

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

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1. Introduction

UNDP's engagement with the private sector in the Pacific is aimed at forging sustainable partnerships for achieving the Millennium Development Goals. The 2004 release of the report *"Unleashing Entrepreneurship – Making Business Work for the Poor"* by the Commission on the Private Sector and Development has provided both impetus and direction to further energize UNDP's role in facilitating partnerships with the private sector that have clear pro-poor outcomes.

The UNDP and ANZ Bank² Partnership for Banking the Unbanked in the Pacific is a tangible example of a substantive partnership aimed at pooling the respective strengths of each partner to devise viable and innovative banking services to the approximately 6 million people, living in both urban but largely rural communities, who have no access to financial services.

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

2. The Fiji Rural Banking Service

In Fiji, close to 340,000 people living in rural villages and settlements remain un-banked. While government and donor supported (including UNDP) microfinance schemes have made inroads into the rural areas, outreach remains small at less than 2%. The UNDP and ANZ Bank partnership provides a commercial banking service to all rural communities in Fiji that is also supported by a financial literacy training programme to enable rural people to better manage their money and to make informed choices on the best use of the new banking service.

3. 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 150 designated rural villages and settlements in the main islands of Viti Levu, Vanua

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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 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 will be available in April 2005. 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.

4. 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.

5. Outcomes

The bank is on target with its market outreach of 140,000 clients over the next 24 months. In the first 5 months of operation, 17,000 women, men and school children are beginning to save regularly and over 1,500 villagers 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 2005 budget, announced a 150% tax rebate to all financial institutions to extend services to the rural areas.

6. 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.

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.

7. 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 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 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 Fiji Rural Banking project cost to ANZ was approximately US\$0.5m. 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.

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.

The DFID Financial Deepening Challenge Fund can provide valuable lessons for designing such a financing facility for the Pacific. FDCF awards cost-sharing grants to private sector financial institutions that are committed to increasing access to commercially sustainable financial services for the poor and businesses that employ the poor (<http://www.enterplan.co.uk/fdcf>). This fund is now fully subscribed.

UNDP wishes to initiate dialogue with development partners and stakeholders to look into the feasibility of a Pacific banking the unbanked financing facility as well as other cooperative strategies (including financial literacy training and research) for accelerating outreach to the unbanked and under-served in the Pacific. It is only through such concerted and cooperative efforts can Pacific island countries begin to make greater progress towards the achievement of the MDGs.