

# Five Catalysts for Financial Inclusion in Vanuatu

## The Financial Inclusion Landscape

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 or rural clients. These services are complemented by the two much smaller semi-formal providers, Vanuatu Women's Development Scheme (VANWODS) and the Department of Cooperatives who each serve thousands of clients.

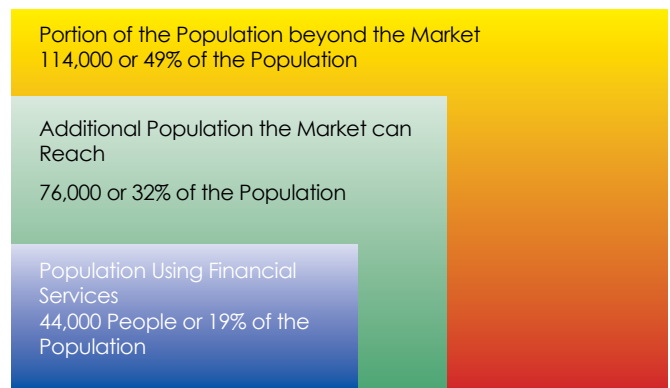
The enabling environment for financial services has become increasingly more flexible and transparent over the past five years. Improved regulations such as the Secured Transactions Bill allow financial service providers (FSPs) to use movable assets as collateral against loans; reduced Know Your Customer (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.

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.

## Focusing on the Future

Since the last financial service sector assessment 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, meaning that 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%)

**Figure 1: Usage of Bank Accounts in Vanuatu**



and Papua New Guinea (8%)<sup>1</sup>. This improved situation in Vanuatu can mostly be attributed to NBV, VANWODS and the Department of Cooperatives.

Therefore 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 more oversight for semi-formal providers.

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.

**Figure II: 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
Involvement of Faith Based Organisations	Lack of coordinating body for microfinance
	Focus on credit, not savings
Opportunities	Threats
Increased coordination for service delivery	Continued political instability
New 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	

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

# Five High Impact Opportunities

## Financial Literacy for All

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, and 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.

## Cashless Financial Services

It is extremely expensive to do business in cash around Vanuatu. Moving cash between islands to maintain liquidity is a burden for financial service providers, and traveling to the nearest bank or post office for Ni-Vanuatu is both time consuming and costly. However with emerging technologies there is no longer any reason to incur these costs, and more efficient systems will enable financial services to penetrate even further outside the boundaries of urbanized areas.

Currently, there are two extensive telecommunications networks and solar power is readily available throughout the country. This opens the possibility for **GPRS EFTPOS machines** that can be used to provide both deposit and withdrawal capabilities for clients provided with access cards. Further **Digicel and ANZ mobile banking products** will allow people to make cashless financial transactions over their mobile phones – effectively banking from the comfort of their own homes.

However the potential for these services extends beyond banking transactions to general payments. The **government will be able to pay rural employees** without requiring them to leave their posts twice a month to retrieve their salaries, or incurring the cost of moving cash. **Agents buying cash crops** from farmers will be able to use electronic value to make purchases, and parents living in rural areas will no longer have to journey to the closest provincial capital or NBV branch to **pay school fees** for their children's education. The possibilities are tremendous, also laying the framework for **conditional cash transfers**, and the servicing of other financial products like **insurance**.

## Coordinated Partnerships

A **coordinating body** that helps advocate for organisations to work together, and also measures and monitors progress made towards greater financial inclusion would streamline efforts and build a clearer picture of how well the country is achieving its goals. Currently, financial service providers are operating independently of each other and too few are exploring partnerships. Yet **semi-informal providers and commercial banks** have individual strengths which could be mutually beneficial. The commercial banks have great management information systems, and trained human resources, while the informal FSPs have a wider reach in rural areas and a greater rapport with low income clients.

Further, **non-traditional stakeholders** are becoming increasingly involved in providing services, and can become more engaged. Improvements in technology mentioned above, now facilitates the use of retail stores as agents to help clients make transactions. Large membership based organisations, and those with significant rural outreach also offer opportunity. The leadership from faith based organisations now act as personal references to help villagers open bank accounts, and traditional chiefs help lenders make better decisions on who will repay loans.

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## Consumer Protection

The history of Vanuatu is marked by the failure of financial service providers and people still find it 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.

## Demand Driven Products

There are still some large gaps in the financial products that providers are offering on the market and products tailored to fill these gaps could attract large amounts of new clients. **Commitment savings 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. Low income people like these products because they help them save useful lump sums of money that they otherwise have a hard time accumulating, and most of the savings and loans cooperatives have already designed these products for themselves.

There is also a great opportunity to offer **small short term loans** that are not tied to entrepreneurial activities which money lenders and some small organisations are exploiting in urban areas. The large amount of loans currently being taken for school fees reveals that people around the country have trouble managing short term household liquidity and need quick infusions of cash. However, most products are structured so that borrowers have to make cash deposits over a period of months in order to access credit, meaning they have to plan far ahead to take a loan when they need it. A product that circumvents this would be well received.

Lastly, many Ni-Vanuatu have few financial options in times of emergency and a great need for insurance policies that will fill this gap. The most obvious option is for offering a **long term life insurance policy** which is not currently available domestically. **Endowment policies** which also help people build up lump sums of cash will probably sell better than term life products, and policies that carry a **funeral benefit** might be popular due to the high cost of such events. Lastly, studies have shown that policies that help **mitigate income** fluctuations from recurring unemployment, or **small hospital cash policies**, will probably also meet significant demand.

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Source: Vanuatu Financial Service Sector Assessment

Where to go to learn more: [www.pfip.org](http://www.pfip.org)

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