Banking Supervision Policy Statement No.14

Minimum Requirements for Commercial Banks on Internal Microfinance Divisions and Units

NOTICE TO THE BANKS
LICENSED UNDER THE BANKING ACT 1995

1.0 Introduction

1.1 This Policy, issued under section 9(2) (b-c) of the Reserve Bank of Fiji Act 1985 and section 14(3) of the Banking Act 1995, is in accordance with the principal purpose of the Reserve Bank of Fiji under section 4(c-d) of the Reserve Bank of Fiji Act 1985 and outlines Reserve Bank of Fiji's ("RBF") minimum requirements for the establishment of internal Microfinance Units by the Commercial Banks ("the Banks"). It is applicable to all the Banks operating in Fiji.

1.2 In this policy, Microfinance is defined as the provision of a broad range of financial services such as deposits, loans, payments services, money transfers and insurance to the poor and low-income households and individuals and to micro and small enterprises.

1.3 The internal microfinance division, units and microfinance strategy should be integrated into the Bank's operational structure and shall be supervised on a consolidated basis as part of the Bank's operations.

1.4 The minimum standards in this policy have been aligned to international best practices and corporate social responsibility for the inclusion of microfinance divisions and units in the Banks.

2.0 Objectives of this Policy

2.1 To enable the Banks in Fiji to innovatively and effectively extend sustainable banking financial services to poor and low-income households and individuals and to micro and small enterprises.

2.2 To enable the Banks to participate in the achievement of financial inclusion and the empowerment of Fiji's poor and low-income households and individuals and micro and small enterprises to contribute to economic development.

3.0 Minimum Requirements for Internal Microfinance Divisions and Units

4.0 Microfinance Policy Framework

4.1 Each Banks should establish and implement an in-house microfinance policy approved by the Board or its proxy. Branch operations with internal microfinance divisions and units should adopt the Bank's microfinance policy.

4.2 In developing its in-house microfinance policy, each bank must consider its size, nature, scope, complexity and risk profile.

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4.3 A Bank's microfinance policy must set the policy environment for microfinance, at a minimum to include, but not limited to:

i. The Bank's microfinance objectives;
ii. Policies related to its commercial objectives and the implementation of microfinance;
iii. Plans and budgetary requirements for microfinance;
iv. The Bank's internal microfinance division and units' administrative structure;
v. The financial services, products and methodologies relating to microloans, micro deposits and other related microfinance products and services;
vi. Human resource procedures on recruitment, staff training, staff remuneration and incentives; and
vii. Other procedures and processes that will ensure the achievement of the Bank's microfinance policy.

4.4 Banks must submit a copy of the in-house microfinance policy to the Reserve Bank of Fiji within 30 working days of it being approved/reviewed but no later then 31st December 2009. Each microfinance divisions and units must have a copy of the approved policy.

5.0 Microfinance Division and Unit Operational Framework

5.1 Operations and Bank Support

5.1.1 Each Bank's microfinance divisions and units should innovatively and effectively extend sustainable banking financial services to poor and low-income earners and individuals and to micro and small enterprises. Staff should work closely with the community, its leaders and potential clients and identify opportunities for extending financial services to them and assisting their businesses.

5.1.2 The divisions and units should manage microfinance related operations and adapt bank systems and lending procedures. They may be given further autonomy by creating separate systems, products, loans procedures, staffing policies and governance necessary to the achievement of their operational objectives.

5.1.3 The units should have access to existing bank infrastructure including branch network, ATM network, and information systems hardware and telecommunications systems. The division and unit should also utilise necessary services from the bank such as accounting, auditing, finance, information technology, legal, marketing, personnel and treasury.

5.1.4 The division and unit should:

i. Introduce appropriate products and services to better fit low income, the poor and micro and small enterprise clients;
ii. Locate other points of service in areas best suited for offering microfinance products and services, and utilise part-time and mobile branches where demand does not warrant a full-time, fixed branch;
iii. Change prices (e.g. interest rates charged on different loan products); and
iv. Pursue other initiatives for the achievement of the microfinance unit's core objectives.

5.1.5 The Banks should have ongoing training programs for microfinance staff on all facets of microfinance and should ensure access of staff to good quality microfinance technical assistance and support.

5.1.6 The Banks should provide financial resources and incentives to their respective microfinance division and units and staff in existing branches, including sufficient operating budgets to accomplish all their functions and meet operational cost needs.

5.2 Structure and Location of Microfinance Divisions and Units

5.2.1 The Banks shall establish a microfinance division at the main branch or country head office that shall report to the Country Head.

5.2.2 In existing branch locations in towns or cities the banks should establish internal microfinance units that shall report to the microfinance division at the main branch or country head office.

5.2.3 In towns or cities where the Banks have one or more existing branches operating, a single microfinance unit should be established in an existing bank branch location that is accessible to the target customers.

5.2.4 The bank's microfinance divisions at main branch and the microfinance units in branches should be specialised or can be placed in existing bank's branch department and units that are knowledgeable in extending financial services to small clients and small businesses.

5.3 **Staffing of Division and Units**

5.3.1 The microfinance division at main branch or country head office should be staffed with suitably skilled and trained manpower that is responsible for all microfinance related policy formulation, product development, testing and roll out, data compilation and consolidation, overall risk monitoring and assessment of microfinance operations, training and retraining of microfinance designated staff etc.

5.3.2 The microfinance units should have specialised microfinance desk and/or field officers that are suitably trained, qualified[1], knowledgeable and familiar with the local community setting in existing branch locations. The microfinance officers may also have some experience in extending financial services to low income earners, the poor people and to micro and small enterprises.

5.3.3 There should be a qualified microfinance officer in charge of each banks microfinance divisions and units.

6.0 Oversight by the RBF

6.1 The Banks should report to the Reserve Bank of Fiji its micro deposits in the M-MD form attached and its micro, small and medium enterprise lending activities in the designated columns of the existing Q-SME-1 and Q-SME forms attached.

6.2 The Banks are required to submit their plans by 31st December 2009 to initiate the facility along with the organization setup for microfinance operations, the detail of branches in which the units would be established, the delivery mechanism and procedures etc. for information of the Reserve Bank of Fiji.

6.3 The RBF shall monitor Banks compliance with this Policy through prudential consultations, including on-site examination and off-site supervision.

6.4 Should a Bank fail to comply with the requirements of this Policy, the RBF shall impose such sanctions as specified under Section 15 and Section 21(1) (a) of the Banking Act 1995.

6.5 The Reserve Bank of Fiji would liaise with the Banks on an ongoing basis to ensure the effectiveness of their microfinance operations.

7.0 Implementation Arrangements

7.1 This policy applies to all the Banks licensed under the Banking Act 1995.

7.2 The policy comes into effect from 01 January 2010.

Reserve Bank of Fiji
December 2009

[1] Banks officers that are competent to do microfinance work in the branch communities served, and are in accordance to banks recruitment policies.

NOTES ON MICROFINANCE

A. Definitions

'Microfinance' means the provision of a broad range of financial services such as deposits, loans, payments services, money transfers and insurance to the poor and low-income households and individuals and to micro and small enterprises;

'Micro Enterprise' means any enterprise which has a turnover or total assets not exceeding $30,000 and employs more than 5 employees;

'Poor and Low-Income Households and Individuals' means disadvantaged women and youths, the unemployed, entrepreneurs and farmers employed in informal sector, the un-bankable, that have entrepreneurial capability and possibility to undertake activities that can generate weekly stable incomes;

'Small Enterprise' means any enterprise which has a turnover or total assets between $30,000 and $100,000 and employs between 6 and 20 employees.

B. Summary of Microfinance Key Principles[2]

1. **Poor people need a variety of financial services, not just loans.** In addition to credit, they want savings, insurance, and money transfer services.
2. **Microfinance is a powerful tool to fight poverty.** Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks.
3. **Microfinance means building financial systems that serve the poor.** Microfinance will reach its full potential only if it is integrated into a country's mainstream financial system.
4. **Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people.** Unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from donors and governments.
5. **Microfinance is about building permanent local financial institutions** that can attract domestic deposits, recycle them into loans, and provide other financial services.
6. **Microcredit is not always the answer.** Other kinds of support may work better for people who are so destitute that they are without income or means of repayment.
7. **Interest rate ceilings hurt poor people by making it harder for them to get credit.** Making many small loans costs more than making a few large ones. Interest rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people.
8. **The job of government is to enable financial services, not to provide them directly.** Governments can almost never do a good job of lending, but they can set a supporting policy environment.
9. **Donor funds should complement private capital, not compete with it.** Donor subsides should be temporary start-up support designed to get an institution to the point where it can tap private funding sources, such as deposits.
10. **The key bottleneck is the shortage of strong institutions and managers.** Donors should focus their support on building capacity.
11. **Microfinance works best when it measures—and discloses—its performance.** Reporting not only helps stakeholders judge costs and benefits, but it also improves performance. MFIs need to produce accurate and comparable reporting on financial performance (e.g., loan repayment and cost recovery) as well as social performance (e.g., number and poverty level of clients being served)

[2] These Microfinance principles were developed and endorsed by CGAP and its 28 member donors, as well as the Group of Eight leaders at the G8 Summit on 10 June 2004, at Sea Island, Georgia, USA.

C. Microfinance Loans and Savings Products

Product	Features	Purpose
Micro Loan	• Minimal/flexible requirements for loan applications • Small loans based on the borrowers cash flow • Loans typically unsecured but may be secured in some cases • Short loan cycles from typically 6 months to a year plus interest paid weekly that should match the clients ability to pay • Utilise market based interest rates regime that are reasonable to cover administrative costs, provision of loan losses and intermediation/funding costs.	• For small consumption needs • To acquire small productive assets • For working capital
Micro Deposit	• Minimal/flexible requirements to open savings accounts • No minimum balance	• For regular deposits and withdrawals • To save for unexpected future costs and emergencies • To build up assets

D. Target Segments for Microfinance

1. Rural land owners and tenants engaged in agricultural work on a seasonal basis and manual laborers in manufacturing, tourism, forestry, fisheries, mining, household industries, construction and transport.
2. Small and marginal farmers, rural artisans, weavers and those self employed in the urban informal sector as hawkers, vendors and workers in household micro and small enterprises.
3. Small entrepreneurs engaged in commercial crops, dairy, poultry etc. For non-farm activities this includes those in the villages and squatter settlements engaged in processing, manufacturing activities or any sort of income or employment generating activity.
4. Generally these are segments that have inadequate access to formal financial services.