



PFIP

Pacific Financial
Inclusion Programme

Financial Service Sector Assessment of Vanuatu



Pacific Financial Inclusion Program

The Pacific Financial Inclusion Program (PFIP) is a joint program funded by the UN Capital Development Fund (UNCDF), United Nations Development Program (UNDP), the European Union/Africa, Caribbean and Pacific Microfinance Framework Program (EU/ACP), the Government of Australia (AusAID) and the Government of New Zealand (The NZ Aid Programme) through its financial contribution to the UNDP Pacific Centre. The mission of the PFIP is to increase the number of low income and rural households, micro and small enterprises in Pacific Island Countries (PICs) that have on-going access to quality and affordable financial services. The outcome of the Program is for 250,000 new clients in the target market segment to have new and/or improved access to appropriate, sustainable financial services including, but not limited to savings, money transfers, insurance and loans. The PFIP has several instruments to achieve its outcome, including (1) generating knowledge of the demand for and supply of financial services through research; (2) sharing knowledge through workshops and conferences; (3) providing direct expert advice or making expert consulting services available to stakeholders; (4) advocating the removal of constraints to financial inclusion and (5) providing financial support to partners that can help PFIP achieve this outcome.

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NOTE

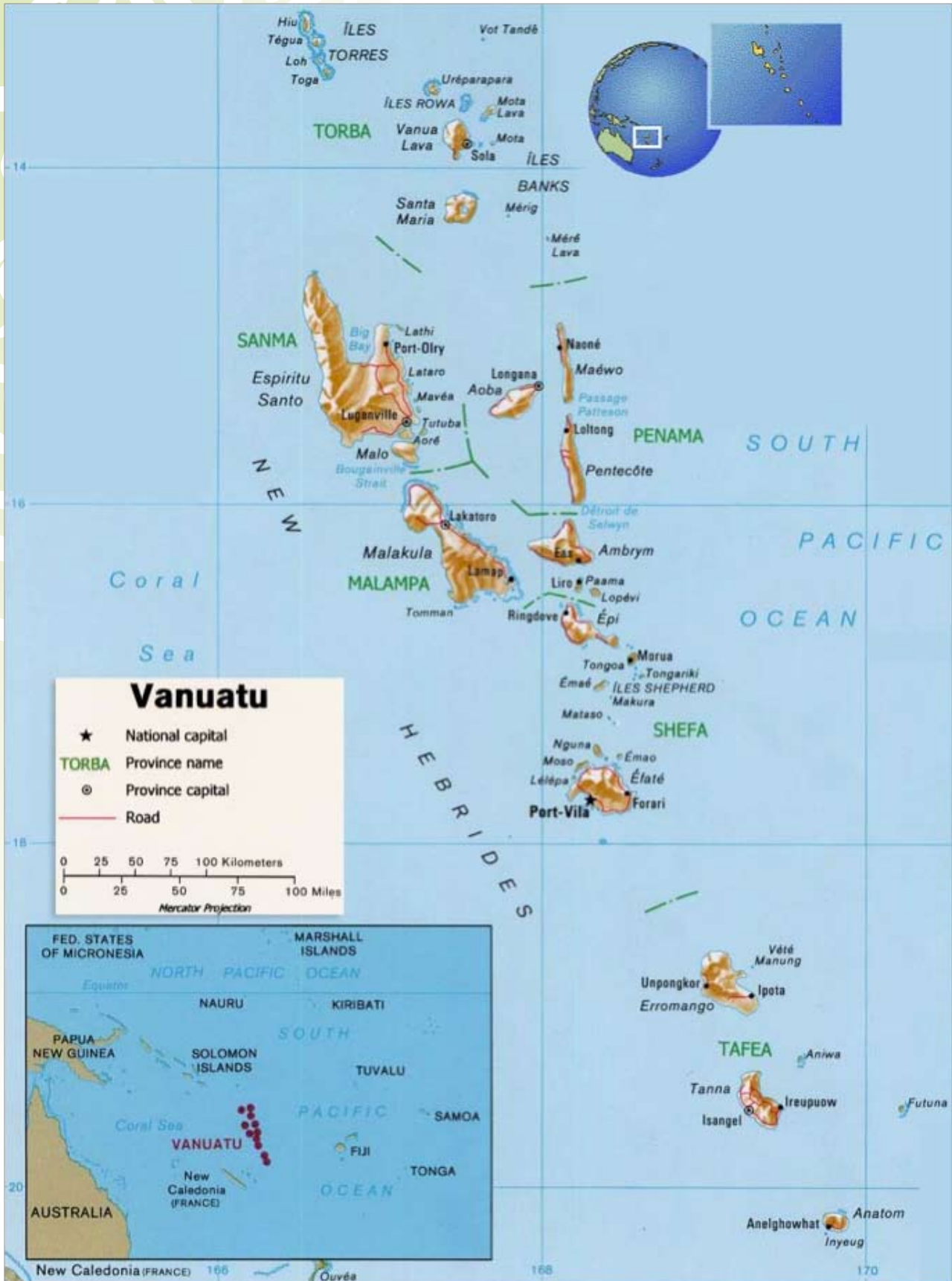
In this report, "US\$" refers to US dollars.

CURRENCY EQUIVALENTS

(as of 5 July 2010)

Currency Unit	-	Ni-Vanuatu Vatu (VUV)
VUV 1.00	=	US \$0.01100
US\$ 1.00	=	VUV 90.905

Figure 1: Map of Vanuatu



Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

LIST OF ACRONYMS AND ABBREVIATIONS USED

ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
AusAID	The Australian Agency for International Development
BNPL	Basic Needs Poverty Line
CGAP	Consultative Group to Assist the Poor
COMSEC	Commonwealth Secretariat
CRP	Comprehensive Reform Programme
EIB	European Investment Bank
EU	European Union
FAI	Financial Access Initiative
FSP	Financial Service Provider
FSSA	Financial Service Sector Assessment
GDP	Gross Domestic Product
HIES	Household Income and Expenditures Survey
IFC	International Finance Corporation
ILO	International Labour Organisation
IT	Information Technology
LDC	Least Developed Country
M-Banking	Mobile Phone Banking
M-Money	Mobile Money
MDG	Millennium Development Goals
MSME	Micro-, Small and Medium Enterprise
NBV	National Bank of Vanuatu
ODA	Official Development Assistance
PAA	Priorities and Action Agenda
PFIP	Pacific Financial Inclusion Programme
PMI	Pacific Microfinance Initiative
RBV	Reserve Bank of Vanuatu
REDI	Rural Economic Development Plans
RSE	Registered Seasonal Employer
RSPDF	Rural Sector Provincial Development Fund
SBDA	Small Business Development Agency
TVET	Technical, Vocational Education and Training
TVL	Telecom Vanuatu Limited
UNCDF	UN Capital Development Fund
UNDP	United Nations Development Programme
VADB	Vanuatu Agricultural Development Bank
VANWODS	Vanuatu Women's Development Scheme
VCCI	Vanuatu Chamber of Commerce and Industry
VFSC	Vanuatu Financial Services Commission
VNPF	Vanuatu National Provident Fund
VNTC	Vanuatu National Training Council
VQTS	Vanuatu Quality Training Standards
VSAT	Very Small Aperture Terminal
VUV	Vanuatu Vatu

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1. EXECUTIVE SUMMARY

Financial services in Vanuatu are highly concentrated in the two urban areas of Port Vila and Luganville, and dominated by four commercial banks, a superannuation fund, and four domestically licenced general insurers. Of these stakeholders, only the National Bank of Vanuatu (NBV) is providing services on any scale to low income clients. These services are complemented by the two much smaller semi-formal providers, Vanuatu Women's Development Scheme (VANWODS) and the Department of Cooperatives

Figure 2: Financial Service Sector Providers at a Glance

Financial Service Providers at a Glance
• Four Commercial Banks (ANZ, Westpac, BRED, NBV)
• Four Domestically Licensed General Insurers (7 More licensed off-shore)
• One Government Funded Agricultural Development Bank (VADB)
• One Pension Fund (VNPF)
• One Microfinance Institution (VANWODS)
• Three For Profit Lenders (Melanesian, MAAW, CreditCorps)
• One Registered Credit Union (V-One)
• 75 Savings & Loan Societies
• Five Licensed Insurance Brokers
• Three Money Transfer Operators
• 12 Foreign Exchange Dealers

Since the last financial service sector assessment (FSSA) for Vanuatu in 2007, great progress has been made towards developing an inclusive financial sector in the country, with the number of people accessing financial services increasing by an average rate of 19% a year. Currently an estimated 19% of the population has access to formal or semi-formal financial services, and the percentage of the population with banking services is about half that of Fiji (39%), which benefits from a vastly more developed economy and concentrated population, and outperforms both Solomon Islands (15%) and Papua New Guinea (8%)¹. This improved situation in Vanuatu can mostly be attributed to the above mentioned three main service providers.

The enabling environment for financial services is now both more flexible and transparent. Improved regulations such as the Secured Transactions Bill allow financial service providers to use movable assets as collateral against loans; reduced Know Your Customer (KYC) regulations permit banking institutions to open accounts for people without official identifications; Digicel has been given a letter of no objection to launch its mobile phone based payments system; and VANWODS, V-ONE credit union, the Vanuatu Agricultural Development Bank (VADB) and The Vanuatu National Provident Fund (VNPF) are now all under the supervision of the Reserve Bank of Vanuatu (RBV). Further, a credit bureau will soon be introduced and other important regulations are under review with the support of the Asian Development Bank (ADB).

New projects and developments, both currently implemented and planned, promise even greater access and improved services to low-income and rural people within Vanuatu on the retail level. NBV has worked hard to install VSAT systems and solar power in its rural branches, and introduce ATM cards and SMS banking to its clients. VANWODS has expanded to three new provinces and many different institutions are now becoming involved with financial literacy training. Other exciting developments on the horizon include Digicel's mobile money product called "Isi Mani" which will allow people to make financial transactions over their mobile phones from almost anywhere in the country. ANZ has plans to launch a similar product in 2012 and other commercial banks are also evaluating their future involvement in this market segment.

Yet there is still significant room for further improvement and growth within the sector. It is estimated that only 37% of the demand for deposit services, 28% of the demand for loans and 25% of the demand for insurance are currently being met. Constraints associated with the country's challenging geography and low level of economic development are significant factors. However, greater access and use of financial services is feasible if appropriately designed products and marketing/ education campaigns are successfully created and implemented. For the increasing amount of people using microfinance services, more reporting on product performance is needed, and potentially more oversight for semi-formal providers.

¹ Honohan, Patrick. (2008). Cross-Country Variation in Household Access to Financial Services. *Journal of Banking and Finance*.

The number of new financial inclusion initiatives, including those focusing on client education, has grown, increasing the need for a coordinated countrywide approach in an environment where coordination has historically been very poor. At a minimum, the outreach and quality of services being provided by suppliers must be better monitored and more research should be done on the financial behaviours of people in rural areas. Additionally, further linkages between service providers with greater outreach and those with efficient management systems should be explored. Further, financial literacy training providers need to coordinate their approaches to ensure that lessons and coverage are complementary.

This report provides an overview of the status of the financial sector with regard to serving low income and rural populations, consequently offering an informational platform to policymakers and practitioners working in the area. It is by no means comprehensive, and lacks demand data, but it is a solid departure point from which to formulate policies and priorities for a more coordinated approach to financial inclusion.

2. BACKGROUND AND INTRODUCTION

The Pacific Financial Inclusion Programme (PFIP) has supported regulatory agencies in Fiji and Solomon Islands to formulate national action plans for financial inclusion. While it is still too early to accurately measure the long-term impact of these plans, initial results are promising. In Fiji there has been increased coordination among stakeholders, new supportive regulations, targeted demand studies as well as significantly more involvement from important private sector actors now serving tens of thousands of previously unbanked people. Similarly, in Solomon Islands there is now important regulatory reform underway, as well as a high level of communication among private sector financial institutions, donors, government ministries and civil society organisations that was not present beforehand.

The Reserve Bank of Vanuatu (RBV), wishing to duplicate the success of these efforts, particularly increased stakeholder coordination, requested PFIP support for a similar initiative in Vanuatu. Experience from around the world has shown that doing a FSSA to gauge the outreach and quality of the financial services, particularly to low income and rural populations, is a crucial first step for any effort to improve financial inclusion. This report updates the findings of the 2007 FSSA², but also delves deeper into some issues that were beyond the scope of that report, such as the informal activities in rural areas. This report aims not only measure the status of financial inclusion in the country, but also suggests promising opportunities to pursue.

How this report will be used to create a national action plan for Vanuatu will depend on the local stakeholders involved. In both Fiji³ and Solomon Islands⁴ similar assessment reports were used as departure points at national conferences where a diversity of national stakeholders discussed findings and opportunities, and agreed on priority areas for action. Similarly in both cases the regulatory agency involved formed a task force of key stakeholders to monitor implementation of the action plan. It is highly recommended that a similar process be followed in Vanuatu.

3. APPROACH AND METHODOLOGY

The Reserve Bank of Vanuatu and the PFIP jointly conducted research for this report in Vanuatu from May 31st to June 10th, 2011. Specialists conducted over 60 interviews in Port Vila, Malekula, and Espiritu Santo with practitioners and policymakers in the financial and other related sectors. Further, seven focus group discussions were held in rural villages on these islands. Most major documents reviewed are cited directly in this report, and a list of people interviewed is provided as Section 9. Information collected for this report was first submitted to organisations described in this report to review for accuracy, and then the full text was reviewed by the RBV and Reuben Summerlin, a technical reviewer.

² Flaming, Mark & Mathison, Stuart. (2007). Financial Service Sector Assessment of Vanuatu. United Nations Capital Development Fund & United Nations Development Programme.

³ Basix, Ltd. & Bruett, Till. (2009). Financial Service Sector Assessment of Fiji. The United Nations Development Programme Pacific Centre. Suva, Fiji.

⁴ McCaffrey, Mike. (2010). In Search of Sustainability: The Provision of Rural Financial Services in Solomon Islands. The United Nations Development Programme Pacific Centre. Suva, Fiji.

4. THE SETTING FOR FINANCIAL SERVICES IN VANUATU

4.1 COUNTRY PROFILE

The Republic of Vanuatu consists of 83 islands strewn across the South Pacific, 65 permanently inhabited. Just over 41% of the 12,000 km² land mass is classified as suitable for cultivation and 90% of overall land is held in customary land tenure for use by family members. Nine active volcanoes are spread throughout the 700,000 km² exclusive economic zone. Transportation around and between the six provinces is still expensive, infrequent and generally difficult. Telecommunications has greatly improved over the past three years and mobile phone coverage is now available to about 90% of Ni-Vanuatu in the places where they live.

The 2009 Census reported that there were 234,023 people living in the country with 76% of Ni-Vanuatu still living in rural areas. The World Bank reports that Gross National Income (GNI) per capita is US\$ 2,620 (2009 estimate). The United Nations does not report a Human Development Index ranking for Vanuatu but it is considered to be a Least Developed Country (LDC). While 105 vernacular languages are spoken, linguistic legacy from colonial times means that two-thirds of the population are Anglophone and one-third Francophone, with most people also speaking Bislama (ni-Vanuatu Pidgin). Ethnically, 98.5% of the population is Ni-Vanuatu, with a life expectancy of 65 years (2011 estimate), and a fertility rate of 2.39 children per woman (94th in the world)⁵.

Like other Pacific nations, urbanisation is increasing rapidly in Vanuatu as people migrate for education and economic opportunities to the two urban centres of Port Vila (Efate Island, Shefa Province) and Luganville (on Espiritu Santo Island, Sanma Province). In 2009, 65% of people living in urban areas were born elsewhere. From 1999 to 2009, the number of households in urban areas grew 41%, yet this trend is often masked by the significantly higher birth rate in rural areas, which helps keep the overall percentage of people living in rural areas high. Currently 39% of the population is under 15 years old, and 80% of this age demographic lives in a rural area⁶. This trend of a large youthful population urbanising as they mature will certainly drive developmental trends for the foreseeable future.

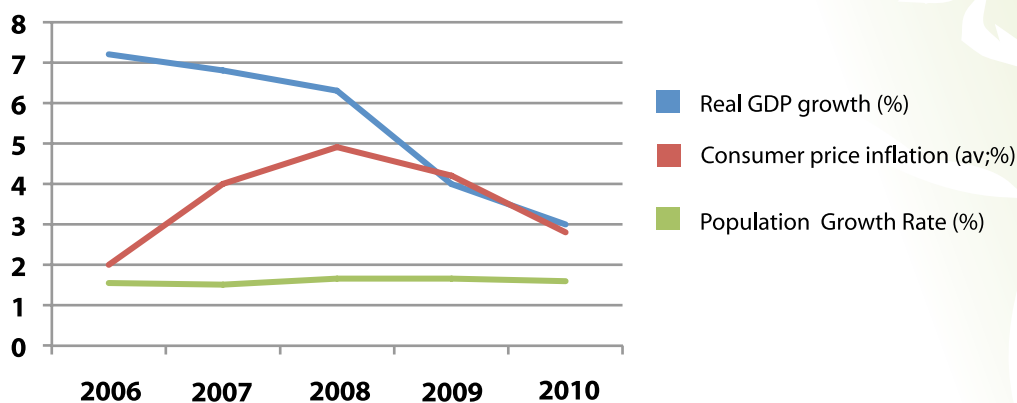
Vanuatu gained independence in 1980 from France and the United Kingdom, and is governed by a parliamentary democracy. The head of state is the President of the Republic, who is elected every five years by members of Parliament and the Presidents of the Provincial Councils. The Prime Minister presides over a 12-member council, which administers the country's 13 ministries. The judiciary is comprised of a Magistrates Court, a Supreme Court with a Chief Justice, and the highest court, the Court of Appeal. Vanuatu is a member of the British Commonwealth, the United Nations, the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB). On the national level, politics have been extremely unstable since independence, characterised by weak parties, unstable coalitions and frequent parliamentary votes of no-confidence.

⁵ CIA TheWorld Factbook. (Accessed on June 28th 2011) Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/nh.html>

⁶ 2009 National Populations and Housing Census, Basic Tables Report. Vanuatu National Statistics Office. Vol 1.

In 1994 six provincial government systems were created to promote rural growth and decentralisation; however, in rural areas faith-based organisations and traditional structures are still very influential in maintaining peace, law and order. There is a highly organised chiefly structure presided over by the National Council of Chiefs (Malvatumaori). They oversee six Provincial Councils of Chiefs, which in turn serve as apex organisations for either Area Councils or councils grouped by mother tongue (depending on the island). In some villages, chiefs are elected and in other villages, titles are inherited by the first-born son of the chief or someone nominated by the chief.

Figure 3: Real GDP Growth, Inflation and Population Growth from 2006-2010



Vanuatu has the third lowest GDP per capita of nations in the Pacific, however, real GDP growth has been strong in the recent past while inflation has been kept under 5%. The IMF noted that skilful monetary easing during the global financial crisis has left Vanuatu's economy with a positive outlook, set to grow a predicted 3.8% in 2011, and even faster in 2012⁷. At the same time it is predicted that inflation will hover around 4%, the RBV upper boundary for the period. This means Vanuatu could graduate from Least Country Development (LDC) status as early as 2013⁸.

While government debt is low as a proportion of GDP, in 2009 budgetary support of 4.5 billion VUV (US\$ 49.5 million) in foreign grants kept Vanuatu from running a deficit. It is thought that Vanuatu ran a deficit in 2010 and will have a more neutral fiscal policy in 2011 in line with its responsibility under the 1998 Public Finance and Economic Management Act⁹. Vanuatu consistently runs a trade deficit, importing large amounts of machinery, transport equipment, mineral fuel, basic manufactures, and food, while the vast majority of which are agricultural with little value added.

Figure 4: Breakdown of Principal Exports

Principal exports for 2009 (VUV million)	
Kava	616
Copra	569
Beef	399
Cocoa	343
Coconut oil	272

⁷ Economist Intelligence Unit. (April 2011) Vanuatu Country Report. London, United Kingdom.

⁸ Vanuatu Diagnostic Trade Integration Study (2007). World Trade Organisation. Volume One.

⁹ Economist Intelligence Unit. (April 2011) Vanuatu Country Report. London, United Kingdom.

4.2 NATIONAL POLICIES FOR POVERTY ALLEVIATION & ECONOMIC DEVELOPMENT

4.2.1 The Millennium Development Goals (MDGs)

The last MDG Report for Vanuatu was done in 2005; however, a 2010 Pacific Regional MDGs Tracking Report compiled included Vanuatu. The report notes that Vanuatu is “slightly off track” for all eight MDGs and that there are still some data gaps which inhibit monitoring capacity. Under MDG 1, eradicating extreme poverty and hunger, the food poverty rate in Vanuatu remains low at around 5-7% of the population, however there is still a significant proportion of the population living under the Basic Needs Poverty Line, and they are concentrated in the urban areas. Nationally, approximately 16% of Ni-Vanuatu lives under the BNPL, however in rural areas it is only 11% and in urban areas it is roughly 33% of the population. Specific indicators do show some improvement though, and there is now a much higher proportion of urban dwellers that have access to piped water. For individual indicators under other MDGs, there has been some success:

- in improving the maternal mortality rate under MDG 5
- lowering the incidence rate of malaria under MDG 6
- greatly improving access to telecommunications under MDG 8.

Under MDG 3 there is still a significant lack of gender parity: only 6 girls per 10 boys enrolled in secondary school and only 4% of seats in parliament held by women. There was also a drastic fall in the immunisation rate under MDG 4.

4.2.2 The National Development Plans and their Implementation

In 1997 Vanuatu launched the Comprehensive Reform Programme (CRP), which focused on public sector reform, economic growth, and social services. The ADB supported this process with a US\$25 million loan and technical support. The CRP was organised around five “millennium priorities and strategies”, which included “enhancing access to rural credit at reasonable interest rates and establishing mechanisms to encourage savings in rural and urban areas” as a strategy under the first priority.

The Rural Economic Development Plans (REDI) are five-year provincial plans for economic development, begun in 1999. REDI were originally envisaged to create economic self-reliance in the provinces, with the first one being done in Tafea Province over a two-year period. Replication of This model was quickly replicated in other provinces and planning shifted to the national level to try and garner donor funding. This had the unintended consequence of also undermining provincial ownership of REDI¹⁰. A 2007 stocktake¹¹ reports that overall it is a good initiative except that the small loan programme was subsequently closed by the Ministry of Finance, there was a failure to gather high levels of private sector participation, and there was a lack of sophistication in planning and sequencing that limited impact. However the legacy of REDI is a more decentralised governmental approach to development and more national funds allocated to rural service delivery.

The CRP was continually developed and reviewed until 2003, when the government of Vanuatu restructured it under the Priorities and Action Agenda (PAA). In 2006 priorities were further targeted through 2015 with the vision of creating “an educated, healthy and wealthy Vanuatu”. Seven focus areas were determined:

1. Private Sector Development and Employment Creation
2. Macroeconomic Stability and Equitable Growth
3. Good Governance and Public Sector Reform
4. Primary sector development, climate change, the environment and disaster risk management
5. Provision of better Health Services, especially in rural areas
6. Education and human resource development
7. Economic Infrastructure and Support Services

In 2010, in consultation with the United Nations there was a review of progress made against prioritised policies in the PAA. The review reported mixed results. For example while there had been very positive growth in income per capita, it had been concentrated in urban areas and there had been only low growth in the agricultural sector. There had been significant progress in legislative reform but a lack of capacity to implement it. Some sectors like telecommunications had taken off, while others like transport were still fraught with difficulties.

The first priority in regard to private sector development includes a policy objective from the original CRP to “improve access to

¹⁰ Correspondence with Nikunj Soni, Senior Treasury Adviser at Ministry of Finance and Economic Management.

¹¹ Soni, Nikunj; Hannington, Alatoa; & Belinda Harries. (April 2007) REDI Stocktake. Watergall Consulting Limited. Port Vila, Vanuatu.

credit and savings". The review notes that there has been some progress in this area, yet still no procedure established to monitor the quality or extent of progress. This will become increasingly important as more work is being done in this area by an increased number of participants and should be closely monitored and evaluated, especially given the high failure rate of domestic initiatives in the recent past.

4.2.3 Policies and Legislation for an Enabling Private Sector Environment

The International Finance Corporation's (IFC) Doing Business ranking shows that Vanuatu is ranked 60 out of 183 economies around the world, which is just above Fiji and Samoa as the easiest place to do business in the Pacific (excluding Australia and New Zealand). It increased its ranking three places since 2010, but that may be attributed to a worsening in other economies rather than improvement in private sector policies in Vanuatu. The only real indicators that have changed over the past year are that the cost of starting a new business as a proportion of income per capita has dropped slightly. Also the slight lowering of ranking in the "trading across borders" category reflects a small increase in the cost of both importing and exporting goods since 2010. The three least competitive areas remain:

1. "starting a business" where the number of procedures necessary, the time required and the costs are still prohibitively high,
2. "registering property" where the time needed to do so still hovers around an average of 188 days –and-
3. "trading across borders", where there are still cumbersome procedures, significant delays, and the cost to ship a container is still extremely high.

Figure 5¹² : IFC 2011 Doing Business Ranking for Vanuatu

Topic Rankings	DB 2011 Rank	DB 2010 Rank	Change in Rank
Starting a Business	107	110	3
Dealing with Construction Permits	21	22	1
Registering Property	108	103	-5
Getting Credit	72	69	-3
Protecting Investors	74	73	-1
Paying Taxes	19	20	1
Trading Across Borders	142	140	-2
Enforcing Contracts	76	75	-1
Closing a Business	50	52	2

The government of Vanuatu with support from the Commonwealth Secretariat (COMSEC) has created a plan to develop the Micro-, Small and Medium Enterprise sector, called the MSME Policy and Strategy for Vanuatu. The initiative targets businesses that are at least 50% owned by Ni-Vanuatu, have 50 employees or less, and less than 200 million VUV (US\$ 2.2 million) in annual sales. The major areas of focus are on legislative reform, entrepreneurial training, creating business linkages, and creating a Small Business Development Agency (SBDA). While a significant amount of analysis for this policy has been completed starting in 2001, and some training of trainers has taken place, it has not yet been officially approved as a national strategy.

4.2.4 Legislation and Regulations for the Financial System

Reserve Bank of Vanuatu (RBV)

The RBV operates under the Reserve Bank of Vanuatu Act to supervise and regulate financial intermediaries under the Financial Institutions Act (revised in 2002). The latter act prohibits all other companies non-licensed as banks from engaging in deposit taking and on lending.¹³ There is an exception made for organisations registered as cooperatives or credit unions, but the RBV can bring them under supervision if the value of their loans or deposits exceeds ten million vatu in any given period. However the RBV does tolerate VANWODS, which fulfils the definition of a bank under the Financial Institutions Act, yet is not registered as such.

¹² International Finance Corporation. (2011). Doing Business 2011 Vanuatu: Making a Difference for Entrepreneurs. (Accessed on June 29th 2011) Available at: <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Profiles/Country/DB11/VUT.pdf>

¹³ IFC Scoping Mission July 2009. [Unpublished].

Currently the VADB, VNPF, and the insurance industry are all also supervised by the RBV. While cooperatives report to the Department of Cooperatives, the remaining credit union is supervised by the RBV under the Credit Union Act. As the sole microfinance institution (MFI) in the country, VANWODS reports to the RBV as specifically directed by the Ministry of Finance, but there is no legislation with regard to MFIs and the RBV does not actively supervise it. Most non-bank financial institutions therefore register as a cooperative, a private business or a charitable organisation. In coordination with the Asian Development Bank (ADB), the RBV is reviewing how best to supervise MFIs. In cooperation with the VFSC they have completed a diagnostic on MFI regulation that is currently being finalised. Lastly, money transfer operators are not regulated by the RBV and there is no legislation for moneylenders who operate informally and outside of the regulatory regime.

Vanuatu does not have a national ID card system, yet under the Financial Transaction Reporting Act, a “national identity card or passport or other applicable official identifying document” is required to access banking services. The RBV recognises that people living in rural areas are unlikely to meet this requirement and their financial transactions are in less need of close monitoring. The RBV is therefore allowing organisations like NBV, ANZ, and VANWODS to apply risk-based KYC policies, using personal references from respected community members as a rural identification method to acquire clients.

The RBV has a respected reputation as the caretaker of Vanuatu’s economy and is now extending its reach to advocate for the inclusion of a greater proportion of Ni-Vanuatu into the formal financial system. Currently, activities relating to financial inclusion are managed by the Financial Markets Department. In 2009 the RBV became a founding member of the Pacific Central Bank Working Group on Financial Inclusion, which is supported by Alliance for Financial Inclusion (AFI) and PFIP. The RBV is also playing an advocacy role with regards to financial literacy and made it one of the central components of their 30th anniversary celebration (June 2011). The RBV has also agreed to be the leading agency for implementing the Money Pacific Goals which are:

“That each Pacific island nation, through combined actions of the public and private sectors, achieves these goals by 2020:

1. all children to receive financial education through core curricula;
2. all adults to have access to financial education;
3. simple and transparent consumer protection to be in place; and
4. halve the number of households without access to basic financial services.”

In terms of capacity, staff have been sent to top microfinance trainings and have had special sessions at the RBV on the regulation of mobile money. In June 2011, they issued a letter of no objection to allow Digicel to pilot its mobile money product and conducted an analysis of financial regulations in Vanuatu relating to financial inclusion. They are interested in increasing their role in this field and are the most likely candidate to continue spearheading progress from the policy level on a national scale. As the financial sector continually develops, the RBV will need to evolve with it. It does not currently supervise any agents and guidelines will be needed for the Isi Mani product. Nor is there any e-money regulation and it does not supervise or license payment providers, which it might think about doing in the future.

Vanuatu Financial Services Commission (VFSC)

VFSC was established in 1993 under the Vanuatu Financial Services Commission Act No. 35 to serve as a register of companies and regulate non-deposit taking financial service providers in Vanuatu. These include mutual funds, protected cell companies, security dealers, charitable organisations, unit trusts and trust companies. It also administers the Bankruptcy Act and used to supervise the credit unions, though the remaining one now reports to the RBV.

With the support of the ADB, the Personal Property Securities Act (PPSA) was passed by Parliament in 2008. An on line registry providing for registration of security interests under the Act went live in 2009 and is managed by the VFSC. The ADB helped draft a Companies Bill and is working on new insolvency legislation and a Trustee Act, which are awaiting Parliamentary review. Once the Companies Bill is passed, the plan is to then draft regulations and design an electronic company registry with the assistance of the ADB.

4.3 THE ROLE AND CONTRIBUTION OF MICROFINANCE

Microfinance is playing an increasingly significant role in the financial sector in terms of the number of clients served, while at the same time occupying a very small role in terms of the value of deposits or loans outstanding. As an example, approximately 40% of NBV loans are of small or micro-size, but they only account for about 5% of its portfolio outstanding¹⁴. This may be partly attributed to microfinancial services being new, and the long time required to develop needed infrastructure to offer products to the predominantly rural populations: the Department of Cooperatives just started their Savings & Loans Cooperatives in 2008, NBV rolled out their Rural Banking Services Unit in 2008, and VANWODS just surpassed 5,000 clients in 2010, 15 years after establishment.

¹⁴Interview with Stuart Mathison, NBV. June 2011.

4.4 THE SUPPORT INFRASTRUCTURE FOR THE FINANCE SECTOR

The support infrastructure for the financial sector is weak, yet rapidly improving in some respects. The substantial improvements in telecommunications in the past three years, along with a newly completed ring road around Efate (the most populous island, located in the Shefa Province) and a sealed road along the East coast of Espiritu Santo (the largest island, located in Sanma Province) means it has become easier to provide financial services in these areas. However the cost of inter-island transport and the limited pool of trained financial professionals still provide significant challenges for the sector as a whole. For the four commercial banks and eventually for others in the sector, an impending credit bureau may make lending easier, but the lack of a real time clearing system for banks will still make it hard to increase interoperability of ATMs, EFTPOS and other banking systems (currently just NBV & Westpac have interoperable ATMs). The Vanuatu National Provident Fund (VNPF) is the only provider of wholesale funds in the country, meaning that the cost of funds fluctuates with its prevailing interest rate. There are some significant support and training networks such as the Technical, Vocational Education and Training (TVET) and Vanuatu Chamber of Commerce and Industry (VCCI), but in general coordination and information sharing among stakeholders is very limited.

Department of Cooperatives & Ni-Vanuatu Business Development Services

The Department of Cooperatives has offices in every province and therefore the potential to widely extend services to members. However the staff interviewed in provincial offices reported having little experience managing financial services and already being understaffed given their current responsibilities. The institution has had an uneven past, supporting a large number of cooperatives from the 1960s through to the 1990s, when the cooperative model sharply declined, reportedly due to mismanagement problems, political interference and a decrease in supportive funding and increased competition from private enterprises. The Department of Cooperatives reports that since 2007, cooperatives are experiencing a revival and in 2008 it began promoting the model in the all provinces. Of the 421 registered cooperatives, 254 (60%) are still active, representing 10,488 members¹⁵. The Vanuatu Cooperatives Federation has been closed for some time, but the Department intends to revive it in its work plan.

The Department of Cooperatives is promoting a savings and loans cooperative model, which has been met with significant initial demand (discussed in section 6.2.3) and has two small lending programmes. In 2001 it established the Ni-Vanuatu Business Development Fund and the Cooperative Development Fund, registered under the Charitable Act. The former fund is designed to give small loans to microentrepreneurs while the latter targets small productive cooperatives. Applicants must submit a clear business plan and deposit 50% of the value of the loan. They then receive two weeks of small business training, after which the loan is disbursed at a 10% flat annual rate. Loans are between 50,000 and 5 million VUV (US\$560 and US\$56,000).

The fund was originally capitalised by a grant from the Chinese government of 110 million VUV (\$US1.12 million) and salaries and operational costs are paid by the Vanuatu Government. Of the original capital, 80 million VUV (73%) is still outstanding in loans overdue. However the Department of Cooperatives has an increased number of staff and last year collected 4 million VUV (US\$ 44,773) funds overdue. It hopes to collect 4 million VUV more this year. It does not plan to write off any of the outstanding amount. The Department of Cooperatives cites political interference as the main reason for past lending problems and froze all remaining funds while they addressed this issue. In 2010, the constitution of the Fund was rewritten and a new, independent board was created to administer the programme. In December 2010 the fund was decentralised from Port Vila and one million VUV (US\$ 11,193) of loan capital was distributed to each of the six provinces to serve as revolving funds. In May 2011 the lending programme was relaunched, but no results are yet available.

The Cooperative Development Fund was similarly capitalised with a grant from the Chinese government of 120 million VUV (US\$1.35 million) of which 100 million VUV (US\$1.12 million) was in default in June 2011. There has also been one million VUV (US\$ 11,193) in loan capital distributed to each province for this fund, and after similar reforms it has recently begun lending again.

Digicel Vanuatu

Digicel launched its network in Vanuatu in June 2008 and currently reports to be covering 89% of the population. They have erected 82 towers covering 83 islands, and now have over 100,000 customers. Digicel is preparing to roll out a m-money product in Vanuatu called "Isi Mani" which will allow people to make financial transactions over their mobile phones. The product is a derivative of the mobile money products they have launched in Fiji, Tonga, and Samoa and the launch is planned for the third quarter of 2011. It is launching with a bank interface with NBV that will allow customers with a bank account to access their funds and move them to their wallet and vice versa. Customers will be able to transfer money to any Digicel customer in Vanuatu and will be able to use 20 Vanuatu Post agencies around the country to exchange e-money and hard currency. Because of the bank interface, Digicel will not look to building extensive agent networks as was done in Fiji and will probably limit the network to fewer than 50 cash in/cash out points. This has a very exciting potential for financial inclusion in Vanuatu.

¹⁵ Department of Cooperatives and Ni-Vanuatu Business 2010 Annual Report.

Figure 6¹⁶ Mobile Phone Penetration

Households with a working mobile phone		
Urban	10526	91%
Rural	25374	71%
Overall	35900	76%

Telecom Vanuatu Limited (TVL)

TVL was the sole telecom provider in Vanuatu from 1992 until 2008, when Digicel obtained a license to also offer services. It is owned equally by France Telecom (France), and Cable and Wireless (United Kingdom) and provides fixed, mobile and internet services. They currently report having 53 towers covering 75% of the population living on 58 different islands with a Second Generation (2G) network.

In the recent past TVL focused on improving their service and outreach with some difficulty due to increasing competition. However, there is now a completely new management team in place, including Gerome Guicherd, Chief Marketing and Commercial Officer who has worked on the launch of a mobile money service in seven different countries for 'Orange Money' (a brand of France Telecom). They believe it would not be viable to develop their own competing brand for mobile money in Vanuatu but are interested in working with banks and other service providers to make an m-money system as interoperable as possible. TVL is currently focusing on expanding services to remote outer islands such as the Banks group in the north.

The Chamber of Commerce & Industry of Vanuatu (VCCI)

VCCI is a registered training provider and offers courses through the School of Business and Finance. It receives 10% of business license fees to subsidise training and promote private sector development in general. Courses are targeted at a wide cross section of the business community offering topics from basic accounting and start-your-own-business courses to certificates in Business Management and Business Finance. Individual courses are offered throughout the year, requiring 25 hours of class time and costing anywhere from 7,000 VUV (US\$ 78) to 18,000 VUV (US\$ 201) for more advanced topics.

Technical, Vocational Education and Training (TVET)

Organisations that would like to become part of the TVET system can apply to the Vanuatu National Training Council (VNTC) which was established in 1999 to ensure that TVET qualifications were of a high standard and appropriate for people's training needs. The VNTC reviews the applications against the Vanuatu Quality Training Standards (VQTS) which they have developed to determine the qualifications of the service provider.

If they meet the minimum qualifications they will become accredited as a Registered Training Provider (RTP), either classified as "Category A" or "Category B" providers denoting the level of courses they are certified to provide under the Vanuatu Qualifications Framework (VQF).

Currently The Vanuatu Institute of Technology is the largest provider in the TVET system, with its main campus in Port Vila and two satellite offices in Tafea and Sanma established with funding from AusAID. There is a large number of other TVET providers around the country, mostly focused on microenterprise development trainings, but are now increasingly being approached about also providing more basic financial literacy courses.

¹⁶2009 National Populations and Housing Census, Basic Tables Report. Vanuatu National Statistics Office. Vol 1.

Vanuatu Credit Union League

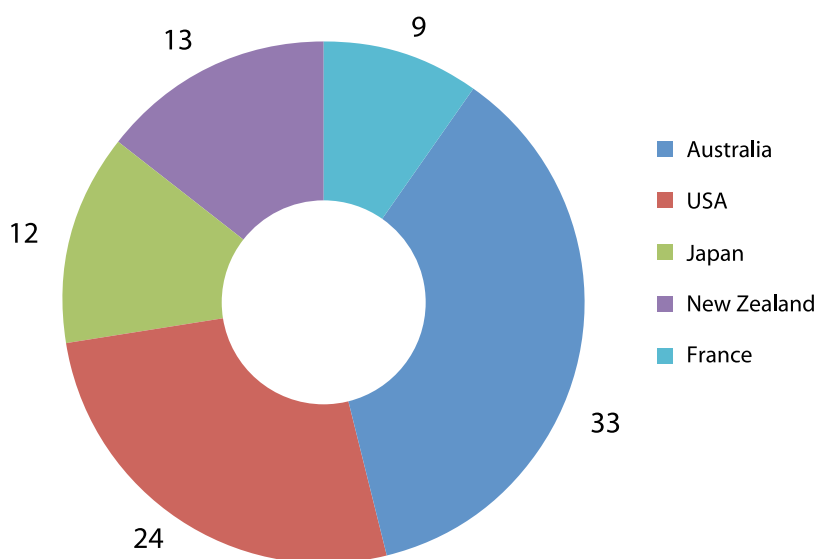
Credit unions in Vanuatu have followed the same trend of boom and bust as in other Pacific Island nations, with over 90% of credit unions in Melanesia failing and almost no activities still operating in rural areas. In Vanuatu, the Roman Catholic Church began promoting credit unions in the late 1980's, and a few were established around parishes. In 1993, with a couple thousand members, they moved to consolidate the existing credit unions and asked for a Credit Union Act to legitimise them. But around 1996 credit unions started to decline in number as there were a lot of problems finding qualified people to manage them in rural areas, plus the other common problems of low repayment rates on loans and abuse of funds by management. Nonetheless, CRP made it an area of focus and in 1999 the Credit Union Act was passed. The Act created the Credit Union League, formed with donor funding but could not subsequently generate enough revenue to sustain itself. When donor funding ceased in 2004, it closed.

4.5 THE FUNDERS OF PRIVATE SECTOR DEVELOPMENT AND FINANCE

Official development assistance (ODA) in Vanuatu is a significant inflow relative to the national economy. In 2009 ODA was equal to 16.4% of Gross National Income. ODA comes mainly from five countries that account for 93% of the overall total (Australia accounts for 32% by itself). The money is directed to a variety of sectors and some programmes have specific sectoral focuses. Much of the assistance from the United States is through the Millennium Challenge Account directed at improving infrastructure, and the NZ Aid Programme is focusing its efforts on tourism, education and infrastructure.

There has been a history of support to microfinance and many different donors have become involved in the past, most notably the ADB. Support to the sector has increased in the recent past with the introductions of new programmes like AFI, PFIP and Pacific Microfinance Initiative (PMI), and will likely continue to increase as technological and other developments make providing financial services to more people possible.

Figure 7: Official Overseas Development Assistance (millions of US\$/year)



¹⁷Interview with Noe Saksak, Former President of the Vanuatu Credit Union League. June 2011.

Asian Development Bank (ADB)

The ADB has given significant support to the financial sector of Vanuatu. Under the CRP in the late 1990s it recapitalised the VNPF after the 1998 riots, helped close down the development bank and recapitalised the NBV. More recently it has provided funding to NBV to expand its branch network and partnered with AusAID to fund NBV to develop systems to integrate with Digicel's new mobile money platform. Currently it is conducting due diligence with the IFC and the VNPF to buy equity in the NBV, with the goal of further expanding its outreach to rural and low-income areas. The Council of Ministers has given its approval, and the plan would be for each partner to take a 15% stake, leaving the government still with 55% ownership of the entity. Further ADB is doing substantial work with both VFSC and RBV to reform regulations.

AusAID Vanuatu

The AusAID country programme has been actively involved in supporting financial inclusion and is interested in continuing its involvement in the future. AusAid's major involvement in the past couple of years has been its funding to TVET to develop financial education materials and improve training services in general. It has supported the NBV to expand their VSAT network to eight more branches and develop a platform to allow them to integrate their systems with a mobile money network. In 2010 AusAID provided funding to VANWODS to conduct a baseline study to facilitate their expansion to Tanna Island (Tafea Province) and Malekula (Malampa Province).

International Finance Corporation (IFC)

In partnership with AusAID, the IFC launched the PMI, a \$12.5 million USD programme, which began in 2010. A PMI programme manager has been based in Vanuatu scoping the market, however the scoping revealed that there were currently "very limited initiatives with good potential in Vanuatu for PMI to support"¹⁹ However, in partnership with ADB and VNPF, IFC is exploring investing equity in NBV, pending on-going due diligence.

IFC is also implementing a private sector credit bureau, scheduled to launch July/August 2011. Specifically IFC will be facilitating a common IT solution for four countries in the Pacific (the first was already launched in Tonga), and the data will be managed under an arrangement with the Fiji Data Bureau. The RBV is supportive and all four commercial banks will use and contribute to it. After the commercial banks are integrated into the system, other financial service providers, telecoms and electricity companies will be given the opportunity to join. Since there is a fixed cost structure for the service, the increased membership will mean reduced costs for all users.

Alliance for Financial Inclusion (AFI)

AFI is based in Bangkok but supports a key Pacific regional AFI Working Group. The group meets quarterly to discuss issues related to financial inclusion, attend trainings on regulating mobile money and design prudently permissive policies that can encourage financial service providers to extend services to low income and rural communities. They are now focusing on financial inclusion data; supervision of non-bank financial institutions, mobile banking supervision and will begin to respond to central bank's demand for support in consumer protection.

New Zealand Aid Programme (NZ Aid Programme)

In Vanuatu, economic development has been a key focus area for the NZ Aid Programme, highlighted by their flagship Registered Seasonal Employer (RSE) initiative. The RSE programme sends approximately 2,500 Ni-Vanuatu workers to New Zealand every year to fulfil labour shortfalls in the horticulture industry. Workers are now bringing back about 875 million VUV (US\$9.79 million) every year from this scheme, or about 350,000 VUV (\$3,918 USD) per worker. Now about 70% of workers are returnees, having already completed a round of the programme, and are earning higher wages with their increased experience, and staying for longer periods as they become more comfortable with life abroad. Anecdotally, seasonal workers seem to be bringing their wages home in cash, and exchanging them at money changers in Port Vila. During their first rotation to New Zealand, they report using money earned to pay school fees, but in the subsequent rotation they invest in home improvements, and those in their third round commonly finance small family businesses.

European Investment Bank (EIB)

EIB has had preliminary conversations with the VADB in regard to providing it with a line of credit, however speculation that the Government of Vanuatu may try to merge it with the NBV has delayed discussions and no formal agreement has been made as of writing this report.

¹⁸ This system allows data to be sent two ways through a grounded satellite network.

¹⁹ Correspondence with PMI Programme Manager.

United Nations Development Programme (UNDP)

UNDP has been involved in financial inclusion, most notably when it supported the development of VANWODS in 1996. In 2008 UNDP launched the Vanuatu Trade Integration and Capacity Building (IF) project, and of the three components the second was to catalyse “Microfinance & Entrepreneurship Development”. This component had \$240,000 USD allocated to it and the implementing partner was Department of Cooperatives and Ni-Vanuatu Business. The result was that in the project period from 2009-2010 up to 285 people received training on a cooperative model for savings and loans. Also, provincial offices were provided with computers and equipment to link them to the national hub via a website. This has been difficult, however, as currently the dial-up connections do not work during peak hours and only three of the provinces have been able to use them, although planned e-government system could solve this in the future. More importantly, collecting cooperatives’ data to enter into the system was not addressed by the project and therefore the system is still only minimally populated.

5. THE DEMAND FOR FINANCIAL SERVICES

5.1 SIZE AND COMPOSITION OF THE MARKET

In general there has been a dearth of research into the demand for financial services in Vanuatu, and really in the greater Pacific region. Neither the widely cited Honohan (2008)²⁰ article, CGAP’s Financial Access²¹ reports nor Financial Access Initiative (FAI) research²² provide estimates for Vanuatu. A 2007 ADB report²³ does estimate that only 13% of rural people have bank accounts based on the number of rural NBV accounts at that time, but does not attempt to provide an overall figure. This lack of data is a symptom of both the high cost of conducting the demand research and the lack of availability of data on the supply side (to use as a proxy). Unfortunately collecting this data is far beyond the scope of this report, but the statistical proxies below and anecdotal evidence is provided in order to construct best estimates for the usage of and demand for specific services.

In the 2009 CGAP Financial Access report, the usage of banking services is estimated by calculating the number of deposit accounts and then dividing that number by three to approximate the number of actual account holders²⁴. FAI²⁵ compared these results to their own findings and found them to be “very similar”. They also did some anecdotal testing of Honohan’s 2008 estimates using data from 12 countries representing 2 billion people and found that his “data held up well”, lending widespread credibility to the CGAP methodology. Therefore while this methodology is crude it does provide a good anchor point for policymakers.

In Vanuatu data was obtained from the three largest commercial banks (BRED did not submit data), VANWODS, the Savings and Loan Societies, and the only credit union, V-ONE. This amounts to 133,210 deposit accounts in the country. It should be noted that this is a 78% increase over the 75,000 deposit accounts estimated in the 2007 Vanuatu FSSA, equivalent to a 19% average annual increase. This predicts that there are 44,403 account holders in Vanuatu, equal to 19% of the population or 37% of the adult population over the 2006 HIES Basic Needs Poverty Line (BNPL).

²⁰ Honohan, Patrick. (2008). Cross-Country Variation in Household Access to Financial Services. *Journal of Banking and Finance*.

²¹ CGAP. *Financial Access 2010: The State of Financial Inclusion Through the Crisis*. (2010). Available at: <http://www.cgap.org/p/site/c/template.rc/1.26.14235/>

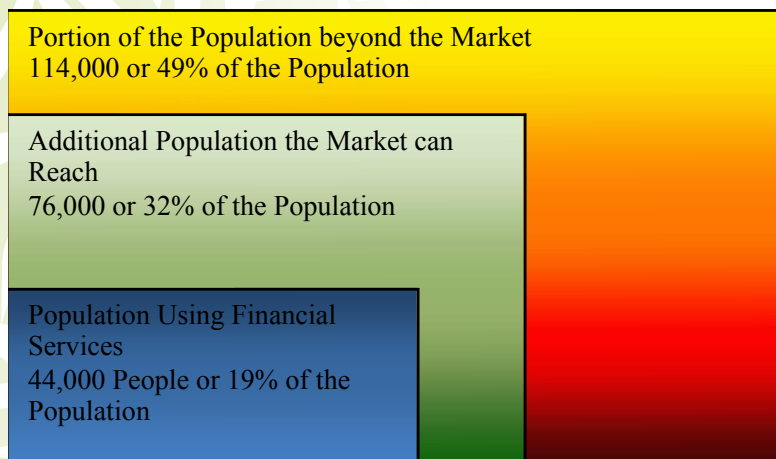
²² Financial Access Initiative. (October 2009). *Half the World is Unbanked*. FAI.

²³ ADB. (2007). *Republic of Vanuatu: Expanding Access to Financial Services*. Manila.

²⁴ A discussion of assumptions made in this section, and details of calculations are presented in Appendix 5

²⁵ CGAP. *Financial Access 2009: Measuring Access to Financial Services*. (2009). Available at: <http://www.cgap.org/gm/document-1.9.38735/FA2009.pdf>

Figure 8: Usage of Bank Accounts in Vanuatu



It should be highlighted that this is just a lower bound estimate for access to financial services and there is a greater number of Ni-Vanuatu who have access to these services, but just are not using them due to a low level of financial literacy, inappropriate product design, or mistrust in banking institutions.

There is good evidence that the number of adults over the poverty line is a good estimate of the demand for financial services in general, or more specifically for deposit services (discussed in detail in Appendix 5). However the usage of and demand for services such as credit and insurance will be much lower and different estimates for them are given below.

Figure 9: The Demand for the Big Three Financial Services in Vanuatu

Usage of:	Number of people/ households	Percentage of people/ households using:	Percentage of Demand being met for: using:
Deposit Services (ppl)	44,403	19%	37%
Credit Services (HH)	5,597	12%	28%
Insurance Services (ppl)	13,094	6%	25%

5.1.1 The demand for Savings Services

The most convincing evidence for the unmet demand for savings services is the consistently rapid membership growth of organisations offering these services both now and in the past. It is reported that in 1995 there were 5,000 credit union members²⁶, also a couple years ago ANZ offered a commitment savings product offering a 6% interest rate to those making a 5,000 VUV (US\$ 55) deposit every month and reports extremely positive growth. Currently the three major providers of savings services in rural areas are continuing to grow aggressively. In the eight-year period from 2002 to 2009 the value of deposits at NBV grew an average of 18% per year, and in the nine-year period from 2002-2010 the value of deposits at VANWODS grew an average of 36% per year. In the two-year period between 2008 when Savings and Loans Cooperatives were launched and 2010 (last annual report), 75 new S & L Cooperatives have registered²⁷. These figures clearly show that as savings services have become more accessible or products have offered more value, the demand for them has and continues to be substantial.

However the question remains as to the size of the potential market. The demand for deposit services was pervasive in all the focus groups conducted²⁸. All focus groups reported selling crops for cash and having generally enough cash to save after paying school fees and buying household goods. There was at least one savings and loans society in every village visited in which 15-100 people were taking part, and many respondents reported that others were “saving money at home”. It is therefore plausible that nearly all those demanding banking services would also demand deposit accounts.

²⁶ McGuire, Paul (1996). Microfinance in the Pacific Island Countries. Foundation for Development Cooperation. Brisbane, Australia.

²⁷ Ministry of Co-operative and Ni-Vanuatu Business Development (first draft). National Co-Operative Policy and Plan of Action 2010-2015

²⁸ It should be noted however that focus groups were only conducted along reasonably serviceable roads, and in only three of the six provinces.

To estimate the value of cash people outside the banking system are holding, it is assumed that the vast majority of it is in rural areas. Averaging the deposit account values for both VANWODS and the Savings and Loans Cooperatives provides a good estimate of the predicted account size for this unserved population. Multiplying this by the projected amount of people demanding these services but not yet using them, it is estimated that there is approximately 1.8 billion VUV (US\$19.7 million) in uncollected deposits. This number is almost the exact average of the two estimates for this figure given by the RBV and NBV respectively.

Figure 10: Value of Savings not being collected

Percentage of Potential Deposit Clients still Unserved	Number of Adults	Potential Value Using S & L Data (Average Savings is 11,680)	Using VANWODS data (Average Savings is 36,038)
32%	76,000	887,680,000	2,738,888,000
Average of the Two Estimates:			1,813,284,000

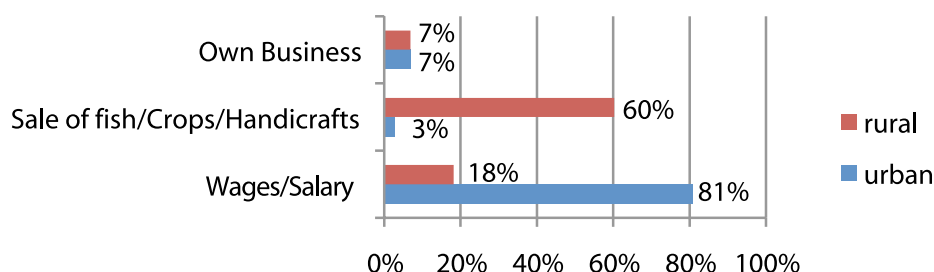
5.1.2 The demand for Credit

The demand for credit is much harder to estimate; however, it is very clear that there currently is a low demand for credit for microenterprise development in both urban and rural areas. Entrepreneurial activity is quite low, with only 7% of the population reporting to own their own business in the 2009 census. VANWODS, which was originally designed to provide credit to microentrepreneurs, reports that the majority of loans are for consumption, and interviews with loan officers across institutions confirmed that almost all lending is for school fees, home repair, or household durables.

In both urban and rural areas the majority of economic activity does not require large upfront investments. In urban areas over 80% of people have wages or salaries, and in rural areas, just under 80% of the population is either earning wages/salary or selling crops/fish/handicrafts. The Pacific is not like other places, where farming requires the regular purchase, or seeds, fertilisers, pesticides, and equipment. Coconut trees produce for 80 years, and require almost nothing from the owner. Similarly, cocoa produces for 40 years, and Sandalwood has about a 20 year growth cycle.

This is not to say that there is no potential demand for credit for microenterprise. Reportedly, 46% of VANWODS members do use loans for productive purposes and many report starting a business²⁹. When finance becomes readily available, investment in productive activity does increase, so this is a dynamic system and there is great opportunity for Ni-Vanuatu to add more value to the goods they trade instead of just selling raw materials. Further the expanding informal economy in peri-urban areas presents a great opportunity, as the majority of the youth entering the job market every year fuel growth in this sector. However, the major constraint here is it does not seem to be access to finance, but the low level of understanding of how to start and run a business.

Figure 11: Household Main Sources of Income in Urban & rural Areas³⁰



In terms of consumption credit, in urban areas it is often quite expensive and many loan products require people to save up and then borrow their own money. Borrowers are often salaried or wage-earning workers that borrow for school fees and repay with the next couple pay checks. The demand for these products is likely driven by poor money management skills of borrowers. In rural areas, the demand for consumption loans seems to stem from seasonal fluctuations in income, but also from the difficulty people have in accumulating sufficient funds for larger purchases, such as water tanks, roofing and solar lighting.

²⁹ Suen, Vanessa & Fred, Patricia. Impact Assessment December 2010. VANWODS Microfinance.

³⁰ 2009 National Populations and Housing Census, Basic Tables Report. Vanuatu National Statistics Office. Vol 1.

Data on lending was then collected from financial institutions focused on the low income market for the number of loans they had outstanding that they considered micro, usually understood to be under one million VUV (US\$11,000), which is the definition used by NBV. NBV³¹, Westpac, ANZ, VANWODS, V-ONE credit union, Melanesian Savings and Loans³² reported figures and then an estimate was made for the savings and loans cooperatives. From this it is ascertained there are just over 5,597 small and micro loans outstanding, meaning 12% of households have access, or more specifically 28% of the demand for microloans is being fulfilled.

To estimate the potential value of lending to households not currently being served, the average loan amount for VANWODS is used to estimate that average value of loans. This is because VANWODS has some of the best information available, and the demographic of VANWODS customers closely resembles those in this potential market. Therefore it is estimated that there is a yearly market of just under 750 million VUV (US\$8.25 million) in lending that could be tapped into by financial service providers.

Figure 12: Value of Potential Lending Market

Percentage of Potential Loan Clients still Unserved	Number of Households	Using VANWODS data Data (Average yearly loan value per members is 51,720 VUV)
72%	14,459	747,810,857

5.1.3 The demand for Insurance Services

Insurance and money transfers are the other two major financial services that have substantial demand in low-income markets. Currently it is not known how many people have insurance policies, but interviews with insurance providers indicate that market coverage is quite low. Generally, only people working for large employers or who have very high incomes purchase insurance products. Many medium-sized businesses operating in Port Vila reportedly do not have any insurance and employees of the RBV reported that they do not have life insurance. Since all of the places to buy insurance are located in urban areas, there is no access to insurance unless one travels to an urban area to continually service the policy.

In 2006 the ILO conducted demand research³³ focused on social security, but also asked some questions about insurance. The surveys were conducted with randomly selected representative populations, a total of 600 participants from both the formal and the informal economy. In the informal economy 13% of the population reported having some type of insurance, while among formally employed workers 25% had coverage other than the VNPF. Of those formal workers reporting additional coverage, 80% were receiving it through their employer. The top three reported social security needs for the respective populations are shown in the table below, with 90% of respondents from the informal sector willing to contribute to a scheme that would provide social services and 86% of formally employed people reporting they would at least “maybe” contribute.

Figure13: Ranking of Social Security Needs from ILO 2006

	Social Security Need	% Ranking it in top three needs
Informal Workers		
Primary Need	Health Insurance	60%
Secondary Need	Work Injury Protection	43%
Tertiary Need	Retirement	37%
Formal Workers		
Primary Need	Help with Education Expenses	48%
Secondary Need	Unemployment Insurance	43%
Tertiary Need	Health Insurance	40%

³¹ Data from 2009 NBV Annual Report was used.

³² In an Interview with the Department of Savings and Loans, it was estimated that only 20% of members were borrowing, which was representative of focus groups with S & L cooperatives, and was therefore used to calculate a figure for the Savings and Loans Societies.

³³ ILO. (2006). Social Security for all Men and Women: A Source Book for Extending Social Security Coverage in Vanuatu. Suva, Fiji.

A rough estimate of the current usage of insurance in Vanuatu is calculated using the percentage of reported usage in the ILO 2006 survey, applying it to 2009 Census data. This predicts that there are around 13,094 people with general insurance policies, which is equal 6% of the population or 21% of the overall demand for insurance services. It is important to also note that these estimates are just for the usage of general insurance and the usage of life insurance is probably under 1% of the Ni-Vanuatu adult population.

5.1.4 The demand for Other Financial Services

International remittances in Vanuatu are still not common. In the 2009 census, it was reported that only 1% of people claim remittances as their major source of income; however, there is some evidence that this figure might be underreported. Many Ni-Vanuatu who work abroad do so temporarily, and then bring home their earnings in foreign currency and exchange them for VUV in Port Vila. Informal studies done by the New Zealand High Commission on its seasonal worker programme found most participants doing this. The amount of money being brought back through this method is estimated at 875 million VUV (US\$9.79 million) a year, amounting to the third largest source of foreign exchange for Vanuatu. As a reference point this value is equal to almost eight times the value of VANWODS portfolio outstanding. There is a possibility, therefore, that there is a demand for international remittance services that has not been yet recognized.

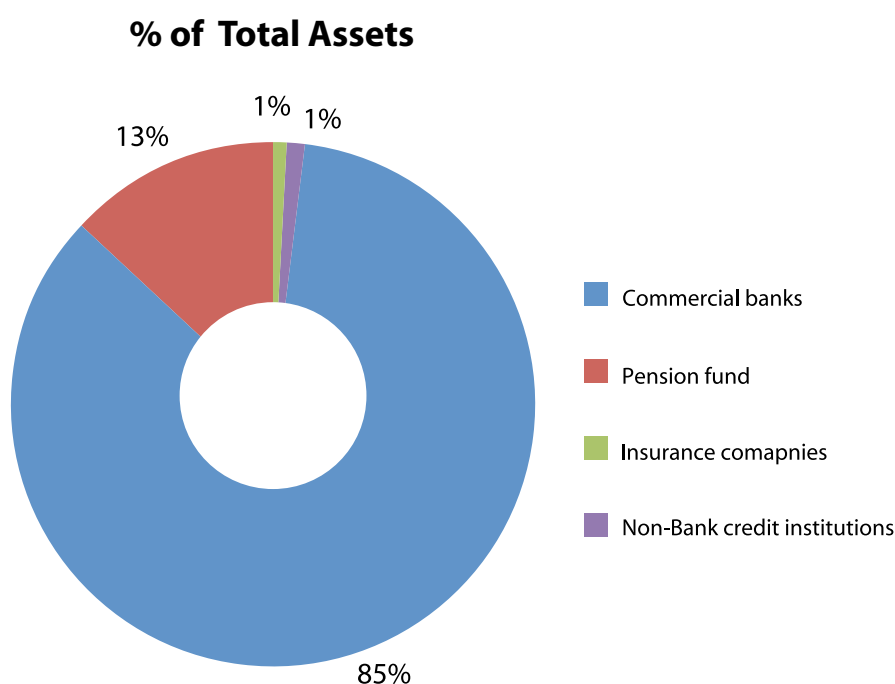
Domestic money transfers are extremely common in Vanuatu: In focus groups almost all families reported using either NBV or the Post Office’s “Kwik Cash” services. There are significant funds transfers between urban and rural areas, which are interestingly bi-directional as some rural families remit money to urban centres, where the cost of living is higher, after selling cash crops. Additionally, with a very high percentage of families in Vanuatu having to pay school fees three times a year, remittances are commonly sent from family members to pay tuition as well as to send “pocket money” to students.

6. THE SUPPLY OF FINANCIAL SERVICES

6.1. THE STRUCTURE OF THE SUPPLY MARKET

Financial services in Vanuatu are still relatively undeveloped in urban areas and with the notable exceptions of NBV, VANWODS and the Savings and Loans Cooperatives, almost non-existent in rural areas. There is still no equity market, corporate bond market, or stock exchange in Vanuatu, VNPF is the only wholesale source of funds, and a real time clearing system for the banks still does not exist. While most institutions seem stable now, there is a long history of failures of many major financial institutions including VNPF, NBV, the Development Bank, VANWODS, the Credit Union League, all credit unions but one, and around half of cooperatives, meaning that the public has a general lack of trust of many of these institutions.

Figure 14: Assets by Institution Type



Commercial banks do offer modern banking services: three of them offer internet banking services, and two (ANZ and Westpac) have large EFTPOS and ATM networks. It is important to note, however, with the exception of NBV, this entire banking infrastructure exists in urban areas. This means that while outreach is exceptionally good compared to other developing countries in urban areas, in rural areas NBV's branch network is the only outreach indicator that compares positively to global benchmarks.

Figure 15 : Commercial Bank Outreach

	Year of Establishment	Branches	Agents	ATMS	EFTPOS	Estimated Market Share (%)
ANZ	1971	2	1	17	300	44
Westpac	1971	2	0	9	150	29
NBV	1989	25	3	3	???	19
BRED	2008	2	0	14	0	8
Totals:		31	4	43	450	
Vanuatu Outreach per 100,000 ppl		13	2	18	192	
Global Developing World Average Outreach per		8	N/A	5	167	

Besides NBV, VANWODS has been expanding its network and is now serving significant portions of the population in rural areas. ANZ has begun its rural banking programme but is still very small and will probably never reach a significant scale. Lastly, in 2008 the Department of Cooperatives started training rural people in to form savings and loans cooperatives that are now serving thousands of rural people. However the methodologies they are using are reminiscent of small credit unions, which raises serious concern about their viability.

Neither VNPF nor VADB seem to be serving low income populations. VNPF does offer members a death benefit, which is practically the closest product to life insurance and covers a significant number of people. But only formally employed people are members, amounting to under 20% of the adult population. VADB does not have any infrastructure or staff outside of Port Vila so it is unclear how it will serve the agricultural sector, which is solely located outside of Port Vila. Further, it is relatively new, its methodologies are unproven and very little portfolio or performance data is available.

There are three for profit non-bank lending institutions (Credit Corps, MAAW, and Melanesian Savings & Loans) but almost all of their lending is to people in urban areas and mostly to salaried people, so they are not serving unbanked populations. Only general insurance is really available in Vanuatu and the number of people with coverage is still very small. Foreign exchange dealers are present in both urban areas and money transfer services are widely available through NBV branches or at postal offices.

6.2 THE KEY SUPPLIERS – OUTREACH AND PERFORMANCE

6.2.1 Formal Financial Service Providers

Australia and New Zealand Banking Group (ANZ)

ANZ Vanuatu is a subsidiary of ANZ Banking Group based in Australia and has been in Vanuatu since 1971. In 1985, ANZ expanded to Luganville when it took over Barclays, and in 2001 it completed the purchase of Bank of Hawaii's Vanuatu operations. ANZ has concentrated its infrastructure in the urban centres of Port Vila and Luganville and is operating its rural banking programme on Efate as well (using a mobile teller in a van). ANZ is the dominant market leader in the commercial banking sector, owning the largest EFTPOS and ATM networks in the country and also serving as a broker for QBE insurance. It focuses on high-end business customers, but also has around 20,000 retail accounts, including 200 microdeposit accounts from their rural banking programme.

In April 2011, ANZ started offering microcredit on a pilot basis. It has also started offering a Small Loan product out of its branches in the last two months. Sales have grown quickly and there are currently 86 loans outstanding.

ANZ plans to expand its rural banking programme as part of its corporate social responsibility programme in Vanuatu, but due to the high cost and low revenue generation of this approach, it will not be central to ANZ's banking strategy. Currently ANZ is making preparations to pilot the product along the East coast of Espiritu Santo, where there is one of the only sealed roads in

the country. Staff in the Luganville office have mapped the proposed route and are building awareness amongst community members there. They plan to officially launch services in July 2011 and will evaluate results over a three month period to determine if they will continue the service. ANZ is also developing a roll out strategy for its Money Minded Programme, a financial literacy training programme developed by ANZ and currently being rolled out in Fiji. The trainings will be focused on rural banking clients.

By 2012 ANZ has the potential to have a large impact on financial inclusion as it has decided to develop m-banking capabilities, initially in four countries in the Pacific. This product will allow people to access their ANZ accounts over their mobile phones and make banking transactions. Current merchants will be approached to become cash in/cash out points (there are currently 200 such merchants in Vanuatu). Senior ANZ leadership has approved initial funding for this venture and ANZ has staff developing the needed platforms and exploring partnerships with Mobile Network Operators to extend this product over their networks. Not many official details are available yet, but the scheduled launch date for these services in at least one country is mid-2012, and Vanuatu is definitely being considered as a country where this service will be offered.

Westpac Banking Corporation

Westpac Vanuatu is a branch of Westpac Bank based in Australia, and was established in Vanuatu in 1971. It has branches in Port Vila and Luganville and, like ANZ and BRED, it focused on large- and medium-size businesses and personal banking in urban areas. Westpac has ATMs that are interoperable with NBV, and serves as an agent for Moneygram money transfer services. Westpac is implementing its financial literacy training called, "Financial First Steps", as part of its corporate social responsibility programme in conjunction with AusAID. The programme also entails the provision of pre-departure financial briefings as well as financial literacy training in Australia for workers selected under the Pacific Pilot Seasonal Workers Scheme sponsored by the Australian Government. Westpac also supports the *Independent Newspaper* to provide copies to the outer island schools, as well as to publish articles on financial literacy.

BRED Banque Populaire (BRED Bank)

BRED Bank Vanuatu is a subsidiary of the second largest banking group in France (BPCE). The group has operations around Europe and the Asia/Pacific region across more than 70 countries, including in the French territories for Tahiti and New Caledonia. BRED was granted a commercial banking license in Vanuatu in February of 2007, opening a branch in Port Vila and a second in Luganville in December 2010. BRED has recently focused on expanding their ATM network and they now own 14 (11 in Port Vila and three on Espiritu Santo). On the product side, BRED offers a very attractive, no-fee and low minimum balance, combined transactional and deposit account through its Port Vila and Luganville branches. BRED plans to continue to consolidate its existing business footprint, as well as evaluate further expansion opportunities.

National Bank of Vanuatu (NBV)

NBV was established in 1989 and is wholly owned by the government of Vanuatu, serving all six provinces with about 150 staff. NBV is the only commercial bank with branches in rural areas and in most provinces is the only option for formal banking services. As of the writing of this report, the NBV is opening its 25th branch in Port Orly, Espiritu Santo. Unfortunately, NBV does not publish any disaggregated data on its microfinance activities and in July 2011, the 2010 Annual Report was still not published.

Historically, NBV has faced challenges in its attempt to serve both its commercial and public aims. Prior to the CPR in 1998, the NBV was technically insolvent. As part of the ADB-funded CPR, the NBV was recapitalised, restructured, and implemented major management and operational reforms including creation of, and reporting to, an independent board of directors. Since the reform, NBV has demonstrated growth of both its asset and client base and 2002 marked the bank's first profitable year. Since 2002, profits have grown consistently every year except for in 2009, when NBV changed its accounting methodologies to comply with International Financial Reporting Standards and reported a 56% decrease in profits. Assets have grown steadily from 2002-2009, at an average annualized rate of 31%.

of financial literacy among rural Ni-Vanuatu and a seemingly slow willingness to trust banks as stewards of their cash has proven to be a further impediment. In March 2009, NBV set up a Rural Banking Services Unit and upgraded their computer systems to support the delivery of new services to rural areas. In 2010 they began implementing financial literacy training, sending microfinance staff out to villages to do this. However no one at NBV could provide details on the curriculum being used.

A further key constraint to extending services has been Know Your Customer (KYC) requirements. To open a bank account, clients were required to provide two forms of official identification. NBV is currently pioneering a reduced-risk, reduced-requirements methodology allowing people to open bank accounts if they bring three high-profile "referees" (usually the priest and the chief of the village) to vouch for them. This solution appears viable in rural areas, especially following financial literacy training, but still proves difficult in provincial capitals as all three people must to travel to the branch together.

³⁴NBV with the support of donor funding now has a number of solar powered branches (only 4 have grid electricity) and 13 with VSAT connections.

Standard portfolio reports were unavailable for analysis, but NBV reported the following in their 2009 Annual Report:

# of depositors:	NBV did not give permission to publish this
Total value of deposits:	8,617,839,000 VUV (US\$94.8 million)
# of borrowers:	NBV did not give permission to publish this
Total portfolio outstanding:	6,295,431,000 VUV (US\$69.2 million)
Portfolio at Risk:	Not Available ³⁵

Products:

NBV offers three deposit accounts and both personal and checking accounts that vary in accessibility. For small loans they have two products, a micro product and a product for small businesses. In 2009 they reported making 510 microloans to a total value of 123 million VUV (US\$1.35 million). Therefore the average loan value was 241,167 VUV (US\$2,653). This is above the average GNI per capita of US\$ 2,620 estimated in the same year.

Micro and Small Loan Products: To borrow money using either product the client must first save for six months, at which point they can access loans up to four times the value of their savings. Both products are oriented towards entrepreneurs and the 2009 Annual Report shows that 47% of loans are going to “traders”, while 28% goes to the agricultural sector, and the other 25% goes to either “industry” or “services”. Through the “maikro loan” microloan product clients can access loans between 25,000 VUV and 250K VUV (US\$275 – 2,750). The “smol faenans” loan lends money at values from 250,000 VUV to three million VUV (US\$2,750 – 33,000)³⁶. In rural areas the village chief is asked to certify that the person who is requesting the loan actually owns some kind of movable or non-movable income producing assets. For both products a 28% declining annual rate is charged.

Deposit Services: Interest paid on deposit accounts is now above the predicted level of inflation and all options have inactive account fees. However, both “isi Akaon” and “Mekem Gro” accounts can be opened with only 1,000 VUV (US\$ 11), and if this balance is maintained and transactions are made, the only other fee is a 1,000 VUV account closure fee. Each account offers different withdrawal fee structures, allowing some free ones every month and then imposing fees of 25-100 VUV (\$US 0.28 – 1.10) per transaction. “Seveim Vatu” requires a 20,000 VUV (US\$ 220) initial deposit, but offers ATM and EFTPOS access. Similar account closure and withdrawal fees also apply. Finally there are both Personal Checking and Business Cheque accounts available, but they require clients to place 50,000 VUV (US\$ 550) and 100,000 VUV (US\$ 1,100) in term deposits with the bank as security, potentially making them inaccessible to many people.

Isi Mani: Is a mobile banking service NBV plans to launch in partnership with Digicel, which will allow people to withdraw money from their NBV accounts on to their mobile phone from anywhere in the country with mobile phone coverage. They can then transfer that electronic value to another person’s phone, exchange it for cash at a registered agent, or deposit it into an NBV account. With funding from AusAID, NBV has already developed a platform that allows its systems to communicate with Digicel’s to make these transactions possible. The design of the platform is open source so that other FSPs who would like to also offer the service may copy it.

While NBV notes that it will not offer cash in/cash out services from its branches as an agent for the system, linking the system to a bank account effectively makes all NBV customers potential agents. This will make the system greatly more functional than in other PICs, so the region will watch its development with great interest. The product also offers NBV the ability to bridge the final gap between its rural branches and the actual villages where rural people are living, bringing banking literally into their homes. NBV will need to ensure that it offers the right product mixes to attract these newly accessible clients and that sufficient marketing and education is done so that people feel comfortable with the system.

Financial Literacy: is increasingly becoming a cornerstone of NBV’s strategy for greater rural penetration. Interviews with rural NBV staff and focus groups in villages revealed that so far results seem to be a little mixed, with villagers opening a significant number of accounts in some cases and just a few in others. Increased financial literacy may help improve the Ni-Vanuatu level of trust with NBV, but it still does not address two other important issues. The first is that there is a big difference between financial literacy and financial competency, meaning that even those who subsequently understand the importance of saving responsibly may still have a very hard time actually executing it. Therefore continued follow-up after the initial training is crucial. The second is that even for many villagers that do open a bank account, the trip to the branch needed to use it is still too expensive for them.

Areas of Concern:

The strategy to extend banking services through an extensive branch network is a costly endeavour. While costing was not available for NBV, it should be noted that in other PICs, banks are looking to limit branches in favour of agencies or technological solutions. Therefore **the strategy behind maintaining a large branch network may need review.**

³⁵ NBV did not share Portfolio at Risk data (standard measurement of portfolio quality in microfinance) but does note they have a high Non Performing loan to loans outstanding ratio, due to “legacy loans” they still have on their books from the 1990s.

³⁶ The Maximum Loan value for “smol Faenans” just recently increased from one million VUV.

While NBV does have infrastructure in rural areas, **products do not always seem to be designed for rural people.** Deposit products still have fairly complex fee structures that are likely not well understood in rural areas. Further, many modern deposit services for low income populations now use transaction based fees and have eliminated minimum balance and dormancy fees, which deter many low income people. Lending products start at five times that of VANWODS and average lending values are very high, meaning that most customers are not low income. Loan products are oriented to business people who are not common in rural areas, probably accounting for much of the reason why the number of loans given each year is still quite low.

It is still unclear **the amount of political pressure to which NBV is exposed.** While they do have an independent board, they are still owned by the government. Rumours are circulating the government might merge NBV with the VADB and it is unclear what influence the Board of NBV would have in this. The privatisation of NBV has also been discussed for several years, but has not eventuated. Even if IFC and ADB do end up buying 30% equity stakes in the company, it will still be 70% government owned.

As a public institution, not a lot of data on NBV is disseminated. **No specific outreach numbers or performance indicators are published** for their rural or low income portfolios, therefore making it hard to gauge the quality of services they are providing.

Vanuatu National Provident Fund

VNPF is supervised by RBV, operates under the Vanuatu National Provident Fund Act of 1987 and must invest 85% of its funds domestically (though management is looking at the potential of allowing them to invest more funds regionally in the South Pacific.) The most recent annual report available is for 2008, which shows there were 45,760 employees registered, with 21,929 members (48%) still making regular contributions. Contributions are divided: 4% comes from the member, and 4% from the employer. Withdrawals can be made at 55 years of age or in the cases of death, retirement, permanent migration, or permanent disability of the member. Interest paid to members on savings was 4% in both 2007 and 2008, and in 2008 the balance of member's funds was 9.9 billion VUV (US\$ 108.9 million.)

In 2007 the VNPF Act was modified to allow funds to be split into three different accounts for each member: half of the funds are kept in their retirement account, 25% are placed in an "investment account" and 25% are put into a "medisav account." A subsidiary company called Member Financial Services Limited (MFSL)³⁷ has been created which receives commercial loans from VNPF, which it then lends out to members.

VNPF members can borrow from their investment account once there is a minimum balance of 25,000 VUV (US\$275). Microloans can be taken up to 85% of the account balance, have a maximum term of three years, and carry a 12% annual declining interest rate. Those not actively contributing are eligible to take loans for small businesses and those who are employed are permitted to take out loans for improving the quality of their lives (eg. fixing their house, or paying school fees). In June 2011 about 1,500 members had taken loans with a cumulative value of 250 million VUV (US\$ 2.75 million.)

The "medisav account," is planned for use as an in-house medical insurance scheme for members. Currently, members can withdraw funds from this account to pay premiums to a private insurer for medical coverage, and the funds are given to the members in the form of a check written to the chosen provider. In 2009, an actuary came to provide advice on the structure and recommended that the VNPF formally register the subsidiary as an insurance company³⁸. This was costly, so VNPF decided not to follow through. VNPF has asked local underwriters to provide quotes for underwriting the risk, but reported that all submissions were too expensive. Representatives plan to travel to Tuvalu to observe a similar scheme; however it is still unclear still what management will do with the money.

Lastly, VNPF extends a death benefit to its members. The selected beneficiary receives a payout of 230,000 VUV (US\$ 2,530) upon death of the member if the member has been actively contributing for a total of five years or more. If the member has been contributing for less than five years, the beneficiary receives a fraction of the payment determined by how long they have been contributing. In 2008, this benefit was claimed on 76 members who passed away. It is unclear how much value members are getting for this policy, as the amount of funds used from member contributions to fund it is not reported.

³⁷ MFSL was created in 2007 in order to allow for the investment account option.

³⁸ Interview with Denny Gaua, Manager Member Services, VNPF.

Vanuatu Agricultural Development Bank (VADB)

In 2002, a meeting was hosted by the ADB in Espiritu Santo to review the CRP, and the lack of credit in rural areas was cited as a major constraint. In 2006 the Vanuatu Agricultural Development Bank Act was passed to re-establish a development bank as part of the CRP (the previous Development Bank of Vanuatu (DVB) was closed). In April 2008, VADB opened its doors and now holds a single office in Port Vila. In 2009 a new General Manager was hired and a three-year strategic plan was approved. The bank was capitalized by the Government of Vanuatu, which has allocated 500 million VUV (US\$ 5.5 million). The last tranche of capital injection of 100 million VUV (US\$ 1.1 million) was made in February 2011. Currently the bank has 13 staff working and is being supervised by the RBV, but no annual reports are available yet. The government is committed to supporting the Bank's operations until it can operate sustainably, which was supposed to happen in 2011 and remains a goal.

Under the VADB Act No 20 of 2006, the Minister of Finance and Economic Management appoints members of the VADB Board from nominations received from the Director Generals of the Ministry of Finance and Ministry of Agriculture, the Syndicate Agricole, the Chamber of Commerce and Industry, the Vanuatu Society of Accountants, the National Council of Chiefs and the Director of Women's Affairs. Once appointed, members then select a Chairman and a Deputy Chairman. Tenure of board membership is three years from date of appointment.

The VADB currently does not plan to take deposits, but does not discount this as an option for raising funds in the future. The VADB sees its niche as lending to small holder farmers who cannot access financing from commercial banks or other sources, using both group and individual lending. It makes both secured and unsecured loans, but is hampered by its lack of infrastructure in rural areas, which makes loan collection difficult.

As of June 2011 the VADB reported having approximately 800 loans outstanding, valued at 367 million VUV (US\$ 4.04 million) with an average loan size of around 450 thousand VUV (US\$ 4950), which is over twice the average GNI per capita. At the end of 2008 loans outstanding amounted to 9.6 million VUV (US\$ 105,600). In 2009 this increased to 96.8 million VUV (US\$ 1.06 million.) By December 2010 there was a huge jump in the portfolio to 304 million (US\$ 3.3 million). It is yet to be seen what proportion of this portfolio they will be able to recover, given such aggressive expansion. Arrears of loan repayments are around 3% of loans outstanding³⁹. As a very new bank with little institutional knowledge of the probability of loan defaults of its customers, they report that they provision heavily – well above Reserve Bank Guidelines.

The VADB's strategic plan is ambitious and focuses on generating enough revenue to cover operational costs, as well as working through faith-based organisations and other civil society groups to extend its outreach beyond its urban office to the rural populations it was envisioned to serve. The bank plans to pursue obtaining a government guarantee on the loans it extends, and lending more to the agricultural sector. As with most institutions in Vanuatu, it faces challenges in finding financial professionals and has committed a large part of its current and future budget to training.

Credit Corps

Credit Corps is a company from Papua New Guinea that started operations in Vanuatu in 2007 as a for-profit business. It provides targeted loans to small- and medium-sized businesses that provide transportation, using vehicles owned by the borrower as collateral on the money lent out. In 2008 total assets were 314,202,840 VUV (US\$ 3.46 million.) Assets doubled to reach 631,323,861 VUV (US\$ 6.94 million) in 2009, with a recorded a profit of 54.13 million VUV (US\$ 595,430). It reports its success stems from targeting the market segment just under the target market of the commercial banks, as well as a recent boom in motor vehicles sales and in tourism, which requires a lot of transportation. To take out a loan applicants must deposit 30% of the value of the loan with Credit Corps, a cash flow analysis is done to measure the size of the monthly payments they will be able to make, and an annual declining interest rate of 16% is charged on lending. Most terms are for two years, while there are some larger loans that have three year periods.

Credit Corps' short-term goal is to lend out about 30 million VUV (US\$ 330,000) a month. In the medium-term (perhaps within five years) they are looking at the potential to open an office in Luganville. Management is also firmly focusing on improving their portfolio, as they now have a significant number of loans in default. It is still unclear if this is just the result of very fast expansion, if it is reflecting the current dip in tourism arrivals, or if potentially some portions of the transportation sector are now overcrowded, which is affecting borrowers businesses.

The Insurance Industry

There are four domestic licensed insurers. While there is just over one billion VUV (US\$11 million) in premiums paid each year, the number of people covered is quite small. In particular there are few Ni-Vanuatu with policies. Of premiums paid, 56% are for fire or motor vehicle policies. In general, only those employed by a large company have coverage.

³⁹ This was reported by the General Manager in an interview, but could not be verified.

Of the four local insurers, QBE is the largest general insurer in the country followed by AFA (profiled below). QBE is registered as a limited liability company in Vanuatu and has had a branch there since 1974. Lloyds of London (UK) provides local insurance but even those in the insurance industry there were not sure if it had a local office. Dominion is a limited liability company which is part of the greater Dominion Group and is licensed as an external insurer in Vanuatu. It has an office in Port Vila with a couple staff making it effectively a local Vanuatu branch of Dominion Insurance based in Fiji.

A high percentage of policies are sold through the five registered insurance brokers; the two major ones in Vanuatu are AON and Chartered Pacific Insurance Brokers. Chartered Pacific is an affiliate of the RGIB's Insurance Broking Group (Australia & New Zealand) and their website indicates that they are primarily marketing products to high income businesses and individuals. The majority of AON's business is also in the same upper echelon of the economy; however both brokers have been working hard to increase coverage to the low income and working class. AON has approached VANWODS to look at offering a basic policy to members, has facilitated a workers' compensation policy for wage earning employees through ACE (Australia), and has approached many off-shore underwriters asking them to fill some of the domestic policy gaps. Chartered Pacific has also arranged for clients to be able to pay premiums in three tranches a year, increasing the accessibility for lower income policy holders.

AFA Limited

Originally Family Assurance Limited (FAL) obtained a license to offer long term life insurance in Solomon Islands. It took over the Mercantile Mutual portfolio there and gained a branch in Vanuatu. In 2000 it incorporated its Vanuatu branch locally as a general insurer "AFA Ltd.", offering medical, motor vehicle and life coverage, further introducing domestic, housing and commercial property and casualty insurance in 2006. When the 2005 Insurance Act took effect in 2006, AFA Ltd. was unable to continue to offer long term life products. Life insurance is defined as any policy with a term more than one year, so AFA is now offering a term life policy of one year and up to 5 million VUV (\$US 55,000) in coverage, mostly designed for banks to cover the lives of people borrowing money from them.

AFA is now investigating the potential for opening a new insurance company that could offer a greater array of long term life products, as there is currently nothing available on the market and they report that there was a significant demand for long term life coverage when they were previously allowed to offer it.

Money Transfer Operators and Foreign Exchange Dealers

There are a number of foreign exchange dealers and money transfer operators in Vanuatu. Most of them are limited to the urban areas of Port Vila and Luganville. Moneygram is only available through the two Westpac branches and Goodies Money Exchange's has three branches in Port Vila. For domestic remittances, the two big providers are NBV (which does domestic transfers between its 25 offices) and Western Union, which provides services in 24 selected Post Offices around the country and also offers international money transfer services.

6.2.2 Specialized Microfinance Providers

Vanuatu Women's Development Scheme (VANWODS)

VANWODS was established in 1996 under the Department of Women's Affairs with funding from UNDP. The organisation is registered under the Charitable Organisations Act and voluntarily reports to the RBV, but does not receive any active supervision from them. VANWODS currently operates on four islands: Efate, Espiritu Santo, Malekula and Tanna and employs 36 staff. They use a model similar to Grameen Bank's group lending scheme, placing offices in provincial hubs and then driving out to service groups of clients in villages. The major advantages of VANWODS are that it is the only provider offering services in the villages and it offers smaller loans than the commercial banks.

In response to a lacklustre performance, from 2003-2007 VANWODS' board brought in Punla sa Tao Foundation to help manage and mentor the organisation towards greater outreach and financial sustainability. After a period of successful growth, management was restored to Ni-Vanuatu in 2008. In the two years since, the number of savers, the total savings portfolio, the number of borrowers and the loan portfolio have all increased, though profitability has declined since 2007 and was negative in 2010.

Standard portfolio reports were unavailable for analysis, but VANWODS reported the following as of December 2010:

# of depositors:	5592
Total value of deposits:	122,215,443 VUV (US\$1.34 million)
# of borrowers:	3449
Total portfolio outstanding:	113,873,204 VUV (US\$1.25 million)
Portfolio at Risk:	Not Available ⁴¹

⁴⁰Punla sa Tao Foundation is a non-profit foundation based in the Philippines that builds the capacity of microfinance institutions in order to provide sustainable microfinance and micro-enterprises development services for the poor in the Philippines and Asia.

⁴¹VANWODS did not share Portfolio at Risk data (standard measurement of portfolio quality in microfinance) but does report that their repayment rate is 96%.

Financial products

VANWODS offers two savings products: a fixed term product (a compulsory savings that cannot be withdrawn until the client leaves VANWODS, paying 4% interest annually) and a flexible term product (may be withdrawn at any time, paying 2% interest annually). Among VANWODS intended clients, there is a greater demand for savings products than for credit.

VANWODS offers four different loan products: Microloan, MicroPEPS, Seasonal Employee and Transportation loans.

Microloan: A group-loan product intended for VANWODS' envisioned target market. Clients may borrow four times their compulsory savings. Loans from 5,000 to 150,000 VUV (\$US 55 –1,650) are given for up to 20 weeks at 20% flat rate. All Microloan clients are depositors, though since 2007 only new clients are required to borrow.

MicroPEPS, is group-loan product targeting employed individuals in urban areas. MicroPEPS was devised to allow VANWODS to use surplus deposits from clients, since loan demand was low in the intended target market. Loans from 10,000 to 250,000 VUV (\$US 110 –2,750) are given for up to 5-10 months at 15-30% flat rate. Two-thirds of these clients already have bank accounts and a third of them are also taking loans from banks two to three times the size of the MicroPEPs product of VANWODS.

Seasonal Employee Finance Product: Launched in 2008, this is another VANWODS product aimed at a higher income bracket than the originally intended market. SEF was designed for workers temporarily bound for New Zealand or Australia who needed a loan to pay for airfares and other costs in preparation for overseas placement. Loans may be up to 150,000 VUV (\$US 1650), are given for 20 weeks at 20% flat rate. Interestingly, clients usually use the programme a second time, but often borrow much less.

Transportation loans: In 2011 VANWODS started a third product for higher-income clients. The product targets transportation operators, who were looking for a product to manage cash flows. Loans from 5,000 to 150,000 VUV (\$US 55 –1,650) are given for up to 20 weeks at 20% flat interest. Like Microloan clients, borrowers are required to make savings deposits. VANWODS is considering developing an in-house insurance scheme for this market segment, based on high perceived demand.

Non-financial Products

Financial literacy is an increasingly large part of VANWODS operations. VANWODS has a radio programme on financial literacy in Bislama that relates responsible financial behaviours to traditional Kastom behaviours and teachings of the Bible.

The Sandalwood programme. VANWODS plans to implement a program to give each member 100 seedlings to plant on their land, then subsequently use as collateral for financing and eventually sell. VANWODS has bought land and office and with funding from UNDP's GEF Small Grants Programme to put up a nursery to cultivate sandalwood seedlings, starting this year. TVET is funding the forestry department to train members to care for these seedlings.

Areas of concern:

The foremost area of concern is the **lack of financial and performance data available**. Even though their financial statements are not yet audited, only a scanned copy of the 2008 statements were made available. It is not clear if they are tracking any key performance indicators, or what the financial implications are for their planned expansion.

VANWODS **is not actively supervised** and is now operating at a loss. It is holding a large amount of member deposits, which if lost would be devastating to members. It may not be appropriate for RBV to directly supervise them given their small size, but given they are providing banking services as defined in the Financial Institutions Act, an arrangement should be made to provide a higher level of supervision.

The Grameen Bank model they are using was designed for dense urban entrepreneurial populations which are not present in rural Vanuatu. It is therefore not apparent that they will be successful outside of Port Vila and Luganville, and their strategy to build offices in all provinces using this **methodology needs to be further justified**. It appears the high cost structure of this model also forces them to lend at very high interest rates, which very probably surpass any reasonable return expected from entrepreneurial activity in rural areas.

They are taking the same product offerings used in Port Vila to rural settings, which has much different demographics. The resulting low level of demand for their loan products in the rural areas has led VANWODS to develop many specialized lending products for urban areas, which may eventually **overextend staff capacity** to service them and cause mission drift.

Focus groups held with members and evidence cited in the 2010 Impact Assessment made apparent that many members were unaware of how much they saved, found discrepancies between their passbooks and account balances and in some cases, had a low understanding of how the VANWODS products worked. **A focus on client education** and periodic reviews of the financial product features are very important and should be a central focus.

Melanesian Savings and Loans

Established in 1984 and registered under the Department of Cooperatives to provide financial services to civil servants, Melanesian Savings and Loans has an office in Port Vila and another in Ambrym (Malampa Province), though the latter is temporarily shut down as the only employee is leaving the organisation and its future is unclear. The cooperative has bought land in Port Vila and Luganville, and plans to build houses to rent. Civil servants can make deposits with the cooperative, which are placed in an ANZ checking account. Borrowers can receive loans based on their payment slips and loans can be approved the next day. Loans are between 20,000 and 500,000 VUV, (US\$ 220 and US\$ 5,500) at a 16% declining interest rate for a term of one year. Most loans are taken for school fees, travel or marriage expenses. Clients reportedly enjoy the speed with which funds are disbursed. Currently the cooperative has less than 500 outstanding loans worth 10 million VUV (US\$ 110,000), and 5 million VUV (US\$55,000) being held in deposits. Approximately 60% of their portfolio outstanding is overdue.

MAAW

MAAW is an acronym for the names of the owners. It was founded in 1997 with the owner's private resources, and is registered as a for profit business. It targets salaried people who need small loans. They must first make a deposit equal to 50% of the value of the loan requested, and show proof of employment. The loan is for a maximum term of two months and is usually for values between 5,000 and 60,000 VUV (US\$ 55 and US\$660), but can be up to a couple hundred thousand VUV in special cases. Interest rates are 20% declining on loans. Reportedly most loans are being taken out for school fees, or to pay expenses related to deaths or marriages. MAAW reports serious repayment problems with little hope for recovery. Currently the portfolio reportedly has six million VUV (US\$66,000) in loans outstanding, with 1.8 million VUV (US\$19,800) overdue (30%), and only 100,000 VUV (US\$ 1,100) in deposits. Much of the portfolio that is overdue has been overdue for years and the debtors are no longer employed, making recovery unlikely.

Kastom Banks or Traditional Money Banks

The concept of the Kastom bank was to revive traditional monies like pig's tusks, mats, and shells by making them more accepted as forms of payment in cultural ceremonies, for education⁴², and medical expenses and also to found banks that accepted them and valued them in terms of cash. People could then go and deposit selected forms of traditional currency in these Kastom Banks as they would with cash in a licensed bank. The project began in 2004⁴³ and seems to have at least had initial success, being noted in a joint AusAID/NZAID report as something that "should be supported"⁴⁴ in 2006 and touted on the UNESCO website, which proclaims that "traditional money banks are alive and well in Vanuatu"⁴⁵.

In 2008, the RBV was requested to pay 10 billion VUV (\$US 110 million) to the Kastom Bank system, and declare pig's tusks and sea shells as legal tender. After a review of the Kastom Banking system, the RBV announced that for many reasons these currencies would not be declared legal tender, including the refusal to disclose how the value of goods was being determined. The Kastom Bank system was also warned that it is illegal to advertise banking services without a license under the Financial Institutions Act. Many people who were interviewed for the research claimed that there is a Kastom Bank still operating on Pentecost Island, and on Malekula they also claimed to have one functioning, but the managers could not be located for interviews.

6.2.3 Savings and Credit Cooperatives

Savings and Loans Cooperatives

In 2008 the Department of Cooperatives and Ni-Vanuatu Business developed a manual in Bislama for establishing savings and loans cooperatives with the reported support of the European Union. The model being forwarded is an Accumulating Savings and Credit Associations (ASCA) model⁴⁶ where groups of community members come together and save an agreed upon amount of money every week. They then develop lending procedures and allow members to borrow the accumulated capital at an agreed interest rate. There has been a high level of interest in these models in rural areas and there are now 75 registered savings and loans cooperatives with 40.6 million VUV (\$US 446,620) in savings, and 3,451 members⁴⁷.

Basically the Department of Cooperatives is just promoting some general guidelines to forming a savings group, and then individual groups are writing their own by-laws (See Appendix 3 for a description of Organisations visited). This means that groups are all operating differently, and are highly dependent on a capable person to write the by-laws for the group. No follow-up training is given and no performance indicators are reported to the Department of Cooperatives.

⁴² Shakuto, Shiori (2010). Traditional Money and Access to Education in Vanuatu. Cross-Sections: The Bruce Hall Academic Journal Volume VI. The Australian National University. Chapter 3.

⁴³ Funding was from UNESCO ("United Nations Educational, Scientific and Cultural Organisation") and the Government of Japan ("Japanese Funds-In-Trust for the Preservation and Promotion of the Intangible Cultural Heritage"), and was implemented jointly by the Vanuatu Cultural Centre, the Vanuatu Credit Union League (VCUL) and the National Council of Chiefs (Malvatumauri)

⁴⁴ Bazeley, Peter, & Mullen Ben. (July 2006). Economic Opportunities Fact-Finding Mission on Behalf of AusAID and NZAID. Pg. 12. Available at: http://www.ausaid.gov.au/publications/pdf/vanuatu_growth.pdf

⁴⁵ UNESCO Sub regional Website. (Accessed on June 27th 2011) Available at: http://portal.unesco.org/geography/en/ev.php-URL_ID=7395&URL_DO=DO_TOPIC&URL_SECTION=201.html

⁴⁶ Savings Groups are receiving a lot of global attention. They are designed for the same demographic that S & L Cooperatives are serving, yet the models being used are fundamentally different. More information on their performance is available at: www.savingsgroups.com

⁴⁷ As reported on their Website. (Accessed: 11 July 2011). Available at: http://www.cooperative.gov.vu/index.php?option=com_content&view=article&id=33%3Afinancial-literacy-workshop&catid=15%3Anewflash&lang=en

This growth rate has vastly overwhelmed the human resource capacity in Malampa and Sanma where interviews were conducted. Both offices have stopped registering new Savings and Loans Cooperatives as they do not have the staff to support the amount they currently have. In Malampa province they now have 32 savings and loans cooperatives registered, but were only able to visit and partially audit 26 of them. Overall the Department of Cooperatives only audited 55% of all cooperatives in 2010, and some cooperatives reported in interviews that their financial documents were not reviewed during the audit.

Provincial offices report that most members of the cooperative just want to save, with only a select few extending loans. Further cooperatives are finding the accounting procedures difficult to handle, requiring significant training and support from provincial officers. In interviews and focus groups the real benefit members saw in these models was mostly that self-imposed forced savings every week made saving easier.

Areas of concern:

The primary concern is that **the models that many S & L cooperatives are using are ones that have failed all over Vanuatu** and the greater Pacific region. The models mimic small credit unions which are dependent on an educated and honest management, external audits, and continued trainings to ensure that the organisation is well run as it grows in wealth, membership, and therefore complexity. Experience has shown that one period of undependable management can easily bankrupt the organisation, and that audits and trainings in rural areas are prohibitively expensive, therefore not taking place at necessary intervals. These problems do not seem solved here, and much care should be taken before promoting this model more widely.

Trainings appear to be weak and no follow-up training is done. Provincial staff noted that they did not have much experience with savings and loans cooperatives and that the trainings they gave were oriented towards building awareness and not technical details. Further, trainings are often directed at potential founders / leaders of these organisations, but with these community based models it is very important that all members receive training. After the initial training no subsequent trainings are planned, whereas with international best practice models, targeted trainings are continued over the first year of the organisation's operations.

Auditing also appeared to vary in quality, with some savings and loans cooperatives reporting full audits, and others reporting that they were basically just asked how much they had in savings. **No performance data is collected** that would allow people to distinguish between organisations that are being run responsibly and those in danger of collapse.

The high growth rate of these models means that the few Department of Cooperatives staff that are in the provinces are **not able to provide support to all cooperatives**. It is unclear whether it makes sense to limit the number of new cooperatives, which is what was being done in Malekula, hire more support staff, or change the model so that less support is needed in general. All three strategies should probably be pursued.

While **cash security** was not reported as a problem in the focus groups that were held, it is important that policies to protect accumulated cash are in place. Many rural groups like these that do not have easy access to banks, use cash boxes with multiple locks, and then individual keys are distributed to selected members. As these organisations continue to grow, more cash will be held, and the temptation to misuse it will also increase.

V-ONE Credit Union

V-ONE is the last remaining registered credit union in Vanuatu, with 120 members. It is based in urban Port Vila, and is employer-based and reports regularly to the RBV. It began in 2004 when VNPF reduced the required contribution levels from 12% to 8% of employee wages. PKF (named Chartered Accountants then) along with other organisations like Westpac, and Coconut Palms Resort thought it more prudent to keep levels of contributions static. So they founded the credit union to which 2% of member's wages were directly credited. Since, there have been other members from institutions such as Le Meridian, Airports Vanuatu Ltd and USP that have joined. Currently, each member determines the amount which they will contribute to the organisation, and an interest rate of 5% is given on savings. Members can also "borrow" but only after they have accumulated at least 30,000 VUV (US\$ 330) in deposits, and then they can only take up to 100% of the value of their savings. There is a 5,000 VUV (US\$55) fee for borrowing, plus a 12% annual declining interest rate is charged.

6.3 RANGE OF PRODUCTS AND SERVICES

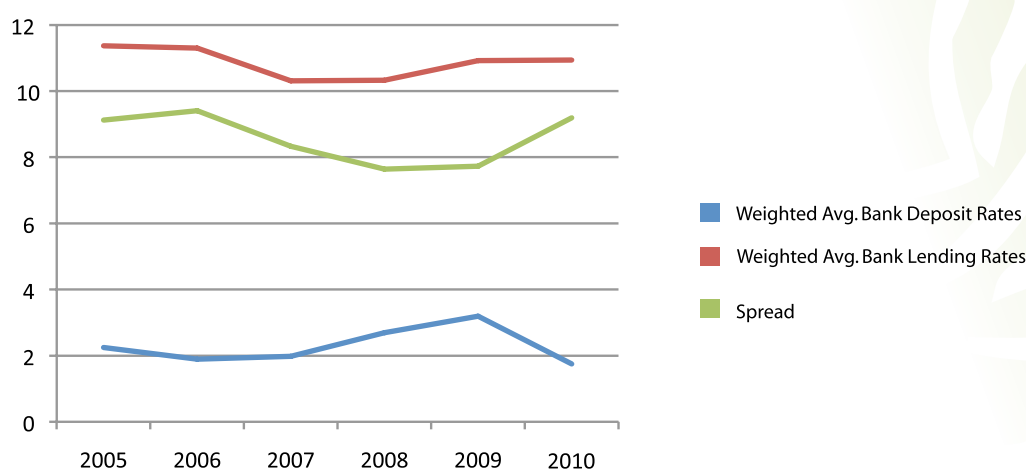
Please see appendix 1 and 2 respectively for a fairly comprehensive list of microdeposit and microcredit products available in Vanuatu.

6.3.1 Loan Products

There are only a few providers offering loans to the low income market, the smallest being VANWODS which loans 5,000-10,000 VUV (US\$55 – US\$110) to people taking out their first loans, and the Savings and Loans

Cooperatives, some of which also offer loans as low as 1,000 VUV (US\$ 11). The focus group participants in this study all reported that for amounts up to 10,000 VUV (US\$ 110) it is very common for family members to provide no interest loans as well. NBV offers loans starting at 25,000 VUV (US\$ 275) but does not actually make many loans at this low value, and the VNPF and Melanesian Savings & Loans give loans only above 20,000 VUV (US\$ 220) to salaried workers. There are also a number of commercial banks now offering smaller loans, but usually 50,000 VUV (US\$ 550) minimum.

Figure 16: Deposit & Lending Rates 2005-2010



The terms of the loan vary between one week for small loans and around seven years for larger ones at commercial banks. Real bank lending rates are notably higher than in other Pacific Island countries and it is widely noted in the literature that the high spreads between borrowing and deposit rates that banks maintain is not easily explained by the apparent risks they are taking. This seems to be an important area of future research⁴⁸.

Smaller lenders usually charge higher interest rates, which are often quoted at levels very far below the actual effective annual rate. It is reported that money lenders are prevalent in urban areas and are charging rates between 10-20% flat per fortnight. Many of the smaller lenders require such large deposits as a percentage of the amount borrowed that people are just borrowing their own money at high interest rates. This is one of the most significant factors pushing effective interest rates much higher than those advertised. Participants in rural focus groups universally reported that it was not easy to get a loan other than a small one from their family, and it is easy to see in the above description that there is not a lot of diversity in product offerings, while many products on the market are expensive.

6.3.2 Savings Products

All deposit products (besides some longer term deposit products) offer interest rates below the level of inflation except V-ONE credit union, VANWODS and NBV, making them not very attractive overall. There are a decent amount of products being offered that have no or very low minimum balance and operating balance requirements at many of the institutions surveyed. Most of these products also offer no service charges and reasonable withdrawal fees. The four commercial banks all offer ATM cards to customers and NBV allows customers to check transactions and account balances over their mobile phones. Westpac offers a Bonus Saver account that seems to be the only commitment savings product on the market where customers double their interest if they make 2,500 VUV in deposits every month and do not make withdrawals.

⁴⁸ Vanuatu Diagnostic Trade Integration Study (2007). World Trade Organisation. Volume One.

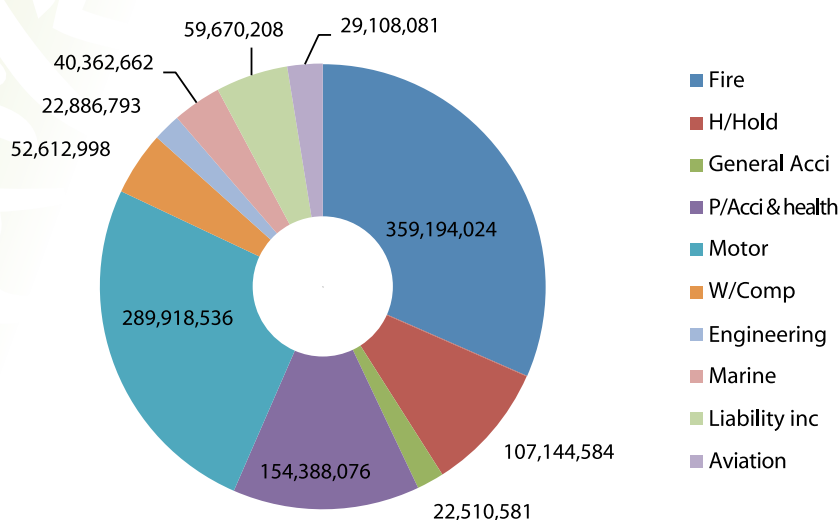
6.3.3 Other Financial Services

In 2006 the Insurance Act was revised prohibiting entities from offering both life and general insurance. AFA was offering life coverage at the time decided to stop issuing policies so that it could continue with its general insurance business. VNPF is now providing an in-house death benefit scheme to its members, which is the closest policy to life insurance on any significant scale. It may further attempt to offer some medical coverage in the future.

While many expatriates living in Vanuatu have medical coverage, it has been a tough product to sell to Ni-Vanuatu. Visiting a health clinic costs only 200 VUV (\$US 2), which is affordable even for most rural and low-income people. Hospitals are only in urban areas and while visits are subsidized, the expensive trip in from the province is not, therefore providing an opportunity for a hospital cash policy. For more serious medical cases the person must be flown to Australia. The costs, plus the complications of getting visas quickly, has made this level of medical coverage unattainable for the vast majority of Ni-Vanuatu.

Today life insurance can really only be made available from an off-shore insurance agency that can offer insurance locally only if it 1) uses a domestic broker approved by RBV, 2) offers better conditions than those available in-country, 3) has premiums 20% lower than like policies on the market, and 4) could not be offered locally. Since life insurance products are not available locally, these conditions would be seemingly easy to meet; however, qualified overseas insurers so far have not been enticed by the market in Vanuatu due to the lack of actuarial data and low life expectancies. AFA is now offering a one-year renewable term life policy (life is defined by anything with a term over a year), and AON is offering a worker’s compensation policy which has 24-7 coverage for accidents and injuries and serves as a proxy life policy.

Figure 17: The Prevalence of Insurance Policy by Sector



There are low cost international remittance service providers operating in Vanuatu, and looking at costs from New Zealand, the prices are quite competitive with the global average of 10% of the value of the amount remitted when a larger amount of money is sent. As in many other Pacific Island Countries the cost of remittances from Australia is much higher, almost twice the global average cost when sending small amounts.

Figure 18: The Cost of Sending International Remittances⁴⁹

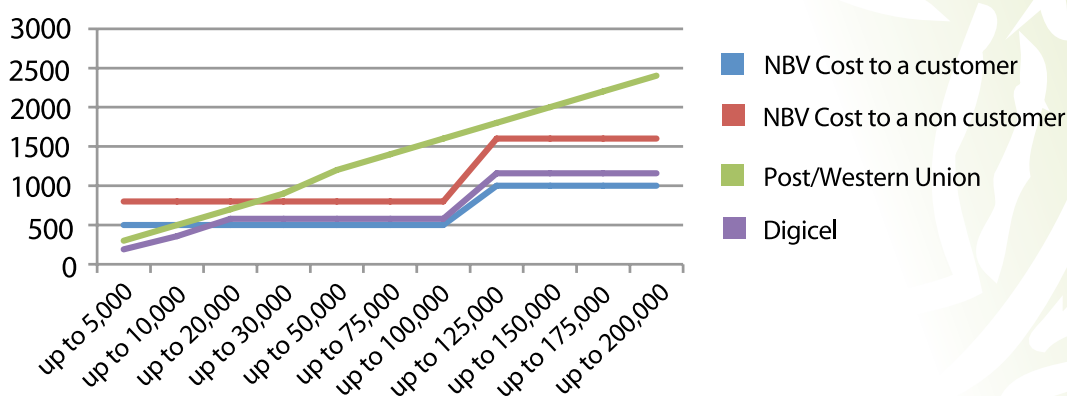
Cost of Sending International Remittances to Vanuatu as a percentage of the value remitted		
	200 AUD/NZD	500 AUD/NZD
from Aus	18%	12%
from NZ	15%	10%

⁴⁹ Values were calculated using data from the Send Money Pacific website. Available at: <http://www.sendmoneypacific.org/>

For domestic remittances, there are two commonly used options, with the Digicel Isi Mani product to launch soon. For amounts up to 10,000 VUV (\$US 110), the Post office offers the best prices, however above that value, customers of NBV are offered the cheapest rates and even non-customers are charged the lowest rate when sending amounts over 20,000 VUV (\$US 110).

The graph below shows that the Isi Mani product will become the new lowest cost option for domestic transfers under 20,000 VUV (\$US 220), and will be considerably less expensive than the other two products which are available to non-NBV clients. However for sending amounts above 20,000 VUV (\$US 220) the lowest cost option will still be NBV's service to its own customers. This is important because school fees for secondary school up to University were reported in focus groups to range between 25,000-110,000 VUV per term⁵⁰ (US\$275-1,210), meaning that Isi Mani may only impact those sending school fees for primary education, which was reported at 15,000-25,000 VUV (US\$165-275) per term. However for all providers sending 15,000-100,000 VUV (US\$165-1,210) for school fees it is very affordable, ranging between 1-5% of the value of the fee. The real cost of this service for most people is having to travel to a place where it is available.

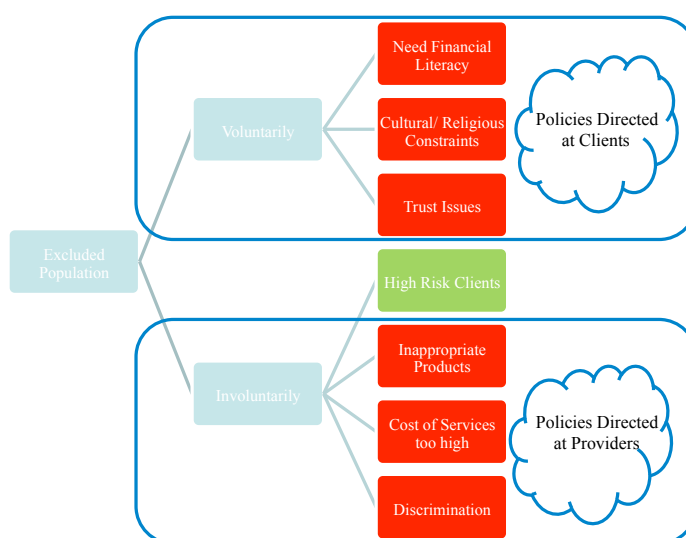
Figure 19: The Cost of Sending Domestic Remittances



7. CONSTRAINTS

While Vanuatu has significantly higher usage rates for banking services than other counterpart Pacific Island countries (with the exception of Fiji), there are a diversity of reasons why usage is still low overall. Some have to do with the regulatory environment in which the financial system is being operated, but others are due to low customer understanding of the value of financial services, low levels of technical expertise in microfinance methodologies and challenging nature of the geography. From a policy perspective it is helpful to separate these constraints into two categories, policies that need to be directed at clients, and those that providers will better be able to address, as depicted in figure 20. It should be noted that until last year almost all work done with financial inclusion in Vanuatu was directed at the providers.

Figure 20: Analysis of Policy Implications for different Constraints to Access⁵¹



⁵⁰In Vanuatu there are three terms a year, so yearly fees are equal to the values reported times three.

⁵¹Adopted from: World Bank. (2008). Access to Finance for All? Policies and Pitfalls in Expanding Access. Washington D.C. Available at: http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA_book.pdf

7.1 CONSTRAINTS IN THE ENABLING ENVIRONMENT

The **high cost and unreliability of transportation** is still a major issue, fundamentally limiting business growth rates, but also directly impacting financial institutions as they have to move cash around the country, and communicate with clients across different islands. Part of this issue is just due to the challenging geography of a scattered island chain with mountainous inland terrain, but other components of this equation such as the dependence on imported fuels, the quality of roads, lack of wharves, and prevalence of monopolistic providers can be addressed.

Further, there is a very **low quality of supportive infrastructure** in rural areas. While the great improvement since the Vanuatu FSSA in 2007 has been in the telecommunication infrastructure, improvements in provision of electricity have not followed. The 2009 census shows that in rural areas only 11% of Ni-Vanuatu have access to the grid and 96% of the population is still cooking with either wood or coconut husks. There have been improvements in access to piped water in Port Vila and Luganville, but outside these areas services are scarcely available. There is also a lack of access to building materials such as concrete, so most structures throughout the country are still built traditionally with leaves, or more permanently with wood.

Low population densities living in rural and remote areas, means that even if services are provided in the provincial capitals, they are still unattainable for a large proportion of the population living in that province. On many islands there are not obvious centres of populations and economic activities that would make obvious environments for financial service providers outside provincial capitals, while the cost of connecting and maintaining a large network of small branches to serve dispersive populations is cost prohibitive.

Low levels of financial literacy prevent a high percentage of the population from understanding the benefits of using financial services and even many of those people who are using them are not doing a good job of doing so correctly to improve their quality of life. This leads both to a lower demand for financial services from providers and for people to become over indebted through borrowing money in lieu of developing responsible savings strategies or more accurate household budgeting techniques.

The ability to provide financial services cost effectively in rural areas is still relatively new in Vanuatu. This is opening new market opportunities for service providers, but in most cases the extent of those opportunities is still unclear because of a **lack of demand data for financial services** almost across the board. Some adventurous providers are pushing the frontiers of accessing financial services in Vanuatu and basically learning as they go, while others seem interested yet unsure of what strategy to take. The rest are just unconvinced that the market opportunities are enough to warrant their involvement.

There does seem to be a significant amount of cash being earned even by rural and remote villagers, but the structure of rural economies means that products are sold before much value is added to them. This limits the long term economic growth rate in these regions, **as lucrative earning opportunities are not capitalized upon** and the demand for labour and capital does not grow. This greatly limits the future potential market for financial services in these areas.

7.2 CONSTRAINTS IN THE SUPPORT INFRASTRUCTURE

There is **no available technical expertise for microfinance service providers**. This means that many service providers are trying to “reinvent the wheel” without being aware of other models around the world. It also means that some service providers are using models or strategies that have very small probabilities for sustainable scale and in some cases present high risks of failure.

There is still not a body in Vanuatu dedicated to **consumer protection**. Most people are now seeking information on financial services from family members, church officials or directly from institutions themselves. The need for consumer protection is paramount, especially given the past failure of so many financial institutions and the current prevalence of predatory scam artists and money lenders. A body that monitors the viability of different models of services provision and the quality of products being offered would greatly benefit Ni-Vanuatu with better information about the availability of beneficial financial services.

7.3 CONSTRAINTS FOR FSPS TO EXPAND THEIR SERVICES

The most common constraint cited by financial service providers is the **lack of skilled human resources**. This is a commonly cited issue throughout the Pacific. In Vanuatu the problem does not stem from educated people moving abroad, but the limited ability of the education system in Vanuatu to provide professionals to the financial service sector. Students wanting to study business or economics at USP must still go to the Fiji campus to take classes, which is expensive and limits enrolment. Therefore the industry itself is forced to invest time and resources in training professionals in this field.

There is a significant lack of **product diversity** in Vanuatu. Most providers offer deposit services which return rates below the annualized level of inflation. Further for many formal loan products it is required that the person provides proof of a salary before taking the loan. For smaller loans there are products that offer finance to those not employed in the formal sector, but effective interest rates are often very high. As noted in the report, life insurance has basically not been available domestically and domestic money transfers are still relatively expensive, especially for those that do not have a bank account.

While there are now institutions planning to implement cutting edge models for service provision, in general there is a **lack of innovative models** among those institutions serving the low income market. Models that depend on extending branch networks, providing services by vehicle or relying on group lending models will have a limited growth potential due to their high cost structures. In many other countries these models have been left in the past as technological solutions and strategic partnerships have brought the costs down by orders of magnitude and increased organisational efficiency.

8. OPPORTUNITIES FOR THE FUTURE

Figure 21: SWOT Analysis of Financial Inclusion in Vanuatu

Strengths	Weaknesses
Dedicated, specialized institutions (NBV, VANWODS)	High cost of transportation
Supportive and proactive Reserve Bank	A history of failed financial institutions
Sustainable Financial Service Providers	32% of urban population under the Basic Needs Poverty line
Wide scale production of cash crops in rural areas	Relatively low literacy, numeracy, and financial literacy
NBV and Vanuatu Post with Large Rural networks	International trade still difficult, hard to register property, or start a business
Training and support services from TVET and VCCI	Low recovery rates on many rural and micro lending
High demand for quality savings products	Production in rural areas has minimal value added
Intact social protection systems in rural areas	Lack of demand data
	Lack of coordinating body for microfinance
	Focus on credit, not savings
Opportunities	Threats
Increased coordination for service delivery	Continued political instability
New & Improved sealed roads & telecommunications networks (GPRS and m-banking)	Political interference with financial service providers
Increasing government/donor interest in financial literacy	Unwillingness to break from low performance models for delivering financial services
Mobile money solutions for government payments	Decreased quality of service from domestic air carrier
Supply-side indicators and demand-side research	Increasing urban poverty rates
Credit products & life insurance in urban areas	Small unsupervised providers taking advantage of members
Value added savings & money transfer products	Provision of financial services without sufficient financial literacy
More engagement with traditional & religious actors	
Increased interoperability of Banking systems	
Agent banking	

8.1 OPPORTUNITIES FOR FINANCIAL INSTITUTIONS

To date bank infrastructure has been limited to urban areas, where there is supportive infrastructure such as electricity and communications networks – apart from NBV which has created enclaves of infrastructure for itself. Now there are two reasonably extensive telecommunications networks and solar power is readily available throughout the country. This opens the possibility for **agent banking**, or providing basic banking services through retail shops or other trusted establishments located around the country. **GPRS EFTPOS** machines can be used to provide both deposit and withdrawal capabilities and/or **Digicel's Isi Mani** will soon allow people to make financial transaction over their mobile phones. These are clear opportunities that providers like NBV and ANZ are already planning to adopt and other financial service providers are also investigating further.

Further leading organisations such as NBV and VANWODS that have ventured into rural communities to provide financial services have learned the importance of tapping into the existing structures of power and organisation there. Simply using commercial banking techniques to evaluate and approve very small loans is going to be expensive and will limit the growth potential of products. However, in Vanuatu the **traditional chiefly system** is still very strong and membership in **faith based organisations** is extremely prominent. NBV currently asks chiefs to help approve loans and VANWODS teaches people how traditional *kastom* values and the teachings of the Bible actually support using financial systems. There is a lot more potential here to further invoke the power of the organisations through partnerships between them and FSPs.

Vanuatu has a very young population that is fast becoming part of the economy. In 2011 over 5,000 children will turn 15 years old and this number will only increase each year for the next 15 years. This provides a great opportunity for FSPs to **work through the schools to enrol** children in the banking system from a young age. There are some global programmes like UNCDF's YouthStart, and ACCION's Financial Access at Birth, which have an increasing interest in the region and might be convinced to begin operations in Vanuatu in partnership with a local provider. Also in Fiji there are some providers planning to operate bank accounts for children, while ANZ rural banking has been servicing schools in Fiji for years now.

Some providers are still victims of clinging to models that target only microcredit for microentrepreneurs. This does not seem a sustainable strategy for Vanuatu, as the demand for it is low. Some providers have realised this and are moving away from it, while others have not. The model for Vanuatu seems to be more like to gathering low cost deposits from cash crop farmers in rural areas and then lending them out in urban/peri-urban areas. This requires very **efficient deposit collecting techniques and a larger diversity of specialised lending products** for people with specific needs such as school fee payments. VANWODS seems to be taking the lead on developing a model closest to this, yet it was not possible to analyse its deposit taking cost structure to determine its rate of success.

Insurance is often seen as the third financial product after savings and credit, as it is more complicated to offer, and there is a lower overall demand for it. In Vanuatu penetration is low and there is not much awareness of insurance, which means it is going to be a hard sell, especially in rural areas where financial literacy is very low. Small insurance policies bought by thousands of rural Ni-Vanuatu will definitely not come for several years. However there is opportunity here in the urban and peri-urban communities. **Policies that help mitigate income fluctuations** from recurring unemployment, or **small hospital cash policies**, while difficult to offer, may be met with significant demand⁵². There also seems to be a great opportunity to offer life insurance. A **funeral policy** might be popular due to the high cost of such events, and both in interviews with providers and in the ILO 2006 study, **endowment policies** were mentioned as products with a perceived high demand.

Commitment savings products are popular in many developing countries around the world. These products require people to make an agreed upon deposit at set intervals. If they do not meet their commitment there is some punishment, or conversely if they fulfil their commitment there can be a prize. ANZ offered one of these types of products in the past and Westpac is still offering one. Low income people like these products because they help them save useful lump sums of money that they otherwise have a hard time accumulating. Most of the savings and loans cooperatives interviewed had placed a minimum weekly contribution on their members to help everyone save, which was reported as one of the main reasons why people had joined the cooperative. The use of credit products where people have to deposit a high percentage of the amount borrowed means that people are basically paying to borrow their own money. A major reason why they do this is so they can keep a useful lump sum of money they have saved intact.

In interviews and focus groups conducted for this research it became obvious that Ni-Vanuatu are very private about their financial habits. It is common for people to hide their cash by burying it in the ground, not only to keep it from themselves but also to keep it from family and friends who often ask for cash if they know someone has it. Therefore a product marketed to people to help them overcome this problem and not only keep their money safe, but **secret and out of reach** could be very popular. This may be in the form of a term deposit or endowment product which discourages withdrawals, yet would also have

⁵² Only primary care is available on most islands, so for anything serious, minimally a return airfare to Port Vila is needed. A policy that helps provide that may be very popular.

a feature which allowed people to make **discreet deposits**. This will also be an important concept for Isi Mani to tackle since the USSD system requires a password that appears on the screen and may encourage the perception that money is now more accessible to family and friends, rather than secret and safe in one's phone.

The new product **Isi Mani** has a great potential impact on financial inclusion in Vanuatu, but it has yet to be seen how quickly it will grow in the beginning. Due to a lack of comfort with banking over the phone and some general scepticism towards financial service providers in rural areas, people could adopt more of a "wait and see approach" to this new opportunity. **Making the product practical and easy to understand** will be very important, and there may be some ways to do that from the beginning with specific demographics making consistently large money transfers.

The first way to do this is to work directly with schools so that they accept **school fee payments via the mobile phone**. Currently many parents in rural areas are forced to travel to the provincial capital three times a year to send money for the school fees through NBV or the Post Office. Enabling people to make these payments from the village would save them a significant amount of time and money. The second opportunity is to work with the organisations buying cocoa, copra, and other cash crops to have them pay their **agents buying the crops** with m-money, and also have those **agents pay farmers in m-money**. This would greatly reduce their costs of transporting cash around to rural areas, as well as their need for paper based receipting systems. Targeted marketing of these benefits of Isi Mani to parents and farmers may help shorten the initial adaptation period for the product.

While it is probable that Isi Mani will be available through the Post office, and will be linked to NBV accounts allowing people to access a suite of banking services over their phones, there is still a lot more **potential for partnerships** here to include other financial service providers which have limited outreach, and the other telecommunications company which is not interested in developing its own platform. These partnerships will not only help provide the service more universally to people affiliated with different service providers, but will also encourage innovative product development as different organisations try and offer more value added services to attract business.

Lastly, the lack of **financial literacy** in Vanuatu is one of the strongest constraints to people using banking services throughout the country. Financial service providers have just recently begun to address this issue themselves, by developing or importing already developed materials and providing training. However, often bankers are not the best placed people to offer these services as it is costly to the institution and they are usually not trained teachers. **Outsourcing this task** to community based organisations or training facilities may be more cost effective, have a deeper impact and in the best situations lead to a more strategic approach to service delivery.

8.2 OPPORTUNITIES FOR GOVERNMENT POLICY MAKERS

The most obvious opportunity here is the need for **improved coordination**. Financial service providers are operating independently of each other and very few are exploring partnerships. VANWODS is administering itself and developing its own MIS system, where it is possible that an already existing commercial banks could have provided those services with greater efficiency and security. VANWODS now offers a greater geographical outreach than banks which could broaden the banks' customer base. More efficient models will come from partnerships, not the duplication of efforts in many places. Another example is the savings and loans cooperatives that are operating with almost no technical support from the Department of Cooperatives while VANWODS has staff members working in the same areas. These organisations have similar developmental objectives and could be working together. **The greatest opportunity here is with financial literacy**, as different providers are planning to roll out their individual programmes in different areas without understanding how their curriculums relate to others begin offered, or whether other providers are also planning on covering the same areas.

The history of Vanuatu is marked by the failure of financial service providers and people often do not know which ones can be trusted. Having the RBV now monitor the VADB and the VNPF is a great improvement but it is still hard to gauge their performance or trajectories. The savings and loans societies seem to be implementing a copy of the model the credit unions used, almost all of which failed, while VANWODS is reporting to be financially sustainable, but is not profitable. As the MFI already has over US\$1.3 in deposits, it would be a severe blow to VANWODS clients, as well as to the rural and microfinance sector in general, if the institution were to fail. It is very important for an independent agency such as the RBV to both **monitor and support deposit-taking institutions**; and also communicate strategically and effectively with the greater population, **increasing consumer protection** by making people more aware of risks in the system, as well as some of the great opportunities for quality services.

To really measure outreach, the rate of progress and impact, **more data should be collected from providers**. This includes simple product profiles so people know what is being offered, but it would be also helpful to have outreach indicators on the number of active clients per institution and the proportion of them that are women, rural, and new to the banking system, as

well as performance measurements. RBV is working with AFI and other Reserve Banks on the “Financial Inclusion Data Project”, which may accomplish much of this.

There is now a large ATM and EFTPOS infrastructure in Vanuatu, but it is confined to urban centres. If a **real time clearing system** was implemented, it would greatly improve the banks’ ability to make these systems interoperable, and therefore the multiple EFTPOS systems in stores redundant. This could then catalyse the distribution of these systems more equitably around the country. The system may not be enough to spur all of this change but it is a great first step.

The government is currently making salary payments through the commercial banks; however rural workers such as teachers still have to make arduous journeys every fortnight to collect these payments from banks. In many cases they are leaving school early or even cancelling classes every other week to allow themselves to do this. There is a great opportunity here for the government to embrace the new Isi Mani system and **send salary payments directly to the mobile phone of government servants**. This might happen already with Digicel and its NBV partner if these public servants already have NBV accounts. It is something that should be prioritised, as it would leave more money in the hands of these workers and have the wonderful outcome of providing more education to children.

VNPF provides a great opportunity for the government to help provide **quality services to members**. It is unclear that the lending VNPF is doing is a value added service, and it would also be helpful to see an analysis of the value being given to members from the death benefits scheme. The “medi-save” product has yet to be developed, but could fulfil people’s need for social services in this area if it is designed correctly. The opportunity is here, because VNPF has a significant membership and holds a great deal of capital; however it must be ensured that the products it offers are value added and efficiently delivered.

New technological solutions to financial inclusion in Vanuatu will require **further regulatory guidance**. As more FSPs look into agent and mobile banking they will become increasingly interested in the functions agents are allowed to perform. Further e-money or payment system regulations in the future will help provide guidance to those who will use these low cost delivery channels.

There is opportunity to focus on **lowering the cost of transportation and improving its quality**. The high cost of domestic airfares and low reliability could be mitigated by introducing competition into the sector, as with the Telecommunications Act. Reliance on imported fuels for land transport makes these costs high and there seems to be potential for using biofuels for both generators and motor vehicles. Roads in many places are either non-existent or of low quality, so investment in these and better shipping services would definitely decrease the cost of business in many places and support the expansion of financial services.

8.3 OPPORTUNITIES FOR DONOR AGENCIES

The primary opportunity here is **support to financial literacy** as a public good. Financial literacy needs to be done on a basic level, teaching people simple strategies for savings such as why it is important, the difference between a loan payment and a deposit, and household budgeting. These are definitely not concepts that are taught quickly, nor can they be effectively conveyed in a single training session. Multiple modules need to be created which build upon each other and address the targeted needs of Ni-Vanuatu, then follow-up work must be done to make sure that people are actually changing their financial behaviours. This takes time and money, and currently there was no provider found that was taking this approach. **Supporting the Money Pacific Goals** incorporating this training in the school systems will help provide the depth of understanding that the next generation will need, while providing or developing curriculums for rural training centres and other institutions to use will ensure their quality and help target their approaches.

While ADB and IFC conduct due diligence on NBV and EIB potentially looks at supporting VADB, there are a number of **smaller providers that need technical support**. VANWOODS could use some technical help at least with regard to financial management and reporting, product design and possibly delivery. The savings and loans cooperatives are a great risk as these models have failed before and many will likely do so again. Models that distribute funds at the end of the year instead of accumulating them, and have trained service providers giving targeted support for a year, have very high success rates and need to be more carefully considered here³³.

There is still a strong requirement for **more demand data** on the need for specific financial services. If done in conjunction with financial service providers this could gather information they need to design new products and extend outreach. Collecting data is often a barrier to financial inclusion because it is costly, yet necessary step to targeting new markets. There is a myriad of different methodologies from FinScope to financial diaries which were used in the seminal book, *Portfolios of the Poor* to much less involved targeted focus groups and surveys meant to develop specific products. All work in this area would be welcome.

³³Examples include VSLA, and Savings for Change which are reporting performance data to www.savingsgroups.com

The availability of financial services helps increase investment and income generation, as the increase in economic activity also drives demand for financial services. It is a dynamic system and support to develop rural economies will help increase financial inclusion in rural areas where services are now available (or will be soon be with Isi Mani). Hence **support to livelihoods projects** that help people reach markets and add value to the products they are selling should be prioritised.

9. PERSONS CONSULTED

Person	Organisation
Port Vila, Efate, Shefa Province	
Peter Tari Merakali, Deputy Governor	Reserve Bank of Vanuatu
Noel Vari, Director, Financial Institution Supervision Department	Reserve Bank of Vanuatu
Simon Tiwok, Financial Market Analyst	Reserve Bank of Vanuatu
Philip Arubilake, Director of Financial Markets Department	Reserve Bank of Vanuatu
Jerry Niatu, Director of Research & Statistics	Reserve Bank of Vanuatu
Kalpeau Lunabek, Treasurer	ACT Savings & Loans Co-operative
Mohamed Nasr, Senior Operations Officer	International Finance Corporation
John Salong, Managing Director	VANWODS
Patricia Fred, Strategy/Communication & HR Manager	VANWODS
Tukana Bovoro, General Manager	Vanuatu Agriculture Development Bank
Tait Jenkin, Head of Retail Pacific South East	ANZ
Kalo Simon, Community Officer	ANZ
Santos Vatoko, Manager Sales & Services	ANZ
James Hudson, Head of Lending	BRED (Vanuatu) Limited
John Clancy, Chief Executive Officer	Digicel Vanuatu
Stephen Breen, Director of Mobile Money	Digicel
Brian Tosiro, Manager Rural Business Development	National Bank of Vanuatu
Stuart Mathison, Head of Operations	National Bank of Vanuatu
Narelle Crawford, Senior Account Executive	Aon
Nancy Wells, Development Coordinator	Asian Development Bank
Peter Griffiths, Managing Director	AFA Insurance
Chris Moldrich, Head of Business & Consumer Financial Services	Westpac
Nikunj Soni, Senior Treasury Adviser	Ministry of Finance & Economic Management, Treasury Division
Roan Lester, Graduate Economist	Ministry of Finance & Economic Management, Treasury Division
Henderson Tagaro, Economist	Ministry of Finance & Economic Management, Treasury Division
Letlet August, Principal Economist	Ministry of Finance & Economic Management, Treasury Division
Robert De Raeve, Charge d' Affaires	Delegation of the European Union to Vanuatu
Suzannah Jessep, Deputy High Commissioner	New Zealand High Commission
Sara Carley, Development Counsellor	New Zealand Aid Programme
Simon Cramp, Director AusAID Governance for Growth Program	Australian Agency for International Development (Vanuatu)

Person	Organisation
Port Vila, Efate, Shefa Province	
Orai Gairo, General Manager	Credit Corporation
Denny Gaua, Manager Member Services	Vanuatu National Provident Fund
Sowany Joseph, Director	Department of Co-operative & Ni-Vanuatu Business
Ridley Joseph Manasseh, Principal Training Officer	Department of Co-operative & Ni-Vanuatu Business
Garae Georgewin, Principal CBDO South	Department of Co-operative & Ni-Vanuatu Business
Edwell Tonny, Principal CBDO Finance & Audit	Department of Co-operative & Ni-Vanuatu Business
Lydia Tarosa Kehi, Officer	MAAW (Small Lending Organisation)
Noe Saksak	Former President of the Vanuatu Credit Union League
Gerome Guicherd, Chief Marketing & Commercial Officer	Telecom Vanuatu Ltd.
Keith Hango, Chairman	V-One Credit Union based at i COUNT (Formerly PKF Vanuatu)
Edmond Rengacki Toka, Liquidation & Legal Officer	Vanuatu Financial Services Commission
Leimok Simeon, Manager	Melanesian Co-operative Savings & Loans Society Limited
Malekula, Malampa Province	
Clentin Ronson, Senior Co-operative and Business Development Officer	Malampa Department of Co-operatives & Ni-Vanuatu Business
Joeli Wasabulu, Senior Accounts Manager Lakatoro	VANWODS
Jack Roy, Loan Officer	National Bank of Vanuatu
Wilfred Stanley, General Manager	National Bank of Vanuatu
Wusoreh Regenvanu, Chariman	Numbak Savings & Loan Co-operative
Kieth Longta, Member	Muran Savings & Loan Co-operative
Renneth Singh, Acting Manager	MAPEST Cooperative
Basile Malilibacrin, Manager	CGA Cocoa Grower's Association
Pierre Chanel Watas	Organic Cocoa Co-operative
Melvin	Organic Cocoa Co-operative
Michael Huru, VAT Compliance Officer	Vanuatu Government Tax Collection Office for Malampa Province
Espiritu Santo, Sanma Province	
Wayne Webb, Director	Coconut Oil Production Santo Limited (COPS)
Adrian Radovanovich, Assistant Manager	Santo Hardware
Maissa Alatoa, Manager Santo Branch	ANZ
Aison Phatuala, Acting Manager Luganville Branch	National Bank of Vanuatu
Inneth Morrison	Department of Co-operative & Ni-Vanuatu Business
Allexine John	Department of Co-operative & Ni-Vanuatu Business

Appendix 1: A list of Microdeposit Products Available

Company	Name of the product	Interest paid on savings	Service charges (VUV)	Minimum opening balance (VUV)	Minimum operating balance (VUV)	Total withdrawal penalty (VUV)
ANZ	Progress Saver	Not Provided.	VT 200 over counter or ATM withdrawal	None.	None.	VT 200
	Access Simplicity	Not Provided.	VT 200 monthly maintenance fee	Not Provided.	None.	VT 200
	Rural Saver	Not Provided.	Vt 400	None.	None.	VT 400
Westpac	Personal Cheque Account	N/A - Transactional account	Vt250 / mth	None.	None.	8 fee withdrawals per month, then 30vt per withdrawal
	Bonus Saver	2% base + bonus 2% if no withdrawals in a month & > Vt2,500 in deposits per month	Nil	None.	None.	2% less interest earned
BRED	Savings Premium	3%p.a.	Dormancy Fee of 300vt per month only applying after 12 months of inactivity	500	None.	None.
NIBV	isi Akaon	Not Provided.	250/mo. min balance fee; 200/mo. Inactive Account fee; 1,000 account closure fee	1,000	1,000	Six free ATM uses per month, then 25 per use; Unlimited EFTPOS; Four Free manual withdrawals, then 100 per use.
	Seveim Vatu	Not Provided.	500/mo. min balance fee; 200/mo. Inactive Account fee; 1,000 account closure fee.	20,000	20,000	One free ATM use per month. Two free EFTPOS use per month. One Free manual withdrawal, then 50 per use.
	Mekem Gro	Not Provided.	250/mo. min balance fee; 200/mo. Inactive Account fee; 1,000 account closure fee.	1,000	1,000	Two Free manual withdrawal, then 50 per use.
	Personal Checking	Not Provided.	300/mo. service fee; 300/mo. Inactive Account fee	5,000 + 50,000 security placed in a term deposit	Not Provided.	Six free ATM use per month. Unlimited EFTPOS.
	Business Cheque	Not Provided.	500/mo.service fee; 300/mo. Inactive Account fee.	5,000 + 100,000 security placed in a term deposit	Not Provided.	Not Provided.

Company	Name of the product	Interest paid on savings	Service charges (VUV)	Minimum opening balance (VUV)	Minimum operating balance (VUV)	Total withdrawal penalty (VUV)
VANWODS	Deposit (regular)	4% per yr	Withdrawal fee	1,000	37,500	At resignation
	Deposit (flexi)	2% per yr	20 vatu for	1	1	Unclear.
	MicroPeeps	4% per yr	< 20,000 vatu	1,000	37,500	At resignation
	Seasonal Employee	0	100 vatu for	0	0	0
	Transportation	4% per yr	>=20,000 vatu	2,500	37,500	0
MAPEST	Regular Savings	Interest Earned on Lending shared out	None.	None.	None.	None.
V-One	Regular Savings	5%	None.	None.	None.	None.

Appendix 2: A list of Microcredit Products Available

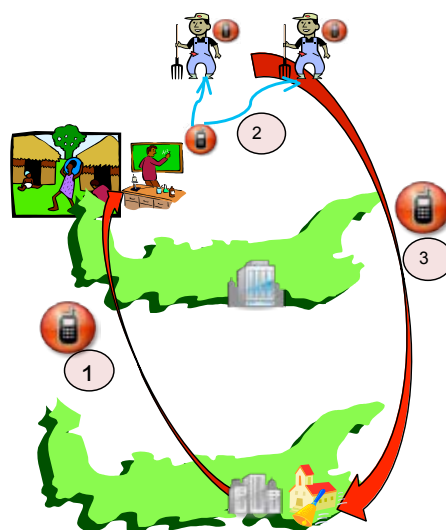
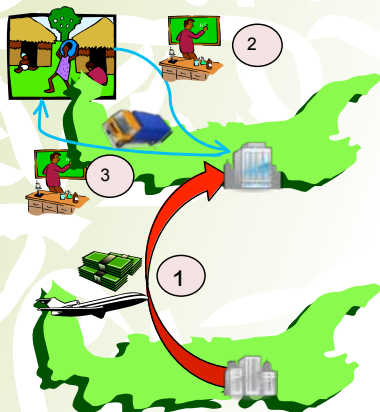
Organisation	Types of credit product	Term of the loan	Minimum loan size (VUV)	Maximum loan size (VUV)	Interest rate	Security/ Collateral	Frequency of repayment
ANZ	Small Loan	12 months	50,000	200,000	17% declining	Vehicle/cash or unsecured available	Fortnightly, bimonthly or monthly
	Personal Finance	Up to 7 years	50,000	depends on the purpose and security offered	Variable.	Vehicle/cash or unsecured available	Fortnightly, bimonthly or monthly
Westpac	Personal Loan (secured)	4 yrs	AUD1,000 equivalent	AUD 30,000	Available upon request	Motor Vehicles, Property and / or cash	Fortnightly
	Personal Loan (unsecured)	2 yrs	AUD500 equivalent	AUD2,500	Available upon request	N/A - Unsecured	Fortnightly
BRED	Personal Loan	up to 5 years	50,000	None.	14% p.a. -19.25% p.a. Min 16,500 Fee	Secured/ Unsecured	Fortnightly/ Monthly
	General "maikro loan"	Not Provided.	25,000	250,000	28% declining	25% of value held in deposits	Not Provided.
NBV	General "smol faenans"	Not Provided.	250,000	3,000,000	28% declining	25% of value held in deposits	Not Provided.
	General	1 to 5 years	100,000	5,000,000	14-21%	Proof of Employment Common	Monthly or Quarterly
Agricultural Development Bank	General	Max. 3 years	21,250	85% of Savings	12% declining	Can only borrow	Not Provided.
	Business	2-3 years	500,000	4,000,000	16% declining	85% of savings	Variable.
VNPF	Microloan	20 weeks	5,000	150,000	20% flat	30% of value held in deposits	Per week
	MicroPeps	5 mths or 10 mths	10,000	250,000	15% - 30% flat	Group	Per pay period
Credit Corps	Seasonal Employee	20 weeks	5,000	150,000	20% flat	Group	Per month
	Transportation	20 weeks	5,000	150,000	20% flat	Group	Per Week
VANWODS	Business	Variable.	50,000	5,000,000	10% flat	Group	Variable.
	Business	Variable.	50,000	5,000,000	10% flat	Group	Variable.

Organisation	Types of credit product	Term of the loan	Minimum loan size (VUV)	Maximum loan size (VUV)	Interest rate	Security/ Collateral	Frequency of repayment
Cooperative Development Fund	Business	Variable.	50,000	5,000,000	10% flat	50% Deposit	Variable.
	General	1 year	20,000	35,000	5,000 fee plus 16% declining	50% Deposit	Fortnightly or Monthly
Melanesian S&L	Government Employee Loan	1 year	36,000	100,000	5,000 fee plus 16% declining	50% of value held in deposits	Fortnightly or Monthly
	General	2 months	5,000	Variable (couple hundred thousand)	20% Declining	70% of value held in deposits	Fortnightly compulsory
MAAW	General	2 weeks	1,000	2,000	10% Flat	50% of value held in deposits	2 weeks
Numbak Cooperative	General	2 weeks	1,000	2,000	10% Flat	Household Property	2 weeks
Muran Cooperative	General	2 weeks	1,000	2,000	10% Flat	Household Property	2 weeks
MAPEST	Only for School Fees	Variable	Undefined	150,000	10%	Household Property	Variable.
Kalwin Cooperative	General	Flexible	100% of Savings	100% of Savings	20% Flat	Future Wages	Variable.
Vueth Cooperative	Microenterprise	5 months	5,000	10,000	25% Flat	100% of Value held in Deposits	Variable, but weekly encouraged.
ACT Cooperative	General	2 month to 3 years	VT1 000	1,400,000	14% Declining	None.	Weekly, fortnightly or monthly
V-One	General	Variable	30,000	100% of Savings	5,000 fee plus 12% declining	70% of value held in Deposits 100% of value held in deposits	Monthly or Fortnightly

Appendix 3: Description of Cooperatives and Credit Unions Visited

Organisation	Registration	Location	Date of Establishment	Membership	Total Assets (VUV)	General Description
Numbak Cooperative	Cooperative	Uripiv, Malekula	2009	22	Unknown	Money was given to them for political support they gave and they decided to found the organisation with it. Members must deposit 100 VUV a week and can take very small loans. Membership is closed.
Muran Cooperative	Cooperative	Uripiv, Malekula	2010	20	Unknown	Must deposit 2000 VUV to join and then whatever a member chooses each month. Members generally deposit 400-500 VUV a month; they give out a few loans but have a lot of trouble getting them paid back.
MAPEST Cooperative	Cooperative	Sarrette, Malekula	2008	20	3,300,000	Department of Cooperatives did an awareness workshop and they decided to start an S & L scheme. Of the 30 workers in the cooperative, 20 joined. It is 500vt to join and workers decide how much they would like directly deducted from their wages. They can borrow, and a share-out of earned interest is done at the end of every year.
Kalwin Cooperative	Cooperative	Lathi, Santo	2010	19	50,000	Department of Cooperative did awareness workshop and they founded the organisation. Saving 100 VUV a month is encouraged but not enforced, and members can only borrow their own money.
Vueth Cooperative	Not Registered	Pig's Bay, Santo	2006	200	Unknown	Sanma Women's Council encouraged them to start. Every week members must save 50 VUV, but most save around 100 VUV, and money is kept in the NBV in Luganville. They invested 500,000 VUV in a village store and profit from operation is now used for small loans to members.
Wanohe Association	VANWODS	Port Orly, Santo	2008	40	Unknown	They started their own savings scheme, but when VANWODS came they preferred to use their methodology. Many started with loans and invested in businesses, but report now to mainly just be saving.
Naeimawelwel Association	Not Registered	Port Orly, Santo	2009	300	Approx. 600,000	Most members are copra farmers, and they must save at least 50vt a week, although on average people are depositing more like 5,000 a week. Withdrawals can be made every Monday and borrowing is not allowed.
ACT Cooperative	Cooperative	Port Vila	2008	60	3,000,000	A local pastor wanted to set this up and wrote the by-laws himself. Members must save at least 100 VUV a month. They are giving out loans to all church members and are having significant repayment problems, which resulted in them suspending lending in Oct. 2010
V-ONE	Credit Union	Port Vila	2004	120	17,000,000	Any salaried employee is eligible to join. Members determine the amount they want to contribute regularly, and can only borrow their own savings.

Appendix 4: A Mobile Money Ecosystem for Education



The Current Situation for paying teacher's salaries is depicted on the left-hand side. Cash is sent from Port Vila via airplane to the provincial capitals or NBV branches on specific islands. Every two weeks the teachers at rural schools get in a truck and travel to go withdraw their cash. They then purchase supplies and travel back to the village. This system is expensive for the bank that has to move millions of Vatu in cash around the country, and the government which has to pay for this service. It is also expensive for the teachers who have to pay high transport costs, and for the students, many of whom are missing a day a school every other week while their teachers retrieve their salaries.

On the right, the potential of using mobile money for these payments is mapped. In this scenario, the teacher's salary is sent as e-value to them directly at the rural school house via their mobile phone. They then send that e-money to the phones of cash crop farmers in the village in exchange for cash. The farmers, needing to pay school fees three times a year, then just send that e-value back to Port Vila without even having to leave the village or if they are clients of NBV, they can deposit directly into their accounts.

Not only would this system eliminate all the costs of having to move and retrieve cash for the government, banks, teachers, students and farmers, it would further create market opportunities in the villages, where teachers could buy their supplies.

Appendix 5: Demand Estimates for Financial Services

Measuring Access to Finance:

Access to financial services is extremely hard to estimate. For example in Vanuatu, NBV has an extensive branch network through the different provinces; however, the cost of transportation and the time taken to get access these branches varies considerably due to the lack of vehicles or roads on specific routes. So despite the extensive NBV network, many people just few kilometres away still do not consider it accessible, while others further away but with access to a sealed road do. What much of the research does then is provide an estimate for the usage of financial services, which can be more accurately measured and gives a lower bound for the estimate of access. This is the approach taken in this report.

From a measurement perspective there are still great barriers to estimating usage, as for many countries—Vanuatu included—this data is not collected. The body of research on this topic notes that indicators such as income per capita and macroeconomic stability can help predict levels of usage, but that there are significant other country variations (Mongolia, Thailand and Sri Lanka provide good examples). These other factors are much harder to quantify, such as the quality regulatory environment and the specific initiatives of individual financial service providers.

CGAP has developed a simple metric that uses the amount of deposit accounts in a country to estimate how many people hold bank accounts. They collected the number of deposit accounts in countries around the world and compared them to surveys in those countries asking people if they had a bank account, and found that on average throughout regions across the world, there were between 2.2 and 3.8 accounts per person⁵⁴. They therefore divide the amount of deposit accounts in an economy by three to measure the number of people with a bank account. While this is just a supply side proxy, it does seem to be reasonably accurate at gauging demand on a national scale.

⁵⁴ CGAP. Financial Access 2009: Measuring Access to Financial Services. (2009).

Estimating the Market Size for Financial Services:

Once an estimate is made for the amount of people or the percentage of the population that is accessing services, a second one must be made for the portion of the population that actually demands them, as some are too young or poor to do so. Most studies define the adult population as the proportion of the population over the age of 15, which was the metric used above.

However in terms of measuring the proportion of the population that has sufficient income to demand financial services, there is less agreement on which metric to use. CGAP uses purchasing power parity to define the proportion of the population living on five USD or more a day. However due to the availability of data and the widely cited unique structure of poverty in the Pacific region, this report chooses to use the proportion of the population over the BNPL as reported in the most recent Household Income and Expenditures Survey (HIES) from 2006. This accounts for the proportion of the population that earns cash, but is living “hand to mouth” and does not have enough money to deposit in a bank.

The data available for Vanuatu indicates that adults above the poverty line even in rural and remote areas have cash income and can save, meaning that they would benefit from deposit services. The 2006 HIES shows that over 90% of households have at least some cash income.

Using figures from the 2009 census and the 2006 HIES we can construct a general sense of the type and level of economic activity in rural areas as a proxy for the level of cash earned in these areas. Figures show that 71% of Ni-Vanuatu are cultivating cash crops and the percentages of people cultivating cash crops in rural areas is 89% (a range from 89-95%) of the population per province. Nationally only 6% of the population reported having no income in the 2009 census.

It is difficult to estimate the total amount of income generated per individual from these activities, since many families are raising more than one crop, people are planting different amounts of each crop, and not all cash crops have the same cash value. However the tables below do provide a better understanding of the sources of cash in different provinces, and the amounts of cash produced by different cash crops. These factors are significant in determining the demand in different areas for banking services, which can be designed to mimic cash flows for specific economic activities.

Figure 22: Average monthly income by cash crop

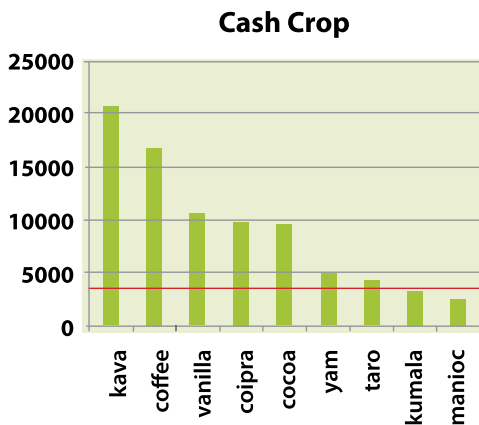


Figure 23: The percentage of Households by Province growing Specific cash crops

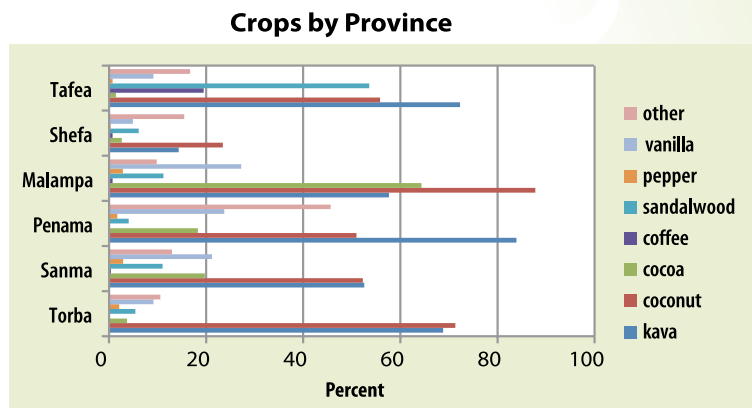
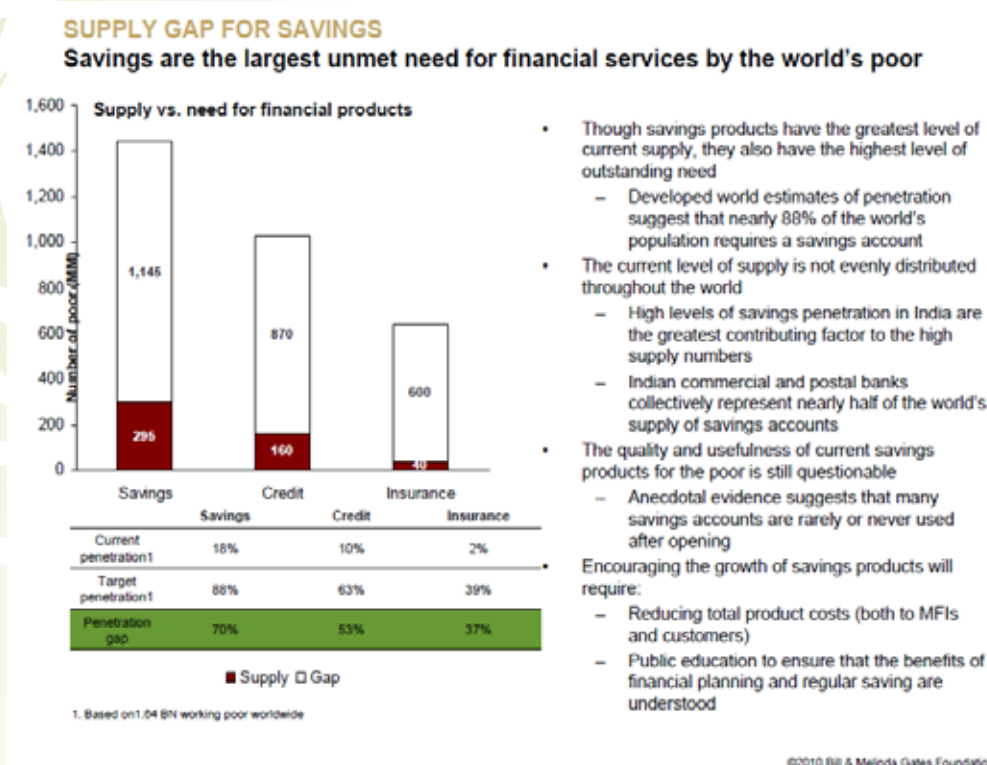


Figure 22 shows that the average monthly revenue from selling almost all cash crops is sufficient to keep households above the BNPL represented by the red line. It also shows a great variation in the revenue per cash crop with kava and coffee being the most lucrative crops, and vanilla, copra and cocoa also providing returns over twice the BNPL. It is evident from Figure 23 that while coconuts (copra) and kava are produced popularly around the region, the others are not. Only in Tafea does a significant portion of the population grow sandalwood or coffee. While only in Sanma, Penama and Malampa are cocoa and vanilla commonly produced. Overall levels of production in Shefa and Sanma are suppressed due to their large urban populations.

Interviews with businesses buying cocoa, and copra reveal having agents stationed strategically all over the provinces buying goods from some of the most rural and remote places. So it is supposed that while there may be a lower amount of cash in these areas per person, there is a cash economy. In rural economies like this, it is very important to have banking services to help people mitigate seasonal fluctuations in production and to have money for life cycle expenses like weddings, funerals, and school fees that are now increasingly cash based.

Certainly not all adults with some cash to save will also want a loan or an insurance policy. Estimating the access to lending products in an economy is more difficult, and usually information from a private credit registry is used to determine the number of borrowers in an economy. Unfortunately this does not yet exist in Vanuatu. To estimate demand for these products, global ratios of demand presented by the Gates Foundation in 2010 are used to gauge relative demand. The figure below shows that around the world the demand for credit is 72% of that for savings and the demand for insurance is only 44% of that for savings. This seems reasonable for insurance given that between 60 and 40% of respondents in the ILO study cited the need for health insurance or another type of social protection, but could be a high estimate for credit given the dearth of economic activity currently requiring credit in the informal sector.

Figure 24: Global Estimates of Demand for the Big Three Financial Services



Calculations:

Demand for financial services/ deposit services

Indicator	Value	Yield	Source
Total Population	234,023		2009 Census
Minus			
Population Under 15 years old	91,269		2009 Census
Equals: Population over age 15		142,754	
Minus			
Adults Under the BNPL	22,841		2006 HIES
Equals: Adults above poverty line		119,913	
Usage of Financial services	44,403		Reported Number of Deposit Accounts
Divided by			
Adults above poverty line	119,913		Calculated above
Equals Percentage of people using deposit of those who demand them		37%	

Demand for Credit:

Indicator	Value	Yield	Source
Total Number of Households	47,373		2009 Census
Minus			
Top Three Wealthiest Deciles ⁵⁵	14,212		2009 Census
Equals: Number of Medium to Low Income Households		33,161	
Minus			
Households Under the BNPL	5,306		2006 HIES
Equals: Number of Medium to Low Income Households that could Afford a Microloan		27,855	
Multiplied by			
Proportion of Households that Demand a Microloan relative to Deposits	0.72		Gates 2010
Equals: Number of Medium to Low Income Households that could Afford a Loan Demanding a Microloan		20,056	
Number of Microloans in Vanuatu	5,597		Reported Number of Microloans
Divided by			
Number of Medium to Low Income Households that could Afford a Microloan Demanding a Microloan	20,056		Calculated Above
Equals Percentage of people accessing Microloans of those who demand them		28%	

Demand for Insurance:

- To calculate the number of people with an insurance policy, the usage percentages from the ILO 2006 study⁵⁶ are used, which found that 7% of informally employed adults and 25% of formally employed adults had an insurance policy.
- The current number of formally employed people is estimated by using the number of people actively contributing to VNPF⁵⁷ 21,929, therefore it is estimated that $(21,929 * 0.25) = 5,482$ **formally employed people have insurance.**
- The current number of informally employed people is calculated by using the number of adults not formally employed $(142,745 - 21,929) = 120,816$. Then to account for those not working at all, the percentage of people reporting no cash income in 2009 census (10%) is subtracted $(120,816 * 0.90) = 108,734$. This yields the amount of informally employed people in Vanuatu. This is then multiplied by the ILO finding that 7% of informally employed people have insurance $(108,734 * 0.07) = 7,611$, which represents the **number of informally employed people with insurance policies.**
- Adding the number of formally employed people with insurance policies and the number of informally employed people together $(5,482 + 7,611) = 13,093$, gives us the **number of people in Vanuatu with an insurance policy.**
- The estimated demand for insurance is calculated by multiplying the demand for deposit services in Vanuatu (119,913) by the relative demand for insurance compared to savings (44%) estimated by Gates 2010. This yields $(119,913 * 0.44) = 52,761$ **people who would like an insurance policy.**
- Therefore dividing the amount of people who have an insurance policy by the amount of people who would like one we calculate that $(13,093 / 52,761) = 0.25$ or **25% of people who would like an insurance policy currently have one.**

⁵⁵These are people earning 71,000 VUV a month or more which is over 3.5 times higher than the estimated GNI per capita.

⁵⁶ILO. (2006). Social Security for all Men and Women: A Source Book for Extending Social Security Coverage in Vanuatu. Suva, Fiji.

⁵⁷2008 figures are used as these are the most recent ones available.



