

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: PAHQ

TA No., Country and Name		Amount Approved: \$250,000	
TA 3206-VAN: Rural Financial Services Project		Revised Amount: –	
Executing Agency Vanuatu Ministry of Trade and Business Development	Source of Funding TASF	Amount Undisbursed: \$16,648	Amount Utilized: \$233,352
TA Approval Date 16 June 1999	TA Signing Date 22 June 1999	Fielding of First Consultants 21 September 1999	TA Completion Date Original: 31 January 2000 Actual: 31 July 2002 ²
Account Closing Date			Actual: 31 May 2003

Description

During the March 1999 country programming mission to Vanuatu, the Government asked for assistance in developing a proposal for a rural financial services project for ADB financing in 2001. A substantial part of the population in Vanuatu did not have access to financial services, which limited private sector-led development. Furthermore, the sparse population density and dispersed nature of economic activities in Vanuatu discouraged the growth of rural financial services. The project preparatory technical assistance (PPTA) considered that a liberalized finance sector regime, coupled with focused, ADB-supported initiatives to strengthen economic and public sector reforms through the ongoing Comprehensive Reform Program,³ offered a unique opportunity to increase the outreach of financial services in rural areas.

Expected Impact, Outcome and Outputs

This PPTA was designed to assess various options and assist the Government of Vanuatu and the ADB in the preparation of a rural finance project for consideration of ADB financing, which would provide rural areas with improved access to financial services. Specifically, the PPTA was to examine a range of issues and options for improving rural financial services, as well as: (i) identifying strategies and means to improve the participation of the National Bank of Vanuatu and other commercial banks in providing rural financial services and lending to the agricultural sector; (ii) developing a microfinance program with participation of the Vanuatu Credit Union League and possibly other non-governmental organizations; and (iii) assessing the viability of introducing credit guarantee schemes that were being developed at the time.

The project preparation was required to cover: (i) assessing demand for rural finance services, including those for ongoing schemes; (ii) analyzing policy, legal, and regulatory environments; (iii) formulating a strategy for rural financial services development; (iv) assessing institutional mechanisms and operating methods for extending rural financial services; (v) determining the capacity building requirements and governance issues; (vi) designing financial covenants and monitoring arrangements; and (vii) formulating the project for possible financing by the ADB.

Delivery of Inputs and Conduct of Activities

Planned PPTA inputs were 7 person-months of international consultant inputs, comprising: (i) microfinance specialist/team leader (3 person-months); (ii) development banker (2 person-months); and (iii) legal expert/regulatory expert (2 person-months). A domestic rural finance expert assisted the international consultants in their work (3 person-months). On implementation, due to the skills of the individual that was recruited, the development banker and the legal/regulatory expert positions were combined. Overall, the performance of the consultants was satisfactory as measured by the timeliness and quality of their reports.

The project purpose, terms of reference, and implementation arrangements were appropriate. The project was adequately formulated and implemented in close consultation with key stakeholders including commercial banks, Department of Industry, Trade and Commerce, Ministry of Finance and Economic Management, Reserve Bank of Vanuatu, and the Vanuatu Credit Union League. The performance of both the ADB and the Ministry of Trade and Business Development (as the EA) in coordinating inputs was satisfactory.

Evaluation of Outputs and Achievement of Outcome

The PPTA required the preparation of an inception report, interim report, draft final report and final report. A tripartite

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

² Substantive PPTA outputs were complete by 31 March 2000 with the completion of the final report under the PPTA.

³ In 1998, the Vanuatu Government initiated a policy reform program, supported by the ADB, through its Comprehensive Reform Program loan and associated technical assistance. The long-term objectives of the Comprehensive Reform Program were to improve and sustain private sector-led growth, and ensure equitable distribution of benefits.

meeting was held on 18 February 2000 to discuss the draft final report.

The final report, incorporating the comments of the ADB and discussions at the tripartite meeting, was submitted to the Government on 5 April 2000. The final report sets out the findings of the PPTA team and outlined a range of recommendations for strengthening the rural finance sector and building up the capacity of financial institutions undertaking financial business on rural areas and outer islands.

The first part of the report provided the background to the PPTA. Part II of the report set out the macro-economic context with the current status of the implementation of the Comprehensive Reform Program and recent economic performance. Part III contained the relevant financial sector and legislative analysis and summaries of client perspectives collected during field surveys on five of the main islands of Vanuatu. A rural finance strategy as proposed for Vanuatu by the PPTA team was then introduced in the final section of part III. The strategy resulted from stakeholder meetings and emphasized client responsiveness, adequate management of costs and risks at institutional level and the need to build capacity that corresponds to different market segments in financial markets of the outer islands of Vanuatu. The report suggested that this strategy constitute the framework, into which future policies and projects on rural finance should be fitted. Part IV of the report described a proposal for a Rural Financial Services Project costing US\$7,287,500 of which it was proposed ADB would finance \$5,000,000, and the Government the balance as counterpart funding.

The goal of the Project was stimulating economic growth and increasing employment in rural areas and the outer islands of Vanuatu. The goal was to be achieved by initiating the following major activities through a five-year Project: (i) expanding rural finance services by the National Bank of Vanuatu through the establishment of a rural banking unit in the National Bank of Vanuatu as the most widely spread commercial bank; (ii) supporting the pilot program of expansion of the credit union network; (iii) strengthening the pro-poor social intermediation and microfinance activities of the Vanuatu Women's Development Scheme (known as VANWODS) and assess the potential for up-scaling the approach once it is financially consolidated; and (iv) promotion of business advisor training and skills development together with financial services.

For a range of reasons, including a change in Government and a policy change with regard rural financial services, the proposed ensuing Project did not proceed. However, encouraged by the proposal, the National Bank of Vanuatu expressed interest in developing a rural finance strategy on its own to strengthen its operations in the outer islands of Vanuatu and requested the ADB to provide technical assistance. Financed out of remaining PPTA funds, in 2002, a short-term consultant was assigned to assist the National Bank of Vanuatu in developing and implementing a rural credit scheme in its outer island branches.

The PPTA satisfactorily delivered the expected PPTA outputs largely on schedule and within budget. As such, the TA is considered to have been effective in achieving the desired outputs. Reporting requirements were met through the provision of an inception report, interim report, draft final report, and final report.

Overall Assessment and Rating

While the ensuing project did not proceed, the PPTA is rated as successful, reflecting the delivery of PPTA outputs largely within the planned schedule. While the originally intended PPTA outputs were completed by 31 March 2000 and therefore largely within the planned schedule, the PPTA was not completed until 31 July 2002. This was due to remaining PPTA funds being used to support the National Bank of Vanuatu to develop the rural credit scheme as referred above.

Major Lessons

The following lessons learned arise from the ADB's previous engagement in the financial sector of Vanuatu (and in the Pacific generally):⁴ (i) a conducive policy and regulatory environment is important to the success of a financial intermediation project; (ii) financial transparency and good governance should be part of any involvement with development financial institutions; (iii) funding should be provided only to institutions that are fully autonomous in their decision-making and management; have identifiable performance indicators; and are accountable for their performance in terms of profitability, efficiency, and risks reported under commercial financial management covenants; (iv) institutional strengthening of participating financial institutions is very important; (v) where subsidies are required, they must be transparent, sustainable, and economically justified; and (vi) nongovernmental organizations should be utilized as possible providers of financial services to the rural population.

Recommendations and Follow-Up Actions

The major lessons identified above that arise from ADB's previous engagement in the financial sector of Vanuatu (and in the Pacific), that were identified in the Project Brief (footnote 3), continue to remain relevant for future projects of this nature.

Prepared by Hayden Everett Designation Financial Sector Specialist (Public Finance)

⁴ Lessons learned summarized from ADB. 2000. *Project Brief, Rural Financial Services, Republic of Vanuatu*. Manila.