

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PLCO

TA No. TA 4238-VAN: Rural and Microfinance Outreach		Amount Approved: \$250,000	
		Revised Amount:	
Executing Agency: The Ministry of Finance and Economic Management	Source of Funding: TASF	Amount Undisbursed: \$49,150	Amount Utilized: \$200,850
TA Approval Date: 4 December 2003	TA Signing Date: 6 January 2004	Fielding of First Consultant: July 2004	TA Completion Date Original: 31 January 2006 Actual: 14 November 2006
			Account Closing Date Original: 31 January 2006 Actual: 14 November 2006

Description

According to the population census of 1999, Vanuatu had 146,584 people in 28,157 households in rural areas. About 78% of rural households were in the outer islands. Agricultural production was the main source of income for rural households and accounts for about 25% of the gross domestic product. Most of the rural people are in low-income categories with a monthly income of less than \$200. Despite the heavy concentration of population in rural areas, rural financial services remained underdeveloped. Although many rural households have savings accounts with National Bank of Vanuatu (NBV) –the state owned bank - most do not have access to credit from semi-formal or formal financial institutions. The Government in recent years has attempted to increase the supply of credit to rural and urban low-income people through various measures. Most of the measures depended on grants provided by external funding agencies. Two rural sector-focused programs, the Ni-Vanuatu Small Business Development Fund and the Co-operative Development Fund were financed with a grant provided by the People's Republic of China. The United Nations Development Programme funded the Vanuatu Women Development Scheme (VANWODS), a modified Grameen Bank replication targeted at urban low-income, disadvantaged women. In December 2002, with the support of ADB-funded TA¹ NBV successfully introduced a microfinance loan on a pilot basis in the outer island of Tanna. Due to the excellent results achieved under this diagnostic TA, the Government requested that ADB: undertake a further detailed analysis of ongoing, predominantly government-run credit schemes; develop a strategy to consolidate these schemes; and provide capacity-building support for the expansion of microfinance services.

Expected Impact, Outcome and Outputs

The TA objective was to assist in providing people in urban and rural areas with access to financial services and subsequently enable people to pursue viable economic opportunities and income-generating activities. To this end, the TA's planned outcomes were two-fold: (i) future microfinance services would follow a consistent approach to ensure sustainable, effective, and efficient service delivery; and (ii) people in rural and urban areas would take advantage of the availability of sustainable rural and microfinance services. The initial TA framework had two main outputs: (i) the consolidation of existing government-operated small business financing schemes through transferring the responsibility for administration of these schemes to NBV; and (ii) the expansion and scaling-up of microfinance services provided by the National Bank of Vanuatu (NBV). The key activities under the first output included (i) a guided study tour to selected microfinance institutions in Asia; (ii) facilitation of a national stakeholder workshop on rural and microfinance principals; (iii) design and implementation of a performance-based service agreement for NBV to manage the consolidated funds of credit schemes; (iv) development of lending modalities and procedures for a cash flow based loan product; (v) offer of new loan products in NBV's rural branches; and (vi) design of performance indicators and a monitoring and evaluation system. The activities under the second output included: (i) in-depth evaluation of NBV's microfinance loan product and the direct and indirect costs associated with it; and (ii) training of loan officers in credit appraisal.

Delivery of Inputs and Conduct of Activities

The TA commenced in July 2004 with the fielding of the international consultant. The consultant provided inputs during six field assignments over two years. A final assignment took place in April/May 2006. In total, 153 days of consultant services have been provided. At an early stage of TA implementation, several factors triggered a change in the TA framework. In total \$200,850 was utilized to cover: (i) consultant's costs - \$160,215 including \$ 31,975 for airfare and land travel costs, and per diem, and \$128,240 remuneration, and (ii) study tour, training, workshop and equipment costs - \$40,634. The analysis of the two government-run credit schemes showed that a consolidation of these funds under NBV management was not feasible. The bulk of funds under these schemes had been disbursed and there was little liquidity left for possible consolidation and transfer. In addition, a national stakeholder workshop in November 2004 saw benefit in retaining a range of microfinance providers to ensure healthy competition. The workshop also concluded that: (i) a clear and consistent government policy on microfinance was required; and (ii) an appropriate legal and regulatory framework was essential for the microfinance sector to be successful. Consequently, while the second output was retained throughout the TA, the first output was modified and agreed at the TA Advisory Committee meeting on 25 November 2004 and defined as "*Development of conducive policy environment and strategy for rural and microfinance.*" Three additional activities have been included (along with minor modifications of the existing activities): (i) finalize the microfinance policy paper and strategy, (ii) prepare an outline legal and regulatory framework, and (iii) design a vehicle for microfinance development. It was generally agreed that the broadened TA framework was rather ambitious and that certain activities realistically could not be fully implemented during the remaining period. For example, the

¹ ADB. 1999. *Technical Assistance to the Republic of Vanuatu for Rural Financial Services*. Manila (approved on 16 June 1999 for \$250,000 and completed on 31 May 2002).

development of a regulatory framework for microfinance could take several years. Hence, it was agreed to start work on implementation of the activities under existing framework and see how far tasks could be accomplished within given timelines and resources. The consultant provided his services in accordance with the terms of reference, which were highly satisfactory. He adopted a proactive approach to ensure a wide range of stakeholders were involved in the activities under the TA. ADB regularly reviewed the TA and maintained constant dialogue with the Government and TA consultant. This enabled the ADB to be fully involved in decision-makings at major milestones of the reform process.

Evaluation of Outputs and Achievement of Outcome

The total outputs produced under the TA were highly relevant for local environment. Tremendous progress in facilitating, understanding, and awareness of microfinance among the key stakeholders was achieved. The outputs highlighted the need for the appropriate system of regulation and supervision for microfinance institutions in Vanuatu and the importance of the government's role in creating a conducive policy and legal framework without its direct involvement and intervention in microfinance operations. Moreover, they clearly demonstrated that, with the right approach and systems, microfinance can be a profitable business with the capacity to reach out to masses of poor people in rural areas.

Under the first output, the following activities were effectively carried out: (i) a study tour to Indonesia, including the tour to the People's Bank of Indonesia was eye-opener for key executives and policy-makers and has led a major change in perception and attitude towards microfinance, (ii) a national stakeholder workshop and the successive creation of the microfinance task force has brought all major stakeholders together and provided unique opportunity for an information exchange and experience sharing, and (iii) the development of the minimum performance indicators based on international practice and tailored to Vanuatu's context. The microfinance service providers committed to apply these indicators and prepare half-yearly reports on their institution's performance. In fact, the NBV and VANWOODS have already started successfully to apply these indicators.

The consultant also prepared a comprehensive consensus microfinance policy paper with input and support from government departments and the broader microfinance community which included the following: (i) guiding principles of microfinance; (ii) the role of government, the donors and the commercial banks; and (iii) an outline on the way forward for microfinance in Vanuatu. The policy paper has been submitted for endorsement to the Government and cleared by the Development Committee of Officials. However, it had not been approved by the Council of Ministers at the time when this TCR was written.

As the liquidity situation has been rather comfortable among the major microfinance service providers for the past two years, there has not been an explicit need for additional refinancing funds. NBV has had sufficient own resources for refinancing its rural finance portfolio. VANWOODS has seen a tremendous influx of savings from their member clients over the past years and has left the institution awash with liquid funds. This experience was in line with recent world microfinance development trends: when microfinance institutions are permitted to provide savings facilities and start mobilizing small savings, the need for refinancing from other sources decreases. As a result, the development of a funding vehicle has not been given high priority by the potential beneficiary institutions.

The main progress has been achieved in expanding and scaling-up the provision of rural financial services by NBV – the second output of the TA. A separate business unit in rural microfinance was established in the bank under the Manager Retail Banking and additional rural finance officers have been recruited. With the support of TA inputs, NBV has effectively expanded the reach of its lending operations in rural areas including outlying islands in Vanuatu. As of end-May 2007, the bank had a solid active loan portfolio for Vt 101,440,265 of 505 loans (which forms approximately 25% of the total active loan portfolio) extended to micro and small enterprises. The loan repayment performance has been excellent, and these operations are both profitable and sustainable for the bank. In fact, NBV is looking for opportunities for further expansion of microfinance on a commercial basis.

Overall Assessment and Rating

The TA can be rated **highly successful**. It significantly contributed to the delivery of the major expected outcomes and has achieved tremendous progress in facilitating understanding and awareness of microfinance, including its guiding principles and the role of government, donors and commercial banks. A study tour and the extensive discussions have created awareness among policymakers in the Government and in the Reserve Bank on the need for strengthening supervision of microfinance institutions. These issues, together with an outline of the way forward for microfinance in Vanuatu have been addressed in a broadly-supported consensus policy paper prepared by the consultant. The paper provides a useful framework for all concerned stakeholders and is currently under consideration by the Government. The TA has also been highly effective in supporting NBV to significantly scale up the provision of microfinance lending services on a profitable and sustainable basis which subsequently has become a model in the Pacific.

Major Lessons

The amendment to the TA framework was a useful adaptation in response to changing conditions during implementation. Nevertheless, the amended scope of the TA remained very broad, and it subsequently became clear that some planned activities, particularly those aimed at addressing the legal and regulatory framework, could not realistically be implemented within the time frame of the TA, despite its extension to June 2006. Overall success of the TA is likely to lie in the combination of both policy and operational activities with NBV addressed under the TA.

Recommendations and Follow-Up Actions

Follow up is recommended to facilitate progress on the next steps for enhancing microfinance activities in Vanuatu. The main challenge lies in overcoming the high overhead cost involved in NBV's present branch network in attempting to deliver financial services to the dispersed population in rural areas. A move to the agency banking supported by the introduction of modern information technology could become a solution to mitigate these costs. ADB will examine the feasibility of such an approach in subsequent TA.