



Welcome to the Monthly Public Awareness column with the Reserve Bank of Fiji. Last month we talked about investing and why you should invest. This month we focus on microfinance and what the Reserve Bank is doing in this area. We hope that you will find the article interesting and informative.

MICROFINANCE

Many of us must have heard or read the word microfinance many a times, either on TV, in the newspapers, on the radio or through our friends and relatives. Although microfinance schemes and activities have been around for a very long time, it was only in the 1970's that it really got international attention, largely because of the work of Dr. Mohammed Yunus, the founder of the Grameen Bank of Bangladesh. The Grameem Bank was founded on providing micro loans to the very poor and Dr. Yunus was able to show the world that the very poor, particularly women, were good at repaying their loans. The Bangladeshi women showed the world that although they were poor and without any real assets to pledge as collateral, they too were able to take out loans to improve the lives of their families *and* repay the loans in full.

Microfinance therefore is the provision of small loans and other associated services to the poor and disadvantaged or low income people. Ultimately the goal of microfinance is to give the poor and low income people an opportunity to become productive and self-sufficient. Access to microfinance services by getting access to loans from banks will provide the poor and low income people opportunities to take an active role in their communities and the economy through doing small business. Loans, of course, will have to be paid back with interest, while providing the borrowers the means of earning an income from their small businesses, and giving equal opportunities to both poor men and women in the communities to improve their living standards.

Traditionally, commercial banks did not provide financial services, such as loans, to customers with little or no cash income. In addition, most poor people have few assets or possessions that they can give to the bank as collateral or security for the repayment of the loan. Without these collateral banks will have little or no way of getting back the money they have loaned to borrowers who are unable to repay. Because of these difficulties, poor people are unable to borrow through a formal provider of finance, like a bank, but will borrow instead from informal providers like relatives, friends or moneylenders. The interest rates charged by moneylenders are usually very high. While many poor people know the high fees that moneylenders charge, their services are convenient, fast and accessible, and moneylenders can be very flexible when borrowers run into problems.

How Does Microfinance Address Poverty?

Many decision makers around the world have taken these early models of microfinance, studied them, then adapted them to suit their own country's needs and have found that it was a very effective tool in addressing poverty.

Microfinance schemes and activities provide poor and low income individuals with an option to plan ahead and invest for the future. Microfinance services help individuals to start and build "micro" enterprises, the very small businesses that are important sources of employment, income, and economic vitality in developing countries worldwide. But without financial services to fuel their productivity, the poor can never grow their microenterprises into businesses that help them escape poverty. For many families living in poverty, a microfinance scheme is the "hand up" they need to improving their children's education, the family home or even their basic nutrition.

To overcome poverty people need to have access to affordable financial services that will enable them to borrow, save and invest and to protect their families against unforeseen circumstances. For many low income earners in Fiji, especially those living in the peri-urban, rural and remote areas, obtaining basic financial services such as opening a savings account, getting a small loan or even an ATM card, can be very difficult. This may be because of distance from their home to the bank, or the service itself may cost more than they can afford, or the product is too difficult to understand or in a language they do not understand.

With little income or no collateral, poor people are seldom able to obtain loans from banks and other formal financial institutions. It is interesting to note that in schemes that are well managed, statistics show that the rates of repayment of these microfinance loans are very high.

Important to note is that Microfinance also has its limitations and should not be seen as the only solution for poverty alleviation.

The Role of the Reserve Bank of Fiji (RBF)

The RBF's vision is "*Leading Fiji to Economic Success*". This simply means that the work we do at RBF should help to create jobs, put more food on everyone's table, provide opportunities to our people to own a home, give our children a better education and secure a brighter future for all of us. Poor and low income people of Fiji are just as important to economic success as business and professional people and it was for this reason that the RBF issued a microfinance policy, in December 2009, to all the commercial banks to set up microfinance units in each of their branches. This is to ensure that many more of our people in Fiji can access savings, loans, payment and insurance services and products. Commercial banks have been asked to be innovative to think outside traditional commercial banking practices in providing these services.

This is a basic building block that will open up other opportunities for our people, to enable them to start small businesses or venture into income generating activities. At the same time provide for their family's health, children's education, saving and improve their living standards. This is the reason the RBF has taken on the role of promoting microfinance as a means of greater financial inclusion. Greater financial inclusion means making available and accessible basic financial services to the poor and low income people. The RBF is committed to the development of microfinance in Fiji and in ensuring that everyone, no matter where they live or how much they earn, have access to some financial services. The RBF is also working in partnership with interested stakeholders to ensure success of this development.

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