Panel 1: Growth pathways, partnership models and sustainability strategies for development-oriented financial institutions.

Session Synopsis
Development-oriented financial institutions, such as development banks, have had mixed success in the Pacific due to a range of factors, such as frequently changing government priorities and sector interests, diminishing access to soft or concessional finance, variable commercial practice, increasing competition from commercial banks, etc. To continue as contributors to financial inclusion in their countries requires a heightened commercial orientation. Key to this are the freedom to set prices for products and services according to market and viability imperatives, and a bank leadership with a clear view of the role their institution plays in the country’s financial system. The big challenge for development-oriented financial institutions is finding a balance between sustainability and development.

Population density in the Pacific is a common issue which creates unique challenges for financial service providers. Since maintaining a physical branch requires critical mass, branchless banking solutions have grown in popularity. The use of mobile money as an innovative delivery channel shows great promise in addressing this issue, however, in order for it to truly become successful its value proposition needs to deepen.

One particular challenge associated with the growth and acceptance of mobile money has been the lack of interest by larger financial institutions. This is due mainly to the limited commercial incentive that the channel provides. In order for financial institutions to engage, they need to be convinced that offering a mobile money platform to their customers will be profitable for their business. Given these circumstances, it is likely the provision of financial services in the longer term will come more from locally owned financial institutions in the Pacific, drawing on their value proposition of being more a ‘community bank’ that works with local land owners, administrators and local businesses.

Interoperability in mobile money and removing agent exclusivity would assist in driving financial inclusion. If development-oriented banks are expected to be operate commercially, then the market in which they operate needs to be open, allowing the market to self-regulate.
Challenges to Development

Working with government can also be a challenge, especially for government-owned development banks. There can be political pressures to keep interest rates low in order to keep people happy, even if it does not make commercial sense. Often, considerable time is need to explain to government representatives that interest rates can be held low, but the consequence is low profitability, and limited ability to pay dividends back to government, or investment in product innovation. Such environments can make it difficult for development banks to operate in and can ultimately lead to their collapse if commercial and political interests are not aligned.

Another obstacle is providing women with access to finance, particularly in rural areas. It is not necessarily the lack of infrastructure which is hindering access to finance for women, but in many cases, it is the traditional views of men towards women that create the challenges. In the Pacific, women can manage family businesses, but these businesses are usually registered in the name of their husband. Making financial services more widely available and providing women with appropriate tools would potentially provide better opportunities to grow and support their businesses. Providing financial infrastructure to women is important, but equality in financial inclusion requires a change in men’s views.

Risk Approaches

It is important to recognize the role of the provider and what factors are essential for the successful provision of these financial services. The profitability of any financial services provider has to be observed. But providers also need to consider risk and what methods can be used to manage it. In the Pacific, many development-oriented financial institutions have not been comfortable with taking risks and hence there has been an influx of commercial banks with more experience in managing risk. Development-oriented financial institutions are increasingly re-weighting their balance sheets with a smaller proportion of lower risk housing and personal loans in favour of higher risk (and growth) loans in areas such as agriculture, fishing, and tourism.

Development banks operate differently than commercial banks and this has an impact on how risk is managed within each institution type. For example, loan officers of development banks are often trained in specific areas such as to provide assistance to business owners to develop their own business plan. Government-owned development banks may also provide credit guarantee facilities for start-up loans.

There are an increasing number of risk sharing facilities, where risk is shared over a number of institutions, allowing borrowers to access loans that may not be available from a commercial bank. Development banks can be more comfortable with taking on risk than commercial banks due to their better understanding of the local environment.
A further challenge is structuring the businesses and loan book to take on risk while also meeting the demands of their shareholders. The loan book of development-oriented financial institutions can comprise a relatively large proportion of small and micro loans usually having less than twelve months duration resulting in a large turn-over and higher transaction costs. Working with clients to extend the maturity of loan terms would enhance sustainability.

**Key Points:**

- Triple bottom line objectives and being all things to all people in the community are commendable aspirations, but unless development-oriented financial institutions are allowed to operate sustainably, it may be impossible for them to achieve their mandate and survive.

- More discussion and exploration is needed to determine appropriate business models for mobile money; particularly models applicable to larger institutions and that provide them with the incentive to engage in this new area of finance.

- Responding to the political imperatives of the day can make the business and commercial plans of development-oriented financial institutions difficult to fulfil (with the time taken to restructure a loan portfolio usually much longer than most political cycles).

- Compared to commercial banks, development-oriented financial institutions may have less access to capital to expand and invest, and not the sophisticated resources of large multinational banks and mobile network operators. However, development-oriented financial institutions may be more nimble, with decisions taken locally rather than referred to an overseas board or headoffice, and the inherent value and comfort some customers may feel knowing the institution is locally owned.

- Provision of microfinance by development-oriented financial institutions can be costly as staff may not have the knowledge of working with clients at the frontier of the informal economy. Working in partnership with specialist organisations equipped to deliver on a broad mandate (such as providing funds to an MFI at wholesale rates), or organisation involved in a targeted program (such as a women in business initiative) can deliver synergy and benefits for both.
Pacific Microfinance Week 2015
Next mile financial services in the Pacific

CONVENOR
Microfinance Pasifika

ORGANISER
FDC
The Foundation for Development Cooperation

LEAD SPONSOR
PFIP
Pacific Financial Inclusion Programme

PLATINUM SPONSOR
PSDI

GOLD SPONSOR
Our Telekom

LOCAL HOST
Central Bank of Solomon Islands

FOR FURTHER INFORMATION PLEASE CONTACT:
Microfinance Pasifika Network
Email: info@microfinance-pasifika.org
Website: www.microfinance-pasifika.org