

Developing Micro Finance in Fiji: Challenges and Successes

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Abstract

The Republic of Fiji includes about 332 islands of which approximately one-third is populated. The total landmass of 18,333 square kilometres includes two main islands, Viti Levu and Vanua Levu. The Fiji islands have a population of around 810,421, of which 49 per cent are women. Despite its small size and relative isolation, the Fiji islands continue to provide the population with a reasonable standard of living. Current GDP per capita is around US\$2300 a year; the inflation rate is about 2.2 per cent. Over 90 per cent of adults are literate, life expectancy at birth is 69 years, infant mortality is 22 per 1000 and the Fiji islands have a high level of food security.

Based on the UNDP Human Development Index, Fiji is ranked within the medium Human Development Category. However, since 2000 this had dropped and its placing fell from 44 in 1995 to 72 in 2000. In the *Fiji Poverty Report* 1996, Fiji's poverty rate was 25 per cent in 1996. It is believed that this is now much higher after the events of 2000. Unemployment is at 7.3 per cent, of which 65 per cent are male.

Fiji's main export is sugar, which continues to be the main agricultural industry in Fiji and one of the most important as far as Fiji's economy is concerned. With the recent political turmoil, the sugar industry has survived but the issues of unresolved land leases and WTO remain a concern. The other mainstay in Fiji's economy is the tourism industry and it was this industry that created the highest employment before the political turmoil in May 2000 when it took a drastic downturn. It has recovered from this political turmoil in many respects.

From a historical perspective, Fiji's economy has always been agriculturally based. However, in recent times with the influx of tourists and increased urban drift, the small, micro and medium industries in the commercial sector have indeed increased and have become a major part in the development of Fiji's economy.

Introduction

Microfinance is used in many developing countries in the world as a key strategy for poverty reduction. The benefits of expanding the access of a wide range of financial services to the underprivileged and low income earners cannot be underestimated.

To most, microfinance means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grow a tiny business and thus generate or increase household income. From a simple poverty alleviation strategy, microfinance implementation has evolved many times over and has come to recognise other needs of the poor. Over time, microfinance has come to include a broader range of services (credit, savings, consumption loans, pre-need insurance, small loan guarantees, etc.) as microfinance implementers have come to realise that the poor, who lack access to the traditional formal financial institutions, actually require a variety of financial products.

Experience shows that microfinance can help the poor to increase income, build viable enterprises, generate job opportunities and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change.

The failure of many credit unions, the collapse of the cooperative movement and withdrawal of many commercial banks in most of the rural areas in Fiji from the 1980s resulted in the deterioration of access to financial services in Fiji particularly to the underprivileged, low income earners and rural population.

Informal lending was the only means of access to credit that the low income bracket had in Fiji for a long time and is still in existence. However, these operations are mostly ad hoc, without proper objective and are left to its own devices, hence, they have had limited scope in providing a wide range of reliable financial services to the poor.

The Fiji Government, through the Reserve Bank, is committed in improving the financial services and have encouraged the commercial banks through a working group committee to self-formulate their own services in providing services back in the rural areas. It has also committed resources in developing microfinance services through the National Microfinance Unit and now through the National Centre for Small and Micro Enterprise Development. Other savings and lending schemes, particularly for this target group, are provided through various ministries, non-government organisations and religious organisations.

Background

According to the 1996 Poverty Report, 25 percent of the population lives below the poverty line and this is increasing each year. In an attempt to address the alarming situation, the Fiji Government adapted a series of strategies to reduce poverty incidence. A conference was held in Fiji from 21 to 23 October 1998, which gave rise to a Taskforce Committee specifically to look into microfinance development. The committee comprised representatives from government, private sector and non-government organisations. The 1998 government allocated funds totaling FJD\$3 million in its 1999 budget in support of the development of appropriate microfinance initiatives in Fiji.

The Taskforce Committee immediately recommended the establishment of the National Microfinance Unit (NMFU) in 1999. The NMFU was set up initially under the Ministry of Finance in early 1999 and later transferred to the Ministry of Commerce, Business Development and Investment. The NMFU was set up as a government unit created through a cabinet of ministers meeting, where its primary function was to promote and enhance the development of microfinance initiatives in Fiji. The NMFU began its full year of operation in 2000 with the formation of two microfinance institutions namely the Fiji Council of Social Services (FCOSS) and Aglow Lautoka. To date, it has established a total of three microfinance institutions, four village banks, a cooperative program through the Department of Cooperatives and a savings and lending association. It is represented in 12 of the 14 provinces in Fiji.

Objectives

The main objective of government for microfinance services in Fiji is poverty reduction through income and employment generation.

It was to achieve these objectives through the following actions:

- Establish Microfinance Institutions through intermediaries
- Provide Banking facilities for the underprivileged and the low income earners
- Promote micro enterprise development
- Introduce necessary skills and business training for micro entrepreneurs.

Under the Pilot Project, however, the scope of work of the NMFU was to cover the following:

- Implement programs in the different geographical locations in Fiji, i.e. is to cover the two main Islands and maritime islands
- Implement various methodologies of microfinance services.

Beneficiaries

Under the Microfinance Unit Pilot Project from 1999 to 2003 the NMFU's policies focussed on the economic situations of the clients rather than on gender or race as the criteria for accessing the service. However, the service attracted mainly women and Indigenous Fijians.

- Women — In most Microfinance programs all over the world, including Fiji, the clientele of the microfinance programs are primarily women, who are proven to be more reliable than men in meeting loan obligations. Women are also likely to direct increased income toward the improvement of household living conditions. In Fiji about 85 per cent of the clientele are women.
- Indigenous Fijians — While the target communities were those belonging to the low income sector of the society with basic entrepreneurial potential and skills, it attracted the Indigenous communities in Fiji. The Indians traditionally have an inbuilt savings system through their families. Despite the determined efforts of some of the microfinance institutions to outreach to the Indian communities, there has not been much progress. Indigenous Fijians make up 97 per cent of the microfinance clients.

Pilot project (1999 to 2003)

Methodologies

In line with the objectives of the Pilot Project Phase, the NMFU developed four methodologies: The Solidarity Group, a Grameen Bank adapted model; Individual Direct Lending Model; Village Banks; and a Cooperatives Model.

The extent and outreach of the Solidarity Group Lending Model can be seen in Table 1. This model has shown varying degrees of success it has evolved to a more individual lending model particularly in the past 18 months while maintaining its structure as a collection and distribution centre. The evolution of the group model to a more individual approach has had implications in the efficiency of the MFI's operations. Operational costs have risen and each MFI has had to work hard to adapt to these progresses and introduce countermeasures to be more efficient. This model is being implemented by our Urban MFIs Aglow and the Fiji Council of Social Services.

The Individual Direct Lending Programme under the Pilot Project was administered directly from the NMFU. This was introduced in 2001 and was closed within 12 months of its establishment. Problems with laxity in controls with little regard for proper procedural practices saw the demise of this service.

Table 1. Microfinance methodologies, products and areas of outreach

Institutions	Area of outreach	Methodology	Services	Established
Non-government organisations				
Aglow West	Lautoka, Nadi, Ba	Group Solidarity	Savings/credit	April 2000
Aglow Labasa (North)	Labasa	Group Solidarity	Savings/credit	October 2002
FCOSS	Suva, Nasinu, Lami, Nausori, Namosi	Group Solidarity	Savings/credit	December 2001
Nakuailava	Tikina Nakuailava and surrounding villages, Ra	Village Banking	Savings/credit	November 2002
Burenitu	Burenitu village, Ra	Village Banking	Savings/credit	November 2002
Tavuki	Tikina Tavuki, Kadavu	Village Banking	Savings/credit	April 2003
Vuya	Tikina Vuya, Bua	Village Banking	Savings/credit	October 2004
Government				
NMFU	Suva, Nasinu and Lami	Individual Direct Lending	Savings/credit	January 2001
Cooperatives	Macuata	Cooperatives Model	Savings/credit	April 2003

The results indicate a poor repayment rate and highly inefficient use of resources. While the program was popular with the public, the implementation of the program was not well carried out. There is a need to revamp the entire scheme and to implement it in other forms. Plans are underway at present to recover the outstanding loans from the existing clients and phase out the scheme.

The Village Banking Model introduced in November 2002 was groundbreaking work and showed exciting prospects. Its implementation took into consideration the traditional hierarchy of the village system and blended with some basic banking practices. Strong leadership of the program was crucial in its control and implementation. To date, we have established four village banks. While two of the banks show slow progress, the other two have been fairly progressive. The main difference in the progress of the village banks is in its leadership. An outline of the model implementation is attached in Appendix 1.

The Cooperatives Model shows promise; statistics indicate that there is a ready market for microfinance services through these entities. However, the negative image of cooperatives and the department in general did cause some teething problems initially. The NMFU until only recently have managed to improve the setup of the microfinance unit within the Cooperative Department, with a clearly defined role of the officer in charge and performance targets.

Under the Pilot Project Phase, the models developed during the pilot project presented varying results. It is important to note that all the models can be implemented in Fiji. There is a need, however, to continue fervently on the continuous enhancement of the procedures, product development and support services.

All models, with the exception of Individual Direct Lending, were continued following the end of the Pilot Project Phase.

Outreach performance

The outreach during the Pilot Phase is outlined below.

Table 2. Performance indicators (2000 to 2003)

Performance Indicators	2000	2001	2002	2003
Total loans disbursed (FJD\$)	164,453	285,757	252,480	378,893
Total no. of loans disbursed	763	767	1181	1490
Repayment rate (%)	62.33	88.45	85.27	88.46
Total no. of savings accounts	583	519	939	4335
Total no. of enterprises assisted	583	519	939	234
Savings (FJD\$)	49,014	89,387	179,835	507,222

Outreach in lending during the Pilot Project Phase was controlled. It was a priority of each unit to develop the models and expand on their experience. From 2000 to 2002 the microfinance programs introduced two products, loans and savings. The loans were provided simultaneously with savings.

In 2003 the NMFU introduced a 'savings first' policy. This automatically made savings a prerequisite for a loan. The policy was embraced by the institutions and clients themselves. While many qualified for loans, we found an unusual trend, many savers showed little interest in obtaining a loan; they only wanted to put their money in a safe place. This can be seen demonstrated in the number of clients obtaining a loan compared to the number of savings accounts in 2003.

The performance indicators are shown in Table 2. The number and value of loans throughout the period increased and the performance in terms of repayment was satisfactory. We recognised some shortfalls in the methodology, services and environmental factors. Many were addressed during the Pilot Project Phase and other we are correcting in this Post Pilot Phase.

Challenges in the Pilot Project

- Lack of training available and capacity building opportunities for staff of both Microfinance Institution operators and staff of the NMFU. Funding available for operational costs of NMFU was limited.
- The transaction costs of implementing microfinance programs in Fiji are high. This has attributed to the vast and remote locations of areas in which we serve. Increase in outreach numbers, however, will reduce the operational cost and thus increase the efficiency of the MFIs.
- Removing the 'grant' culture from the minds of people is a major challenge for the MFIs. People expect to be assisted immediately with 'free money' and it takes a lot of training and continuous monitoring to break this attitude.
- SME Development is lacking in areas where microfinance programs have outreached, there is a need to change policies and by-laws of local councils, more skills and business training for entrepreneurs and development of market outlets. Working through the National Center for Small and Micro Enterprise Development should achieve this.

Post Pilot Project

Following the end of the Pilot Project Phase in 2003 it was approved through our Cabinet of Ministers Meeting in November 2003 that the NMFU merge with the National Centre for Small

and Micro Enterprise Development (NCSMED). This merge took place in April 2004. It has continued its role in providing technical assistance and funding to the MFIs and village banks.

It is the government's intention to place all small and micro enterprise development work under the umbrella of the NCSMED. The NMFU is now the Microfinance Unit under the NCSMED.

The NCSMED is a statutory body established under the *NCSMED Act 2002*. The role of the NCSMED is an advocacy role in promoting the establishment of small and micro enterprises in Fiji through intermediaries.

Through the merger, the Microfinance Unit's main new roles are:

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

The Microfinance Unit in the Post Pilot Project Phase has continued to work with its microfinance institutions and village banks, expanding its outreach and geographical spread.

In the 12 months after the end of the pilot project, outreach in lending in value increased by 85.2 per cent and savings by 121.2 per cent, and the number of enterprises increased by 69.58 per cent. A summary of the outreach to 31 December 2004 is shown in Table 3.

Table 3. Performance as at 31 December 2004

Performance indicators	2004
Total loans disbursed (FJD\$)	920,816
Total no. of loans disbursed	3179
Repayment rate (%)	90.3
Total no. of enterprises assisted	1583
Total no. of savings accounts	6038
Savings (FJD\$)	1,125,887

It is obvious from the figures in Table 3 that the savings in 2004 expanded unlike any other year. The demand for savings in both the urban and rural areas through our institutions and village banks is high. Limited capacity of the institutions is the only draw back in expanding the savings program further in respective areas of operation.

The microfinance services have now reached 12 of the 14 provinces in Fiji. This year we are targeting on reaching all of the 14 provinces in Fiji.

In the Post Pilot Project, the Microfinance Unit has continued to act as an apex body for all microfinance institutions in Fiji. Government has continued to provide funding for the Microfinance Unit and capital grants for development of the microfinance services. However, the funding requirements have reduced over the years. For the second year in a row the Microfinance Unit has been given reduced capital grants. This has been accepted in good faith, as it is the centre's intention to reduce the level of grant funding to the microfinance institutions and allow them to operate their services on a more commercial level.

In terms of viability and sustainability, only one MFI is likely to become viable in the near future. Developing these institutions to upgrade themselves from socially oriented organisations to one that is efficient and commercially viable is a mammoth task indeed. Linkages with larger financial institutions such as commercial banks, development banks and credit unions may foster a more complete service that is accessible and efficiently operated.

Conclusions

- Microfinance services in Fiji have been found to attract more women recipients, and most have paid back their borrowings and have utilised the savings service.
- The program has attracted mainly Indigenous Fijians. Indo-Fijians find the loan amounts too small and our 'group methodology' is not suitable for their purposes.
- There are still improvements to be made in our methodologies and implementations of our programs to bring performance in line with the international standards; this is ongoing.
- NGOs, which we have created to be MFIs, have proven that they can undertake this programs, given the necessary support. However, there is a need to test methodologies too with existing intermediaries such as Credit Union. Discussions are still underway to get this started. There is a realistic possibility that mobilisation of rural savings can be channeled through these organisations if there is enough commitment.
- More financial services need to be offered to the clients like insurance and a variety of consumer loans.
- The NMFU has done several studies to analyse the socio-economic impact of the programs in the West, Central Eastern and North. Indications show that the program has

made positive contributions in terms of improvement of household assets, payment of school fees, improved income capacity, employment of at least two household members in the business and for those who have started enterprises within or outside their communities.

- Micro Enterprise Development in communities is needed to assist the members of our microfinance programs. This is an area in which the MFU would have to work very closely with the National Center SMED to achieve. At present, the microfinance services in Fiji undertake a minimalist approach where they provide basic financial services and some business training, but more needs to be done in terms of developing various SME industries and allowing the clients access to these services as well. Such services are market access, product development, linkages with larger companies, etc.
- The NMFU and individual MFIs need to work closely with local town and rural councils. Many of our township are overregulated and do not always view the SME operators kindly.
- Coordination of our programs with other microfinance programs in the country is essential to avoid repetition and competition with other programs, and this is the role that the Microfinance Unit will have to undertake.
- Promoting microfinance as inclusive financial systems is seen as a global objective for microfinance and one that the Microfinance Unit intends to promote.

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Appendix 1. Village banking methodology

Organisations	Tikina Nakuailava Microfinance Scheme and Burenitu Koro Microfinance Scheme, Tavuki Tikina Microfinance Scheme, Bua Microfinance scheme
Locations	Nakuailava Tikina and Burenitu Village, Ra and Tavuki Tikina, Kadavu I (West, North and South)
Methodology	The village banking concept is based on the lessons learnt from the two existing models and the adapted to the Fijian Village system. The concept is individual but all borrowings are guaranteed against all village savings. Each then have access finance once they qualify after three months of savings and other criteria. However, each must guarantee other members' loans. This replaces formal collateral.
Loan amounts	Minimum of \$50 to \$1000 in stages More than this by merit
Organisational structure	All the rural schemes share similar operational structures. Board of directors in which the MFU is represented governs each institution. The institutions themselves select other board members. Management is selected through the board and villagers themselves. Each committee comprises a manager, treasurer/MIS officer, credit officer/secretary and village collectors. Each scheme is self-managed.
Training	Training is primarily undertaken by MFU. Each village bank have had various levels of training and at different times but the basic training covered by MFU is governance and microfinance training for the board, and for management the training is wide as it covers basic microfinance training, all aspects of the methodology and specific training for each position. This entire process from point of first contact could take up to three months. Coaching and on-the-job training continues during the monitoring and evaluation visits and further formal training is undertaken when the needs are identified. The need to make the programs understand the viability of the programs is the key. Financial management still needs to be improved in all these programs. Ongoing training and guidance is still needed by all programs.
Implementation and outreach	Implementation of the program proper started as soon as the management training was completed and the committee officers deemed it fit to start the program. As outlined in the flowchart, outreach begins with the selected areas identified from the secondary research and ocular visits; Nakuailava have expanded to outside the Tikina.