PFIP | Pacific Financial Inclusion Programme

Credit Unions and Co-operatives in Fiji

A missed opportunity for financial inclusion

2010

Pacific Financial Inclusion Program

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Employer-based Credit Unions and Co-operatives in Fiji:

A missed opportunity for financial inclusion

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Contents

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This report scrutinizes the sustainability of operations of five large member-based financial institutions in Fiji and their potential to contribute to financial inclusion. It reveals that all institutions have been coping with difficulties resulting from inflexible regulations, a challenging economy, and ineffective governance and management structures. At the same time, these four credit unions and one credit and thrift co-operative have continue to operate and serve members while the majority of financial co-operatives have failed. The report concludes by providing opportunities for these institutions to better serve members and others and in doing so become instruments of financial inclusion.

The research for this report was completed by Dennis Fischer in July 2010. The report was drafted with the assistance of Till Bruett.

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Abbreviations

FCUL	Fiji Co-operative Union Limited
FNACU	Fiji Nursing and Associates Credit Union
FPSCU	Fiji Public Service Credit Union
FSCUL	Fiji Savings and Credit Union League
FTACU	Fijian Teachers Association Credit Union
FTUCTCL	Fiji Teachers Union Co-operative Thrift and Credit Limited
FTUCTCS	Fiji Teachers Union Co-operative Thrift and Credit Society
GNI	Gross National Income
ICA	International Co-operative Alliance
IMF	International Monetary Fund
MBFIs	Member-based Financial Institutions
OSS	Operational Self-Sufficiency
PFIP	Pacific Financial Inclusion Programme
PTEACU	Post and Telecom Employees Association Credit Union
RBF	Reserve Bank of Fiji
ROA	Return on Assets
ROE	Return on Equity
SEEP	Small Enterprise Education and Promotion
WOCCU	World Council of Credit Unions

1. Executive Summary

Nearly half of the population of the Fiji Islands population lack to access to banks or other financial institutions. With this marginalization come significant disadvantages for individuals and households, making it more difficult to save and borrow for necessities, emergencies and opportunities or insure against life's risks.

A National Micro Finance Workshop with stakeholders was hosted in November 2009 by the Reserve Bank of Fiji (RBF) and the Pacific Financial Inclusion Programme (PFIP) to develop a *Medium Term Strategy for Financial Inclusion in Fiji*. Participants put forward a goal of "Reaching at least 150,000 unbanked citizens through a coordinated national effort by the year 2014."

This report focuses on the potential role of member-based financial institutions (MBFIs) in this process and how they could effectively contribute to this goal. Both credit unions and financial co-operatives have been active in Fiji for over 50 years and still have relatively large membership bases as compared to Fiji's microfinance institutions (MFIs). Credit union membership has been on the decrease since its peak of 27,000 in 1993 to a like ly active membership of around 15,000, although exact figures are not known.[1] The reasons for this decline are varied and include failed management, poor manual record-keeping, weak supervision and oversight and low member administrative capacity, all of which have led to increased mistrust of MBFIs. Most credit unions also have limited product offerings for members. The strongest and largest remaining membership-based financial institutions are linked to an employer, mostly from the public sector.

The operations and services of these large MBFIs are fairly limited in scope. Most raise funds through regular share contributions from members through salary deductions and most only permit members to borrow back their savings with modest leverage. The MBFIs linked to the employers act as a supplemental pension fund, giving members a means to accumulate in the form of member shares, and then withdraw their shares, often with a bonus upon retirement.[2] Most importantly, they allow members to borrow against their shares. Most of the institutions pay annual dividends on members' shares, around 3-6%, which is higher than bank deposit rates but lower than inflation rates in recent years. Loans to members are primarily for consumption and range from FJ$100 to FJ$500 per borrower at an effective annual rate of between 10 and 20%. A few large MBFIs also invest in real estate for office space, rental income or as a means to build long-term capital gains for members.

The scope of services and the governance and management arrangements are largely prescribed in the Acts that govern credit unions and financial co-operatives. It is broadly accepted by all stakeholders that these laws need to be updated to provide the MBFIs greater flexibility in their operations, including freedom from caps on interest rates and dividends. At the same time the MBFIs are not truly regulated—many do not report as required under the law and the oversight bodies do not have the personnel or resources to conduct on-site or off-site monitoring. Reviews of annual reports and audited statement show a lack of accounting and financial reporting standards as well as violations of some aspects of the Acts, such as unsecured lending to members involved in the various governing bodies and excess borrowing by individual members.

Most of the MBFIs analyzed for this report also suffer under their own by-laws which include additional restrictions

[1] Today, the Fiji Savings and Credit Union League (FSCUL) claims to have about 16,000 shareholders among its 28 members, although interviews with several members suggest that the number is lower, probably between 10,000 and 12,000. (Basix and Bruett: p. 23) Several of the larger credit unions are no longer members of FSCUL. These two CUs alone contribute an additional 5,000 to the total number of members nationally.

[2] The Fiji National Provident Fund functions in very much the same way.

on membership or heavy requirements on members. The product offering has barely changed in decades and most institutions seem unwilling to grow beyond their existing operations despite clear demand from members for more and better savings and credit services. The two associations that are meant to unify the credit unions and co-operatives have both performed poorly in the past and have not been drivers of change. There have been recent efforts to revitalize these apex organizations, including a new effort to provide a mutual insurance product for credit unions and develop a common management information system.

There are opportunities to grow and improve the operations of the employer linked MBFIs. While this would be greatly facilitated by a revision of the current Acts, some steps can be taken in the interim as it is unlikely that a liberal interpretation of the law would be challenged by the government. Attracting members will require offering products that are in demand. The basic long-term planned savings product (in the form of shares) remains popular with members and there is an opportunity to develop other types of planned voluntary savings products around annual or life-cycle events. While dividends are restricted to 6% under the law, there is no similar restriction on savings rates which gives MBFIs the opportunity to offer fixed-term or other types of savings at highly competitive rates. The systems and staff at most of the MBFIs are not prepared for significant unsecured lending. However secured lending could be expanded to target specific needs or in partnership with shops and companies to finance larger fixed asset purchases secured by the underlying asset. An obvious need is for quick, short-term emergencies loans to supplant the use of money lenders secured by one or more member's shares.

The investment and efforts to revive a national credit union and financial co-operative movement in recent years have not paid off. In rural areas in particular the reputation of MBFIs is quite tarnished and there is little evidence that the discipline and skills exist to develop or maintain sound institutions. Urbanization is occurring fairly quickly in Fiji with half or more of the population now living in cities and larger towns. For this reason it is worth reconsidering the role of larger urban MBFIs in financial inclusion efforts.

At present most MBFI members in urban areas are salaried employees and have bank accounts. As a result they are not currently adding much to the financial inclusion efforts. The most pressing need is to expand membership by broadening the definition of "common bond" in the by-laws of these larger MBFIs, as well as removing requirements that frequently force members to withdraw, such as retirement. Related professions, spouses and even youths might be considered as potential members, some of whom are likely to be unbanked.

A main challenge for the urban MBFIs is that they conduct most of their retail operations through the banks rather than invest in tellers and back office operations. This limits their usefulness as financial service providers and solidifies their role as a marginal provider of financial services. New technologies, including interoperable point of sale (POS) devices and mobile money services are widely accessible to urban Fijians. The stronger MBFIs should consider linking with the providers of these platforms to provide more direct and better service to their members. Alternatively, smaller MFIs might choose to focus on their current services (i.e. long-term savings and secured lending) and form strategic partnerships with banks and mobile network operators to negotiate preferential rates on current accounts, money transfers, unsecured loans and other services that they do not provide.

1.1 Structure of Report

The report is based on research conducted by Dennis Fischer in June and July 2010. The financial data presented is what was available for fiscal years 2007, 2008 and 2009 at that time.

Section two of the report establishes the background of the credit union and cooperative movements in Fiji by providing an overview about the history and regulations as well as selected social, economic and political factors that are influencing operations of these institutions. Sections three through six concentrate on developments of four credit unions and one major thrift and credit cooperative over the past three years.[3] References to other co-operatives and credit unions are made where appropriate. Section three introduces the focal institutions and summarizes general characteristics before Section four shows characteristics of products and services offered. Sections five and six present and comment on the composition of assets, financial performances and the efficiency of operations. Section seven summarizes main developments and common constraints of the focal institutions before it highlights opportunities for the institutions to expand their operations.

The recommendations in this report are not meant to be comprehensive; rather they reflect specific ideas presented to the authors by those interviewed.

2. Overview of the Co-operative and Credit Union Movements in Fiji

Co-operatives and credit unions have a long history in Fiji, with first institutions being established in 1919 and 1954 respectively (FAO 1998, Radavu 2008). Both movements gained momentum in early years and expanded significantly, both in terms of membership growth and the number of institutions created. Strongly influential was the establishment of supportive institutions such as training centres and federations on national and regional levels (Radavu 2008).

The movement experienced a significant decline in the past twenty years, which is well documented in several reports included in the bibliography. In May 2010, 438 credit unions were officially registered in Fiji. While no exact numbers are available about how many of them are still actively operating, officials assume that the relevant number is below 50.[4] Primary membership of credit unions associated to an apex body declined steadily from a high of 27,000 in 1993 to less than 15,000 in 2009 (Conroy 2003: p. 15).

A total of 366 cooperatives were counted in 2008 in Fiji with 29,058 members. Of these 91 were registered as thrift and credit cooperatives with a combined membership of 15,379—slightly more than half the primary membership of all co-operatives in Fiji. Like credit unions, financial co-operatives experienced notable decreases in their primary membership, particularly since 2006 when long-term land leases requiring families to vacate their farms. (Donovan et al 2010: p. 62).

Little information is available on most of these member-based financial institutions other than most of the remaining active institutions are based on Viti Levu, the main island of Fiji, with the largest in Suva. The outer islands currently have few, if any active institutions.

2.1 Legal Framework and Registration

Both institutions were under regulation since first ordinances were introduced in 1947 for co-operatives and 1954

[3] In the focus of this report are: Fiji Teachers Association Credit Union (FTACU), Fiji Public Service Credit Union (FPSCU), Fiji Nursing and Associates Credit Union (FNACU), Post & Telecom Employees Credit Union (PTEACU), Fiji Teachers Union Co-operative Thrift and Credit Union Ltd (FTUCTCL).
[4] According to an interview with the Registrar of the Credit Unions, June 2010.

for credit unions. In early years, both ordinances have regularly been updated and formed the basis for the current Credit Union Act (Chapter 251) and Co-operatives Act (Chapter 250). Unfortunately, attention to both movements declined in the past twenty years and the last amendments to the Acts occurred in 1996 and 1978 for co-operatives and credit unions respectively.

The two Acts define objectives, establishment, governance and operations of individual institutions and provide for formal oversight by a registrar and the establishment of apex bodies. The Acts also stipulate supplementary by-laws in every institution in order to specify goals and operations. A two-thirds majority of the members of an institution and the approval by the registrar is needed to establish or change these institutional by-laws (FAO 1998).

The objective of credit unions is the promotion of thrift among their members, by providing members with saving and loan facilities. The objectives for co-operatives are defined more broadly as promoting economic and social interests of members by providing effective services. Co-operatives can be divided into different types, according to their primary objective. Thrift and credit co-operatives are special purpose financial co-operatives with the specific objective of providing financial services to their members. Credit unions and thrift and credit co-operatives function similarly when it comes to financial operations and their terms are sometimes used interchangeably in Fiji, although the legal form differs (e.g. Kumar et al 2007).

2.2 Membership

The Acts set out minimum membership criteria for institutions, primarily Fiji residency and minimum legal age.[5] The Co-operative Act makes no further restrictions and membership can be extended to any person or group as defined by institutional by-laws. In contrast, membership to a credit union is limited *"to groups of persons having a common bond of [union] or association or to groups of persons residing within a well-defined neighbourhood, community, rural or urban district"* (Credit Union Act 1978: Article 39.1). As a consequence, a market composition emerged which can be distinguished into employment-based and geography-based credit unions. Geography-based credit unions are mostly rather small and formed among village members or local employers in rural areas and outer islands. Employment-based credit unions explicitly focus on specific segments of the salaried working class such as members of a common profession (e.g. police officer and teachers) or specific employers (e.g. Fiji Post & Telecom). These tight membership criteria are in some cases further limited by demanding membership in a specific trade union simultaneously. While there are dozens of supposedly active geography-based credit unions, Fiji's public sector credit unions and co-operatives dominate the market in terms of membership.

2.3 Societal and Economic Challenges

Credit unions and co-operatives face several challenges which are external to their operations including economic and political factors as well as societal norms and traditions.[6] An important aspect of the traditional norm is the system of networks among indigenous Fijians based on reciprocity within communities. While these networks create powerful safety nets within communities, they are simultaneously perceived as constraining individuals in managing their personal finances and businesses.

5 Both acts make provisions that minors may join under specific conditions.
6 Norm systems describe a set of behavioural rules which are part of a group ideology and influence and regulate individual action.

Box 1. *Consequences of Retirement Age Change*

In April 2009 the government lowered the retirement age for public servants from 60 to 55 years. Public servants above 55 years old had to retire within 15 days. According to the government, the purpose was to lower youth unemployment. Credit unions and co-operatives which focus on public servants experienced a notable decrease in active membership and a dip in share capital as members withdrew their shares as required by credit union by-laws.

Two important components of these sets of appropriate behaviour are the concepts of *kerekere* and *yalo solisoli*. *Kerekere* describes a generalized reciprocity or giving of goods or money. Often the repayment is imprecise—neither a specified amount nor time frame—but it is assumed that the beneficiary will reciprocate when the need arises. *Yalo solisoli* refers to a voluntary giving of goods and assistance. Both concepts are repeatedly blamed for non-profitability or even failures of business in Fiji. Although these norms are increasingly challenged by demographic and economic changes, they are still very common among indigenous Fijians, particularly in rural areas (Basix & Bruett, 2009). In addition, life cycle events such as marriage, birth and death are major uses of these networks as they remain both important and immensely costly. One of the current government's objectives has been to restructure traditional hierarchies and the national economy in order to advance economic and social developments. Efforts to reduce the political and economic influence of chiefs as well as discouraging lavish expenditures on life cycle events have been well reported in the press.

Table 1. Selected Macroeconomic and Financial Sector Developments

Ratio	2007	2008	2009
Growth GDP	3.6%	-6.6%	0.2%
Inflation Rate	4.8%	7.7%	3.7%
Bank Borrowing Rate (weighted average)	8.5%	7.7%	7.5%
Bank Borrowing Rate (Non-bank Financial Institutions)	8.5%	8.3%	7.7%
GNI / per capita	FJ$ 3,690	FJ$ 3,930	FJ$ 3,950
Exchange Rate US$	FJ$ 1.560	FJ$ 1.780	FJ$ 1.950

Sources: World Bank 2010a, FIBS 2010, RBF 2009, World Bank 2010b, RBF 2010

Economic growth has been slow and often negative since 2007, affecting the institutions' performances. Incomes have increased only marginally and unemployment and inflation rates rose in this period leading to de facto declining real incomes as prices for goods and services increased. The devaluation of the Fiji Dollar (FJ$) by 20% in April 2009 helped Fiji dampen exports and stave off a loss of foreign currency reserves (IMF 2010). For low income Fijians, prices for imported goods rose sharply despite government price controls and consume an ever greater share of monthly household expenditures. . This is particularly the case for the prices of fuel and energy products.

2.4 Competition

Employer-based credit unions and co-operatives' main competition are commercial banks and private money lenders. Members have bank accounts because virtually all public sector employees' salaries are paid into bank accounts. Bank loans remain fairly difficult for lower middle to low income households to access, particularly those that are not salaried employees.

In terms of deposit services, ANZ started a rural banking scheme in 2004. By June 2010, this programme reached more than 80,000 clients, primarily in rural areas. This provides rural dwellers with an option other than their local MBFI for savings. It appears likely that the share of commercial banks in this segment will continue to rise as a RBF directive in 2009 required that all banks set up microfinance units or departments. In 2010, all of the banks complied by presenting individual strategies to reach the unbanked, primarily with deposit services. All the major banks are offering lower cost deposit services in an effort to meet RBF requirements.

Money lenders primarily offer easy loan procedures, including payday lending and rapid availability, but also charge high interest. These often require borrowers to surrender their ATM cards and pin numbers or passbooks and withdrawal slips to the money lender as security (Basix & Bruett, 2009). As this practice suggests, borrowing from money lenders is dominated by salaried and even banked population.

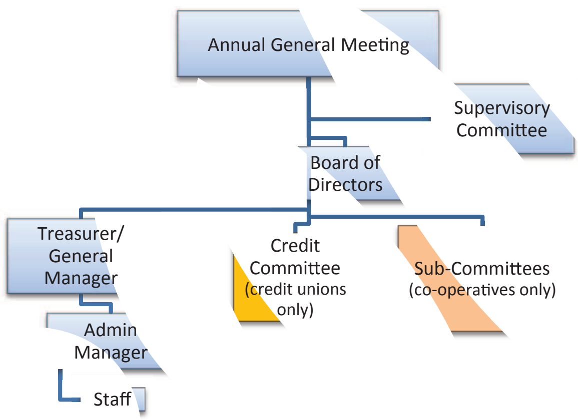
2.5 Governance and Management Structures

Main government and management structures are specified in the Acts. The institutions are owned by their members who acquire shares on a continuous basis. The highest body is the annual general meeting. At these meetings, members can exercise power through one-vote-per-member voting rights, thereby establishing or changing by-laws and electing representatives of statutory bodies which govern their institution. The other mandatory bodies below the general meeting in both types of institutions are a board of directors and a supervisory committee.[7] The Acts lay out the formal structures of these bodies and the duties attached to these positions but stipulate further specifications in the institution's by-laws.

Board of Directors. The board of directors is in charge of the general management of the institution's affairs, such as membership, loan and saving policies. The stipulated sizes are five members for credit unions and a minimum of three members for co-operatives while the number may be larger, depending on the decisions of the general meeting and by-laws. A minimum number of meetings have to take place every year (12 for credit unions and four for co-operatives).

Board members appoint from their number a president (also referred to as "chairperson") and a secretary as well as their substitutes. Board members also appoint a treasurer (or "general manager") who is in charge of overseeing the business operations.

Figure 1. Typical Organigram



The Supervisory Committee.
The supervisory committee shall consist of three members and is in charge of examining the institution's affairs, which includes regular internal audits during each financial year and provisioning for external audits at its end. It has the power to call for special general meetings and suspend officers. It is forbidden by the Acts that representatives of this committee hold positions simultaneously on the board of directors or on the credit committee.

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[7] While a supervisory committee is mandatory for all credit unions, it is only mandatory for co-operatives with more than 50 members.

Credit Committee and other Committees. In addition, the Credit Union Act demands the establishment of a credit committee of at least three members to supervise the loan portfolio. The Co-operative Act does not stipulate a credit committee but lays out basic structures for the establishment of sub-committees that focus on specific institutional goals in areas such as publicity or finance. The major demand is that each sub-committee has at least one member who is not a member of the board of directors. FTUCTCL has established 12 sub-committees for this purpose. No provisions for sub-committees are made in the Credit Union Act but several institutions established them on an informal and ad-hoc basis.

Table 2. Number of Board and Committee Members and Staff

Institution	Board of Directors	Supervisory Committee	Credit Committee	Staff
FTUCTCL	12	3	---	9 (1 position vacant)
FPSCU	6	3	3	17
FTACU	6	3	3	12
FNACU	5	3	3	5
PTEACU	5	2[8]	3	2

Sources: Annual reports from individual institutions

Individual representatives of formal organs are elected for a two year term in office in credit unions and three years in co-operatives. Thereby half (one third for co-operatives) of the positions in each organ are available for re-election at annual general meetings. While holding any of these positions, members are forbidden to remove their shares from the institution or borrow unsecured from the institution. While every member is eligible for election, all institutions demand that executives live close to the headquarters in order to participate in the regular and mandatory meetings. With the exception of the treasurer who may receive a salary, all positions in the entities are on a voluntary basis and allowances only are paid to cover work related expenditures.

Treasurer/General Manager. The treasurer works under the control and direction of the board of directors. The tasks and duties include (a) custody of all funds, securities, valuable papers and other assets of the credit union, (b) the deposit of cash into the bank account, (c) signing of cheques, (d) provision and maintenance of all assets and liabilities, and (e) the preparation of a statement of the financial position within 15 days after the close of each calendar month. In addition to the prescribed member-driven bodies all institutions employ staff.

Larger institutions generally employ an administrative manager[9] to oversee daily operations and report to the treasurer and board of directors. Size and composition of staffing varies significantly but is relatively stable across all institutions. There is a large range of staff positions, from accounting officers and information technology service providers to general secretary. Most staff members do not hold university degrees but have long experience in the sector. Starting salaries are usually located around the GNI per capita but rise with seniority and the position held. None of the institutions offers an incentive based payment system.

Box 2. The Butter System

Certain types of co-operatives, such as consumer and marketing co-operatives, often work without any cash flow among members, but provide exchange of natural goods (i.e. butter for dairy Co-operatives). An example might be fishermen who deliver their daily catch to co-operative stores, where the value gets determined. Members are entitled to withdraw products from the stock worth this amount. The co-operative store makes sure that the fish is delivered to the market where it gets sold. The revenue becomes reinvested in order to restock the store.

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8 After one of the members of the supervisory committee died no replacement was elected and PTEACU has been operating with a supervisory committee below the stipulated size of three for the past two years. They intend to increase the number to three at the upcoming annual general meetin

9 Other job titles are Senior Admin Officer and Manager Finance and Admin.

2.6 Supervision

Both Acts include provisions for formal oversight by registrars. The Registrar of Credit Unions is based at the Ministry of Justice and the Registrar of Co-operatives at the Department of Co-operatives and Small Business, which falls under the Ministry of Industry and Trade. The Co-operative Act also provides for an Advisory Board in order to support in the process of policy design and implementation.

Apart from an initial assessment of defined criteria upon formation, registrars are also in charge of examining affairs of the institutions. Once established, individual institutions are obliged to annually deliver their audited financial statements and announce the dates of annual general meetings to their registrar. The registrars are authorized under the statute to carry out unannounced onsite inspections (audit visits) at any time.

In reality, monitoring and evaluation duties are rarely performed after institutions register. Many institutions fail to deliver their financial statements or announce their general meetings. The 'Report of the Auditor General' highlights that 120 out of a total of 424 co-operatives failed to submit their annual financial statements in 2005 (Office of the Auditor General 2006: p. 4). While no specific numbers are available for credit unions, similarly low compliance was reported by the office of the Registrar of Credit Unions. Both supervisors admit that this lack of cooperation limits them drastically in their ability to fulfill their supervisory function.

At the same time, none of the supervising institutions made any audit visits in recent years. Lack of staff capacity and financial constraints are likely causes for the lack of monitoring. Director and Registrar of Co-operatives, Sevanaia Bilivalu, highlights that "a weak link in the Fijian co-operative movement is corporate governance and internal and external accountability. Never before has the need for restoring customer confidence in the co-operative sector been felt more acutely than at present" (The Co-operative College 2009: p. 6). The same can be stated about credit unions. This becomes amplified by the absence of clear definitions of penalties for executives and staff in case of non-compliance with regulations; either the description of sanctions is not included at all (Credit Union Act) or the content is not well defined (Co-operative Act).

The Department of Co-operatives additionally provides advisory and audit services for co-operatives and runs the Co-operatives Training Institute. Training modules include courses in basic accounting, financial management and leadership with prices ranging between FJ$200 – 250. However, courses are not well accepted because they involve a fairly high transportation and accommodation costs to attend.

2.7 Federations and Apex Institutions

Both Acts make provisions for the establishment of national apex organizations in order to advance the credit union and co-operative movements and facilitate operations of individual institutions, namely the Fiji Co-operative Union Ltd (FCUL) and the Fiji Savings and Credit Union League (FSCUL). In addition, the Co-operative Act provides for the possibility of forming secondary co-operatives and apex institutions for the benefit of individual members.

Both apex bodies, thus the individual institutions, are also members of global and regional associations such as the World Council of Credit Unions (WOCCU) and International Co-operative Alliance (ICA). These memberships offer additional benefits and opportunities for them, such as participation in trainings, conferences and other forms of global networking. FSCUL is also actively involved in regional credit union initiatives.

2.7.1 The Fiji Savings and Credit Union League

FSCUL was established in 1957, although the inclusion of the term 'Savings' was added in the early 2000s in order to emphasize the importance of savings' accumulation. FSCUL is effectively a 'club of credit unions', making each member simultaneously owner and customer. Membership is on a voluntary basis and the majority of credit unions keep an observer status at FSCUL—neither paying dues nor voting. Out of 39 credit unions which are affiliated with FSCUL today, only 12 credit unions have a full membership and pay their annual fees.

The low interest in full membership derives from FSCUL's lack of activities and support in the past as well as the perceived capacity and range of range of services at present. FSCUL is the only source of training and institutional strengthening locally, but services remain limited and this important role has not been performed effectively. Credit unions are often simply not aware of any benefits of association. FSCUL management is aware of this situation and is currently in a process of reviewing its operations and goals in order to raise the reputation of the institution. Areas proposed by FSCUL include the revision of legislation with view to reinforcing and strengthening official supervision, increasing support for peri-urban and rural savings institutions, offering financial literacy training for newly founded credit unions and the introduction of micro-insurance through its members.

FSCUL might enjoy a revival from a renewed interest of several large members in increased cooperation within the sector. First, FSCUL is pursuing a common management information system for all FSCUL members to lower administrative tasks and costs for individual members and raise transparency. All affiliated credit unions would have the same standard software and would transfer their data regularly to servers administered by FSCUL. Second, FSCUL wishes to help establish insurance products for its members. FSCUL has registered a company, but lacks sufficient capital to become a regulated insurer. In the interim, FSCUL implemented an in-house insurance scheme in mid-2009, a group insurance policy which covers all members of individual credit unions conjointly. As of mid-2010, four credit unions were participating. The scheme is basically a death benefit insurance which doubles the shares held of deceased members (up to FJ$30,000) and pays outstanding loan values at participating institutions. The costs are currently at 1.2% of the outstanding loan portfolio. If no progress can be achieved with creating an insurance company, this in-house scheme is likely to be extended by including additional insurance services. While this scheme could represent a more cost efficient and secure way to pool risks and minimize costs for individual institutions, it may be risky due to FSCUL lack of underwriting capacity and little external monitoring.

2.7.2 Fiji Co-operative Union Limited

Fiji Co-operative Union Limited (FCUL) was established in 1973 and is the apex body for co-operatives. FCUL has been rather inactive over the past 20 years but is receiving a renewed interest from government authorities since early 2010. The government wishes to revive the co-operative movement in Fiji as part of its import substitution campaign for foodstuffs and hopes to re-energise the co-operative movement through FCUL. Membership in FCUL is also voluntarily and 296 co-operatives are currently members. The membership fee is a symbolic FJ$1 per member per month but FCUL is aiming at increasing the amount. The Department of Co-operatives provides FCUL space in their bureau. FCUL is in possession of land in Suva and aims to build its own headquarters, but is still searching for funding for this project. Planned projects for their members primarily target other types of co-operatives than included in this report, such as marketing of agricultural and marine products.

3. Analysis: Fiji's Five

This section looks at five of Fiji's savings-based institutions including four credit unions and one thrift and credit co-operative. Fiji Public Service Credit Union (FPSCU), Fiji Nurses and Associates Credit Union (FNACU), and Fijian Teachers Association Credit Union (FTACU) are all public sector credit unions. Fiji Post and Telecom Employees Credit Union (PTEACU) opened their membership to private sector telecom employees with the liberalization of the sector. Fiji Teachers Union Co-operative Thrift and Credit Limited (FTUCTCL) is the only co-operative analyzed. All five focal institutions in this report have operated for at least 20 years, are based in Suva and are among the largest institutions of their kind in Fiji. All institutions operate with only one office, although some of the institutions have points of contact, either in individual districts (FTUCTCL) or in main centres where members are based (FNACU). These positions are voluntary and unpaid and the representatives become elected at annual general meetings. The only duties are the provision of information on products and services but not the initiation of any operations.

As overall market developments, all five institutions experienced stagnating or (more often) decreasing membership trends over the last years. While particularly the early retirement legislation affected membership, several institutions already experienced adverse developments. Major constraints are particularly tight criteria for membership. The most extreme case might be the two institutions focussing on teachers in Fiji. The credit union demands simultaneous membership with the Fijian Teachers Association while the co-operative requires simultaneous membership with the Fiji Teachers Union.[10] The dismissal of teachers and their consequent retirement from their respective association technically necessitated their withdrawal from their financial institution.

Box 3. FTUCTCL Focus

FTUCTCL officially started in 1987 and represents the most sophisticated institution included in this report. It is consisting of two entities of which one is completely focusing on the provision of financial services (Co-operative Thrift and Credit Society Limited) while the second entity focuses on investments in property (CTCS Properties). FTUCTCL has a very narrow membership focus, demanding a simultaneous membership in the Fiji Teachers Union, which is predominantly consisting of Indo-Fijians. It is not a member of any apex organisation. When speaking about FTUCTCL without further qualification, it is referred to as the financial arm.

In order to reverse these challenging trends in membership, institutions focus on two areas. On the one hand, special programmes are in place at several institutions in order to increase membership within their target group. This includes special terms for loans to new graduate students who become members, the provision of certain services to family members or the simple advertisement for members to 'bring a friend' (FPSCU) from work. Several credit unions started to broaden their criteria. The nurses' credit union started accepting associates of nursing professionals and FPSCU stopped demanding membership in the public services trade union. Fiji's police are considering allowing 'friends' to join the credit union, thereby, broadening membership drastically although no decisions have been met.

Table 3. Membership Trends

Institution	Membership 2009	Development since 2007	Active Clients per staff 2007	Active Clients per staff 2009
FTUCTCL	3,394	+509 (2008)	481 (2008)	679
FPSCU	3,331	-227	237	208
FTACU	2,394	-505	206	200
FNACU	1,119	-253	274	224
PTEACU	287	+2	143	144

Sources: Interviews and Annual Reports of institutions

3.1 Management Information Systems

The most common management information system (MIS) among the credit unions included in this report is CUBIS, although this is not the standard in Fiji. CUBIS has been designed for operations of credit unions, used on a global scale with good ratings from the World Bank. Experiences among individual credit unions differ. PTEACU is using IDL (from Camsoft) and the vast number of smaller credit unions are operating with simple Microsoft Excel spreadsheets. FTUCTCL uses COBER as their MIS and representatives highlighted their satisfaction with this programme. Due to initially high costs – in terms of money, training and time – a change of MIS is unlikely in the near future and would be under the condition of the establishment of a common database system as noted above.

[10] It is worth noting that the FTA and FTU are mostly divided along ethnic lines, serving indigenous Fijians and Indo-Fijians, respectively.

Communication with members happens through traditional channels of personal contact, telephone calls, facsimiles, mail and e-mail. Only FTUCTCL and FPSCU have their own web presence. Apart from the provision of information, promoting and marketing products, FTUCTCL offers the possibility to check the financial status via the webpage using a personal identification number. An important factor to make progress on 'internet banking' would be an improved security system.

4. Products and Services

Co-operatives are allowed to receive deposits and loans and make loans or give credit under the conditions and restrictions laid down in their own by-laws and decisions made by the general meeting. The regulations for credit unions are significantly stricter; credit unions are allowed to offer financial services solely to their own members. Financial operations are also set out in the Acts and allow for receiving, depositing and borrowing money, investing in stocks, funds or securities and acquiring and leasing land and property. Both types of institutions are exempted from paying income tax.

All institutions covered in this report offer similar products and services that are generally basic in nature and limited in range, including savings and loan products as well as basic insurance services. In fact all of the institutions analyzed are using commercial banks for their financial transactions and related services. No institution offers advanced services such as current accounts, credit cards or the possibility to invest in stocks or money markets. None of the institutions offers financial planning advice for their members, such as designs of financial plans, financial management and analysis or retirement planning. Some institutions are providing financial literacy trainings of fairly limited scale and scope.

4.1 Membership, Shares and Savings

Membership in an institution usually involves an initial application fee as well as an annual administrative fee, always below FJ$10.

Legal conditions for financial operations are laid out in the Acts. Both types of institutions are entitled to raise capital through multiple channels such as fees, issuing shares, formation of reserves, grants or other donations from public or private actors, and borrowing capital in the form of deposits or voluntary savings from members or other institutions. Institutions can set a maximum amount of savings held by individuals. Of the focal institutions in this report, this is done only by FTACU which limits individual shares to a value of FJ$6,000 per person.

All institutions demand regular contributions from their members in the form of shares and savings accumulation, repayment of loans and contributions to institutional 'group' insurance products, also known as a welfare fund at credit unions. While bank transfers, cheques, telegraphic money orders and, in exceptional cases, cash payments are a possible means to save or buy shares, the most common way for these payments are direct deductions from the members' salaries on a fortnightly basis.

The mandatory fortnightly share accumulation scheme by members is practically a planned, long-term savings product. In all cases but FTACU, shares represent a long-term investment into the institution and cannot be sold before membership ends.[11] Depending on annual profit, shareholders may receive a dividend on these shares. Following the Acts, dividend payments are capped at 6% for credit unions but are unrestricted for co-operatives. All institutions established on-going shares accumulation schemes.

[11] FTACU allows members to withdraw shares as long as the value of shares is above the value of outstanding loans.

There are two main types of voluntary saving products. The first option is a top-up of the mandatory shares accumulation that is offered by all institutions. This top-up is restrained only by maximum values set out in by-laws. At FTUCTCL voluntarily held shares can be sold in the short or medium term while they have the same status as mandatory shares at the other institutions. The second option is savings accounts that allow for capital accumulation and pay-outs at specific recurring events, usually Christmas and start of the new school year. FPSCU and PTEACU provide the opportunity to access the capital in these savings products anytime but charge an administrative (PTEACU charges FJ$5) or penalty fee (FPSCU charges FJ$31). FNACU and FPSCU started to pay interest on voluntary savings.

Table 4. Shares and Savings Products

Institution	Mandatory shares-saving per fortnight	Dividend paid on shares 2009	Voluntary saving products	Interest paid for voluntary savings 2009
FTUCTCL	FJ$20, top-up possible and accessible	3.83% (7/09)	Voluntary top-up on shares-savings, can withdraw shares above minimum anytime.	---
FPSCU	FJ$5, top-up possible, not accessible	3.58%	Christmas and Education Savings Programmes, accessible during specific periods but for a penalty fee anytime.	2%
FTACU	FJ$7, top-up possible, all shares anytime accessible	---	Voluntary top-up on shares-savings, can withdraw all shares anytime	---
FNACU	FJ$5, top-up possible and accessible	5.80%	Christmas and Education Savings, automatic deductions from salary, minimum FJ$20, only accessible during specific periods.	2%
PTEACU	FJ$10, top-up possible but not accessible	3.72%	Christmas Savings Programme, accessible anytime.	0%

Sources: Interviews and Annual Reports of institutions

Table 5. Comparable Offers (Average Interest Rate Only)			
Institution (Product)	**2007 (end of period)**	**2008 (end of period)**	**2009 (end of period)**
Commercial Banks Deposit rate (Savings)	0.64%	0.64%	0.92%
Commercial Banks Deposit rate (Time)	4.45%	3.00%	5.83%
Credit Institutions (Time Deposit Rate)	5.23%	4.55%	6.99%
Source: RBF 2010			

4.2 Loan Products

Most institutions have two standard loan products available. The first option includes those loans which are available on relatively short notice and their maximum amount is based on the amount of shares acquired. The second type of loan products is meant to finance larger investments and may exceed the individual share basis, but requires additional security.

Acceptable securities differ among institutions but include mobile and immobile property, life insurance policies and cross-guarantees from other members. It is not always clear if these securities are designed adequately to prevent losses. At FTACU, the auditors bemoaned the usage of life insurance policies without any mechanisms guaranteeing or monitoring the simultaneous payment of premiums. While use of this instrument has been stopped, risks for the current portfolio might remain. PTEACU does not accept any collateral other than shares.

All institutions limit the maximum value of loans. This limitation serves several goals. First, at several institutions the demand for loans exceeds the potential supply. Together with other limitations—such as FPSCU's limit of one loan per month per member—this cap guarantees that more members can receive loans. Second, it minimizes the risks stemming from individual defaulting members.

It is worth noting that boards of directors have the power to overrule lending criteria and do so.

Box 4. Standard Loan Procedures and Challenges

The major duty of the credit committee is the loan approval and the process is, basically, the same at all credit unions: After the staff receives the loan applications from members, financial statements are prepared and passed on for assessing eligibility and formal correctness before the application gets to the credit committee. In order to approve loans the majority of the credit committee has to be present and every loan has to be approved by their unanimous decision. If the loan application violates standard conditions, the loan approval process is to forward the application to the board of directors for a final decision. Credit committee meetings are usually on a weekly basis but occur every day at FPSCU and FTACU.

Criteria for issuing loans are defined by the acts and by-laws but these rules are routinely ignored by executives. The Credit Union Act demands that "[e]very loan shall be for a provident or productive purpose" (Credit Union Act 1978: Section 28). However, all institutions are contradicting this objective and the largest proportion of loans issued is for consumption purposes or serves the financing of social obligations. Furthermore, many rules can be overcome by unanimous votes in the board meeting and majority votes in both committees. Boards of directors in particular have the power to overrule criteria and can grant loans based on their own decisions. While this may serve good intentions, not all decisions can be legitimated on sufficient economic and legal grounds. The Credit Union Act forbids executives to borrow in excess of the value of their shares and deposits (Article 30) but provides a backdoor as this rule can be overruled. Several institutions also established by-laws which aimed to prevent disbursement of unsecured loans. Again, boards and committees have been able to defy this rule and many unsecured loans are given. As a consequence, executives are effectively unrestrained in their ability to exercise power.

While the management of co-operatives can determine interest rates for loans autonomously, the Credit Union Act caps interest rates on loan products at one percent per month. All credit unions chose the maximum interest rate possible (one percent of declining loan sum, or 12% flat per year) while FTUCTCL charges 6% flat per annum and adjusts to the outstanding loan sum annually.

Table 6. Comparable Lending Rates of Competitors			
Institution (Product)	**2007**	**2008**	**2009**
Commercial Banks Lending Rate (Private Individuals)	9.93%	9.31%	8.72%
Credit Institutions (Private Individuals)	11.93%	11.02%	11.11%
Source: RBF 2010			

Loan application requirements are similar across the five institutions and require a minimum membership of three months as well as an in house credit history check of applicants. The institutions rely heavily on the automatic deductions from the salary to secure on time repayment rather than credit history. None of the institutions has signed up to the services provided by the Fiji Data Bureau Limited. Their reasons for not participating include the high cost of participating and the lack of perceived benefits given the secured nature of lending. None of the institutions applies penalty interest rates or fees.

Box 5. Boards of Directors and Loans

A major risk in the control of loan portfolio quality is the largely unrestricted power of the board of directors, which is related to insufficient external monitoring and penalty systems.

At FPSCU, board and committee members had obligations of $354,979 of which $282,990 are unsecured despite the Credit Union Act. The relevant numbers were constantly cited by auditors but continued to rise (e.g. 2007). At PTEACU, loans given to directors, staff and some members were also well in excess of the security offered by them. The total amount of individual excess loans amounts to $239,021.03 at 31 December 2009. At FPSCU, the auditors, additionally, highlighted that the total value of unsecured loans could not be quantified.

Table 7. Loan Products

Institution	Product Name	Maximum Amount per person	Fees	Nominal Interest Rate per annum	Maximum Term	Acceptable Securities
FTUCTCL	Soft Loan Emergency Loan	Shares + $200 Shares Only	FF$0	6%	138 months- depending on amount	Solely shares
	Formula Loan	Shares x10, max. FJ$60,000				Motor vehicles, real estate, shares, life policy, land titles
	Special Loan[12]	FJ$60,000				
FPSCU	Standard Loan	Shares + (value of collateral) + FJ$X (in some cases more than FJ$12,000 unsecured)	FJ$10 – FJ$15	12%	60 fortnights	Primarily shares but motor vehicles, real estate, land titles and life policy also possible
FTACU	Ceiling Loan	Shares + $500	FJ$5, if approved; FJ$1 per month for long-term loans	12%	3 years	Shares
	Share Saving Secured Loan	Shares	FJ$5 – $7	12%	6 months	Shares
	Property Asset Secured Loan	FJ$5,000				Mortgage on property as se-curity
						Real estate, land titles
FNACU		Shares +$200				Shares, cross warranty
PTEACU	Share Savings	Within Shares	FJ$10	12%	3 months	Shares
	Double Shares	Shares x2			3 months	Shares
	Unsecured Loan	FJ$5,000			6 months	Shares

Sources: Interviews and Annual Reports of institutions

[12] For specific investments, e.g. medical evacuation or education

4.3 Other Financial Services

All institutions offer a basic insurance scheme, either managed by the institutions themselves or as an in house insurance provided by FSCUL for associated credit unions (see Section 2.5.1). This scheme represents a funeral insurance although some institutions provide additional benefits.

Most schemes share the basic characteristic of paying outstanding loans of deceased members and protect or increase the value of their accumulated shares for beneficiaries. While individual benefits vary, the credit unions and FSCUL double the value of shares of deceased members up to a specific value. Other benefits include one off payments when members retire at FTACU (FJ$ 1,600). FTACU covers burial costs (*"reguregu")* at FJ$ 800 while the scheme of FNACU provides for *reguregu* and, under certain conditions, small grants for education and medical assistance. FPSCU offers a scheme to top up the shares of deceased members by FJ$5,000

Depending on the design, contributions of the members differ. While the basic schemes offered by FTUCTCL and FSCUL cost one percent of the outstanding loan amount, all other credit unions charge a small fee which is deducted together with the other contributions of members from their salary but might be extended by other costs.

Table 8. Design of Insurance Schemes and Welfare Funds

Institution	Costs per individual member	Benefits provided
FTUCTCL	1% of Loan Value	Pay off debt and secure shares, linked to loans.
FPSCU	FJ$6.5 per quarter	Top up shares by FJ$5,000
FTACU	FJ$8 per month	Pay off debt and doubling of shares value (max. FJ$6,000) of deceased members, FJ$600 *reguregu*, FJ$1,600 retirement
FNACU	FJ$10 per month	Pay off debt and doubling of shares value (max. FJ$10,000) of deceased members, provide education and medical assistance under specific conditions, $50 per hospital stay in form of goods, annual donations (social responses). In addition, FJ$2 is deducted from each member when a member dies for *reguregu*
PTEACU	FJ$6 semi-annually, participating in FSCUL scheme	Pay off debt and doubling of shares value (max FJ$30,000)
FSCUL	1.2% of the value of loan portfolio	Pay off debt and doubling of shares value (max FJ$30,000)

Sources: Interviews and Annual Reports of institutions

5. Financial Condition

All data presented in the Sections 5, 6, and 7 comes from audited annual reports of the five institutions but has been streamlined with the SEEP Framework in order to enhance data comparability.[13] This has some effects on the composition and levels of the financial statements when compared to the official financial reports and influences the calculation of ratios and indicators.

First, all income coming from the possession of property and land has been included as nonoperational income. This type of income represents an important source of income at several institutions and represents an important diversification of assets, however it is not in the focus of this analysis. Second, dividend payments have been included in

[13] The Small Enterprise Education and Promotion (SEEP) Framework has been developed to assist managers of microfinance institutions to develop consistent performance monitoring systems based on international standards and in creating financial statements for boards of directors, donor agencies, and investors. The Frame Tool assists in the categorization, analysis and use of financial data for monitoring purposes. For more information, please visit http://www.seepnetwork.org.

the balance sheets as a negative adjustment to equity on an annual basis. A third major adjustment concerns the inclusion of the reserve fund in the balance sheet. Following accounting standards in Fiji, the reserve fund is included as a members' equity. As a consequence, balance sheets do not balance. In this report it has been included as an asset, or more precisely, as the contra asset account 'impairment loss allowance' (a loan loss reserve) as is done with commercial financial institutions in keeping with its primary function as security against potential defaults.

Finally, apart from the changes in the composition of financial statements it is important to note that FTUCTCL changed the end of their financial year in 2009 and the preceding financial year lasted 18 months. This has some effects on the numbers in absolute terms but does not affect the relative figures.

5.1 Assets

As expected, most institutional capital is used to provide loans to members.[14] Except for FTUCTCL, the value of portfolios has been in decline (see Figure 2). Some institutions highlighted a sudden increase in the demand for loans after the economic situation worsened in 2007, which has tapered off since. The challenge is meeting that demand when faced with declining share capital. For example, FPSCU could serve less than 80% of the loans demanded over the last three years. Most loans issued are only for a short term and represent, on average, only a relatively small part of the Gross National Income (GNI).

Table 9. Value of Loans Written off (FJ$)

Institution	2007	2008	2009
FTUCTCL	0	0	0
FPSCU	1,396	0	0
FTACU	20,994	785	57,428
FNACU	3,331	0	3,745
PTEACU	0	40,571	10,196

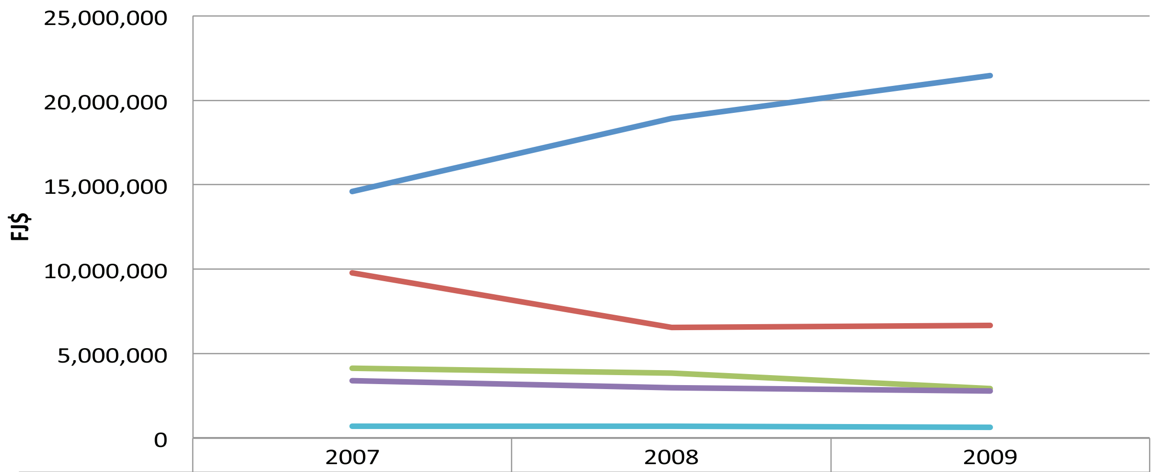
An important aspect for determining financial health is the quality of the loan portfolio. Unfortunately, the information obtained from individual institutions is fairly limited, stemming from poor portfolio management, reporting and reluctance towards information-sharing. None of the institutions has a comprehensive loan rating system in place such as the international standard 'Portfolio at Risk'. Furthermore, bad loans are not written off on an adequate level. As a consequence, loan portfolios are artificially inflated. FTUCTCL and FNACU are the only two institutions providing information about defaulting loans in their annual reports. In both cases, the scale of bad loans – accumulated since existence of the institutions – is below 2% of the portfolio at the end of the financial year 2009, indicating a healthy composition of the loan portfolio. This kind of information could not be obtained from FTACU, FPSCU and PTEACU.

All institutions are holding a mandatory reserve fund as a security against bad loans. The value of the reserve fund was shrinking notably at FTACU and PTEACU, stemming from relatively large write offs in the loan portfolio and only mandatory transfers from the net income to the reserve fund. While these procedures are likely to have raised the quality of the portfolio, future capacity to continue the cleaning of the portfolio is more limited and would demand higher contributions to the fund in order to continue this process.

[14] However, at FTUCTCL capital is also transferred within the institution from the financial entity towards CTCS Property for lending and acquisition of investments. The value of loans issued for this purpose accounts for FJ$ 6,962,046, or 30% of the gross loan portfolio. In other words, the part of the loan portfolio which is available for members stands at FJ$16,163,074.

Contrarily, reserve funds were growing at FTUCTCL, FNACU and FPSCU as a consequence of no or only marginal write offs. Reserves are exceeding the mandatory minimum only at FNACU and FPSCU, drastically at the latter, coming from higher than mandatory contributions.[15]

Figure 2: Loan Portfolio



	2007	2008	2009
FTUCTCL	14,601,409	18,917,938	21,459,331
FPSCU	9,770,282	6,547,190	6,663,699
FTACU	4,122,661	3,834,367	2,925,406
FNACU	3,399,742	2,964,971	2,779,333
PTEACU	690,534	681,429	625,070

It is important to note that the reserve fund must not be held aside as a cash reserve or determined secure products but 'may be invested in the same manner as other moneys of the credit union' (Credit Union Act 1978: Section 37.3). Regulations for co-operatives are similarly. Most credit unions invest the reserve fund into term deposits at commercial banks while FTUCTCL puts it into its investment arm, FTUCTCS Properties. Properties of individual institutions have not been fully included in this report as information has not been fully disclosed. In general terms, several institutions hold property, either as an investment, or they use the premises themselves which saves them costs such as rent payments.

Table 10. Liquid Ratios

Institution	2007	2009
FTUCTCL	3.63x	1.13x
FPSCU	1.03x	0.71x
FTACU	0.76x	1.30x
FNACU	2.17x	1.48x
PTEACU	0.45x	0.75x

15 FPSCU holds the mandatory reserve fund and a special reserve fund, which has been established by the general meeting. The special reserve fund is fed after mandatory transfers to the reserve fund and dividends paid out. However, the two funds do not differ in their purpose.

At some institutions, (net) fixed assets represent a large share of assets. This is due to the value of leasehold land and property held by FPSCU, FTACU and FNACU. The value of FTUCTCL is particularly low as all property investments have been transferred to the second entity, CTCS Property.

Table 11. The Loan Portfolio

Institution	Portfolio to Assets 2009[16]	%-change 2007 –2009	Reserve Fund to Loan Portfolio 2009	%-change 2007 –2009	Average Loan Value Disbursed 2007 (FJ$)	Average Loan Value Disbursed 2009 (FJ$)	Average Loan Value 2009 as Share of GNI/p.c.
FTUCTCL	101.3%	18.8%	8.4%	0.9%	N/A	N/A	N/A
FPSCU	85.8%	-7.6%	33.9%	4.1%	225	233	6%
FTACU	70.6%	-7.1%	0.9%	-0.5%	235	258	7%
FNACU[17]	73.0%	4.7%	10.8%	2.6%	218	296	7%
PTEACU	89.3%	-8.6%	1.7%	-5.9%	342	443	11%

Table 12. Fixed Assets

Institution	Net Fixed Assets (2009) (FJ$)	Fixed Assets (2009) (FJ$)	Net Fixed Assets relative to All Assets (2009)	Fixed Assets relative on Assets (2009)
FTUCTCL	43,267	144,825	0%	1%
FPSCU	3,416,723	4,582,657	29%	39%
FTACU	613,435	754,751	15%	18%
FNACU	259,702	564,912	6%	13%
PTEACU	7,085	33,628	1%	5%

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[16] A Portfolio to Assets ratio above 100% indicates that the reserve fund held is larger than all assets other than the gross loan portfolio. The reserve fund is included as a contra-asset account.
[17] Number of loans issued in 2009 artificially increased by 1,600 by author because analysis for November and December is missing in the credit committee report. The number takes into account that both months represent peak season.

Table 13. Loans, Reserve Fund and all Assets				
Institution	**Year**	**Loans (FJ$)**	**Reserve Fund (FJ$)**	**All Assets (FJ$)**
FTUCTCL	**2007**	14,601,409	1,189,563	19,129,004
	2008	18,917,938	1,502,599	21,329,506
	2009	21,459,331	1,976,271	23,125,120
FPSCU	**2007**	9,770,282	2,906,533	10,461,416
	2008	6,547,190	3,242,230	10,399,626
	2009	6,663,699	3,415,208	11,744,225
FTACU	**2007**	4,122,661	58,876	5,378,976
	2008	3,834,367	70,305	5,022,075
	2009	2,925,406	26,576	4,181,832
FNACU	**2007**	3,399,742	301,901	5,423,030
	2008	2,964,971	337,826	4,692,047
	2009	2,779,333	335,034	4,264,194
PTEACU	**2007**	690,534	57,019	763,811
	2008	681,429	19,256	750,230
	2009	625,070	11,126	712,257

5.2 Equity and Liabilities

One characteristics of MBFIS in Fiji is the primary focus on mandatory shares accumulation. As tier 1 capital, member shares are considered the most reliable and permantent source of capital for the credit unions. Most of the shares are acquired through direct contributions deducted from members' fortnightly salaries. On the other hand, voluntary savings are offered by all institutions but do not receive much attention from members. In most cases, extra funds contributed by members are included as a top up of shares. As a result, lending activity is closely linked to credit unions' ability to raise and maintain share capital.

Donations or governmental grants do not play any role.

As described in Section 5.1, when the situation worsened for members, loan demand increased, but most credit unions were unable to increase capital to meet the demand. As noted in Box 1, redundancy and mandatory early retirement across all government led to the resignation of members. In most cases the credit unions' own by-laws require nonunion members (i.e. no longer employed) to resign. In most cases, these members not only stopped acquiring new shares but also withdrew the full value of their shares. Because of their age and seniority, these withdrawing members usually had relatively large values of shares and the highest fortnightly contributions.

Table 14. Member Shareholding		
Institution	**Value members' shares (2009; FJ$)**	**Growth/(decline) in Shares' Value (2007 – 2009; %)**
FTUCTCL	20,817,859	16%
FPSCU	9,675,132	2%
FTACU	2,771,591	-27%
FNACU	3,282,155	9%
PTEACU	485,500	-8%

In general, the data suggests that the credit unions with the highest compulsory shares accumulation also experience slow or declining membership growth suggesting that at some point the mandatory accumulation becomes a deterrent for continued membership. As the minimum mandatory savings have to be determined by the annual general meeting for the coming year, management has little ability to react to resignations during the year or offer enticements for members to stay. It is fair to say that credit unions were initially slow to react to the early retirement decree, although some eventually did allow for retiring members to stay.

In general the credit unions do not rely on borrowing for financial activities. However, an increased use of overdraft facilities and lending from commercial banks and FSCUL has been observed at the three institutions with the lowest growth in the value of members' shares and savings.[18] The institutions provide land and property titles, as well as members' shares, to secure overdraft and borrowing facilities.

Table 15. Liabilities and Equity Trends

Institution	Liabilities 2009 (FJ$)	% Change (2007 – 2009)	Value of savings (2009; FJ$)	Savings as a % of Liabilities	Borrowing as % Liabilities	Debt to Equity 2007	Debt to Equity 2009
FTUCTCL[19]	1,341,072	93%	---[20]	0	0%	0.04x	0.06x
FPSCU	1,025,784	275%	469,241	16%	71%	0.03x	0.10x
FTACU	691,985	-19%	7,891	1%	93%	0.19x	0.20x
FNACU	539,318	1%	530,641	99%	0%	0.11x	0.14x
PTEACU	102,145	9%	10,810	11%	72%	0.14x	0.17x

Box 6. The Reserve Fund and Procedures in Case of Default

Credit unions and co-operatives have to install a mandatory reserve fund as a protectionist measure against losses from bad loans. This fund cannot be used for any other purpose, except on liquidation. Credit unions have to feed this fund until it reaches 10% of the combined value of deposits and member shares (Article 37.1: "exceed ten percent of the sum of the deposits and the issued capital of the credit union"). Until this is achieved, management is required to add certain components of income and revenues to this fund. Credit unions are required to add at least 20% of the annual profits and all entrance fees and fines. Regulations differ slightly for co-operatives in so far as that they have to add 30% of their annual surplus coming from transactions with members and all surpluses coming from transactions with non-members to their reserve fund. If the reserve fund reaches 50% of the value of assets, they are entitled to lower their annual contributions to 5% of the annual surplus. Co-operatives that were founded after 1996 have to contribute, for four years, 50% of their annual surplus to the reserve fund. At least 25% of the allocations to the reserve fund have to be transferred to a National Reserve Investment Trust Fund which is administered by the National Co-operative Federation.

The reserve fund does not have to be held as a cash reserve but can be invested in 'the same manner as other moneys of the credit union but any interest or dividend on such investments shall be paid to the general revenue of the credit union'. The Co-operative Act simply demands that the reserve fund should be used as specified in by-laws and the general meeting.
Institutions are also entitled to take legal action against defaulting borrowers but this measure is seldom chosen. Normal procedures if repayments are delayed or have ceased completely are usually two or three reminding letters, in exceptional cases accompanied by telephone calls or visits to the client's house. Nonparticipation in the Credit Bureau means this organization cannot give assistance in cases of defaulting debtors. Furthermore, defaulters are only seldom taken to court or the small claims tribunal because of high costs associated to these processes. Many institutions inform the employers (departments) about payments in arrears and some of them pass on relevant data to the Department of Immigration in case the defaulting borrowers are leaving the country.

18 However, while no external credit from commercial banks was used by the financial arm of FTUCTCL, the investment entity has been regularly borrowing money for financing property from both external sources and FTUCTCL's financing arm. In addition, liabilities for one property, a tourism resort, have been outsourced and are carried by the property itself

19 FTUCTCL uses a different accounting approach than credit unions and 99% of liabilities are represented by 'Provision for Dividend'.

20 Due to limited information it is impossible to determine the amount of voluntary savings at FTUCTCL. Voluntary savings are included in the value of shares.

5.3 Welfare Funds and Insurance Schemes

The Welfare Funds and Insurance Schemes vary in their terms as well as their funding source. Most are in house schemes managed by the institutions. Those institutions which offer more extensive benefits, particularly a top up of shares upon retirement at FTACU or medical benefits at FNACU, experienced notable declines in Fund or re-serve balances. This contrasts with those that have introduced fee-based schemes with modest benefits, such as FTUCTCL, which have grown their funds. The means of funding is critical. In recent years, schemes funded as a percentage of lending have done better than those funded at fixed monthly, quarterly or annual rates. The most extreme example is FPSCU which charges FJ$6.5 per quarter and adds only an additional FJ$50,000 from net income to the Fund. This contribution amount is not linked to actual future demands. PTEACU had no such scheme in place earlier but is now participating in the in house insurance which is provided by FSCUL for associated members.

Table 16. Developments of the Welfare Fund / Insurance Scheme

Institution	2007	2008	2009
FTUCTCL	528,518	651,276	966,188
FPSCU	250,634	259,374	284,900
FTACU	-174,887	-305,183	-360,277
FNACU	388,350	370,253	232,652
PTEACU	Not Provided	Not Provided	FSCUL Scheme

6. Financial Performance and Efficiency

All five institutions are covering costs (operational self-sufficiency or "OSS"). In three out of five cases, the OSS ratio was declining. Trends in total income of the institutions are rather mixed; three institutions achieved net growth in annual revenues, while two experienced dramatic decreases of more than 45%.[21]

Table 17. Absolute Income, Revenue and Operational Sustainability and Trends

Institution	Total Revenue (FJ$)	%-change 2007 – 2009	Total Income 2009 (FJ$)	%-change 2007 -- 2009	OSS 2009	%-change 2007 -- 2009
FTUCTCL	1,903,913	77%	880,554	79%	236%	5%
FPSCU	1,693,667	4%	735,292	17%	118%	23%
FTACU	485,753	-34%	62,804	9%	112%	23%
FNACU	456,456	-25%	322,076	-46%	154%	-48%
PTEACU	85,508	-11%	21,758	-53%	107%	-4%

Return on Assets (ROA) measures how well institutions utilize their assets to generate returns, whereas Return on Equity (ROE) measures the value of net income returned to shareholders. As most of the institutions are primarily financed through shares, the ratios should be quite close. The main driver of income generation was in all cases coming from interest, fees and commissions received on the loan portfolio. Yield on Gross Portfolio (or 'portfolio yield') expresses the ability to generate cash from the gross loan portfolio—it is linked to both the interest rate and repayment rate of the institution.

[21] These figures are unadjusted and before mandatory transfers to the reserve fund, contributions to welfare funds (insurance schemes) or distribution of dividends.

Comparing these ratios reveals aspects of a MBFIs financial efficiency, particularly how well it uses its capital and liabilities to build earning assets and generate revenue. FTUCTCL achieves a lower yield than the other institutions primarily because of its relatively low interest rate charges, but managed the highest ROA. This suggests that through volume and efficiency, it earns more for each dollar lent than the other institutions.

In 2009, 85% of all generated revenues came on average from the loan portfolio. The relatively low contribution to income at FPSCU comes from property investments which are kept on their books and represent 27% of the income (2009). Contrarily, FTUCTCL achieved the highest return from its loan portfolio while property investments have been outsourced to the second entity. Income from other sources such as interest on deposits and dividends on investments remains marginal in all cases.

Table 18. Selected Revenue Ratios and Indicators

Institution	ROA 2009	ROE 2009	Portfolio Yield 2009	Financial Revenue as % of Total Revenue
FTUCTCL	4.9%	5.2%	8.4%	96%
FPSCU	1.6%	1.7%	11.9%	70%
FTACU	1.1%	1.4%	12.8%	89%
FNACU	3.4%	3.9%	12.0%	84%
PTEACU	0.8%	0.9%	11.5%	90%

It is worth comparing the theoretical annual percentage rate (APR) of loans issued to the portfolio yield. In a world of perfect repayments, the rates would be nearly identical. For example, a loan issued at 12% flat with no additional fees provides for an APR of between 19% and 23% for a loan issued for one month and one year, respectively.[22] However, the yields are anywhere from 5% to 10% less than this in most cases. This indicates that many loans and interest payments are not repaid on time or in full. The exception is FTUCTCL which charges 6% flat producing a yield of 8.4%, well within the range of the estimated APR.

Table 19. Development of Expenses

Institution	Overall Expenses in (2009; FJ$)	% change in overall expenses (2007 – 2009)	Op. Expense Ratio (2009)	% change in Op. Expense Ratio (2007 – 2009)	Cost per active client (2009)	Absolute change (2008 – 2009; Fj$)
FTUCTCL	324,694	64%	1.5%	-1.00%	101	-34
FPSCU	760,787	-14%	10.2%	1.80%	213	+9
FTACU	417,256	-38%	10.6%	-3.80%	136	-4
FNACU	283,861	-1%	8.7%	-6.60%	242	-19
PTEACU	75,178	-6%	10.2%	1.80%	258	-14

[22] At FTUCTCL, the relevant values would be between 9% and 12% for 6%

In absolute terms, expenses increased only at FTUCTCL over the three-year period. However, relative to its size it has the lowest relative ratios in terms of membership and portfolio managed. FTACU and FPSCU represent the institutions with the highest expenses despite decreasing expenses over the period. The drop in cost per active client, in combination with declining membership, indicates gains in productivity and efficiency. It is important to realize that these developments occurred under difficult economic conditions such as decreasing GNI and inflation rates above 5% and, in some cases, declining or stagnant membership. This shows that the MBFIs are able to adapt to fluctuating revenues, reducing expenses as needed in tough times.

The main components on the expense side are administrative and personnel cost. Both usually have a combined share of above 90%, with individual contributions not varying widely. Financial expenses account for between 2% (FTUCTL) and 14% (FTACU) in 2009 to the overall costs. It is important to note that dividends paid are not a financial expense—they are a distribution of net income—and therefore not captured in the financial expense ratios. Financial expense does capture interest paid on deposits and the use of overdraft facilities and other borrowing. The use of external borrowing was either for bridging of shortages in the capital available for lending during peak periods (PTEACU) or financing of property renovations (FPSCU).

Table 20. Dividends

Institution	Dividends Paid to Members as % of Average Shares Value			Dividends Paid to Members as % of Avg. Gross Loan Portfolio
	2007	2008	2009	2009
FTUCTCL	3%	4%	5%	5%
FPSCU	3%	4%	3%	3%
FTACU	0%	0%	0%	0%
FNACU	6%	5%	6%	6%
PTEACU	4%	3%	4%	3%

An important factor for individual members of the institutions is their annual dividend. Dividends are not expenses per se. Dividends are paid from the net income, that is after all mandatory and internal contributions have been made. The net income usually accounts for 60% to 70% of the total income and is used by the institutions for the disbursement of dividends and build-up of retained earnings. Only FTACU has not disbursed any dividends over the past three years, which suggests that dividends are expected by members as a type of interest on their shares.

Retained earnings are occasionally used to increase annual dividends (PTEACU) or given to members as additional one off payments (FNACU). In no case are dividends exceeding the Fijian inflation rate over recent years or the maximum allowed under the Credit Union Act (6%). While these divided payments are modest, in most cases they would add up to 40% to operating expenses if included as part of the financial expense. As noted in Table 20 as much as half of the total yield on the portfolio is paid out to members in dividends.

7. Observation of Challenges

As a whole, Fiji's credit union and co-operative movements are burdened by a bad reputation due to decades of poor management and oversight. At the same time, the larger, employee-based credit unions have managed to buck this trend and, despite challenges of their own, continue to serve their members adequately. These larger MBFIs benefit from membership among salaried workers, mostly public sector, with relatively stable fortnightly salaries. The use of direct deposits to build members' shares and deduct their loan payments provides the MBFIs to an ongoing source of funds and means to collect at a relative low cost. Unlike Fiji's microfinance institutions, all of those analyzed are operationally self-sufficient. They are fairly efficient and return a large percentage of their net income to members in the form of dividends.

A number of external challenges became apparent that require action if credit unions are to grow. While not all challenges apply to all institutions the same way, some general conclusions can be derived from the findings.

The macroeconomic and financial sector developments cited impact all financial institutions and their clients, although credit union membership was particularly hard hit by the early retirement of members. While it is unclear the extent to which commercial banks will compete more actively for business from these institutions' members as a result of the microfinance decree, credit unions and co-operatives should anticipate greater competition for savings and collateralized lending from the commercial sector.

Internal challenges arise from the institutions' own by-laws, which further restrict membership and product offering pricing. Particularly tight membership criteria have contributed to funding constraints and shrinking portfolio, not to mention strain on welfare funds. The current by-laws are often not followed and there are inadequate business procedures and internal controls. Examples include the artificially inflated loan portfolios due to the lack of write-offs, insufficient reserve funds, and acceptance of inappropriate collateral and/or unsecured borrowing, including that by member of the management, committees and board. There is also a general failure to innovate, such as developing voluntary savings products or more appropriate loan products for members.

Financial behaviour of members impacts the financial performance of the institutions. Clients are guided by national norms and influenced by macroeconomic and political developments. It is true that clients, when offered, have not adopted voluntary savings schemes and the majority are looking for relatively fast, easy collateralized credit for consumption. Ultimately it is the members themselves that must determine what they want from their institutions and through the annual general meeting provide the guidance and support necessary for management to accomplish this. A challenge for all credit unions is the dual pressure from members for high returns on savings and cheap rates on loans, both of which lead to an unwillingness to allow the institutions to invest more in management and operations.

7.1 Potential for Government Action

Government support for the credit union and co-operative movements is low. The Credit Union Act was last updated more than 30 years ago and the Co-operative Act 15 years ago. This is needed as well as a minimal on-site supervision regime to ensure that financial and operational audits are accurate.

Both Acts are outdated and both unduly prescribe membership, operational and financial policies. Revisions to the Act should:

- encourage more professional and flexible management arrangements including a stronger internal audit function
- make stronger requirements and "fit and proper" tests for participants on the oversight bodies
- Standardize and make transparent portfolio reporting requirements
- provide for meaningful oversight, particularly of larger MBFIs
- remove restrictive provision such as caps on interest rates and dividend rates.

There has been much discussion about this revision and it is beyond the scope of this report to recommend specific changes. In addressing the Pacific Credit Union Congress in 2009, the Governor of the RBF noted that "in this regard, I am pleased to inform you that the RBF" would "shortly be carrying out a study to find out what needs to be done to improve the governance standards of credit unions in Fiji. This will also involve a thorough review of the Fiji Credit Union Act." In the same speech, the Governor highlighted the concerns with current governance shortcomings, but emphasised the need for credit unions to play a more active role in financial inclusion and using innovative means to reach the unbanked.[23]

The best revisions will be meaningless unless supervision is effective and real penalties are levied for misbehavior. Numerous cases of inappropriate conduct are easily recognized in financial and annual reports, some of which have been highlighted in this report. Therefore, an update of the Acts would demand to go hand-in-hand with an extension of supervision. The RBF is the most likely candidate to play this role – at least for the larger institutions. At a minimum the mandatory annual audit requirement and off-site review of statements and an on-site inspection visit of the largest institutions should be done.

7.2 Potential Action for Institutions

The Annual General Meeting is the ultimate decision-making body of these institutions, which can establish or modify guiding by-laws. Members can thereby exercise their power by voting for stricter management rules and internal supervision, improved processes for selecting members of supervising bodies as the grant management authority with responsibility to enact better business processes, products, terms and conditions. To do so, members must be convinced that management is up to the task. They must also accept that improvements in the medium term will require greater expenses (and lower dividends) in the short-term. Some specific actions the institutions could address internally are considered below.

7.2.1 Better Oversight and Management

Through the by-laws, institutions can strengthen governance, internal controls and business processes as well as increase transparency.

Board members should be drawn from the membership based on their skill set. It is even appropriate to invite board members from outside the membership if they can add a needed skill to the institution. The role of the board should be realigned to provide strategic and management oversight, with limits on the board's ability to interfere in day-to-day decision making. As an example, the board's ability to overrule credit approval criteria appears to be used more often to undermine portfolio quality rather than strengthen it. A few boards are also guilty of helping themselves first—approving non-secured credit for their own members.

At the same time, institutions should have a professional internal audit function. The role and use of the supervisory committee needs to be enhanced to oversee internal audits, preferably performed by a full time, paid internal auditor. An internal auditor might even be shared across several institutions, facilitated through FSCUL. The role of the supervisory committee becomes making sure that internal and external audit findings are addressed, to ensure timely and transparent reporting, and that management and members are subject to disciplinary measures as appropriate. Supervisory boards have the most difficult job of the different oversight bodies. It is not unreasonable for credit unions to provide some compensation for this role as an incentive, provided members fulfill their responsibilities.

Institutions can adopt better, more frequent and more transparent reporting requirements independent of a change in the Acts. A review of statements, including audit statements, reveals a lack of accounting standards and norms in reporting information. The introduction of better accounting practices and assessing impairment (or loan loss) charges on a regular basis against earnings and establishing a more accurate write-off policy are essential. At present it is difficult to distinguish rescheduled and delinquent loans and members face few penalties for either. Fully

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[23] http://www.reservebank.gov.fj/docs/Governor%20Reddy's%20Opening%20Speech%202nd%20Pacific%20Credit%20Union%20Congress%20Sep09.pdf

accounting for welfare fund and insurance fund reserves is also needed, with charges and reserve amounts better reflecting the potential future liabilities. Publishing public statements quarterly or annually would also increase transparency even in the absence of a supervisor.

Refining business processes will also depend on the design of products (see below). One step would be to gather credit reports on clients before loans are issued. It is common, indeed likely, that members receive loans from multiple sources simultaneously. While the Fiji Data Bureau does not capture informal lenders, it can provide data on loans from banks and finance companies. In addition, requiring more aggressive collection procedures as well as assessing fees for poor performance does not violate either Act and will help institute some risk-based pricing despite the interest rate cap. If members understand that delinquent payments by some members limits the availability and amount of funds for other members they are likely to support penalties and put more peer pressure on delinquent borrowers.

7.2.2 Increase Scale and Scope

The institutions can increase its scale and scope through a relaxation of membership criteria and a selective increase of products and services offered, either of which is possible under the current Acts. In any case, a liberal interpretation of membership qualifications is unlikely to be challenged.

Due to tight membership criteria, risks such as early retirement were very concentrated in institutions serving public servants. Diversifying the membership base has the potential to cushion losses in equity due to member withdrawal. It can also help diversify credit risk. Allowing those who have left their job, but have a good credit record, is a good first step particularly if that member is employed elsewhere. Opening membership up to family members or related professions or institutions is another option. This may also require some flexibility in regard to the mandatory monthly contributions; retired workers, spouses or children may not be able to make monthly share contributions, but they might still access savings services or be creditworthy borrowers.

Any extension of the product range should take into consideration both specific interests by members and niche products that can compete with those offered by other financial services providers. Savings products have received too little attention. A promotion of planned or term savings accounts seems a logical start. The demand for planned savings is evident in the high participation in the monthly shares requirement. Other types of planned savings might address life cycle events, such as school, wedding or even retirement. They might also target certain segments, such as school children or older workers saving for retirement. Aside from meeting a need, they can provide a longer term, less cyclical (or more predictable) funding base. Unlike dividends, credit unions and co-operatives are permitted to set their own savings rates. By offering a better yielding, credit unions could become more attractive relative to commercial banks.

There appears to be room for clients to save more. While FTACU and FTUCTCL focus on the same segment of salaried workers (teachers), at FJ$40 FTUCTCL demands the highest monthly contributions while FTACU demands just a third of this value. At the same time, FTUCTCL appears to be much more successful in keeping members. This suggests that the other MBFIs might have room to provide attractive voluntary savings products.

In terms of loans, consumption loans represent the largest share of loans issued today. This is not uncommon in credit unions, but it is a missed opportunity to help members 'borrow wisely' as is prescribed in the Credit Union Act. One option is asset finance, using the asset as collateral rather than solely a member's shares. Store credit and "hire purchase" arrangements in Fiji are common and rates offered by stores are extremely high. In some countries, credit unions work directly with stores to allow clients to apply for and receive quick approval for asset financing. The MBFIs could even focus on specific types of equipment needed by their members, such as renewable energy lighting or healthy cook stoves, or even uniforms and school supplies for children. Targeting the specific needs of members is also a possibility. For instance, new professionals, such as nurses and teachers, may have a greater need to pay back debts incurred during school. Older teachers may wish a term savings accounts that offers a higher return and no withdrawals. An excellent service is the provision of fast emergency loans, based on the credit record and savings balance of the member.

Finally, all institutions already have experience with basic insurance products. This offers a platform for extension of insurance schemes. While welfare funds and basic life insurance play an important role, health and endowment insurance products are not available to the majority of Fijians. The combined memberships of the largest institutions and their families is an attractive insurance pool and products might be designed to provide (or supplement) need assistance.

Credit unions benefit most when they are true to their commitment to increase the welfare of their members. An interesting scheme that represents the support mechanisms provided by FNACU is giving grants to members upon achievement of certain conditions in order to finance further education. Such a scheme appears worth considering bother institutions. Although there are no direct financial benefits to the credit union, it raises members' satisfaction.

7.2.3 Selective Co-operation and Networking

FSCUL and FCUL are both fairly weak and it is doubtful that either will be able to provide meaningful training or support services. At the same time, they might play a role in facilitating common services, promoting common standards, and advancing common interests on behalf of their members. *Economies of scope* refers to the establishment of common products, services or administrative structures in order achieve synergy effects such as higher quality standards, lower individual costs and a wider range of products offered. An example is the effort to develop a cost-effective MIS for multiple users or the microinsurance initiative. Another might be the common outsourcing of certain administrative tasks, bookkeeping, internal audit or even facilitate joint marketing campaigns. The apex organizations could facilitate legal services or debt collection services. The organizations might also make available information on best practices and product offering elsewhere, linking individual institutions with the possibility to exchange views and learn from each other about established practices across borders. Finally, they can lobby the government and others to address the real obstacles they face due to overly prescriptive regulation.

Annex 1 Persons Consulted

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Annex 2 Resources

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Internet Links

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International Co-operative Alliance: .http://www.ica.coop/al-ica/

International Co-operative Alliance Asia-Pacific: http://www.icaroap.coop/Default.aspx

Fiji Teachers Union Co-operative Thrift and Credit Limited: http://www.ftuctcl.com.fj/

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Fiji Public Service Credit Union: http://www.fpscu.org.fj

Small Enterprise Education and Promotion (SEEP) Network: http://www.seepnetwork.org

UN CDF

Australian Government
AusAID

UN DP