomon Islands	Board Member
KEJOA Georges	Central Bank of the Solomon Islands	Board Member
KINGMELE Edward	Department of Agriculture and Livestocks	Permanent Secretary
KINIVUWAI Luse	NATIONAL Center for Small and Micro-Enterprise Development	Director Microfinance Unit
KOPANA Celia	SBEC	Assistant Manger
KOSUI Georges	Central Bank of the Solomon Islands	Banking Supervision & Extension Department
KOUKOU Edward	Makira Province (MUPIC)	Board Director
KUMA Harry	Ministry of Finance	Deputy Director
LAI Ken	Republic of China	First Secretary
LAUGA Mariano	Department of Agriculture and Livestocks	National Training Office Co-ordinator
LEEMING David	PFNET and DLCP	Technical adviser
LEUA Chris	National Express	Journalist
LIATA Alfred	SINTA Credit Union	Chairman
LIEW Jeff	UNDP Pacific Sustainable Livelihoods Programme	Chief Technical Advisor
MA'AKA Francis	Solomon Islands National Teachers Association	Secretary General
MAEFUNU David	Central Malaita Region Kilusakwaio MFI	P.O. Box 219 Auki Malaita
MAEKE Ivan	Paoa Mekim Kamap Association	Member
MAKABO Tony	Solomon Islands National Provident Funds	
MAMAU Noel	Makira Ulana Business Association	President
MANEMAHANGA Trevor	Central Bank of the Solomon Islands	Banking Supervision & Extension Department
MARTIN Geoffrey	Seven Days Adventist Church	Chief Financial Officer
NOBETAU Joel	BPNG/PNG-ADB Microfinance Project	Project Assistant Manager
OBADIAH Sam	Ministry of Education and Human Resource Development	Chief Curriculum Development Officer

ODOWD Anthony	Ministry of Finance	Adviser
PALUA Georges	Diocese of Central Salomon	Diocesan Secretary
PALUSI Solomon	Ministry of Home Affairs	Former City Clerk
PAU'ARA Joseph	Department of Commerce, Industry and Development	Registrar of Co-opertatives
PELOMO Moses	CEMA	General Manager
PONGI Evelyne	East Honiara SIHUPU Women's Savings Club	Project coordinator/Treasurer
PRANCKERD Henry	European Union Delegation	Resident Adviser
PULE Catherine Ann	Central Province Florida Culture and Heritage	President
RADCLYFFE Andrew	Lawyer	Lawyer
RARAWA Denton	Central Bank of the Solomon Islands	Deputy Governor
ROYSON Tamsin	New Zealand High Commission	Second Secretary
SAEMENUA Anne	SICA	
SIKIHI Sue	ROKOTANIKENI West AreAre Women's Organisation	c/o VBMS office Honiara SI
SIMBE Alison	EDTC Personal Viability	Coordinator
SIMBE Gane	Central Bank of the Solomon Islands	Manager Banking Supervision & Extension Department
SIMMS Robert James	Pacific Enterprise Development Facility (PEDF)	The World Bank Group
TAKUBALA Billy	Small Business	Owner
TEKULU Belani	Solomon Islands Indigenous Business Association	Chairman
TEPAI Moses	Solomon Islands Credit Unions League	Chairman
THOMAS Andrew	Ministry of Finance	Head Economic Reform Unit
TUHAIKA George	Renbell Ltd/Taubangibo Community Development Ass.	Manager
TUTI Dudley (Sir)	Isabel Province Credit Union	Paramount Chief of Isabel
VERATAU Morea	High Commission of Papua New Guinea	Acting High Commissioner
VILIA Amos	Church of Melanesia	Vive-President
VOLLY Michael	Small Business	Owner
WALKER Catherine	RAMSI	RAMSI Development coordinator
WARNETT Peter	Westpac	General Manager
WATE Michael	Development Bank of Solomon Islands	Director of Lending
WEST Georges	Temotu Province	Assistant Secretary for Internal Affairs
WESTAWAY Tony	Bank of South Pacific Papua New Guinea	General Manager Retail Bank
WRIGHT Paul	AusAid (Australia)	Development Program Specialist
ZOLEVEKE Pamela	Solomon Islands Women in Business Association	President

Appendix H. Programme and Schedule of the Conference CBSI Conference on “Revitalizing of Rural Finance” – April 2005

DAY ONE 13th April	Morning
08:00 – 08:30 08:30 – 08:35	Registration of participants. Prayer.
08:35 – 09:10	Session 1. Opening of the Conference.
08:35 – 08:45 08:45 – 09:10	<ul style="list-style-type: none"> • Welcome by the Governor of the Central Bank of the Solomon Islands. • <u>Address by the Honourable Minister of Finance and Treasury of the Solomon Islands.</u>
09:10 – 09:30	Tea Break.
09:30 – 10:30 09:30 – 09:50 09:50 – 10:20 10:20 – 10:30	Session 2. Setting the Scene. <ul style="list-style-type: none"> • The review of financial services to the Solomon Islands. • The cultural side of cash economy. • Questions and discussion
10:30 – 11:10 11:10 - 12:00	Session 3. Panel Presentations on Financial Services in PNG and Fiji <ul style="list-style-type: none"> • Questions and discussion.
12:00 – 12:40 12:40 – 01:00	Session4. Panel Presentations on comparable situations by PEDF (World Bank Group) and ADB. <ul style="list-style-type: none"> • Questions and discussion.
01:00 – 02:00	Lunch
DAY ONE 13th April	Afternoon
02:00 – 05:30 02:00 – 03:00	Session 5. Working Groups. Group session
03:00 – 03:30 03:30 – 04:30 04:30 – 05:30	Tea break Group reporting Discussions.
05:30 – 05:35	Introduction of the next day program.
DAY TWO 14th April	Morning
08:30 – 09:50 08:30 – 09:30 09:30 – 09:50	Session 6: Presentations Panel Presentations on comparable situations by: ANZ and NBV, and PF-net Questions and discussion.
09:50 – 01:00 10:50 – 12:20 12:20 – 01:00	Session 7: Working Groups. Group reporting. Discussion.
01:00 – 02:00	Lunch
DAY TWO 14th April	Afternoon
02:00 - 04:15 02:00 – 02:30	Session 8. Concluding remarks and recommendations. Working groups on recommendations
02:30 – 03:00	Tea break
03:00 – 04:15	Plenary Discussions on conclusions & Policy Recommendations.
04:15 – 04:30	Session 9. Closing remarks by the Governor of the Central Bank Solomon Islands.