Resource Mobilisation for Microfinance in Fiji

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1 Introduction

When the Foundation was asked to prepare a presentation on resource mobilisation, our first reaction was that this was not the topic that we would have chosen to talk about. In our view, resource mobilisation in a narrow sense is not the most important challenge facing microfinance in Fiji. In our experience, the major problems that microfinance institutions (MFIs) have faced in the Pacific, including in Fiji, have not been due to any lack of resources. The other three broad areas that this conference has addressed, namely outreach, viability and sustainability, and the policy environment, have been much more serious constraints to the development of microfinance in this region than has resource mobilisation.

On greater reflection, however, there is a great deal of interest to say about resource mobilisation. While MFIs in the Pacific have generally had little trouble in mobilising resources for their start-up operations, a more interesting question is to ask how can MFIs mobilise resources to maintain and expand their operations over the longer term? To put this question in another way, how can MFIs move from reliance on donor agencies and government to accessing resources from more sustainable sources?

Part 2 of this presentation presents a framework for analysing resource mobilisation by MFIs, emphasising the relationship between resource mobilisation and self-sufficiency. Part 3 applies this framework to WOSED, the most prominent MFI in Fiji. The paper then goes on to look at particular aspects of resource mobilisation. Donor agencies and governments are considered in part 4, while part 5 looks at commercial banks and the private sector, and part 6 analyses savings mobilisation. Finally, part 7 offers some concluding comments.

2 A framework for analysis

In talking about resource mobilisation, this paper focuses on financial resources. Of course, there are many other resources that MFIs need, such as human resources, technical resources, and other types of resources, and these are arguably even more important than financial resources, but these are not discussed here.

Why do MFIs need financial resources? One way of shedding some light on this question is to look at the financial statements of an MFI, in particular the statement of income and expenses, and the balance sheet. A simplified structure for the financial statements is set out in Chart 1.

- First, MFIs need resources to finance **expenses**, such as staff expenses, other administrative expenses, loan losses, and interest and fee expenses.
- Second, they need resources to fund **assets**, such as their loan portfolio, fixed assets, cash at bank, and investments.

MFIs can obtain financial resources to finance their expenses and fund their assets from a number of sources.

- By earning **income**, including interest and fee income from loans, income from other financial services, and income from expenses.
- By increasing their **liabilities**, such as by accepting **savings** from their clients, or by obtaining **loans** from donor agencies, commercial banks or other sources.
- By increasing their **equity** or capital stock, by issuing **shares**, obtaining **grants** from donor agencies or the government, or through **retained earnings**.

Hence resource mobilisation is very closely related to self-sufficiency. The task of resource mobilisation is much easier for MFIs that have achieved high levels of self-sufficiency.

- **Operational self-sufficiency** requires MFIs to cover all operating expenses, including staff expenses, other administrative costs and loan losses, from operating income.
- **Financial self-sufficiency** requires MFIs to cover all operating expenses and financing costs from operating income, after adjusting for inflation and subsidies and treating all of its funding as if it had a commercial cost.

If an MFI can achieve financial self-sufficiency, it is able to finance all of its expenses from its income. Hence it does not need to mobilise any external resources to meet its expenses. All external resources can be used to fund increases in assets. Moreover, such an MFI will be better able to fund increases in assets from commercial sources, such as savings of clients, loans from commercial banks, and issuing shares. Clearly, an institution that is profitable will be much more attractive to these investors than an institution which is not profitable.

In practice, it is difficult for MFIs to attain full financial self-sufficiency.

- Even in the most favourable circumstances, only a small number of MFIs have been able to become self-sufficient. Of the 49 MFIs in the Asia-Pacific region that were studied for Bank Poor '96, including virtually all the largest and most successful MFIs in the region, only six were financially self-sufficient. Another six MFIs, including the Grameen Bank, were more than 80 per cent financially self-sufficient.
- Moreover, there are a number of special factors in Fiji and the other Pacific island countries that are likely to prevent MFIs from reaching the levels of self-sufficiency possible in Asia and other regions. The cost of labour and other inputs is much higher than in most other developing regions. There is often a shortage of qualified workers. And low population density and remoteness increase the volume of inputs needed to reach a given number of clients. It should be stressed, however, that these factors are less acute in Fiji than in most of the other Pacific island countries (PICs).

For these reasons, a number of commentators have argued that full financial self-sufficiency for MFIs may not be achievable in the Pacific. On the other hand, even if MFIs in the Pacific cannot achieve full financial self-sufficiency, it is clear that they should strive to increase their self-sufficiency if they are to mobilise more resources and reach a substantial number of disadvantaged clients.

3 Resource mobilisation at WOSED

These points can be illustrated with reference to the Women's Social and Economic Development programme (WOSED), the most prominent MFI in Fiji. It should be noted that the data used in the analysis are somewhat dated, and the situation may have improved considerably in the meantime.

In the past, WOSED's interest and fee income from loans has been very low. McGuire (1996) estimated that in 1995, WOSED's operational self-sufficiency was only 1.3%. In other words, WOSED was able to meet only 1.3% of its operational expenses from its operating income. The overwhelming bulk of its operational expenses had to be met from external resources. And this is before we consider the resources needed to meet financing costs and to fund increases in the asset base of the program.

Just about all of WOSED's expenses have been met by grants from donor agencies. WOSED (1997) noted that the program had received the following assistance, including both financial and technical assistance.

- In 1993 it received F$8,295 from the South Pacific Commission as seed capital to establish the lending program.
- In 1994 British ODA provided funds for computer equipment.
- Between 1994 and 1997, the New Zealand Government provided nearly F$150,000 for seed capital, training, evaluation and equipment.
- The US Peace Corps provided four small business advisers between 1993 and 1997, to assist in the development of the program.
- All operational costs have been provided by the Fiji Government through the budget of the Department of Women and Culture. McGuire (1996) estimated operational costs to be around F$220,000 per year in 1995 and 1996.

To date, WOSED has not accessed any commercial funds. It has stated that it intends to pursue this option in the future, when it is operating on a more self-sufficient basis. Nevertheless, the above data make clear that in 1995 at least, WOSED would not have been attractive to a commercially motivated investor wishing to obtain a commercial rate of return on their investment.

The point of this analysis is to show that self-sufficiency and resource mobilisation go hand in hand. The fact that WOSED had not been able to achieve a higher level of self-sufficiency would have made it much more difficult for it to mobilise the resources that it needed to operate a more extensive microfinance program.

- Interest and fee income was negligible.
- It would not have been feasible to mobilise resources from commercial sources, such as loans from commercial banks or by issuing shares. Even soft loans from donor agencies would have been out of the question at that stage, because WOSED would not have been able to generate the income to service the loans.
- Hence WOSED was forced to rely on grants from the government and donor agencies to meet virtually all of its expenses.

Clearly, this has restricted the ability of WOSED to maintain and expand its program. While to date, donor agencies and government have been prepared to underwrite WOSED's program, it cannot be assumed that they will be prepared to go on doing so indefinitely. Moreover, the WOSED program remains quite small, with a cumulative total of 279 borrowers as at August 1997. Donor agencies and government are unlikely to be in a position to provide enough resources to enable WOSED to reach a large proportion of poor women in Fiji. If WOSED is to play a role in reducing poverty that is significant at the national level, it will need to mobilise resources from other sources. This, in turn, means it needs to become much more self-sufficient.

To some extent, the very low level of self-sufficiency as at 1995 reflects the fact that WOSED was a relatively new program. As it expands its outreach and becomes more experienced, it can be expected to increase its productivity and become more self-sufficient. Moreover, until recently, WOSED has been concerned primarily with service delivery rather than with cost effectiveness. It is now more aware of the need to increase self-sufficiency. I understand that it has been taking a number of steps towards this objective, including:

- Increasing the interest rate from 8% flat to 15% flat.
- Reducing the repayment period from 18 months to 6 months. Combined with the increase in the flat interest rate, this will lead to a substantial increase in the effective interest rate.
- Establishing centres of 3-4 groups as the focus for weekly meetings, enabling field workers to increase their productivity.
- Various measures to increase repayment rates, including staggered disbursement of loans.

These moves are very welcome, and will need to be augmented by other measures to increase self-sufficiency. Moreover, other MFIs currently being established in Fiji, such as the Anandpur Microcredit Project, should benefit from the experience of WOSED and other pioneers in the region and focus on self-sufficiency right from the start. It is only by emphasising self-sufficiency that they will be able to mobilise the resources that they need to reach large numbers of Fiji's poor.

We turn now to some specific sources of resources for MFIs, and how they can contribute to the development of an effective and viable microfinance sector.

4 Donor agencies and government

At the outset, it should be noted that resources from government and particularly donor agencies are much more plentiful in the Pacific than in Asia and other developing countries. In our experience, lack of such resources is not a constraint to the development of effective MFIs in the region. In fact, the opposite is the case. The easy availability of donor grants often reduces the pressure for MFIs to operate in a cost effective manner, and actually damages their prospects for survival and growth over the longer term, just as subsidised rates of interest are often observed to reduce the probability that borrowers will repay their loans.

Table 1 provides data on population, GNP and official flows of aid for a number of PICs and most low income countries in Asia. Two points stand out very clearly.
- First, the PICs have much higher per capita incomes than the Asian countries, with weighted averages of US$1,398 and US$604 respectively in 1996.
- Second, despite higher per capita incomes, the PICs receive far more aid per capita than the Asian countries. In 1996 the PICs received aid of US$119 per capita, compared with only US$4 for the Asian countries.

At US$2,470, Fiji has the second highest GNP per capita of any of the countries listed. And while Fiji receives less aid per capita than any other country in the Pacific at US$52, this is more than that received by any country in Asia except Lao PDR. This suggests that not only is there much less absolute poverty in Fiji than in the Asian countries included in the table, but also a lot more resources per capita to devote to programs for poverty reduction.

This means much less competition for donor resources for MFIs in the Pacific than in Asia. In most countries in Asia, there is a great deal of competition between MFIs for donor resources, and only those that demonstrate very good performance in terms of outreach and sustainability are able to attract donor support. However, this is not the case in the Pacific. Any microfinance program with a reasonably credible action plan, and indeed many programs without one, generally have little trouble in attracting the interest of donor agencies. For instance, Liew (1997:2) notes that:

> *Many project proposals contain only very general information fortified by the standard justification for microcredit. It is surprising how many such scanty project proposals have actually received funding. The author even came across a microcredit proposal described in less than 15 lines.*

In some cases, donor agencies or governments have virtually forced microfinance programs onto reluctant or unwilling communities. Liew (1997: 6) cites the following example:

> *In one particular scheme the outside proponents literally barged in blindly into a community. They were accorded the usual courtesy and hospitality because they were presumably important, had come from far away to this humble village, were accompanied by senior government people and came with messages of hope and greatness punctuated with many jargons that had no equivalent in the local language. Very simply they overwhelmed the local community. The council of elders' quiet acceptance (more like shock) was taken as approval.*

Many of us who have been involved in aid in the Pacific will be able to relate to that story.

Vanuaca (1998: 23-24) makes a similar point with respect to the potentially destabilising effect of donor and government funds on credit unions in Fiji:

> *Credit unions are alluring channels for government and donor funding. ...it is easy for policy makers to conclude that additional funding would allow credit unions to lend more to the types of individuals who are targets of donor or government affection. Experience in credit unions worldwide suggests that donors should be mindful of how their intrusions affect the internal equilibrium of these self-help groups. The long-run goal of enhancing the sustainability and efficiency of the credit union should accompany the short-run goal of providing more loans to micro-entrepreneurs.*

Donor assistance to unsound institutions does not help anyone in the long run. Most of the programs supported by the donor agencies in the past in the Pacific are no longer operating. While they may have provided some benefits to participants, they have clearly not been able to deliver financial services to poor clients on an ongoing basis.

This suggests that donors need to be much more rigorous in considering microfinance projects than they have been in the past. The Guiding Principles for Selecting and Supporting Intermediaries agreed by major donor agencies in October 1995 provide a number of suggestions as to how support by donors and government can best be directed to maximising outreach and sustainability. Most importantly, governments and donor agencies should only support institutions which demonstrate a capacity to reach poor clients on a sustainable basis.

The Guiding Principles suggest that such MFIs should have three clusters of characteristics, either in their current operations or through credible plans underpinned by concrete measures.

First, they should be strong institutions. They should have institutional cultures and structures that can support sustained service delivery to a significant and growing number of low-income clients. This includes sound governance, freedom from political interference, and strong business plans for expansion and sustainability. They should also have accurate management information systems that are actively used to make decisions, systems that manage small transactions efficiently, and meaningful, transparent financial reporting that conforms to international standards.

The second cluster relates to quality of services and outreach. MFIs seeking support should focus on the poor and have lending terms and conditions that meet the needs of their clients, such as quick, simple and convenient access to small loans. Where possible they should offer savings services. They should also demonstrate significant progress in expanding outreach.

Third, institutions should have sound financial performance. They should charge interest rates that are sufficient to cover the full costs of lending after a reasonable start-up period. They should maintain low arrears. They should have clear plans for steadily reducing dependence on subsidies and for attaining operational and financial self-sufficiency within a reasonable time period. And they should have plans for building a solid and growing funding base through mobilisation of commercial funds from depositors and/or the financial system.

Some of these specifics may need to be adapted in the Pacific context. For instance, full financial self-sufficiency may not be realistic in the Pacific. And in many parts of the Pacific, including many of the outer islands of Fiji, there may be limited scope to expand outreach. There are also many practical lessons that can be derived from previous experiences in the Pacific, such as those outlined in Liew (1997).

In brief, if governments and donor agencies wish to ensure that their support for microfinance has maximum impact, they need to look very carefully at the institutions they support and ensure that such institutions meet a number of key criteria. While most donor agencies have endorsed these principles, it is fair to say that they are not always followed in practice, especially in the Pacific. It would be appropriate for all donor agencies to ensure that their support for MFIs is consistent with these principles.

5 Commercial banks and the private sector

There are six commercial banks operating in Fiji. The bank with the most extensive network is the National Bank of Fiji, which also operates an agency network through the Post Offices. In addition, there are five foreign-owned commercial banks. Of these, the two Australian banks, Westpac Banking Corporation and ANZ Banking Corporation have the most extensive branch networks, with around twelve branches each.

Fiji has a more extensive commercial banking network than other PICs, and a greater proportion of the population has access to the commercial banking system. Nevertheless, the commercial banks are concentrated in the main centres, and people on the outer islands, and in the interior of the main islands have little access to them. Moreover, collateral requirements preclude large numbers of more disadvantaged and vulnerable groups from obtaining loans, even in areas where the commercial banks operate. Hence, there is still a large proportion of the population that is not served by the commercial banking system.

This is likely to continue. It is very unlikely that the commercial banks would be able to provide micro financial services to poor clients in a cost-effective manner. Experience from other countries suggests that requiring commercial banks to lend to the poor through priority sector lending requirements or other such measures would be ineffective in actually reaching the poor and could be very damaging to the banking system as a whole.

Nevertheless, there may be some scope to mobilise resources from the commercial banking sector, and the private sector more generally, for microfinance. In this context, we note that the Government of Fiji has recently appointed a Committee of Inquiry into Financial Services. The Committee is required by its terms of reference to inquire into and report on the extent of banks' social obligations in the provision of retail banking services. It is expected that the Committee will report on its findings by the end of 1998.

It may be appropriate for the Committee to consider some possible avenues by which the commercial banks could discharge their social obligations while at the same time contributing to a more viable microfinance sector.

- One possibility may be for the commercial banks to contribute technical expertise in building up the expertise of local MFIs. In doing so, the commercial banks would need to be mindful of the technologies that have successful in microfinance in other countries, and the differences between microfinance and traditional banking.
- Another possibility may be for the commercial banks to establish a foundation, either at the national or the regional level, to support the development of MFIs.

Clearly, any such arrangements, if they were considered appropriate, would need to be seen in the context of the overall relationships between the commercial banks, the Government and the community. These are matters for discussion by the relevant parties.

Another possibility is for a more commercial relationship between the banks and MFIs. One aspect, discussed below, is for MFIs to offer savings facilities to clients and deposit these savings with a commercial bank. Another aspect is that the commercial banking system is by far the major repository of household savings, and over the longer term it may be possible for MFIs to tap these resources through loans or lines of credit from the banks, for on-lending to poor clients. This is an approach that the Foundation has advocated in Asia through our *Banking with the Poor* program, as outlined in Banking with the Poor (1992) and Best Practice of Banking with the Poor (1995). It is not a realistic option in Fiji until MFIs are operating on a much more self-sufficient basis than they are at present, and are able to cover the cost of servicing such loans. However, MFIs should work towards accessing commercial funds over the longer term.

6 Savings mobilisation

Discussion of microfinance has tended to focus mainly on the importance of access to credit. However, there is considerable evidence that access to savings facilities is also important in reducing poverty. Offering savings facilities may also be beneficial to the MFI. Most importantly, requiring borrowers to demonstrate an ability to save before they obtain a loan is a useful screening device and helps to instil borrower discipline. Just about all successful microfinance programs operate on the principle of 'savings first, credit later'.

Mobilising savings may also generate additional funds for lending, and may improve long-term financial sustainability. On the other hand, the decision to offer savings facilities gives rise to some complex issues that do not arise in the case of MFIs that concentrate mainly on credit.

Savings are a particularly important form of resource mobilisation for credit unions. A major function of credit unions is to mobilise savings from their members. Credit unions are generally not permitted to accept savings from people who are not members. A key principle of credit unions is that they should be owned and controlled by their members, with members ultimately responsible for approving loans and therefore for the quality of the unions' assets.

Nevertheless, there have been many cases where credit unions have not protected their members' savings, and Fiji is no exception. Vanuaca (1998) notes that the number of credit union members in Fiji has declined from 21,328 in 1991 to 10,133 in 1997, with very few credit unions remaining in the rural areas. Credit unions in rural areas have become dormant because loans have not been repaid, and members have lost their savings. Credit unions should recognise that they have a strong duty of care to protect the savings of their members. It is also important to have a sound legal framework regulating the activities of the credit union movement, and an effective apex body which is able to supervise the activities of individual credit unions. Vanuaca argues that the Registrar of Credit Unions in Fiji is not adequately prepared to administer a modern credit union movement.

In most countries, only regulated financial institutions such as banks are allowed to accept deposits from the public. This is entirely appropriate. Accepting deposits places a very heavy responsibility on any institution. Nobody, least of all the poor, should be in a position where they lose their savings because they deposit them with an institution that is not sound. Hence only institutions which meet stringent financial standards should be permitted to accept deposits. Such institutions should be subject to detailed prudential regulation and supervision by the central bank or some other regulatory authority.

In principle, MFIs that meet these standards can seek to become licensed as banks. There are examples of this in some countries in Asia and Latin America. However in practice few MFIs, and none in the Pacific, currently meet the required standards.

Most MFIs require compulsory savings as a condition for receiving a loan. Compulsory savings should probably be seen as part of the cost of the loan, rather than as a deposit in the true sense of the word. Some MFIs, including WOSED, also offer voluntary savings facilities to their clients. Voluntary savings are an important service, but they impose a very heavy responsibility on programs in terms of financial management. For these reasons, it is generally not appropriate for MFIs to use voluntary savings in their lending programs. A compromise may be to establish an earmarked account for voluntary savings with a commercial bank. Clients would retain individual passbooks issued by the MFI, and the microfinance program would maintain shadow accounts for each individual client, but all deposits and withdrawals would be netted out through the commercial bank account on a regular basis.

The very term 'microfinance' highlights the importance of savings, as well as credit, for poor clients. On the other hand, the decision to offer savings facilities gives rise to a much greater duty of care to clients than arises in the case of MFIs that concentrate mainly on credit. For most MFIs, savings facilities should be seen primarily as a service to clients rather than as a form of resource mobilisation.

7 Concluding comments

In this paper, we have sought to highlight the relationship between resource mobilisation and self-sufficiency. In their early stages of operation, MFIs in the Pacific can generally attract all the resources they need from donor agencies and governments. However, if MFIs are to sustain their operations and expand over the longer term, they need to shift from relying on donor funding to accessing more commercial sources of finance. They can only do this be increasing their self-sufficiency. Hence it is very important that MFIs plan for increasing self-sufficiency right from the start. It is clear that MFIs in Fiji will need to achieve much greater self-sufficiency than they have to date if they are to mobilise enough resources to reach a significant number of poor clients.

We have also made some comments on various types of resources that may be available for microfinance. Governments and particularly donor agencies have been plentiful sources of funds for MFIs, both in Fiji and elsewhere in the Pacific. The easy availability of donor grants often reduces the pressure for MFIs to operate in a cost effective manner. If governments and donor agencies wish to ensure that their support for microfinance has maximum impact, they need to look very carefully at the institutions they support and ensure that such institutions meet a number of key criteria, with a particular focus on sustainability.

There may also be some scope for commercial banks and the private sector to assist in mobilising resources for microfinance, although a genuine commercial engagement will only be possible when and if MFIs achieve much greater self-sufficiency than they have to date. Finally, there is an important role for savings in microfinance, although savings facilities should be seen primarily as a service to clients rather than as a form of resource mobilisation.

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Chart 1: Financial Statements

Statement of Income and Expenses

(Income - Expenses = Net Operating Income)

Income

- **Interest and fee income from loans**
- **Income from investments**
- **Other operating income from financial services**

Expenses

- **Staff expenses**
- **Other administrative expenses**
- **Loan losses**
- **Interest and fee expenses**

Net operating income

Balance Sheet

(Assets = Liabilities + Equity)

Assets

- **Cash on hand and in bank**
- **Loan portfolio**
- **Fixed assets**
- **Investments**
- **Other assets**

Liabilities

- **Savings and deposits**
- **Loans**
- **Other liabilities**

Equity

- **Paid-in equity**
- **Donated equity**
- **Retained earnings**
- **Net operating income (from Statement of Income and Expenses)**

Table 1: Population, GNP and Official Flows, 1996

	Population	GNP/head ($US)	Aid (a) ($USm)	GNP ($USm)	Aid/head ($US)	Aid/GNP (%)
Pacific	('000s)					
Cook Islands	20.6	4,972	11.3	102	549	11.1%
Fiji	**772.0**	**2,470**	**40.3**	**1,983**	**52**	**2.0%**
Kiribati	78.7	920	13.0	75	165	17.3%
Marshall Islands	57.4	1,890	72.9	108	1,270	67.5%
Micronesia, Fed States	108.3	2,070	113.0	225	1,043	50.2%
Papua New Guinea	4,200.0	1,150	332.0	5,049	79	6.6%
Samoa	169.0	1,170	33.6	200	199	16.8%
Solomon Islands	396.0	900	42.1	349	106	12.1%
Tonga	97.7	1,790	31.7	175	324	18.1%
Tuvalu	9.8	1,337	10.4	13	1,061	80.0%
Vanuatu	172.7	1,290	31.3	224	181	14.0%
Total above countries	**6,061.6**	**1,386**	**720.3**	**8,401**	**119**	**8.6%**
Asia	('000,000s)					
Bangladesh	123.2	260	1,704.8	31,217	14	5.5%
Cambodia	10.7	300	455.5	3,088	43	14.8%
China, People's Rep	1,217.6	750	5,148.4	906,079	4	0.6%
India	939.5	380	850.9	357,759	1	0.2%
Indonesia	196.8	1,080	(199.5)	213,384	(1)	-0.1%
Lao PDR	4.8	400	388.8	1,895	81	20.5%
Nepal	21.1	210	441.0	4,710	21	9.4%
Pakistan	134.1	480	1,507.1	63,567	11	2.4%
Philippines	71.9	1,160	215.5	83,296	3	0.3%
Sri Lanka	18.3	740	549.5	13,475	30	4.1%
Viet Nam	75.4	290	763.1	21,915	10	3.5%
Total above countries	**2,813.4**	**604**	**11,825.1**	**1,700,385**	**4**	**0.7%**

(a) Net flows of long term public and publicly guaranteed debt from official creditors and grants, including technical cooperation grants.

Source: Asian Development Bank.