



STANDING COMMITTEE ON ECONOMIC AFFAIRS

Report on Fiji Development Bank Annual Report 2016



PARLIAMENT OF THE REPUBLIC OF FIJI
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Chair's Foreword

Upon scrutiny of the Fiji Development Bank ('FDB' or 'Bank') Annual Report for the year ending 30 June 2016, the Committee was pleased to note, that despite intense competition in the market, and the fallout of Tropical Cyclone Winston, the Bank still managed to record a net profit of \$7.31 million – an increase of 18.98% over the same period for 2015.

By way of background, the FDB first opened for business in 1967 taking over operations of the former Agricultural and Industrial Loans Board.

As per section 5 of the Fiji Development Bank Act 1966, the functions of the Bank include facilitating and stimulating the promotion and development of natural resources, transportation, and other industries and enterprises in Fiji and, in the discharge of these functions, the Bank shall give special consideration and priority to the economic development of the rural and agricultural sectors of the economy in Fiji.

The Committee has put forward a list of 6 general recommendations that it believes will complement and strengthen the objectives of the Bank.

I thank the Hon Members involved in the production of this Report and also the Parliamentary staff who assisted.

On behalf of the Standing Committee on Economic Affairs, I commend this Report to Parliament.



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HON. LORNA EDEN
CHAIRPERSON

Introduction

The Fiji Development Bank ('FDB') was established under the Fiji Development Bank Act 1966 in 1967. It has been classified as an autonomous statutory body, operations of which are controlled by a Board of Directors appointed by the Minister for Economy.

The Fiji Development Bank operates with the mission to provide financial and advisory services to assist in the economic development of Fiji. The Bank places its core focus on agriculture, commerce, and industry. Its objectives specifically state that it aims to improve the socio-economic status of people by making the right development investments and financing, while staying financially and economically sustainable.

Over the years FDB has introduced a range of loan packages and services in line with its strategic objectives and customer demands. At the same time, the FDB has the challenging task of matching its level of competitiveness, with that of the banking and finance sector.

In carrying out its business, the Bank intends to continue to provide capital and other resources for investment in the following sectors, which are consistent with the objective of maintaining a reasonable diversification in its investments, among all sectors of the economy:

- agriculture including forestry and fishing;
- mining and quarrying;
- manufacturing;
- transport, communications and storage;
- wholesale, retail, hotels and restaurants;
- professional and business services;
- building and construction;
- private individuals; and
- real estate.

List of Recommendations

1. The Committee welcomes the approval of the “special deposit taking licence” in 2016, which enables FDB to accept deposits as a source of funds thereby enabling them to compete with other commercial banks on interest rates. The Committee notes that initially, deposits will only be accepted from institutional investors, and would recommend that broader participation be encouraged gradually.
2. The Committee notes that the Bank’s lending portfolio in support of mechanisation of the sugar industry is largely confined to purchasing harvesters. The Committee is encouraged that the Bank is also considering mechanisation for land clearing in joint venture with the Fiji Sugar Corporation Limited. The Committee recommends that this is pursued in line with proposed sugar industry reforms.
3. The Committee notes the challenges with financial literacy of the general client base of the Bank, which affects service delivery. The Committee recommends that the Bank engages with other agencies to improve literacy in respect of socio-economic responsibility across the populace such as community outreach programmes.
4. The Committee notes that the Bank has obtained accreditation from the Green Climate Fund (‘GCF’) at the micro level and encourages the Bank to continue with processes to reach full accreditation.
5. The Committee notes that staff retention at FDB is very high (14 years) but it also notes that a high degree of expertise is required to take on the challenges of today i.e GCF. The Committee recommends that grooming and training of staff continues to be a high priority of the Bank.
6. The Committee notes that the public profile of the Bank can be improved together with an appreciation of its relevance. The Committee recommends steps are taken to enable our people to relate to FDB for what it was intended.

Gender Analysis

Gender is a critical dimension to parliamentary scrutiny. Under Standing Order 110 (2) the Committee is required to ensure full consideration to the principle of gender equality so as to ensure all matters are considered with regard to the impact and benefit on both men and women equally.

Taking into consideration the principle of gender equality, the Committee noted that the executive management staff positions of FDB were mostly occupied by male's .Overall, the executive management staff comprised of 100% males in 2016.

Conclusion

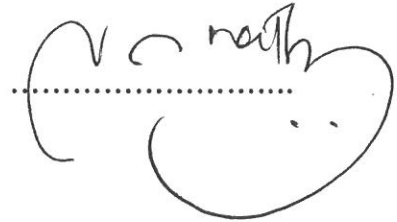
Overall the Committee was pleased with the Fiji Development Bank's Annual Report for the year ending 30 June 2016 and commends the Bank for a job well done.

Despite challenges, the Bank delivered a net profit of \$7.31 million for the financial year which represented an increase of 18.98% on the corresponding 2015 figure.

Hon. Lorna Eden (Chair)

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Hon. Vijay Nath (Deputy Chair)

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Hon. Alvick Maharaj (Member)

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Hon. Viliame Gavoka (Member)

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Hon. Prem Singh (Member)

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Appendices

SUBMISSION TO STANDING COMMITTEE ON ECONOMIC AFFAIRS- FDB 2016 ANNUAL REPORT

Role and Function of the Bank

Fiji Development Bank was established under the provisions of the Fiji Development Bank Act opened for business on 1st July 1967 taking over the operations of the former Agricultural and Industrial Loans Board. The Government of Fiji owns the total share capital of the Bank.

As per FDB act chap 214, section 5, the functions of the Bank include facilitate and stimulate the promotion and development of natural resources, transportation and other industries and enterprises in Fiji, and in the discharge of these functions, the Bank shall give special consideration and priority to the economic development of rural and agricultural sectors of the economy of Fiji.

FDB concentrates on its developmental role in keeping with the provisions of the Act and plays a more active role in the development of resource-based sectors and all other economic sectors that contribute to employment creation, exports, import substitution that assist in the economic development of the nation. In keeping with its lending mandate and Government strategic objectives, the Bank will continue its focus on the following sectors:

Sector/RBF Major	Portfolio as at 30/06/2016	
	Value	%
Focus	158,706,194	42.26%
Agriculture	72,744,282	19.37%
Electricity, Gas & Water	19,759,032	5.26%
Manufacturing	20,935,888	5.58%
Mining and Quarrying	557,715	0.15%
Professional & Business Services	2,275,335	0.61%
Transport, Communication & Storage	31,897,898	8.49%
Wholesale, Retail, Hotel & Restaurants	10,536,044	2.81%
Non-Focus	216,806,495	57.74%
Building & Construction	54,809,429	14.60%
Non- Bank Financial Institutions	2,047,527	0.55%
Others	5,027,950	1.34%
Private Individuals	20,912,321	5.57%
Professional & Business Services	0	0.00%
Public Enterprises	16,680,611	4.44%
Real Estate	70,397,894	18.75%
Wholesale, Retail, Hotels & Restaurants	46,930,763	12.50%
TOTAL	375,512,690	

The Bank provides finance for projects that contribute to the development of the Fiji economy. The major sectors the Bank lends is distributed under focus and non-focus sectors including the following:

Focus	Non Focus
Agriculture	Building & Construction
Electricity, Gas & Water	Private Individuals
Manufacturing	Professional & Business Services
Mining & Quarrying	Real Estate
Professional & Business Services	Wholesale, Retail, Hotels & Restaurants
Transport, Communication & Storage	
Wholesale, Retail, Hotels & Restaurants	

The Bank has 13 Branches throughout Fiji to allow accessibility and visibility to customers.

The Bank is audited by the Office of Auditor General.

For the financial year ending June 2016, FDB recorded creditable improvements in terms of both financial performance and quality of projects recording a rewarding year for the Bank, despite the intense competition in the market and the fallout from tropical Cyclone Winston. This is evident through the 18.98% increase in the Bank's net profit of \$7.31 M as at June 2016.

Major components of the Bank's income and expense as at 30 June 2016 include:

- ◆ Total Revenue – \$34.698M. Interest income from loans and advances which make up the largest component of the Bank's total income noted a decline of 1.59% over the year due to stiff market competition and declining portfolio levels. As at June 2016 interest income totalled \$23.855M. Other revenues include fee income, rental income, bad debt recovery and other income.
- ◆ Total operating expenses – \$12.289M, an increase of \$0.385M from \$11.904M in 2015.
- ◆ Allowance for credit Impairment - \$8.578M was credited to accommodate for future credit losses. There was an increase 9.93% over the financial year due to an increase on in the non-performing loans.

The high liquidity position in the economy resulted in competitive interest rates in the market. This has adverse effect on the Bank as it experienced the exiting of some of its prominent clients. Key indicators measures for 2016 financial year included the following:

- ◆ Total loan portfolio - \$375.52M an increase of 2.25% in comparison to June 2015. This increase was triggered by the improved disbursements during the year.
- ◆ The focus sectors represent 48.3% of the Bank's total portfolio by value and 88% by number of accounts as at June 2016. While non-focus sector contributed to 51.7% of total portfolio by value and 12% by number.

The Bank incurred a total of \$6.525M in borrowing costs during the year, noting an increase of 21.37% from \$5.377M in 2015. This was underpinned by increasing market interest rates which resulting in the Bank acquiring funds at higher interest rates.

The increasing market interest rates had an unfavourable impact on the Banks cost of fund which increased from 2.98% in June 2015 to 3.01% at the end of June 2015.

Cost of fund increased from 2.34% in June 2014 to 2.59% at the end of June 2015.

Appointed by the Minister of Economy, for 2016 Financial Year, the Bank's Board members included Mr Bob Lyon (Chairman), Mr Wella Pillay (Deputy Chairman), Mr Rajesh Patel, Ms Olivia Mavoa, and Mr. Inia Naiyaga. The meeting is held every second month.

In addition to the full board, the Bank has three board-subcommittees, Audit, Human Resource and Risk, the members of which are appointed based on their skills and experience providing support to the board in its role. The sub-committee meetings are held every quarter of the year.

VERBATIM NOTES OF MEETING OF THE STANDING COMMITTEE ON ECONOMIC AFFAIRS, HELD IN THE COMMITTEE ROOM (WEST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS ON WEDNESDAY 21ST MARCH, 2018 AT 9.58 A.M.

Interviewee/Submittee: Fiji Development Bank – FDB

In Attendance

- | | | |
|--------------------------|---|-----------------------------------|
| 1) Mr. Mark Clough | - | Chief Executive Officer |
| 2) Mr. Saiyad Hussain | - | General Manager Finance and Admin |
| 3) Ms. Parijata Gurdayal | - | Media Officer |
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MADAM CHAIRPERSON.- Good morning everyone, I would like to welcome the FDB team. We have with us this morning the Chief Executive Officer, Mr. Mark Clough; General Manager, Mr. Saiyad Hussain; and Media Officer, Ms. Parijata Gurdayal.

Thank you lady and gentlemen for coming in this morning at such short notice. We are here today to discuss the Fiji Development Bank (FDB) 2016 Annual Report. You have given us a written submission and would you like to just go through that real quick, before we go to questions? Or shall we just go straight to questions?

MR. M. CLOUGH.- If you wish Madam Chairperson, we can go straight to question and perhaps some information

MADAM CHAIRPERSON.- We are the Standing Committee on Economic Affairs and on my left, we have Honourable Vijay Nath and Honourable Prem Singh. On my right, we have Honourable Viliame Gavoka and Honourable Alvick Maharaj and I am Lorna Eden. Our Committee has made up a few questions for you this morning and again, we are here to discuss FDB 2016 Annual Report. So, I open the floor to questions.

HON. P. SINGH.- Let me start off, thank you gentlemen for being here. We note that FDB is functioning through its major role. The role of the bank is to lend to rural sector, particularly in agriculture, that is where our interest is.

The Committee is scrutinising the report, it is not actually a question but more of an interaction that we would like to get your contributions on before we make certain recommendations to Parliament. So, from the report, we see that 2016 was a bad year for everyone because of the disaster and cyclone. Despite that, your bank was able to make a profit of \$7.13 million, carrying on from there, and the bank's role I believe is constraint a bit because of the competition that you have with the commercial banks.

Now, coupled with the competition, also coupled with the high liquidity that is in the market; how do you intend to progress, making banks successful in the implementation of these policies?

MR. M. CLOUGH.- I guess from the outset, let me, if you will allow me, I will talk about the plans for the future.

We are a big supporter of the agricultural industry, we will continue to be a big supporter of the agricultural industry, in some respects it is an industry that is not serviced appropriately by

the commercial banks. So, we do take a different view on the industry but that said, we also have access to other funding lines to support our involvement in that industry.

We are constraint, I would not say constraint but the cost of funds is an issue for us compared to our competitors, in that regard we have recently obtained a deposit licence which will allow us to accept term deposits on rates which will be more competitive with the commercial banks as distinct from issuing bonds at somewhat slightly higher rates. So, we hope that will level the playing field a little from the cost of funds point of view.

In terms of growth, even now we are doing a review of our sectoral limits when it comes to GDP contributions of various sectors in the economy. So, the bank is quite diligent in mapping the GDP profile and the contribution by various sectors to GDP not just now but going into the future, and so we want to in fact go a little further than that.

Through our activities in fact we want to be an enabler of GDP, so rather than focus on existing sectors in the current profile of sectors contributing to GDP, we want to look at emerging markets, and I think this is the theme which has come out in the 5 and 20 year Development Plan. So, we see ourselves as most definitely an enabler of the various Government initiatives such as that 5 and 20 year Development Plan.

HON. V.R. GAVOKA.- Madam Chairperson, it is wonderful to know that you have got your deposit taking licence. What is different about you, how would you attract deposits? I mean you are in competition with the likes of Kontiki and all those people, why would people put their deposits in FDB?

MR. S. HUSSAIN.- Thank you, Honourable Member. What we are trying to do at this point in time, we are not going to go public right away. So, what we are looking at is to start slow and look at our major corporate clients and look at institutional investors who can come in on board. So, rather than opening it to everyone rather than mums and dads, so we look at institutional investors who can come in but the focus is more that we try to provide the service to our customers.

MR. M. CLOUGH.- I would just like to add that in saying that if it comes to what we can offer in addition is that we are officially Government bank. So, in terms of security of our deposits, our depositors can rely on the fact that we are a Government backed institution.

There are a number of players in the market who are attempting to capture market share and I do not think it is necessary that we need to compete with those who are offering much better term deposits rates. If depositors know our brand and know our guarantee and now our objectives, that is a good incentive for them to deposit with us.

HON. P. SINGH.- Madam Chairperson, on page 26 of the report, you talked about the market share and I am really interested in that you rank second to the commercial banks in terms of agricultural lending. Most of your lending is in sugarcane portfolio. Given the present status of the industry, are there any lucrative plans by the bank to entice more farmers into sugarcane farming?

MR. M. CLOUGH.- There are number of ways to address this, Honourable Member. One of our initiatives with regard to agriculture and sugarcane in particular is to make it more efficient and that has resulted in, for example, financing of mechanical harvesters. So, in previous years, a

lot of farming was done by hand, so we are very active in the financing of mechanical harvesters as means of making that industry more efficient.

HON. P. SINGH.- That is on one end, but I was just talking to my colleague here and we have found that the initial constraint of an intending farmer is clearing land. Do you also provide funds for that?

MR. M. CLOUGH.- If a farmer, correct me if I am wrong, can be classified as an SME (Small or Medium Enterprise) level client, then we have a particular focus on that sector as well.

MR. S. HUSSAIN.- Yes you are true, Honourable Member, we provide that as part of the package, so if any farmer wants to come in, we give the funding for all those and also in terms of planting.

HON. P. SINGH.- That brings me to another question of SMEs. Your role has been quite a challenging one, I believe in terms of human resources and other things. Do you provide any monitoring and performance guidelines to the Ministry of Trade and Industry whilst being involved? What is your role?

MR. M. CLOUGH.- Honourable Member, are you are talking about the grants?

HON. P. SINGH.- Yes, the grants.

MR. M. CLOUGH.- Yes, there is definitely a follow up process, so there is not only a disbursement function that we perform on behalf of the ministry but there is also a monitoring and a follow up process, and that is something I think the progress to-date is either 5 to 10 percent of grants that have been disbursed, have been followed up, and that will continue.

HON. P. SINGH.- So, out of 17,000 recipients, you actually do the profiling of the applicants? When you profile them, whether you are entitled to this grant or not.

MR. P. CLOUGH.- In the first round? In the first two rounds so I believe that was the case. In the next rounds, I think it is moving to more an automated or online process.

HON. V.R. GAVOKA.- Just an observation, we are also scrutinising Bills 19 and 20 on sugar and what we discovered is that about 80,000 hectares of land has been earmarked for farming and indeed, it used to be farmed for cane but less than 40,000 are under cultivation, and the huge challenge to reactivate those farms should be to clear out this huge swathe of land overgrown with bush and all that

So you go back to the issue of mechanisation for harvesting; you may also wish to look into mechanisation to help those farmers clear up all that huge swathe of land because even Fiji Sugar Corporation (FSC) is keen to go into a joint venture with some of this thing. It is just something that you can maybe want to put in the back of your mind.

MR. M. CLOUGH.- You are absolutely correct, Honourable Member in that. We are working closely with FSC to the point of recent adjustment to our relationship with them to do just that.

HON. V.R. GAVOKA.- Excellent.

Chair, if I may. In terms of your focus and non-focus, your non-focus make up 21 percent of your portfolio but 58 percent of your value. Going forward, do you see that increasing, the non-focus in terms of number of portfolios and thereby increase the value of the bank? How do you see that going forward? To me, it stands out that 21 percent is non-focus, but giving you 58 percent of your value.

MR. S. HUSSAIN.- Yes. It does not have to do with portfolio level because non-focus, they have a bigger portfolio, even if you compare it with agriculture and SME plans, though we have a large number of customers, but the amount of loans they take is basically smaller; lower value.

HON. V.R. GAVOKA.- I understand that. Strategically going forward as a businessman, I would increase the content of the non-focus that gives a higher value. Your charter as a bank may be different.

MR. M. CLOUGH.- Correct and again, it may go back to being an enabler, considering where the economy is going, what the Gross Domestic Product (GDP) focus is currently and into the future but we also have to remember that from a financial point of view, there are certain sectors that we lend to, to generate good or better margins which in turn can go towards subsidising the services we can provide to other sectors or other clients in other sectors. So, there is that internal risk management and return equation that we always have to be conscious of.

HON. V.R. GAVOKA.- I was an ex-hotelier and if a particular room was selling more, giving me more money, I would sell those rooms more than anything else. It is just a yield thing.

MR. M. CLOUGH.- Yes, but there is a community service obligation component to what we do for Fiji and Fijians.

MADAM CHAIRPERSON.- You know on the report that you gave us, you have got focus and non-focus. Could you explain the difference between the focus; wholesale, retail, hotel and restaurants and then the non-focus; wholesale, retail, hotels and restaurants? They are in both groups.

MR. S. HUSSAIN.- Yes. It is a corporate and Small and Micro Enterprises (SME) clients. We also have hotels that are bigger, so we lend them more and then we also look at smaller hotels- SMEs. Our SMEs are focus sector for the banks so we classify as part of our mandate.

HON. V. NATH.- Chair, through you, Page 19 - Financial Report. You see there is an increase in the net profit from 2010 all the way until 2016. Can you actually explain the change in role or change in structure or the reform that took place all these years alone to see that steady growth in net profit over so many years at FDB?

MR. M. CLOUGH.- I can say straightaway here that there has been a greater focus on non-performing loan portfolio and reducing the effect that has on our profitability, to the extent that we need provision or write-off non-performing loans then obviously that affects our profitability.

HON. V.R. GAVOKA.- I notice here, Chair that you bit the bullet in 2012 with \$21 million in write-offs and it has gradually faded off; what is it like going forward? What are your projections?

MR. S. HUSSAIN.- Well, I think the trend will continue like this. We do not have too many non-performing loans at the moment. Our emphasis has always been that before, the loan goes bad, we do visit them and try to eliminate any sort of setbacks and assist the customers in terms of paying the

HON. V.R. GAVOKA.- So you do not see anything extraordinary down the years?

MR. S. HUSSAIN.- No.

MR. M. CLOUGH.- There will be increasing focus on prevention. Cure, you might say. I hate to mention that around 2012, we had our new chairman, who came in and I suspect wanted to clean up the books.

HON. V.R. GAVOKA.- That was a big hit there -\$21 million.

MR. M. CLOUGH.- But I also hasten to mention that of our non-performing portfolio, there is one large exposure that you are probably aware of, and if you take that exposure out, then the size of our non-performing loan is almost half, and it gets us down to levels which are almost comparable with our commercial banking competitors.

MR. S. HUSSAIN.- Also to add on to answer the Honourable Member's question, we have a very strong and very strict, in terms of how we manage our costs so great emphasis is there. We eliminate all those kinds of things that increase our cost. So basically the focus is there, our two bottom lines are sustainability and looking at development work.

HON. P. SINGH.- Chair, your subsidiary companies FDB nominees, I note that you were involved in a lot of real estate, like in Nasorowaqa in Bua, are they still there?

MR. S. HUSSAIN.- No. FDB nominees does not have any real estate. Way back there was in Nasorowaqa, so we have sold that.

MADAM CHAIRPERSON.- This question is on gender. Just looking at your executive management team of 2016, there are no women there. Has there been any changes over the years?

MR. S. HUSSAIN.- Yes. If you look at the last gentleman, the General Manager Human Resource, he has been replaced by a woman.

HON. P. SINGH.- What is your staff turnover? Is it manageable?

MR. M. CLOUGH.- Quite low. The average tenure as you will see somewhere within the report is around 14 years duration with the bank and I would say about two percent. But that said, there is a greater pressure on labour availability in the market at the moment which goes to obviously the availability of staff and salary levels.

HON. P. SINGH.- So you provide training for your staff. Do you also provide post-graduate and other forms of study for the staff?

MR. M. CLOUGH.- Absolutely and with the recruitment of the new General Manager of Human Talent and Organisational Development, there is quite a distinct programme of

training, development, secondment and providing opportunities for staff. There is a very great focus on empowering our employees secondment, providing opportunities for the staff is a very great focus on empowering our employees.

HON. V.R. GAVOKA.- Madam Chairperson, if I can just ask a question on that, if I can just dwell on that a bit. We also scrutinise other organisations similar to yours and one of the challenges is keeping their staff, retaining staff. You train them, they become very proficient, they are very marketable and someone comes and offers something else and off they go. So, I believe you are a preferred employer and our people want to work with FDB. Are you happy with the way you are looking after them, so that no one poaches them? I know it is always a difficult one but benchmarking FDB against other institutions similar to you; where do you stand?

MR. M. CLOUGH.- Thank you for your kind comments Honourable Member, as I have said, we do have a programme which obviously leads to retention. Recently, we have completed a Job Evaluation Exercise which benchmarked the salary levels within the banks and with those in the industry, making sure obviously that we are paying people for what they are worth. So, that is just recently completed but they are less quantitative initiatives that we have. For example, programmes of recognition, whether it would be a communique from me, whether it be in an award, we are much focused on those less quantitative initiatives as well.

HON. V. NATH.- Thank you, Madam Chairperson, I take this opportunity in thanking FDB team coming on board today on this short notice. We do apologise for giving short notice, my question would be, often when we go out in the field, we face a lot of questions in terms of application to FDB on your processing time. If there is a project, for example one gentleman applied from Visama and the processing time was quite long, I believe it took about 15 to 16 days; would you like to highlight on that? I can name the person in fact when I was in Visama, he requested me to look into it and I did call FDB but it was not in my jurisdiction. Would you like to probably share some lights on that?

MR. M. CLOUGH.- I can say Honourable Member that the turnaround time when it comes to application is in the top 5 priority within the bank and it is a key to customer relationships and key to customer retention. So, it is within the bank. It is a key to a customer relationships and key to customer retention. So we have introduced various initiatives to cut down on those turnaround times, they rise at various points obviously whether it will be training of new loan officers or whether it will be refresher courses, or even looking at board approval times, it is a focus on everyone within the bank to reduce those turnaround times. We have been successful with some customers obviously, not so successful with other customers but we have to be consistent.

MR. S. HUSSAIN.- To add on to that, we agree to that. Sometimes it does take us to make decision but the problem is that because of information that is provided by the customers. Sometimes we ask information that takes some time to provide. Those are some of things that

add up to the delay, but as you have said, this is our priority in terms of turnaround time and if there are weaknesses, we are there to improve.

HON. P. SINGH.- Madam Chair, back to the money smart and invest smart programme, that is done in consultation with the Ministry of Education; how successful has it been?

MR. S. HUSSAIN.- Well it is part of the Ministry's curriculum now for the schools and we have been sponsoring that every year and it will continue.

HON. P. SINGH.- So once the student leave school system; is there a provision for him to graduate into something now before he enters into tertiary level? What is the graduation process of his income base if he wants to enter business?

MR. S. HUSSAIN.- I think it is part of the curriculum for the lower forms. So, I think from there, then they take other subjects as part of the programme. So, basically it is a financial literacy in that respective. Basically, it is done in terms of investing, savings, banking and other things like that. It is a follow-up in other forms as part of other subjects.

MR. M. CLOUGH.- I would like to add to that Honourable Members in saying financial literacy going forward is a big focus for us; whether it will be in high schools, whether it will be universities, whether it will be the community or whether it will be of our customers, it is definitely a focus of whether it will be banking the unbanked currently in Fiji, I think the expression is, then it is certainly a focus of ours.

HON. V. NATH.- Madam Chair, looking at your values which you have stated. Do you have any social obligation in terms of development? The second question is; are you organising a training going into partnership or anything connecting in place?

MR. M. CLOUGH.- I did not catch all of your questions, Honourable Member.

HON. V. NATH.- In your values and in collaboration, it says anyone in social obligation in terms of development?

MR. S. HUSSAIN.- Yes, the social obligation is part of the development there.

HON. V. NATH.- My question was; I looked at your values and in collaboration it says social obligation in terms of development. What are your social obligations?

MR. M. CLOUGH.- They may extend from programmes that our staff get involved in on an ongoing basis within the community, or even to a credit assessment criteria when it comes to loan applications.

So there are obviously a number of criteria and one of those in our credit assessment is effectively how does this contribute to the social community employment outcomes for Fiji? So, it is not merely quantitative, there is an additional criteria that we will include there to entrench that obligation within our decision-making.

MADAM CHAIRPERSON.- On your page 43 – Computer Software Intangibles and then on page 58 it explains it as computer software acquisitions during the year. So, did you do a major overhaul in 2016?

In the year 2015, it was \$5,549 and then 2016 was \$197. So was that a computer software overhaul throughout the bank?

MR. S. HUSSAIN.- No, no it is just an enhancement to the software.

MADAM CHAIRPERSON.- An upgrading.

MR. S. HUSSAIN.- No major overhaul of the software.

MADAM CHAIRPERSON.- In investment in subsidiaries, is FDB nominees limited the only subsidiary?

MR. S. HUSSAIN.- Yes, that is the only subsidiary we have.

MADAM CHAIRPERSON.- Investment – Shares in Company at cost impairment, which companies would you have shares in?

MR. S. HUSSAIN.- As part of our development mandate, we also assist in new companies or new customers who wants to set up their business. So, we also buy an equity of shares in those companies, that funds also forms part of capital.

We do not have many customers or clients now, I think basically one we have now. But what we do when the clients are in good running business, we send it back to them. We sell the sale back to them, so that has been part of our business here as part of our development.

HON. P. SINGH.- So that will be part of your hand- holding approach for the company?

MR. S. HUSSEIN.- Yes, not all.

HON. P. SINGH.- Do you have any equity in Vunibaka Limited?

MR. S. HUSSEIN.- No, that is a big company.

HON. V.R. GAVOKA.- If I can ask a question, Mr. Chair, was that part of the syndicate or did you do it alone?

MR. M. CLOUGH.- Part of a group of two. We were the major lender on the project, however.

HON. V.R. GAVOKA.- So, syndicate, composing of two lenders.

MR. M. CLOUGH.- Correct.

HON. V.R. GAVOKA.- You will be the major lender.

MR. M. CLOUGH.- Yes, we are.

HON. V.R. GAVOKA.- That is quite huge.

MR. M. CLOUGH.- Hopefully completed as of last Friday.

HON. V.R. GAVOKA.- It has now the Six Senses Resort operating on it?

MR. M. CLOUGH.- It will, yes.

HON. V.R. GAVOKA.- Alright. While speaking with the Chairman last year on this one, he did say that he was very happy with the way the resource owners were part of that equation in terms of the way they were rewarded. Is that template that you follow when you lend to something like this on how you look after the resource owners? I mean like using that as an example. Next time you lend to a project on this scale that you would use a template to make sure the resource owners are well looked after. I gathered from last year that he was quite proud of the way the landowners fitted into the whole project.

MR. S. HUSSEIN.- I think they have been part of the company because most of the workers there are basically the people from the landlords' families and all and they are currently working on the island with Vunibaka.

HON. V.R. GAVOKA.- That is on employment but I believe there is also some sharing of proceeds from the sale of lots and which I understood to be quite lucrative for the landowners.

My interest is ensuring that whenever we lend to something on that size, the resource-owners, being a major part of the development, they continue to benefit in the way that they benefitted Vunibaka, like you set up a template and then just follow that in every other project that you undertake on the land.

HON. A.A. MAHARAJ.- Just a clarity on that, Honourable Member. Is it the responsibility of the lender or the developer? I believe it is the developer, it is not the lender whose is actually responsible for looking after all those things.

HON. V.R. GAVOKA.- Yes, the bank has the social responsibility and factor all those things into the equation.

HON. A.A. MAHARAJ.- Madam Chair, through you, going to Page 44, the PNL Statement, just certain clarification first, we saw that:

- i) in interest income decreased compared to 2015, if that can be explained;
- ii) on that page is other incomes as per Note No. 5, I see on Page 53 under other income there is a huge collection of bad debt that was recovered -increased from \$1.9 million to \$5.5 million.

The question on that would be; was this particular customer who actually from whom this amount was recovered or there were a couple of them? If there were a couple of them, the prudent actually steps taken by FDB to collect this bad debt to actually have an increase in income. But then, if we have collected such a huge income, then why our interest income decreased in the first place?

MR. S. HUSSAIN.- Thank you. Bad debt recoveries is not part of our interest income. So, interest income is coming from the normal performing loans and is accrued every month. So, if you look at your first question in terms of the decrease in income because of the competition. The major drawback for us is that when we borrow and lend to the customers so though our cost of funding is high, we also some sort of subsidising in terms of we do not charge them very high interest rates to our customers because they are affected to when compared to other commercial banks. So, to be competitive and to provide the service to our customers, we also offer lower interest rate to them. So, that is why we decline in the interest income.

On the other, bad debt recovery, I think that is a normal process for the bank. Most of the times we exhaust all our recovery action in terms of selling assets and just because some of the assets take time, we write off the account and continue to sell. There are couple of accounts in that to be collected every month from customers but those are not big ones but small ones. Referring to one such big increase here, there was one customer that we sold her the land close to \$4 million in that particular year and that has increased under bad debt recovery. So, the major contributor there is only one customer.

HON. V.R. GAVOKA.- This is on Page. 25 , you have 283 accounts that migrated from PLP to TIA, valued about \$7 million. Would this be a particular sector that is in distress or is it broad-based?

MR. S. HUSSAIN.- It is a broad based. It is a combination of all sectors.

HON. V.R. GAVOKA.- So, no sector is in distress right now?

MR. S. HUSSAIN.- No.

HON. V.R. GAVOKA.- Alright.

HON. P. SINGH.- Talked about interest rates, I believe Government subsidises certain portion of interest from non-sugar sector.

MR. S. HUSSAIN.- Yes, it is only for agriculture, but the subsidies account to limit of \$50,000, so subsidies only applies if a customer has a loan balance of \$50,000 not over \$50,000. So, above \$50,000, the normal interest rate.

HON. P. SINGH.- So, what is the percentage to Government?

MR. S. HUSSAIN.- Six percent.

HON. P. SINGH.- And your lending rate is?

MR. S. HUSSAIN.- Well our lending rate to agriculture sometimes it is 7 or 8 percent. If is high risk, it can go up to nine percent. It ranges.

HON. P. SINGH.- So, how does the Government subsidises by way of cash payment to FDB?

MR. S. HUSSAIN.- Well we apply the subsidy to the customers so at every quarter we do a submission to the ministry, highlight, and state all the accounts and the actual bill of subsidy. So they will reimburse us. It is actually paid every quarter.

HON. P. SINGH.- So, that forms part of your interest income.

MR. S. HUSSAIN.- Yes.

HON. V.R. GAVOKA.- Madam Chair, can I ask another question? You have mentioned in your implementation of your entrepreneurial enterprise scheme for the young that there were some logistical problems that affect the implementation. What were they?

MR. S. HUSSAIN.- Honourable Member, can you repeat the question please?

HON. V.R. GAVOKA.- It says here that the implementation of the Entrepreneurial Enterprise Scheme for the young was affected by some logistical problems. I should have made note of the page. You have a scheme, right? Your lend to the entrepreneurial.

HON. P. SINGH.- The YES Scheme (Young Entrepreneurship Scheme)?

MR. S. HUSSAIN.- No, we are not part of that yet.

HON. P. SINGH.- You are not part of that?

MR. S. HUSSAIN.- No, we are not, that is Ministry of Industry and Trade.

HON. V.R. GAVOKA.- I justly not note the page. It is here somewhere.

MR. M. CLOUGH.- Page 7, Honourable Member, at the bottom right. "Working with MITT on the result and implementation of the Government great scheme engaging entrepreneurial enterprise among young and vulnerable Fijians. Great number of applications caused logistical problems, we are now working to solve."

HON. V.R. GAVOKA.- That is the one. What were the logistical problems?

MR. M. CLOUGH.- I suspect there would be systems generated, Honourable Member.

HON. P. SINGH.- There is a large number of application.

MR. M. CLOUGH.- Yes.

HON. V.R. GAVOKA.- So, you set up a scheme and you did not expect the volume to come in?

MR. M. CLOUGH.- I think the answer to that question is that we had a level of staff which in this programme was an additional burden on them and which we could not manage effectively with the staff members at hand.

HON. V.R. GAVOKA .- So what is the solution to that now?

MR. M. CLOUGH.- One of the solutions was that if it is referring to the Government great scheme was the engagement of the attachees would it be from the University or otherwise to assist us with that.

The second as recognised in the new round of vacancies that are going on line when it comes to the application process.

It was a lot of the burden, additional burden or the logistical problems we derived from for example, applicants submitting incomplete information and so we continually had to go back to the applicants and say "you have missed in supplying a business number" or something like that. I suspect that with the latest round of applications that an application is not deemed as submitted unless all the information has been provided online.

HON. V.R. GAVOKA .- All right.

HON. P. SINGH.- Given the Government's recent initiative to empower youths, there are lot of schemes available, automatically it will come down to your bank at some stage to carry out due diligence or monitoring performance, how prepared are you for this? Not only that, under the climate change programme, will have all these initiatives coming up to 2022, so how prepared are you?

MR. M. CLOUGH.- With regards to GCF, we are more prepared to the point where we are now recruiting, we are doing work to satisfy the remaining accreditation conditions for the GCF and that involves funded external consultants that we engage with and the Ministry engages with. But there is a point, particularly with the volume of possible projects, the number of meetings that we are having with sponsors of green related projects that we need someone full time to manage that process, and we are in the process of recruiting that resource at the moment.

HON. P. SINGH.- So how far I believe, you are already accredited to?

MR. M. CLOUGH.- We are accredited to micro level, yes that is correct, but there are number of conditions that we need to satisfy such as internal policies and procedures which are in the form acceptable to the green climate fund. So, we engage with external consultants to help in the development or the amendment of current internal procedures so that it is satisfactory for GCF.

HON. P. SINGH.- So that accreditation gives you more leverage to go regional - the South Pacific Region?

MR. M. CLOUGH.- Hopefully, yes, but there is a cost associated with that, there is an additional engagement, burden, particularly with the other seeds governments, for example.

HON. P. SINGH.- I think during the accreditation process, your bank answers something like a thousand questions and to meet the conditions, you need another thousand lines.

MR. M. CLOUGH.- I think we got 11 or may be even 10 or nine left, conditions to make us fully compliant.

MADAM CHAIRPERSON.- On Page 7, under sowing the seeds of a vibrant new growth, there is a mention about the bank developing special new lending policies to encourage organic farming, did that happen in 2016? It sounds like you were given special lending rights maybe, to encourage organic farming?

MR. S. HUSSAIN.- I think the process is still being developed at the moment but as part of the development works, I think we have been doing these kind of loans but to be specific on organic farming, we are looking at some policies, so basically some changes in the policy.

HON. V.R. GAVOKA .- Deputy Chair, can I ask another question? Can you dwell a bit on the Bank Realignment Scheme, where are we today on that? You may have already touched on it, is there anything else you want to add?

MR. M. CLOUGH.- We are currently doing a review of the realignment, so the realignment process has been going for some 18 months I believe, and that involves not just the recruitment of number of regional managers, focus on turnaround times, this is all public knowledge, the establishment of accredited assessment unit or accredited administration unit, but the engagement of various branches in that process, so we are in the process now of establishing, that been a success. And the major determiner of our success is in turnaround time, that is the time it takes for, once a client comes on to the system through registration, as confirmation that we have received all the information to being granting some type of approval.

HON. V.R. GAVOKA .- You are quite pleased the way it is progressing?

MR. M. CLOUGH.- I cannot say that.

HON. V.R. GAVOKA .- You let the client with the

MR. M. CLOUGH.- We are getting the review, obviously we get some clients and we lose some clients but we have to get better. We can always get better.

HON. V.R. GAVOKA .- Can you give us an example of your lending to sustainable energy and clean technologies? You know climate change is a big thing today. We noticed that it is also part of your objectives, your target going forward. Give us an example of the kind of lending you give to this sector?

MR. M. CLOUGH.- Sunergise, based in Fiji, where it is actually headquartered in New Zealand but most of its activities are in Fiji. They are involved in the roll out of solar panels on roof tops from a corporate point of view. The most recent high profile and accredited example is for the Coca Cola factory in Suva and they are looking at a joint venture with the major Government entities as well.

So, it is a good success story there but that is a pretty clear cut application of renewable of our lending to the renewable sector. Might I say that one thing that it attracts us to different *baka* projects was the emphasis on not just solar, the recycling of water, all those sustainability types of features that we are now looking for in projects.

HON. V. NATH .- Is there any programme of project from FDB in relation to waste management? Do you get some applications from people who want to manage this?

MR. M. CLAUGH.- I cannot think of one off-hand, Honourable Member, but it is certainly a focus of ours going forward, whether they are a lending opportunity or a community service opportunities clean up days, for example, it is certainly a focus going forward.

HON. V.R. GAVOKA .- An example on the lending to resource-based sectors? Can you give us an example? Would this be gravel....

MR. S. HUSSAIN.- We have lot of customers on that line.

HON. V.R. GAVOKA .- They would fall under that resource?

MR. S. HUSSAIN.- Yes.

HON. V.R. GAVOKA.- We know that in Fiji there is quite a lot that has been extracted for infrastructure needs and we would like to see more of this but done properly. I presume this is where the land is going.

Last one from me . You have lent quite a bit of money to the taxi business. I believe it is a new thing. Why would a taxi operator come to FDB to borrow money?

MR. M. CLOUGH.- I would like to say that we are more aware of what their needs are as customers. The taxi industry is a focus for us with regard to the proliferation of taxis over supply contribute to GDP. That again, we are continually reviewing those types of portfolios because they have their own special issues and problems. So, it is a portfolio that we have to probably monitor both vigorously then what we would do for other portfolios.

HON. V.R. GAVOKA.- Is that because of the mobility of these things and the likelihood of damages and things like that or

MR. M. CLOUGH.- Whether it be accidents, whether it will be insurance issues, whether it will be cash related business. Yes, there are number of factors.

HON. V.R. GAVOKA.- So it is an element of risk is a little higher than the other normal lending, is it?

MR. M. CLOUGH.- I think it is safe to say that, yes.

HON. V.R. GAVOKA.- But I need to say this, to a lot of our people single proprietorship, it is quite a neutral thing so we can argue that FDB could lend to that sector and manage it properly. I am done, Madam Chairperson.

HON. V. NATH.- Madam Chairperson, one question, would you like to share the challenges so that when we write the report we can at least get something lined up.

MR. M. CLOUGH.- Challenges going forward Honourable Member. All right I have a fair list:

1. The availability of labour for us and the proper labour at the right price. So, our recent Job Evaluation Exercise was a bit of an eye opener for us but it is quite a successful one. I think everyone within the bank or most people within the bank are pretty happy with the result but it is all a case of staying competitive in the labour market;
2. Staffing: We have to empower our people, whether it will be through delegation, whether it will be through training or whether it will be through communication and reward, that is a constant challenge for us on a day to day basis that the public does not see;
3. We have to make the bank more relevant to our customers and to Fijians in general, whether that be tracking the GDP contribution of individual sectors or whether that be supporting SMEs or whether that be supporting emerging markets, we really have to stay ahead of the game to the point of being proactive rather than reactive to what is happening in the market. That will include new products, great communications and better service levels for our customers;
4. We have to increase the quality of our loan book. The current level of non-performing loans is high. I hasten to mention that it is high because of one single exposure, if you take that up as I mentioned earlier, we get down to levels which are comparable with commercial banks. But we have to increase the quality of our loan portfolio, if it means taking additional risk because we are servicing our clients that others do not, then we have to monitor. The challenge is monitoring and assisting those clients to a greater degree;
5. We have to be more efficient and we touched on earlier about software and systems involved in the bank, we have to reduce or eliminate double handling, we have to make our various systems talk to each other rather than have separate systems and we are in the process of a very big exercise in that regard;
6. We have to be more visible. Even if it is from a simple range visibility point of view, as I have stated to our staff there are some branches in some centres you could walk down the street and walk past one of our branches without knowing it. We have to be in fact a centre piece of the community, almost a beacon, we see Fiji as the harbour of business in the Pacific and we see FDB as the harbour of business or development business within Fiji. The first step in that is making our branches more visible, more inviting and the service levels within meeting the needs of customers;
7. Low cost of funds. we have spoken about already. We are well on the way to that. Our GCF role which is great opportunity to take our strides ahead in our lending capacity but also to leverage new business relationships. We are getting a lot of project enquiries, a lot of enquiries from sectors we have not thought about such as retirement into greater retirement and medical facilities with a green or sustainability built to them. They are very important to Fiji and to us as well;
8. We see ourselves an enabler of the 5 and 20 year plan that the Government has set. We do not want to be proactive in that regard, we effectively want to stay ahead of the game, be an advisor to Government in some respect if it comes to,

for example, if it comes to public-private partnerships, so we would like to pursue that;

9. We need to diversify our income base, it is highly geared towards interest income at the moment. There may be opportunities for us to joint venture with clients or others in the future be part of a public-private partnership or otherwise to gain additional income streams; and

10. Financial Literacy, we have discussed, as a particular focus of ours.

So, that is a brief list.

MADAM CHAIRPERSON.- Can I just take you back to the Annual Report, Page 7. There is a section there that says “levelling the playing field. In 2016, the bank was severely disadvantaged by the fact that the cost of farms was far in excess of those of commercial banks. An application by the bank for a deposit taking licence, which is where the commercial banks now hold the upper hand, will put FDB on an equal footing in this regard”. Did anything ever come of that? It did happen in 2016?

MR. M. CLOUGH.- Yes. So, we now have a special licence, a deposit licence, Madam Chair, as distinct from issuing bonds that are premium to what our competitors can get out from the general public I would not say on an equal footing but a better footing than what we were before.

HON. A.A. MAHARAJ.- What role actually does FDB play with regards to Northern Development Programme? I believe there is two- third and one-third basis on which to operate? So what is the status of this particular programme?

MR. S. HUSSAIN.- Thank you, Honourable Member. We still part of that Northern Development Programme in fact it actually started with FDB and later on a separate Department was set up as part of Northern. We are still part of one-third and two-third, one-third is given by Northern Development Programme and two-third is given by the various part of the project.

HON. A.A. MAHARAJ.- Is it feasible and profitable at the moment? Like looking from the bank's perspective and what is out there in the field with regards to the people?

MR. S. HUSSAIN.- Yes, in terms of assessment, about the two-third part, it goes through our normal process. So, it is not that the one third is going for the grant and our assessment is still the same, so if the project is viable then only the bank gives the two-third.

HON. P. SINGH.- The general feeling out there was that it was treated like a self-help project where you give one-third and two-thirds was automatic, but then it goes through the bank's normal process.

MR. S. HUSSAIN.- It is the bank's normal process it is not automatic.

MADAM CHAIRPERSON.- Honourable, Members, have we got any more questions. One more!

HON. V.R. GAVOKA.- You talked about your presence in the community, you spoke about signage and all that. When I look at the way you are positioned in almost in every locality, you do not stay in the main street, you stay outside of the CBD. Do you own all your properties? Are you leasing, you rent?

MR. S. HUSSAIN.- We own all the properties.

HON. V.R. GAVOKA.- But somehow from the beginning like in Sigatoka, you are outside, you are near the bridge, whereas downtown is the other side. I like this approach that you should be visible in a big way, branding et cetera.

HON. P. SINGH.- Like in a shopping mall.

MR. M. CLOUGH.- It is harder to break that. CFL and I have been discussing that over the last weeks and months. If it means from a longer term strategy to gain the foot-hold and the presence we need to have in a community an accessibility to customers, simple things like being on the ground floor, floods withstanding rather the upper floor so that we have access to our customers with visibilities in particular, then it is something that we will look at and it could mean an entire re-evaluation of our properly portfolio.

HON. V. NATH.- Madam Chairperson, a final question from us, it is only a suggestion probably and an input.

I believe and I feel that more public awareness is required in terms of development. For locals, there is not much awareness programme out there and if you can start with some successful business which you have already funded and then you bring a profile for the person, in this way you will increase a lot of more people coming to you if you really want to help in your values to really help in terms of development. Madam Chairperson that is all from my side.

HON. P. SINGH.- A last one, Madam Chairperson, do you have outreach programmes for awareness purposes, to entice customers coming into you? How do you sell your products like commercial banks they are everywhere on it. What is your outreach?

MR. M. CLOUGH.- Not as great as we would like it to be, going forward into the next year, there would be a greater focus on marketing. At the moment, we have a form of outreach, can I say it is in a form of agency, the type of branch this is distinct from fully staffed and fixed branches, but we want to expand the idea of agency branches, also and again this goes back to financial literacy. The idea of having seminars in community centres as a means of reaching out to not just customers but the community on financial literacy. That will be definitely our focus going forward into the next year around the marketing function.

HON. V. NATH.- Madam Chairperson, you have got your office in Nausori. I have never seen Nausori team active, never in field, I am born there and I have never seen them taking the product to the people. I have never seen in my life, the only time I went there to assist someone in filling the form and what I feel what Honourable Singh has just mentioned probably more awareness is required. An opinion from my side, just a suggestion when we have an Agriculture Show, we talk about Agriculture Show, I am sure you can come in

partnership, probably to sponsor that if you want or just to show case your products. You come on board with the Ministry of Agriculture when they have a showcase, every year they have got big one coming up and I would suggest that. I have never seen your Nausori team active, never, never.

MR. M. CLOUGH.- Thank you for your feedback.

HON. A.A. MAHARAJ.- When we ask people about FDB, they look at you in a confused state whether it is a commercial bank, what they are doing. These I would say people are not being aware on the actual role of FDB.

MR. M. CLOUGH.- The role of the Development Bank can be quite confusing. There are a lot of governments, a lot of nations that just do not have them anymore because they have been adequately provisioned by the private sector. That said, there is a unique role for the bank in Fiji and in the region to assist in development but it can be quite confusing for a lot of people from the simple point of view that they cannot walk in and make a deposit and get a term deposit for a normal retail client. That is obviously not the case for FDB, for corporate clients where it is a more targeted approach, that is certainly the case.

HON. V. NATH.- I do apologise Madam Chairperson, it is not part of this as we have just mentioned, it is not part of this but as a concern from the entrepreneurs. So, we want to see more people coming to you, more people will be knowing about you and more people will invest in terms of development.

MR. M. CLOUGH.- You will definitely see more of this in 2018 and 2019.

MADAM CHAIRPERSON.- Thank you very much once again Mr. Mark and Mr. Saiyad and Madam. That brings us to the end of our presentation today from FDB and we are going to break for morning tea now and we would like you to join us if you have some time. Thank you once again.

The Committee Interview adjourned at 11.08 a.m.