

# Banking the Unbanked in Fiji : The ANZ Bank and UNDP Partnership Model

*Prepared by Jeff Liew<sup>1</sup>*

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## 1. Introduction

This paper focuses on the experiences of the Fiji Rural Banking service which was launched in October 2004.



## 2. Financial Empowerment and Inclusive Financial Sector Development

An inclusive financial sector offers a range of financial services suited to the needs of the vast majority of the population in a sustainable manner. In recent years, global evidence is showing that financial sector development is important not only for growth, but also for poverty reduction. In addition to the link between financial sector development and growth, an inclusive financial sector has both indirect and direct impact on poverty alleviation, firstly because of the linkages between financial sector development and more equitable growth and secondly, because of the impact of broadening access to finance – especially to the poor, rural communities and women.

A responsive and inclusive financial sector that offers a range of services tailored to the needs of the under-served is directly serving and interacting with the poor. Secure and reliable savings, various types of loans, innovative use of collateral substitutes, affordable remittance services, pensions etc help low income people to build income and assets, manage risk, and to work their way out of poverty. Having access to financial services increases productivity as well as offering a cushion in times of crisis.

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<sup>1</sup> *Jeff Liew is Pacific Regional Sustainable Livelihoods Specialist, UNDP Pacific Sub-Regional Centre, based in Suva, Fiji <jeff.liew@undp.org>*

The way people use their money has significant impact on the economy. A healthy economy is made up of knowledgeable consumers. When many people make wise decisions on spending, savings and investment, the economy is strengthened. Financial education also leads to increased productivity and can influence a switch from conspicuous consumption to productive investment. Decisions consumers make also shape the services and products available to them.

Financial education is particularly important to those who have less to manage. The recently published regional MDG report for the Pacific, reported that available evidence clearly points to an increasing incidence of poverty in some PICs with the problem being much more widespread than generally thought. At least 20% of households in 12 of the 13 PICs studied suffer from basic needs poverty. In the most disadvantaged PICs, the proportion is estimated to exceed 33%. Although hunger is less prevalent, malnutrition is present, with the proportion of underweight children reaching 27%. Financial insecurity is not only a factor of inadequate income but, often, it is exacerbated by poor money management.

At the ADB Conference on Commercial Financial Services held in Manila in March 2005, the level of financial literacy was identified as an impediment to the development of an inclusive financial sector – in terms of influencing demand as well as acting as an incentive for the supply of financial services. This view was also upheld by both financial institutions and representatives of rural communities at the conference on Revitalizing Rural Financial Services organized by the Central Bank of Solomon Islands in April 2005.

### 3. Microfinance in the Pacific

In the failure by commercial financial institutions to align their services and products to low income and disadvantaged people, development partners (including UNDP, AusAID, ADB, IFAD and NZAid) have initiated the replication of microfinance models from South Asia (notably the Grameen Bank solidarity group model) in the last decade with varying levels of sustainability.

#### Estimated Outreach of Microfinance Replication Projects

Country	Estimated Outreach
Fiji	15,000
Kiribati	4,000
PNG	35,000
Samoa	4,000
Tonga	Not known (but negligible)
Vanuatu	3,000
Solomon Islands	Not known (but negligible)

Note : Includes only programmes using Grameen/solidarity group and rural banking models. Excludes credit unions – which are active in most PICs.

Total outreach is small compared to the estimated 6.5 million unbanked people in the region. The Asian Development Bank in their review of microfinance in the Pacific (2001) reported that “microfinance in the Pacific islands is at an early stage of development. There are a limited number of institutions providing microfinance in both urban and rural

areas, mostly relying on government and donor subsidies for survival. MFIs in the seven Pacific member countries reviewed have yet to achieve operational self-sufficiency.”

The need to accelerate the number of people with access to a wide range of financial services that are unsubsidised, requires a re-think of the existing approach centred around the replication of the solidarity group model and village banks.

This has led UNDP to adopt an inclusive financial sector approach and has entered into a partnership with a commercial bank, ANZ Bank, to devise commercially viable business models for delivering banking services to the un-served and under-served in the Pacific. The partnership in Fiji is proving to be successful in accelerating outreach (40,000 new accounts in 13 months) to previously unbanked rural communities and is anchored with an institution committed towards a profit-driven service. The results of the Fiji rural banking service has generated enough confidence for ANZ Bank and UNDP to replicate the partnership model in the Solomon Islands – initially concentrating in the Guadalcanal Plains region.

#### **4. The Fiji Rural Banking Service**

#### **5. The Role of the Private Sector**

The investment into setting up and operating the rural banking service is entirely funded by ANZ Bank. It comprises a fleet of 6 mobile banks that travel on a regular schedule to 250 designated rural villages and settlements in the main islands of Viti Levu, Vanua Levu and surrounding islands. The service is provided by 12 staff recruited and trained specifically to provide a rural-based service that values person-to-person contact. The bank offers 2 savings products – a long-term savings account and an everyday savings/transaction account. Clients also have access to other banking products offered by the bank and can transact in any of its urban branches including receiving deposits directly from relatives in towns and overseas. The service is also extended to rural schools with special runs every 2 weeks. A Micro Loan product was launched in April 2005. Clients who have saved regularly for 6 months are eligible for a micro-loan of between \$125 to \$1,250. The bank's strategy is always to inculcate a savings habit with customers for at least six months before offering credit facilities - and then rely on the regularity of savings as behavioural collateral to qualify for loans.

#### **6. The Role of UNDP**

UNDP assisted with the feasibility assessment work by sharing experience on microfinance schemes, providing information on the rural economy and validating that the poor are bankable. The partnership is formalized in an MOA that recognizes the importance of providing an inclusive, transparent, convenient and affordable service that matches the needs of the people. It also acknowledges the importance of empowering people to save and invest. UNDP continues to participate in the steering committee to share information and monitor the impact of the service. UNDP also lent its support to the bank in securing specific dispensations from the Reserve Bank and made a joint presentation to the Prime Minister and key Cabinet Ministers to seek endorsement for the initiative. Rural banking staff received training in financial literacy to help reinforce the messages to clients. UNDP continues to encourage other banks and institutions to respond to the many service gaps in the rural sector.

## **7. Outcomes**

The bank is on target with its market outreach of 140,000 clients over the next 36 months. As at end April 2006, (18 months from start of operation), the bank has opened a total of 54,000 rural accounts. More than 98% were first time accounts. Total deposits stand at \$2.0 million for the same period. A total of 400 micro-loans have been approved, since April 2005, with loan outstanding of \$200,000; with less than 2 % arrears.

Around 300 rural villages have acquired valuable money management skills. Testimonials abound on the timeliness and value people place on the banking service and the training. The presence of regular banking service has made it easier for microfinance institutions to operate in the rural areas and this is expected to increase; especially to service low-end clients and to promote groups savings schemes. Other service and financial institutions (like the provident fund, stock exchange, native land leasing authority and telecom) are exploring the use of the rural banking network as conduit for extending their services to the rural communities.

An important pre-condition for making rural banking a reality in Fiji was to change the mandated proof of identify required to open a bank account. The requirement for either a driver's license, a passport and/or social security card and often coupled with a letter from an employer effectively excluded the majority of the poor or those engaged in the informal sector and semi-subsistence living – and children. The Fiji Reserve Bank was very receptive to have this changed to suit the realities of the rural population. A letter from the village head or district commissioner validating name and residency coupled with another form of identity verification (school roll, baptism certificate, birth certificate) is now instituted in Fiji as compliance for opening a rural bank account. This has opened up the entire rural sector to other financial institutions.

The foundation of an inclusive financial sector is being laid in the rural economy. Government has, in its 2005 budget, announced a 150% tax rebate to all financial institutions to extend services to the rural areas.

## **8. Some Early Lessons**

### ***a. Creative Thinking***

It required both partners to think out of the box. ANZ Bank to come up with a solution to what is widely considered an unviable market. UNDP needed to find a mechanism to partner with a commercial partner without jeopardizing its mandated neutrality. The partnership solidified quickly as both ANZ Bank and UNDP shared the same objectives and recognized each others strengths. Both partners recognize the importance of continual monitoring and learning to stay ahead of potential glitches as well as to identify new opportunities.

### ***b. The Right People***

Having the right people to drive the partnership is seen as critical. The rural banking manager of ANZ Bank, supported by senior management, understood the longer term strategy of stimulating the growth of the rural economy. The UNDP project manager

understood the commercial realities of the private sector and was able to find mutually acceptable solutions to marry hard financial imperatives with that of social capital formation.

### ***c. The Importance of Financial Literacy***

Providing a banking service to a population who are under-exposed to modern financial instruments and services is like giving books to people without teaching them how to read. This aspect of the partnership was recognized by ANZ Bank as critical to its decision to bank the rural communities. The financial literacy training programme, designed and supported by UNDP, is being implemented with the National Microfinance Unit, respective Provincial Councils and other NGO partners. It is a 4-hour village-based training in the local vernacular covering the following topics :

- Understanding your financial situation
- Understand how you earn and spend
- Setting goals and priorities
- Planning a household budget
- Why and how to save
- How can microfinance and banks help you
- Preparing a savings plan
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The financial literacy training is generic in nature and is progressively being extended to all the 1,200 rural villages and settlements in the country – many of which are accessible only by bamboo rafts and horseback. It is also the first time that such training has been carried out in the rural areas. The cost of such public education, especially to rural and remote communities, is relative high. Development agencies can play a key role by supporting financial literacy training. A longitudinal survey will be implemented in July 2006 to measure the impact of financial literacy training on the financial behaviour of rural households.

### ***d. People Focused***

Participatory needs assessment and wide consultation was a critical element in designing both a responsive banking and financial literacy training programme. This process cannot be compromised. The overwhelming response and participation by rural communities in the banking service and financial training is a direct result of attentive listening to the people.

### ***e. MFIs and Banks working towards an Inclusive Financial Sector***

From the outset, the rural banking service was seen as a threat by microfinance organizations that looked at the bank as undermining their client base. The bank saw advantages in working with MFIs and UNDP is actively identifying linkages between MFIs and the bank. Despite these efforts, MFIs continue to work in isolation and, in some communities, have created confusion amongst the people as well as denying them the right to choose their financial intermediary. Much of this posture stems from a protective attitude and the absence a long-term vision aimed at building an inclusive financial sector where poor and low income people can enjoy permanent and unsubsidized access to all forms of financial services. Greater efforts at creating

sustainable partnerships between MFIs and banks are needed and development agencies can play a role here.

#### ***f. Model for Regional and International Replication***

The Rural Banking Model is best described as an integrated modular microfinance model which systematically addresses the financial literacy and financial access requirements of rural communities who are excluded from the formal financial system. Key partners include a major commercial bank, UNDP, the Central Bank, a security service provider, the national microfinance unit, provincial councils and village structures. The model is adaptable to varying local conditions without eroding the integrity of the model as it based on the structured utilization of the organizational core competencies of each participating partner on a marginal cost basis. It enables each organization to pursue its core activity and at the same time ensuring that modules can be adapted and substituted as necessary. This overcomes some of the inherent limitations with single institution microfinance models.

This partnership model is now extended to the Solomon Islands where mobile rural banking services was introduced in November 2005. The bank is currently developing an electronic “bank in the box” model which will allow banking services to be extended to remote communities. Similarly, UNDP is designing financial literacy training to be delivered through internet to rural internet stations in the Solomon Islands. A community banking model is nearing the final stages of development for rural Tonga and Papua New Guinea.

### **9. Way Forward : Accelerating the Deepening of Financial Services**

While there are no official statistics on the number of unbanked in the Pacific, it is estimated that close to 6.5 million people (around 70% of total population) have no regular access to financial services. The ANZ rural bank is showing that it is possible to provide rural people with an inclusive and commercial banking service.

The challenge is how to accelerate the deepening of banking and other financial services in the other countries of the region.

Having an enlightened bank is not enough. Banks have competing priorities and strategies within their own organisations which influence their policies towards more accessible and immediately profitable markets - to the exclusion of the low income and rural communities. Banking the unbanked will require sizable investments. The opportunity costs of such an investment to any bank is high – more so in the context of a long-term and lower- yielding market like rural and poor communities.

The demography and geography of the Pacific makes banking the unbanked particularly daunting. Some communities will never be viable to service but there are many more communities that lend themselves to creative banking solutions; including the use of modern communications technology. The demand and need for financial services, amongst the unbanked, is high.

Governments and development partners are encouraged to forge creative partnerships with commercial financial institutions that have strong pro-poor outcomes.

In order to accelerate the delivery of financial services to un-served, poor and rural communities and to stimulate innovation in product design and delivery systems, there is strong merit in researching the establishment of a regional financing and support facility.