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Microfinance in Fiji: What Can Be Done?

By

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Reserve Bank of Fiji



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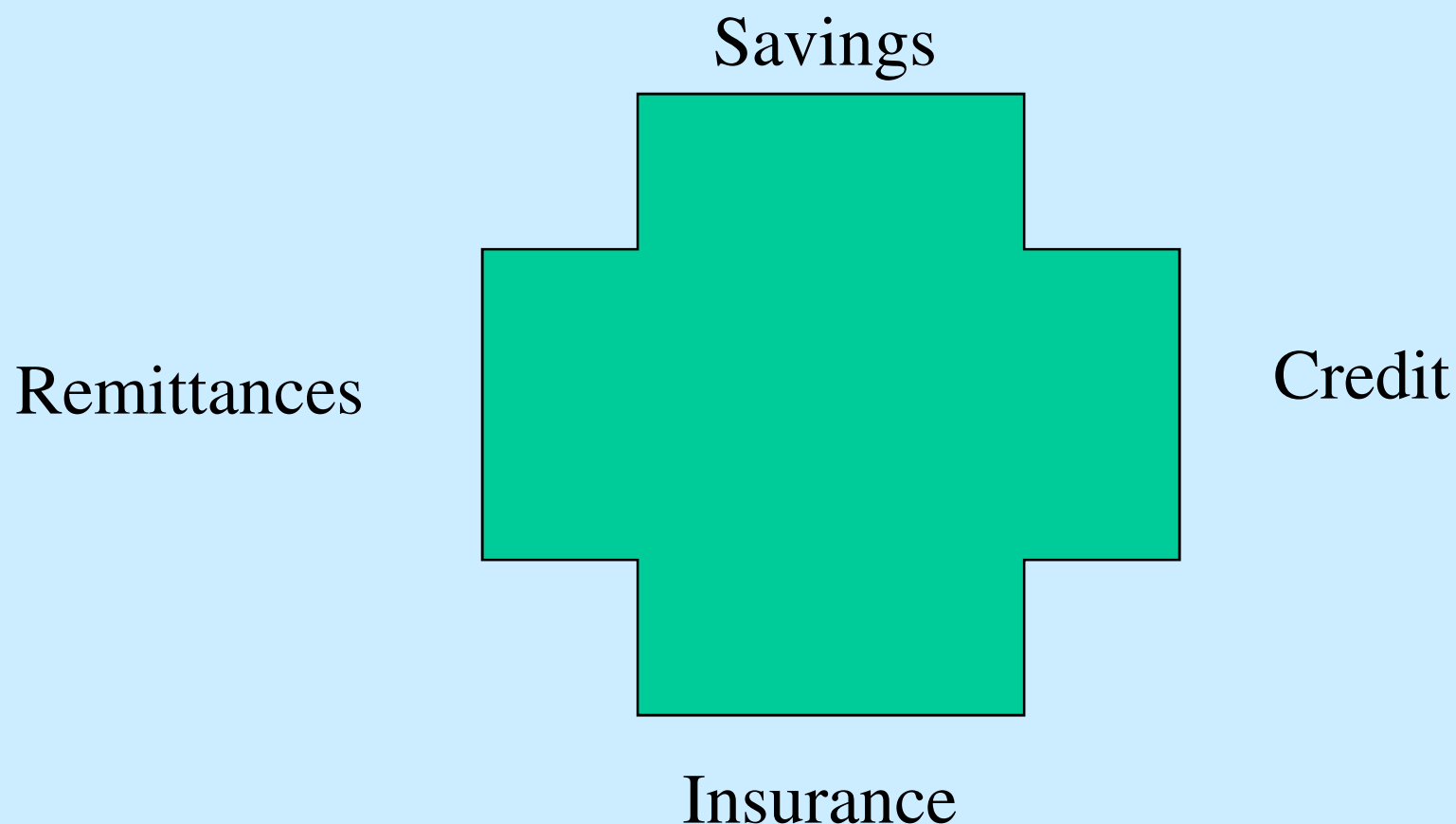
What is Microfinance?

- Sustainable provision of
 - credit, savings, insurance, and
 - other financial services (e.g. remittances, pensions)
- With a focus on poor households, who find it difficult to access banks/ financial institutions.
- To enable them to have a sustainable livelihood
- About 100 million poor households around the world get microfinance, while over a billion need it.
- In India, MFIs reach about 30 million poor households and banks about 50 million in addition.



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Microfinance – much more than just small loans

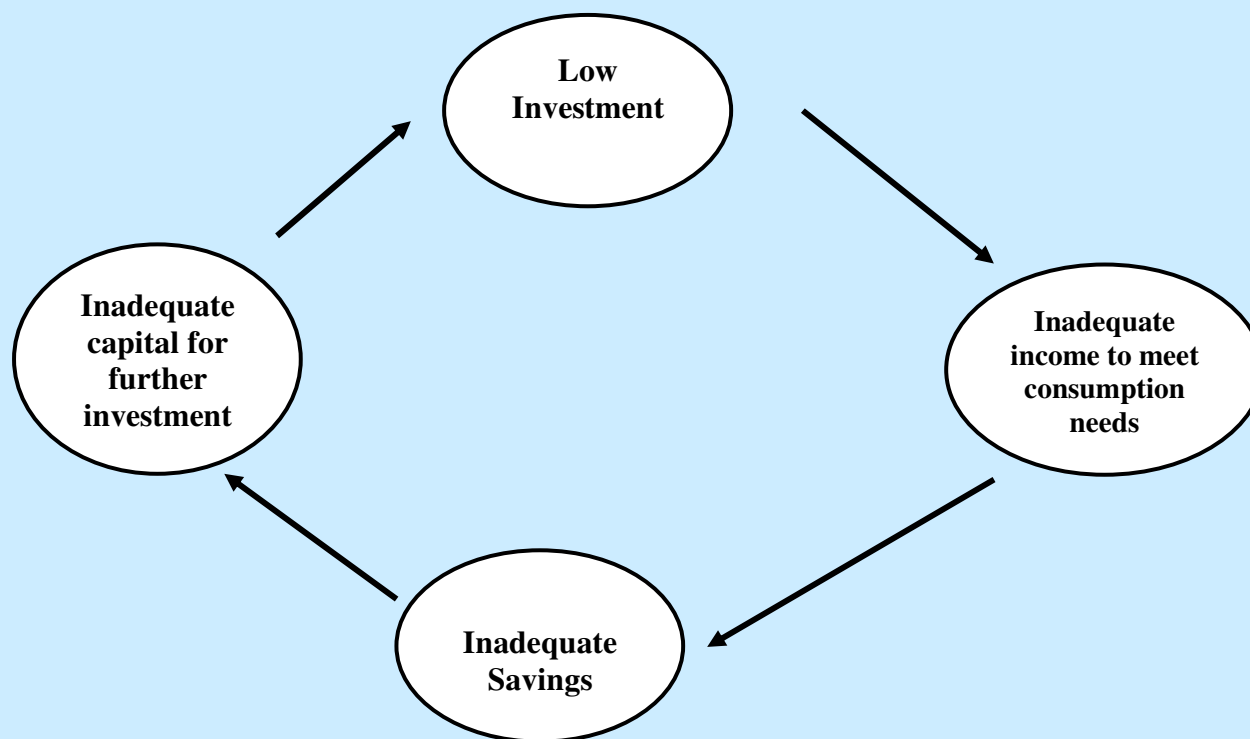




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Vicious Cycle of Low Income

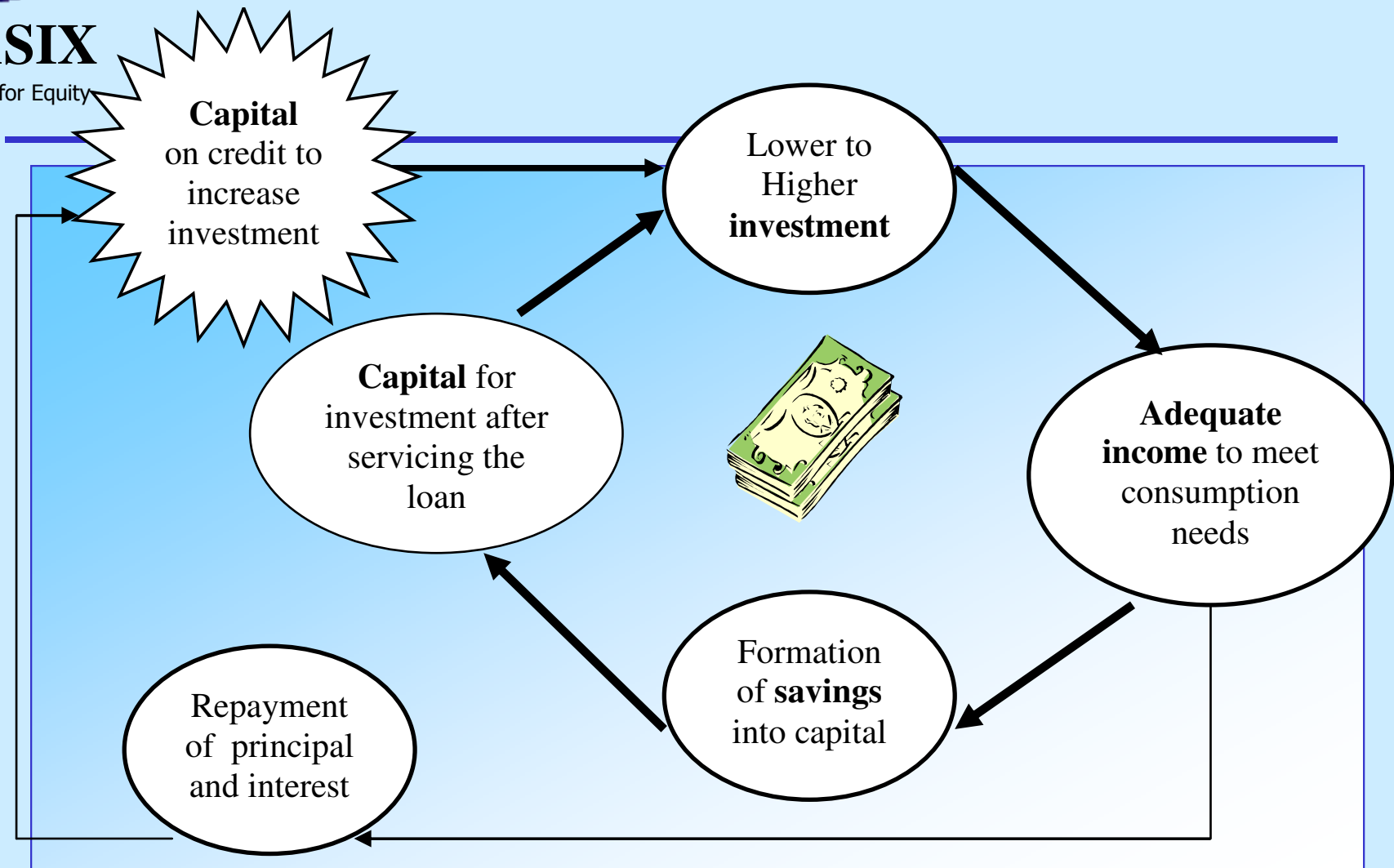




Breaking the Cycle of Low Income

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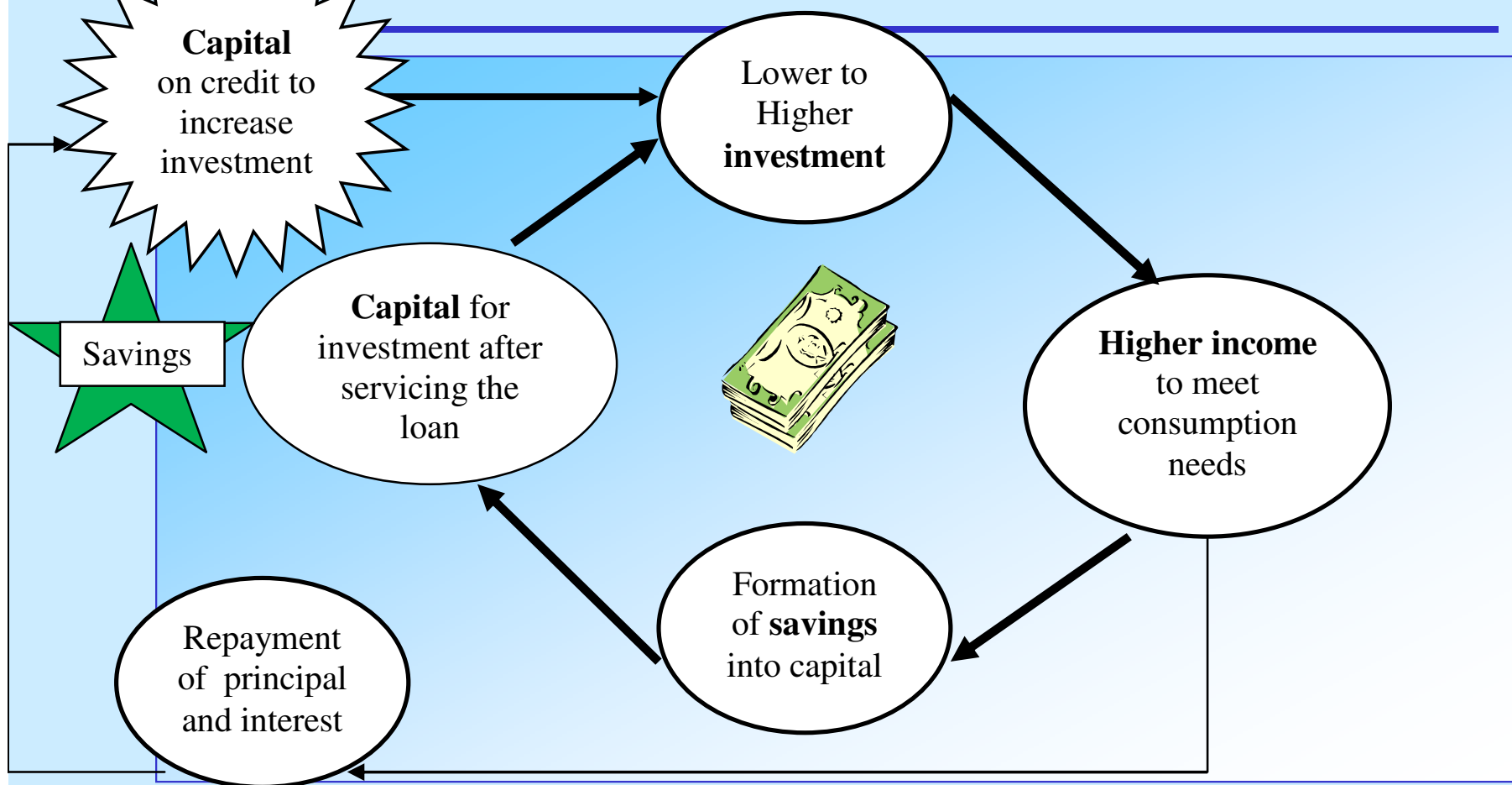




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Good micro-credit models also promote savings

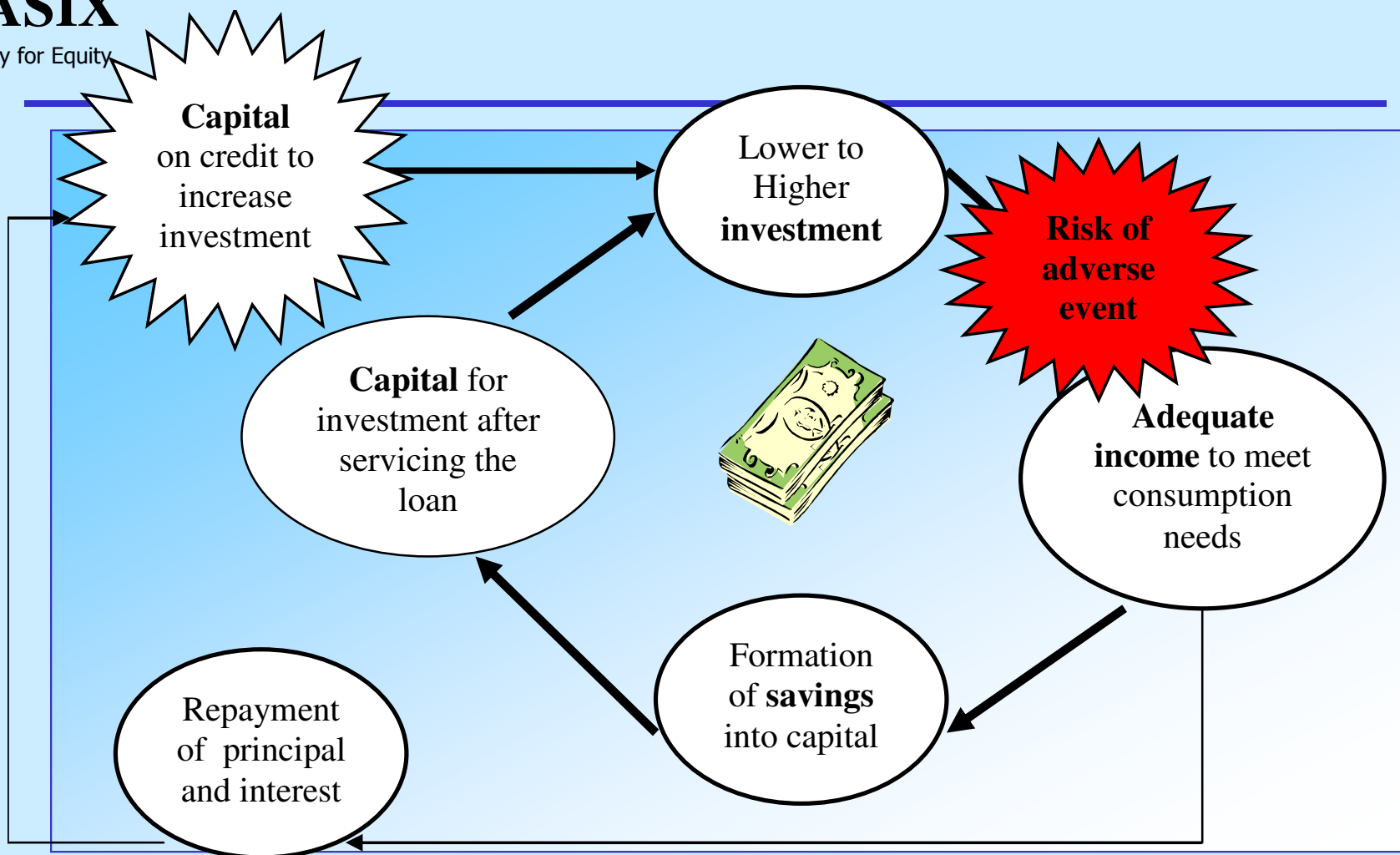




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Risk is a Reality in the Lives of the Poor

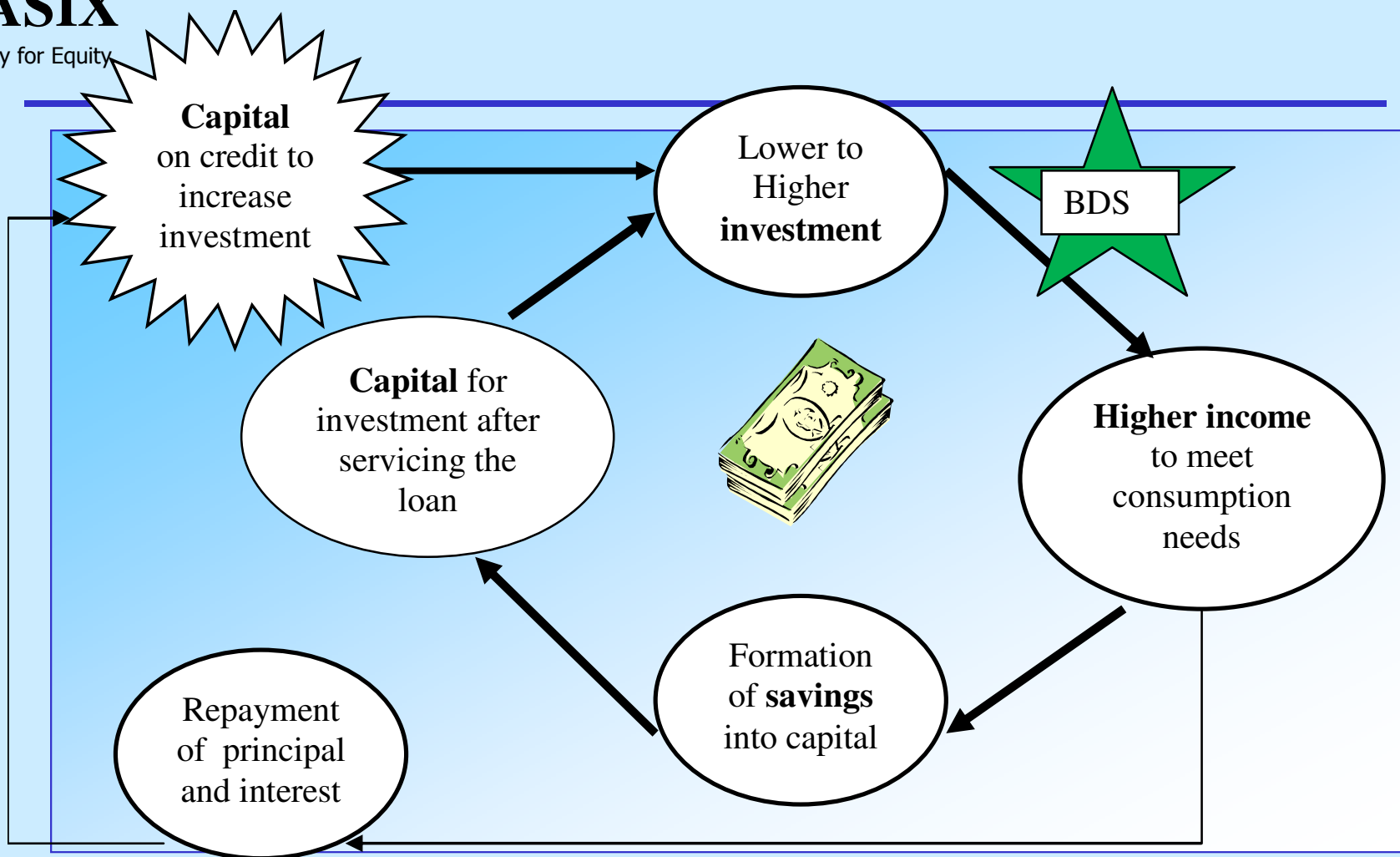




Business Development Services (BDS) can increase income from a micro-enterprise

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Beyond Microcredit

- BASIX believes credit is a necessary but not sufficient condition for promoting the livelihoods of the poor
- Insurance is necessary to mitigate financial risk
- Plus we need to provide support through livelihood promotion services such as
 - productivity enhancement through inputs, skill training, and technology,
 - Local value addition and alternate market linkages and organising the producers for collective functions



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Farmers get technical advice in addition to crop loans and crop insurance





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Training with Credit – The older woman is an earlier borrower training new girl borrowers





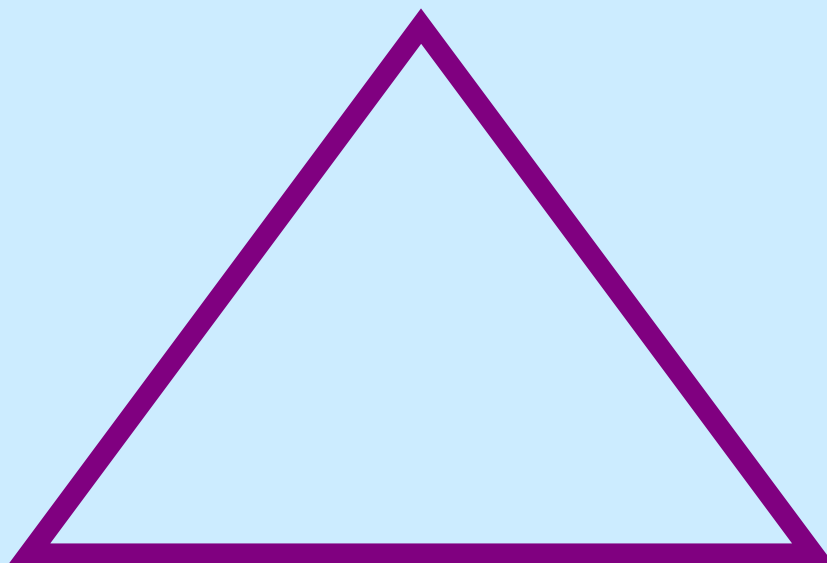
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BASIX Strategy

IDS

(Institutional Development Services)



LFS

(Livelihood Financial
Services)

Ag/BDS

(Agriculture/Business
Development Services)



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A Brief on BASIX

- BASIX is a livelihood promotion institution, using microfinance as an instrument for its mission.
- As on 31st May 2010, BASIX has disbursed over USD 500 million of microcredit to over 1.8 million households, since inception in 1996, with a repayment rate of 98.9%.
- We also provides micro-insurance, with nearly 2.5 million policies covering life, health, crops, livestock and assets.
- BASIX serves over half a million households with business development services (BDS) – training, markets.
- BASIX ID services have helped promote over 40,000 Self Help Groups, 200 Coops and over 100 smaller MFIs



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Microfinance in Fiji – Demand Side

- Based on the Household Income and Expenditure Survey (HIES, 2002-2003), extrapolation by BASIX Financial Sector Assessment team indicated that the total market for financial services was about 340,000 persons in 2008.
- The ratio of those employed in the formal sector is 35 percent and are mostly catered to by the banking sector.
- Hence the balance of 65 percent among the economically active population, mostly employed in the informal sector may not have access to formal banking services.



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Microfinance in Fiji – Demand Side

- HIES 2002-03 had also given both the proportion of households and their number in ten deciles, based on income per adult equivalent.
- For estimation purposes, we assumed that all households in the top three deciles, around 40% of the households in middle four deciles and 10% of households in the bottom three deciles have access to banking services.
- It can be then be computed that around 90,000 households are yet to be serviced by the formal financial institutions



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Estimated Demand for Microcredit in Fiji – F\$ 57 to 70 million in 2008

	Number of Households		Minimum Loan		Maximum Loan		Minimum Untapped credit	Maximum Untapped credit
	Rural	Urban	Rural	Urban	Rural	Urban		
Dec AE1	11,633	5,099	105	1,153	126	1,441	7,102,223	8,816,479
Dec AE2	9,971	5,099	49	947	58	1,184	5,316,277	6,621,051
Dec AE3	9,971	5,827	124	955	149	1,194	6,806,113	8,445,600
Dec AE4	7,617	5,463	72	1,101	86	1,321	6,563,575	7,876,290
Dec AE5	7,617	5,463	84	1,113	100	1,336	6,717,802	8,061,363
Dec AE6	6,232	6,677	193	1,053	231	1,263	8,229,078	9,874,894
Dec AE7	6,232	6,677	116	2,387	139	2,864	16,657,943	19,989,531
Total Untapped Market for Consumption Credit in F\$ per annum							57,393,010	69,685,208



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Microfinance in Fiji – Supply Side

Licensed Financial Entities in Fiji in 2007

- Commercial Banks 6 **Total loan outstanding**
- Credit Institutions 3 **F\$4,354 million**
- Life Insurance Companies 2
- General Insurance Companies 7
- Insurance Brokers 5
- Insurance Agents 471
- Foreign Exchange Dealers 8. Money Changers 3



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Microfinance in Fiji – Supply Side – Loan Products

Name of the Company	Types of Credit Product	Term of the loan	Minimum Loan size	Maximum Loan size	Interest Rate	Security/ Collateral	Frequency of repayment
Micro Finance West	Business Loans	6 months - 1 year	\$100	\$8,000	25%	Savings Held	Weekly
	Education Loans						
	Home Improvement						
	Social Loans						
FCOSS	Consumer Loans	26 weeks	\$250	\$500	25%	Savings Held	Weekly
	Business Loans	52 weeks	\$800	\$3000	25%	Savings Held	Weekly
ANZ	Rural Banking micro loan		\$125	\$1250	20%		
Teachers Union Co-op Thrift and Credit Society	Soft Loans	6 months to 120 months depending on the loan amount	Equal to contribution held	Contribution+\$200	6%	Contribution held	Fortnightly
	Emergency Loan		Equal to contribution held	Equal to contribution held	6%	Contribution held	Fortnightly
	Special Loan		\$700	\$700	6%	Contribution held	Fortnightly
	Formula Loan		Total Contribution	Total Contribution X 10 times (Max Cap of \$50,000)	6%	Title of Motor Vehicles, Real Estate, Life Policy, Members surety	Fortnightly 18



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Microfinance Initiatives in Fiji

- The National Micro Finance Unit was established the year 1998 after the first National Conference on Micro Finance led to formulation of a National Micro Finance Plan.
- Since its inception in 1998, NFMU has established 3 Microfinance Institutions in the Urban Centers, and 4 village banks, 2 Microfinance Units with the Cooperatives Department and a Credit Union model.
- In 2004, Government merged the NMFU with the NCSMED, with the objective of institutionalizing the NMFU and bringing all of SME related activities under one body.



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National Centre for Small and Micro Enterprise Development (NCSMED)

- NCSMED was set up under an Act in 2004 and all MF activities were brought under it.
- It has a multiple role of a funding agency, technical support provider as well as a monitoring role.
- NCSMED also supervises two MFIs Microfinance West and Microfinance Labasa.
- See next slide for NCSMED promoted MFIs



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NCSMED promoted MFIs

Categories	Partnership with NCSMED	Area of Operation
Urban Based	Fiji Council of Social Services	Suva, Nasinu, Tailevu, Rewa, Navua
	MF West	Ba, Lautoka, Nadi, Sigatoka
	MF Labasa	Labasa, Seqaqa, Savusavu
Rural Based	Nakuailava Microfinance Institution	Ra Province
	Tavuki Tikina Microfinance Institution	Kadavu
	Bua Microfinance Institution	Bua Province
	Rewa Microfinance Institution	Rewa Province
	Cakaudrove Womens Association	Taveuni
	Cooperative Department	Macuata, Central Eastern Division



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Issues and Concerns

- The size of the market is rather small
- The financial sector is dominated by banks, who generally don't have the cost structures and incentives to serve small people
- Transaction costs are high as a percentage of loan/deposit/insurance premium amount.
- The first generation of microfinance efforts has low outreach, promoted a lax credit culture and subsidy dependency.



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Some suggestions -1

Scale and transaction cost

- The small size of the market can be tackled by offering multiple products through the same channel (economies of scope rather than scale)
- Transaction costs can thus be reduced. These can also be reduced using new technologies like mobile banking. Launch is welcome.
- Another vision could be to become a Pacific Islands Microfinance Hub and offer microfinance services to all PIs.



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Some suggestions -2

Institutional Structure

- The RBF has already asked banks to establish microfinance units. But, given their higher cost structures, banks should partner with MFIs rather than do this on their own.
- For this, however, MFIs need to reform. They need to control their bad debts and also keep their costs down.
- The role of the NCSMED combines promotion, financing, capacity building and monitoring. These are contradictory. Financing should be done by banks like ANZ and FDB, supervision by the RBF. NCSMED should be a promotional and capacity building body.²⁴



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Some suggestions -3

Beyond Microcredit

- Savings can also be promoted using the mobile money platform, by introducing appropriate products.
- Micro-insurance needs to be introduced, to cover life, health, crop, livestock and asset risks.
- Some real sub-sectors need to be identified and taken up for all-round promotion – sugarcane/sugar sector revival is the first candidate; dairy along with soybean cultivation can be a second; off-mainline tourism; low-cost housing; and repairs (automobiles, electronics).
- This requires investment which goes beyond microfinance – in vocational training and infrastructure and SMEs.²⁵



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Thank You

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