



Vanuatu

Micro, Small & Medium Enterprises (MSMEs) - Finance
2016 Survey:

Exploring the MSMEs Survey Challenges & Understanding
The MSMEs Characteristics for Ways Forward





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Characteristics for ways forward**



Preface

The Reserve Bank of Vanuatu (RBV) became a member of the Alliance for Financial Inclusion (AFI) in 2009 and committed to the AFI's Maya Declaration in 2012. As a member of the Pacific Islands Regional Initiative (PIRI), a sub-regional grouping of AFI, the RBV undertook a review of data and measurement exercises in 2013 as a basis for designing financial inclusion strategies and in evaluating its Maya Declaration commitments. An important aspect of this is related to the financial inclusion Demand-Side Survey which the RBV completed in the first half of 2016.

The RBV became member of AFI's Small and Medium Enterprises Finance Working Group (SMEFWG) in 2015 under which it made commitment under the Maputo Accord to adopt concrete policy targets on SME finance and development. The commitment included putting in place policies to support SMEs, the implementation of the Personal Properties Securities Act (Secured Transaction Act), review of legislation and regulations to strengthen client protection and empowerment, and market conduct in relation to the use and the delivery of financial services.

In 2015, the RBV first participated in AFI's SME Finance Working Group meeting in Malaysia during which AFI grant funding was announced for members. It successfully applied for grant funding which financed a number of SME finance-related projects. As part of the project, officials of the RBV, together with those from the Republic of Fiji and the Kingdom of Tonga carried out peer-learning study tours to observe the national SME policy framework in Malaysia and Thailand organized with AFI and the recipient central banks. In addition, the grant funding and budgetary resources from the RBV was utilized to conduct the *Vanuatu MSME Finance 2016 Survey*. Training, piloting and field surveys were conducted in November 2016. These survey findings will assist the RBV in developing its medium to long-term strategies in the SME finance and development agenda.

Acknowledgements

The RBV would like to thank the members of the Demand-Side and MSME Survey Technical Committee which designed and conducted the survey, for the analysis and drafting of the final MSME survey report and for taking the initiative to make the project a reality: Dr. Michael Hililan, Mr. Mark Mera, Ms. Cynthia Moli, Ms. Alison Baniuri and Mr. Pita Toa. It acknowledges the support of Governor Simeon Malachi Athy, Deputy Governor Peter Tari Merakali and Mr. Sum Abiut for the technical support. The RBV wishes to acknowledge Mr. Pita Toa for the sample design and data cleaning. Furthermore, it wishes to thank the following people for their valuable comments on the report: Mr. Benuel Lenge of the VNSO, Mr. Krishnan Narasimhan of the PFIP, Mr. Eliko Boletawa and Mr. David Myeni of AFI.

The RBV would also like to acknowledge the Directors of the RBV for their support to the project and is grateful to the Alliance for Financial Inclusion for providing the grant funding for the survey.

Finally, the RBV thanks the hundreds of business house respondents throughout Vanuatu, who allowed us time and the opportunity to conduct the survey successfully.

Foreword

It is a pleasure to present this report of the first ever, nationwide survey conducted on Micro, Small and Medium-Sized Enterprises (MSMEs) by the RBV as part of its financial inclusion agenda in Vanuatu. Let me state at the outset that the lack of past surveys on a national scale, and comprehensive database on MSMEs in Vanuatu, posed challenges in the initial survey design and the conduct of the survey itself. I am proud we overcame those challenges and are able to present in this report, important findings which will serve as input to formulating our medium to long-term policies on SMEs as part of the financial inclusion agenda in Vanuatu. As part of this process, the Reserve Bank will consult with the public concerning the findings of the survey with a view to incorporating those views in our future policies on SMEs. The survey will therefore enhance evidence-based policy solutions to address gaps in the financial inclusion agenda in Vanuatu.

The objectives of the survey were to produce evidence for access and usage of financial services of the business sector in urban centers and the rural sector, particularly the MSME component, to complement the current indicators which utilize supply-side data. It also complements the Financial Inclusion Demand-Side Survey which measured and provided indicators for access and usage of financial services from the perspective of the adult Ni-Vanuatu.

The survey provided information on the usage of certain basic financial services such as savings, credit, investment, insurance and the application of technology to business operation of MSMEs in Vanuatu. It provided understanding of the main profiles of MSMEs and the gender characteristics of the MSME sector in Vanuatu. Finally, it identified the main barriers that prevented MSMEs from accessing and using financial products and services.

The survey shows that a high percentage of businesses accessed informal financing sources for business startups even though the sector remains largely unsupervised in Vanuatu. The participation of women and youth in total businesses ownership is lower than among men. Women ownership amounts to around 20 percent, indicating a gap from the target of 30 percent under the Maya Declaration. Access to finance for business financing is perceived as a major problem in Vanuatu. Lack of infrastructure, inefficient government service delivery, competition from cheap imported products/services, small market size and lack of support services for business development are key problems faced by the MSME businesses sector.

I would like to thank the Alliance for Financial inclusion (AFI) for providing grant funding which enabled the survey to be successfully carried out. I also thank the survey Technical Committee which was responsible for every aspect of the survey – developing survey instruments, sample design, piloting, field survey, data cleaning, assessment, and for putting the report together. I also acknowledge contributions to the survey by various staff and Directors of the Reserve Bank of Vanuatu. Finally, I offer a special thank you to all who welcomed the MSME Survey team whole-heartedly and participated to make the survey a success.

Governor Simeon Athy



Reserve Bank of Vanuatu

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Acronyms and abbreviations

AFI	Alliance for Financial Inclusion
AFIC	Apma Financial Investment Center
ANZ	ANZ Bank (Vanuatu) Limited
APTC	Australian Pacific Technical College
ATM	Automated Teller Machine
AusAID	Australian Agency for International Development
BRED	Bred Banque Populaire-Vanuatu (BVL)
BSP	Bank South Pacific
CAPI	Computer Assisted Personal Interview
CCVL	Credit Corporation Vanuatu Limited
DK	Don't Know
DSS	Financial Inclusion Demand-Side Survey
EFTPOS	Electronic Funds Transfer at Point of Sale
ISIC	International Standard Industrial Classification of All Economic Activities
MSME	Micro, Small and Medium-sized Enterprise
MSLS	Melanesian Savings and Loans Society
NA	Not Applicable
NBV	National Bank of Vanuatu
NSDP	National Sustainable Development Plan
ORCBDS	Office of the Registrar of Cooperatives and Business Development Services
PAA	Priority and Action Agenda
PFIP	Pacific Financial Inclusion Programme
RBV	Reserve Bank of Vanuatu
SIM	Survival Indigenous Micro Finance Scheme
SME	Small and Medium-sized Enterprise
TC	Technical Committee
TVET	Technical and Vocational Education and Training
VADB	Vanuatu Agriculture Development Bank
Vanwods	Vanuatu Women Development Scheme
VAT	Value Added Tax
VCCI	Vanuatu Chamber of Commerce and Industry
VNSO	Vanuatu National Statistics Office
VRDTCA	Vanuatu Rural Development and Training Centers Association

Executive summary

MSMEs can be an important engine for economic growth, job creation, and if well supported, can contribute to poverty alleviation and the improvement of living standards of the Ni-Vanuatu. In the past, data deficiencies on usage and access to financial services by MSMEs have constrained the development of a more vibrant MSME sector in Vanuatu. This survey captured information on access and usage of financial services and challenges faced by the MSMEs in Vanuatu from their perspective. It followed the completion of the financial inclusion Demand-Side Survey in the first half of 2016, which measured access and usage of financial services from the perspective of the adult household sector in Vanuatu.

The survey was conducted by the RBV during October-November 2016. It is nationally representative with respondents drawn from the provincial rural areas of Torba, Sanma, Penama, Malampa, Shefa, Tafea and the urban areas of Luganville and Port Vila. The target respondents consisted of the list of the 2016 registered businesses at the Department of Customs and Inland Revenue in Luganville and Port Vila and business registry listings in each provincial council. Due to data limitations of business listings in provincial councils it was not possible to stratify the analysis to different MSME components. Survey empirical findings will provide input to formulating medium to long-term policies to improve access to MSME financing and development as a complement to the Government of Vanuatu's overarching agenda in business and MSME development. It will also set the ground work for future research into the MSME sector in Vanuatu.

In summary, the following thematic areas can be derived from the survey results:

Access to informal sources of finance

A high percentage of businesses in Vanuatu accessed informal financing sources for business startups. The survey revealed that 68 percent of businesses in the urban centers used informal savings¹ for businesses start-ups and 19 percent used commercial bank loans. Similarly, in the rural areas, 81 percent used informal savings, and only 7 percent of businesses used commercial bank loans. The percentage of businesses accessing finance from other formal financial institutions and informal sources is insignificant. Policy makers will want to investigate the underlying issues giving rise to the low usage of formal institution funding for business startups among businesses in urban centers and their preference for informal sources, given that the sector remains largely unsupervised in Vanuatu.

Participation of marginalized groups

The participation of women and youth in businesses is lower than among men. Males dominate the MSME sector with 60 percent ownership. Twenty (20) percent of the total respondents are women and 12 percent are youth entrepreneurs. Furthermore, a larger portion of youth with business ownership are women. A high number of women and youth entrepreneurs are engaged in the informal rather than formal MSMEs.

¹ Informal savings refer to own savings through informal channels (savings held at home)

Access to business financing

Access to finance for business financing is perceived as a major problem in Vanuatu. Of the total MSME respondents, 22 percent indicated they have applied for a business loan over the last 12 months, relative to a much higher proportion of 35 percent who have not, and 29 percent who considered it is not applicable to their business. Among the informal business sector, only 10 percent have applied for a loan, while over 50 percent indicated it was not applicable to their business, and 28 percent did not apply for other reasons. Whilst the majority of businesses indicated that the main banking product/service that they are in need of is loans and savings, they also indicated high interest rates to be the most limiting factor to accessing external financing. Insufficient collaterals or guarantees and financial institution processes are also cited as limiting factors. Given that access to finance plays an important role in business development, investment and innovation, ways must be found by policy makers and service providers to improve access to businesses finance.

Usage of business financing

Inadequate use of loans from commercial banks and other financial institutions by businesses. The survey found that only 26 percent of formal MSMEs had applied and been issued a loan from a commercial bank over the past 12 months, 4 percent of businesses applied but were rejected, 1 percent applied and were issued only part of it and did not apply for other reasons, respectively. However, 67 percent of formal businesses did not apply for a commercial bank loan over the past 12 months. Only 9 percent of informal MSMEs have applied for a loan from commercial banks and received everything, while 80 percent did not apply. A similar trend was seen in other financial institutions. Thirteen (13) percent of informal MSMEs applied for and were issued loans from other financial institutions over the past 12 months even though 85 percent did not use the facility or said it was not applicable. By contrast, 8 percent of formal MSMEs applied for loans from the other financial institutions and got everything, while 2 percent did not apply for other reasons.

Infrastructural support for service delivery²

Lack of infrastructure, inefficient government service delivery, competition from cheap imported products/services, small market size and lack of support services for business are key problems faced by the MSME businesses sector. More than 50 percent of respondents identified lack of infrastructure, inefficient government service delivery and lack of support services for business development as key problems, respectively. In addition, 34 percent identified competition from cheap imported products/services and small market size as the key hindrances in business growth, in that order. Furthermore, business insurance cover is scarce outside the urban centers in Vanuatu making them vulnerable and less resilient to natural disasters. These problems present further dimension to business risk and the cost of doing business in Vanuatu and further steps are needed to address them through appropriate policies and dialogue between policy makers and stakeholders.

² These key problems are identified from the perspective of business owners and not from that of financial service providers.

Survey Limitations

Resource and data limitations due to lack of a well-established business registry in provincial capitals, resulted in the following;

- The geographic stratification was limited to urban and rural. Port Vila and Luganville centers are grouped as urban, and the selected areas from the six provinces as rural. Geographical stratification is devised to reflect the distribution of rural and urban economic activity of the country. Further stratification of these economic sectors according to Micro, Small and Medium enterprises could be unreliable with the current sampling design.
- The stratification according to firm sizes, the Micro, Small and Medium enterprises, in particular for the rural areas was not feasible.
- Analysis on business turnover is reported in terms of percentage share of total turnover by ownership. Analysis on business expenses for comparison with turnover was not possible. Furthermore, it is difficult to further stratify the analysis according to the MSME size, business sectors and geographic locations.
- As such, analysis on personal monthly income derived from self-employment was not carried out.
- Businesses which are not registered with any formal institutional structures were excluded from this survey since it was difficult to capture their operations.
- Complete MSME supply-side data on financial access is not available to the RBV to enable comparative analysis.

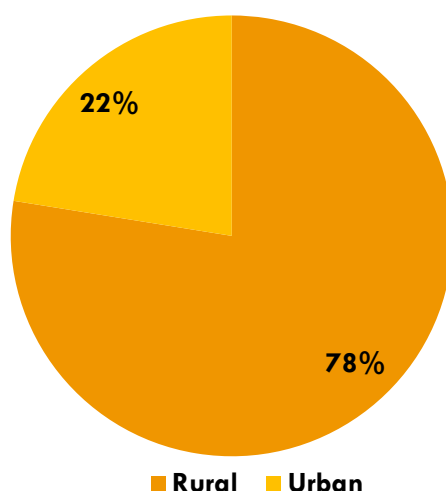
1. Characteristics of MSMEs in Vanuatu

1.1 Geographic characteristics

Vanuatu is a small South Pacific island nation in the south-western Pacific Ocean with a total land mass of 12,336 square kilometers and consisting of around 83 islands located west of Fiji and east of Australia. The total population is 270,470 in 2016. The two main urban centers are Port Vila and Luganville. Vanuatu's economy is primarily based on small scale agriculture; around 76 percent of the population live in the rural areas and are engaged in the agricultural activities that range from subsistence farming to smallholder farming of coconuts and other cash crops. Approximately 24 percent live in the urban areas.

The MSME survey was conducted during October and November 2016 across both the rural and urban areas of Vanuatu. Seventy-eight (78) percent of the business respondents were from rural areas and 22 percent from the urban centers (Chart 1). The rural areas included all six provinces, Torba, Sanma³, Penama, Malampa, Shefa⁴ and Tafea while the urban areas included Port Vila and Luganville. The survey sample consists of 192 formal MSMEs and 547 informal MSMEs or grey markets. The description of the survey methodology and sample design is found in Annex 1.

Chart 1: Composition of the sample surveyed



Survey results show that approximately 78 percent of the total MSME businesses in Vanuatu are located in the rural, and 22 percent, in the urban areas. Of these, almost 90 percent are informal MSMEs and slightly more than 10 percent, formal MSMEs.

³ Excluding Luganville

⁴ Excluding Port Vila

Definition of formal and informal MSME in Vanuatu

Vanuatu does not have an official nationally-recognized definition of MSMEs. The survey definitions were adopted from the report “Micro, Small and Medium Enterprise (MSME) Policy and Strategy for Vanuatu” by Accord International (Accord International, 2011). The definitions are illustrated in Table 1.

According to the report, a “micro” enterprise refers to a business that has an annual turnover of less than Vt4 million (approximately USD36,000) with 1 to 5 employees, a “small” enterprise has an annual turnover of less than Vt50 million (approximately USD454,000) with 6 to 20 employees, a “medium-sized” enterprise has an annual turnover of less than Vt200 million (approximately USD1.8 million) with 20 to 50 employees and a “large” enterprise has over 50 employees with an annual turnover of over Vt200 million (approximately USD1.8 million). With the exception of micro enterprises, all other business categories are registered with the Vanuatu Government Value Added Tax (VAT) office. For the purpose of this report these businesses are categorized as formal MSMEs.

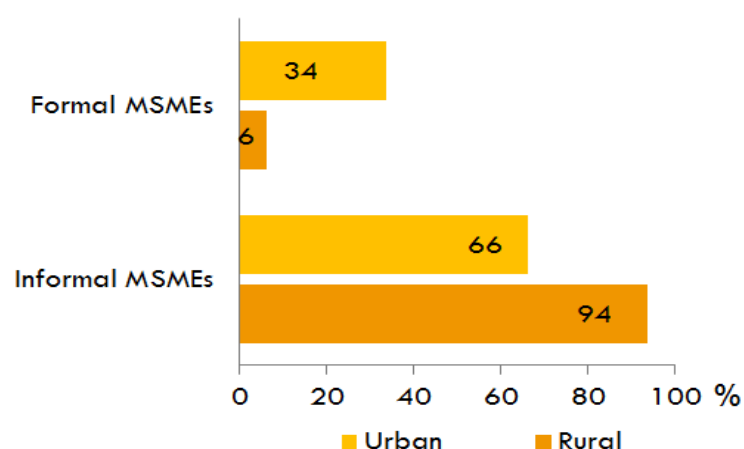
Table 1: Typology of enterprise by size

Indicator	Large	Medium	Small	Micro
No. of Employees	Over 50	20 to 50	6 to 20	1 to 5
Annual Sales Turnover	Over Vt200m	Less than Vt200m	Less than Vt50m	Less than Vt4m

Source: Accord International, *MSME Policy and Strategy for Vanuatu (Volume 2 March 2011)*

The survey considered Informal MSMEs as self-employed businesses with annual turnover of less than VT4 million. These businesses are registered with the Department of Customs and Inland Revenue (not VAT office) and provincial governments. Due to a lack of clearly-defined business categories as to what distinguishes an informal from micro-sized businesses, and the lack of a well-established business registry, the survey coverage encompassed the informal MSMEs as the micro enterprises with no permanent salary workers. Most provincial business registries could not distinguish the latter from the micro businesses which employ 1-5 employees.

Chart 2: Composition of informal businesses and formal MSMEs in the rural and urban areas



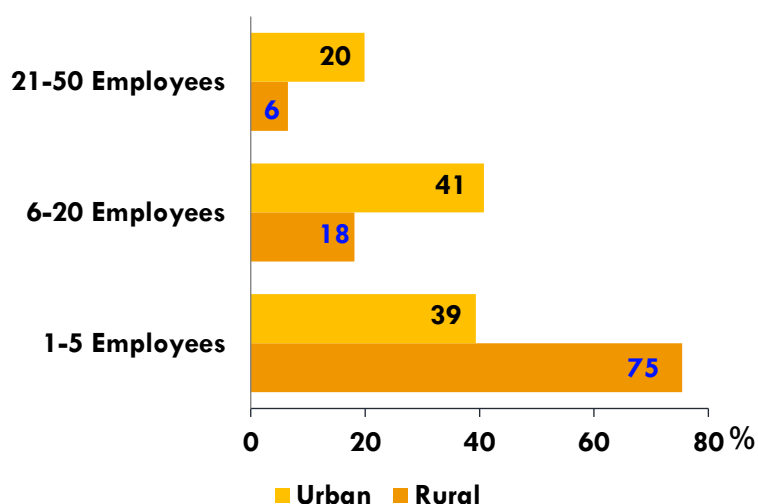
Informal MSMEs are dominant in the rural areas while formal MSMEs are dominant in the urban centers. As depicted in Chart 2, the survey covered 94 percent of the informal MSMEs and 6 percent of the formal MSMEs in the rural areas. Equally, it covered 66 percent and 34 percent of formal and

informal MSMEs in the urban areas, respectively. The high proportion of informal MSMEs in the rural areas, with no formal business planning component, implies that these businesses are set up to meet family basic needs, for example, consumption, clothing, school fees etc., with little emphasis on expanding the business. In contrast, the large proportion of formal MSMEs in the urban areas indicates businesses with a profit-oriented setting with more emphasis on business development and in improving and expanding business operations.

The survey considered employment as formal or wage employment; this excludes family members, or casual workers.

Businesses in the urban centers generates more employment than rural businesses. Although the survey covered a larger number of businesses in the rural areas than in urban centers, 64 percent of employment by MSMEs are generated by businesses in the urban areas, while 36 percent is by rural businesses. Employment creation is therefore higher for firms in urban centers than for rural ones. The findings Chart 3 indicate that 75 percent of businesses in the rural areas employ between 1-5 workers, 18 percent employ 6-20 workers and 6 percent employ 21-50 workers. In the urban centers, 39 percent of owners employ 1-5 workers, 41 percent employ 6-20 workers, and 20 percent employ 21-50 workers. When data is segregated to size of business, it revealed that employment among micro businesses, which are more prevalent in the rural areas, is low. Employment expands with business size which tends to favor urban centers with a larger number of small or medium-sized businesses.

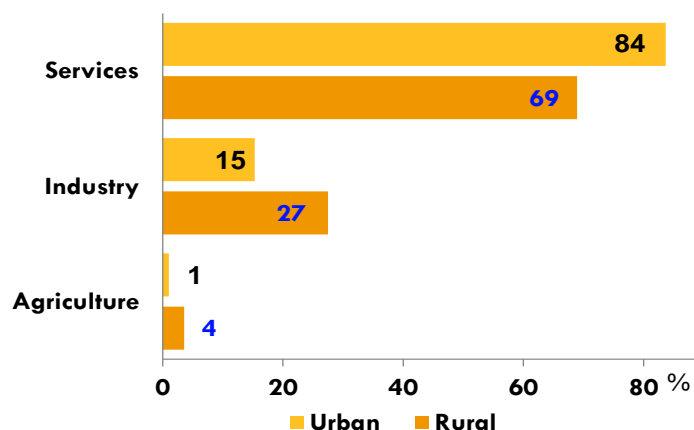
Chart 3: Percentage share of employees employed by location



The economy is classified into three sectors. The agriculture sector includes farming, livestock and dairying, fishing and forestry. The industry sector covers manufacturing, construction, mining and quarrying and the services sector encompasses distribution (wholesale and retail), tourism, and transportation.

The services sector employs a high percentage of employees in both rural and urban areas. Eighty-four (84) percent of employees in the rural areas are found in the services sector, and 69 percent in the urban centers (Chart 4). The industry sector employs 27 percent of employees in the rural areas and 15 percent in the urban areas. Only 4 percent of employees in the rural areas and 1 percent in urban areas are employed in the agri-business industry. This suggests significant challenges remain in productivity, job creation and a more inclusive growth in the agri-business sector and therefore requires continuing attention of policy makers.

Chart 4: Percentage share of employees by economic sectors and location



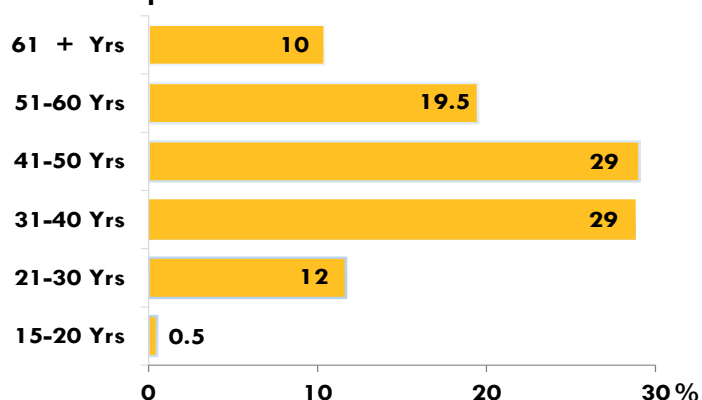
Male ownership in business is prevalent in both the urban and rural areas in Vanuatu. Males own 60 percent and 50 percent of informal and formal MSMEs in the rural and urban areas, respectively. Female ownership is increasing in the informal and formal MSME sectors in both the rural and urban areas. Businesses with multiple ownership are less dominant in both rural and urban areas than sole proprietorship.

1.2 Demographic characteristics

The survey demographic characteristics include age profile and education level of business owners.

1.2(a) The majority of business owners in Vanuatu are within the 31-50-year age bracket. A large proportion of business operators surveyed (29%) were clustered around two age categories; 31-40 years and 41-50 years, respectively. Nineteen (19) percent of owners were in the age range of 51-60 years, and 12 percent and 10 percent are within the age categories of 21-30 years and 61+ years, respectively. Less than one percent of business owners are in the range of 15-20 years, an age category that includes those in schools and young dependents.

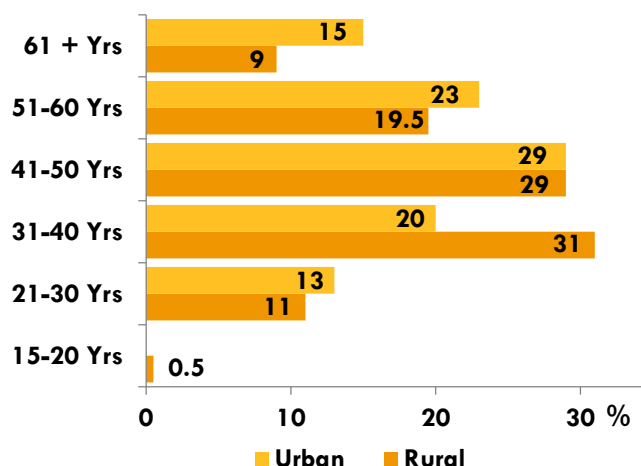
Chart 5: Age profile of business operators



Age groupings of business owners by location (Chart 6) indicated that the majority of rural business operators (31%) are clustered around the age category 31-40 years; in urban areas, the majority (29%) are within the age category of 41-50 years. The difference in age participation rates across geographical locations can be explained by the education level of owners. The majority of urban business operators tends to start business upon completion of secondary or tertiary education and other vocational trainings and engage in business at a latter age. The majority of rural entrepreneurs

start businesses upon completion of primary-level education and therefore at an earlier age. There are few instances in rural areas of very young entrepreneurs, around the age category of 15 to 20 years.

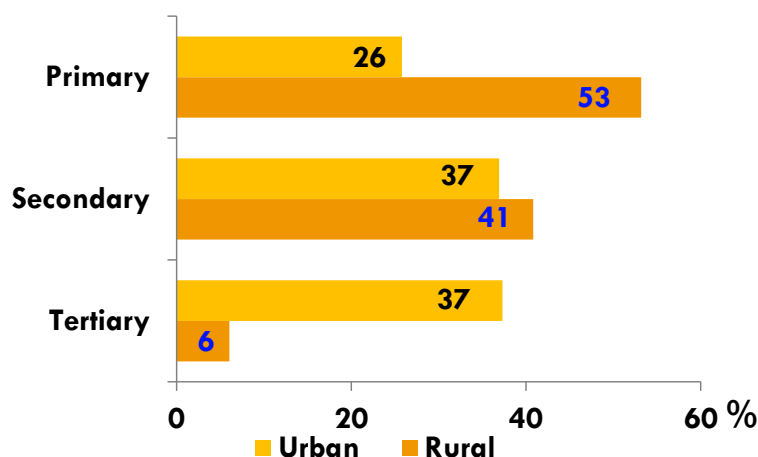
Chart 6: Age groupings of business owners by location



1.2 (b) The majority of business owners in rural areas in Vanuatu have completed at least primary education, whereas the dominant level of education is secondary and tertiary for business owners in the urban centers.

A high proportion of business owners have at least completed primary education. Of the total respondents surveyed, 47 percent of business operators have completed primary education, followed with 40 percent for secondary education, and 13 percent, tertiary education. This reflected Vanuatu’s policy commitment of ensuring at least a primary level of education for all school children, as outlined in the Government’s Priorities and Action Agenda (PAA) for 2006-2015 and the National Sustainable Development Plan 2016-2030 (NSDP).

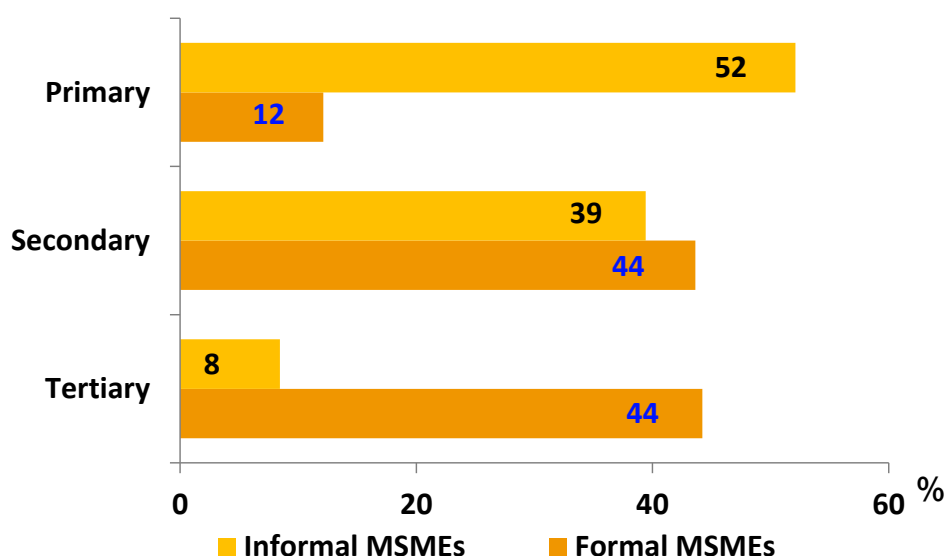
Chart 7: Breakdown of level of education by location



The level of education of owners varies by geographical location. More than half of the respondents (53 percent) in the rural areas have completed primary education, followed by 41 percent for secondary education and 6 percent for tertiary education. The dominant education level for business owners in the urban centers is tertiary and secondary education, with 37 percent each, followed by primary education with 26 percent. As noted above, most urban-based businesses are started upon completion of secondary or tertiary education and other vocational trainings, and have a dominant

age bracket of 41-50 years. The majority of owners in rural areas have completed primary education prior to starting a business with a typical age bracket of 15-20 years.

Chart 8: Breakdown of level of education by business size



If the data is analyzed by business size and economic sectors, the results showed primary education level dominant in all categories, with the exception that the highest education levels of formal MSME operators are either secondary or tertiary. Fifty-two (52) percent of informal MSMEs have completed primary level education, followed by 39 percent and 8 percent with secondary and tertiary education, respectively. Similarly, 44 percent of formal MSME business owners have completed secondary and tertiary education respectively, followed by 12 percent with primary education. By economic sectors, 47 percent of business respondents in the services sector have completed primary education, followed by 41 percent and 12 percent with secondary and tertiary education, respectively. Fifty-two (52) percent of business owners in the industry sector had completed primary education, 31 percent secondary education and 16 percent had completed tertiary level. Finally, 48 percent of agricultural business owners have completed primary education followed by 36 percent and 16 percent with secondary and tertiary education, respectively.

1.3 Gender characteristics

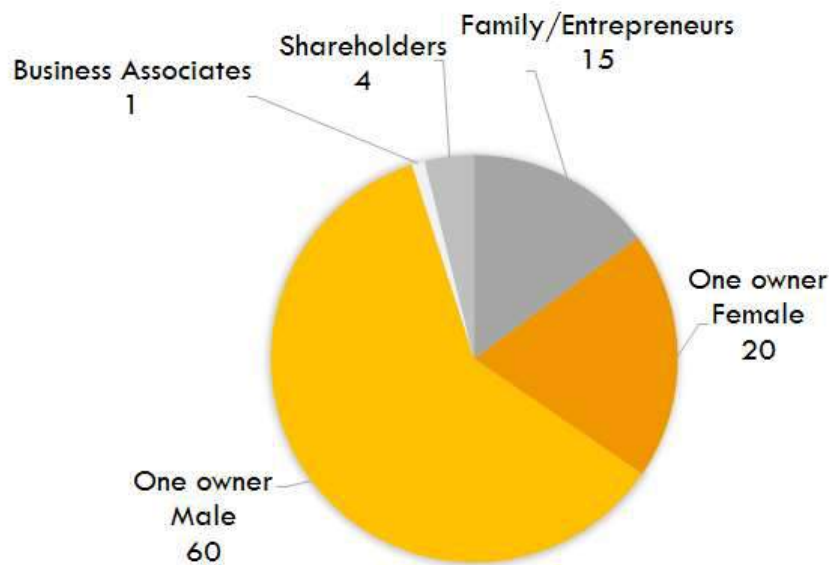
The survey gender characteristics⁵ relate to the contributions of women and youth to the informal and formal MSME sector in Vanuatu. These dimensions provide quality indicators to the SME financial inclusion indicators base set and in measuring gaps in Vanuatu’s Maya Commitments. These include Vanuatu’s commitment to advance women’s participation in business under the Maya Declaration and the 2016 Denarau Action Plan under which Vanuatu made commitment to close the gender gap in women’s financial inclusion.

⁵ Excludes the disabled with businesses

1.3 (a) Women comprises 20 percent of the total businesses surveyed

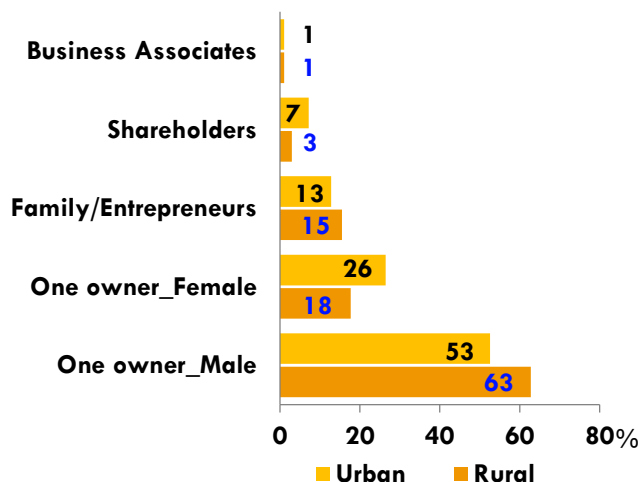
Women's ownership is referring to the female as the sole owner of the business. This excludes women participating in family owned businesses and other forms of ownership. Although men dominate business ownership in Vanuatu, women's entrepreneurship is increasing in the share of ownership or management of business. According to the survey (Chart 9), 60 percent of total business ownership is by men, with women at 20 percent, compared to Vanuatu's commitment under the Maya Declaration to bring women's participation in business ownership to 30 percent. The finding is in line with the results of the 2009 National Population and Housing Census which showed that "more men are self-employed (7%) than women (5%) and more men are employers (2%) than women (1%)" (Vanuatu National Statistics Office, 2011).

Chart 9: Percentage share of female ownership



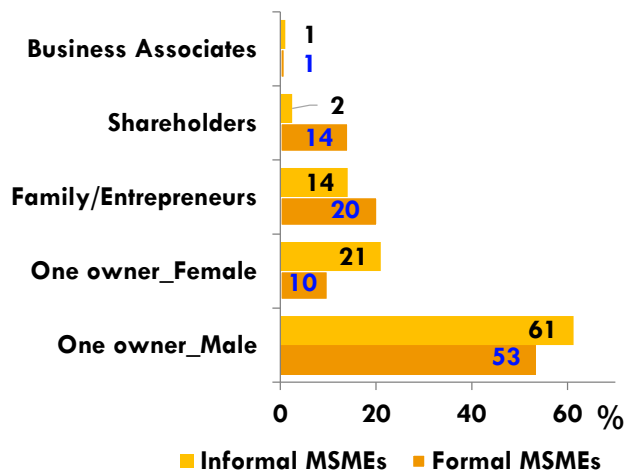
Women's participation in business is higher in the urban centers than in rural areas. The survey (Chart 10) showed that the majority (26 percent) of female respondents are located in the urban centers, compared to 18 percent in rural areas. The high urban female ownership is observed in business activities such as open market vendors for the tourism industry which reflects factors present in urban settings that facilitate women in business. The findings corroborate the results of the 2009 National Population and Housing Census showing "69 percent of women in the urban areas are producing goods for sale, while 43 percent are in the rural areas" (Vanuatu National Statistics Office, 2011).

Chart 10: Percentage share of women's ownership by location



A higher number of women are engaged in informal than formal MSMEs. Of the total women respondents (Chart 11), 21 percent are engaged in informal MSMEs, while 10 percent are in formal MSMEs. A high proportion of women in the informal sector are engaged in businesses such as food stalls, kava bars, handicraft markets, fresh-produce market vendors, owners of private early childhood education, and so on. Those in the formal MSME sector are involved in accommodation, agriculture, bungalows, distribution, hotels and restaurants, vehicle rental, tours and transport. The results conform to the 2009 National Population and Housing Census findings in which “5 percent of women are self-employed, while 1 percent are employers” (Vanuatu National Statistics Office, 2011).

Chart 11: Percentage share of Women ownership by business size



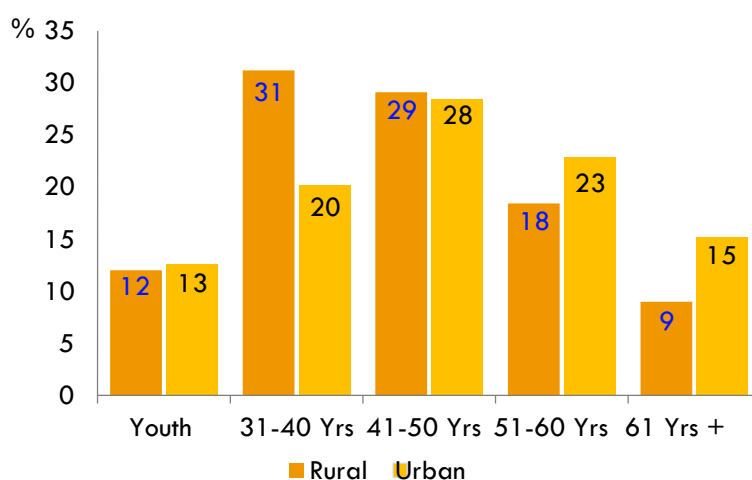
A higher percentage of women entrepreneurs are engaged in businesses in the industry sector. Thirty-two (32) percent of female entrepreneurs are engaged in the industry sector, compared to 19 percent in the services sector and 10 percent in the agriculture sector. Their high participation rate possibly reflects the limited number of commercial bakeries in the rural areas, and their suitability to the business, which involves manufacturing of bread, doughnuts, pastries and confectioneries, and value-added products such as chips produced from root crops. Moreover, more women entrepreneurs are progressing into manufacturing of beauty and body products such as coconut oil and soap, and the production of local artifacts.

The majority of female entrepreneurs have completed secondary education. Of the total female respondents, 19 percent of female business owners have completed primary education, followed by 22 percent and 14 percent with secondary and tertiary education levels respectively.

1.3(b) Youth accounts for 12 percent of total businesses surveyed

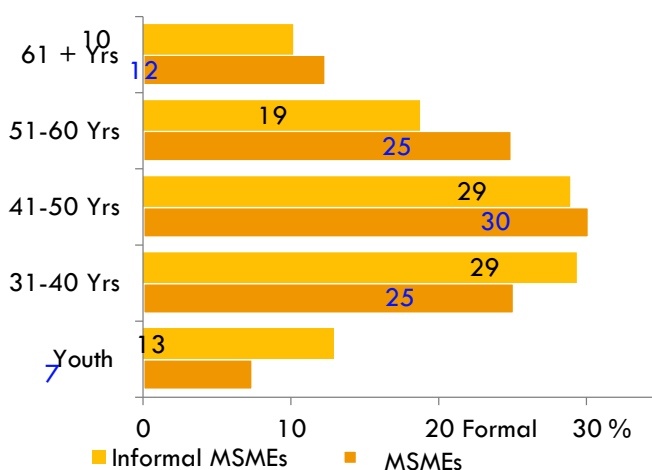
The survey (Chart 12) age-category of business operators from 15 years to 30 years captured aspects of the youth age. This age category follows what is considered as youth within the Vanuatu Government which defines youth age as people between the ages of 12–30 years. This age range diverts from the United Nations definition of youth as people between 15 to 24 years of age. The survey results showed that 12 percent of the total MSME operators are within this age category. Of the total respondents of the age bracket containing youth, 12 percent operated in the rural and 13 percent in the urban areas.

Chart 12: Percentage share of youth in business by location



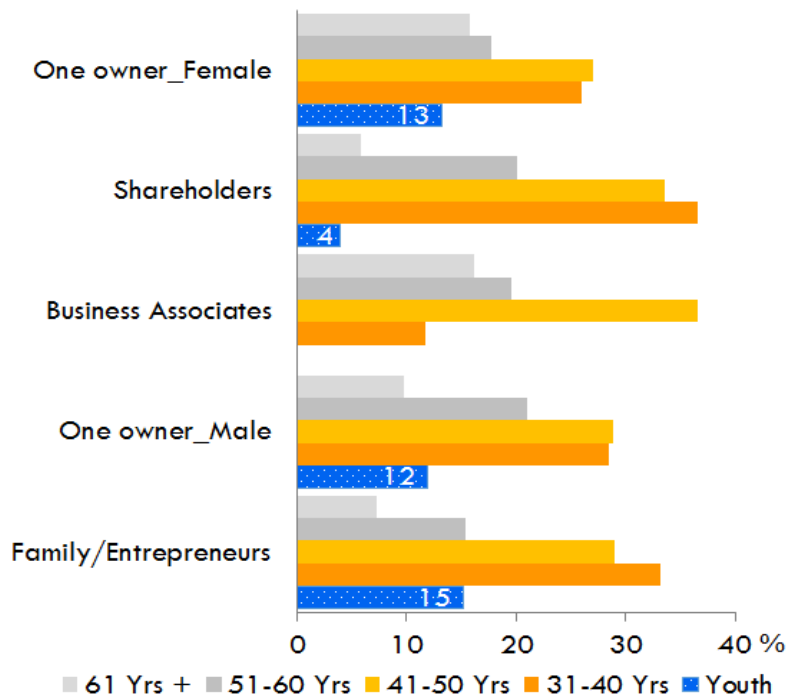
If the data is segregated by informal and formal MSME sectors (Chart 13), 13 percent of the business owners in the category with the youth age bracket are engaged in informal MSMEs, and 7 percent in formal MSMEs. By economic classification, 13 percent of the category with youth owners are engaged in the services sector, as tour operators, wholesale and retail sales, hotels and restaurants, transport, kava bars and bungalows. Seven (7) percent and 8 percent of youth owners are in the industry and agriculture sectors, respectively.

Chart 13: Percentage share of youth ownership by business size



A high proportion of the category with youth owners have completed secondary and tertiary level education. Eight (8) percent of youth respondents completed primary education, while 16 percent have completed secondary and tertiary education respectively.

Chart 14: Percentage share of business ownership forms by age and gender



Of total female-owned businesses (Chart 14), 13 percent are in the category of the youth age bracket and 12 percent in male-owned businesses, although men have the highest overall share of business ownership in Vanuatu.

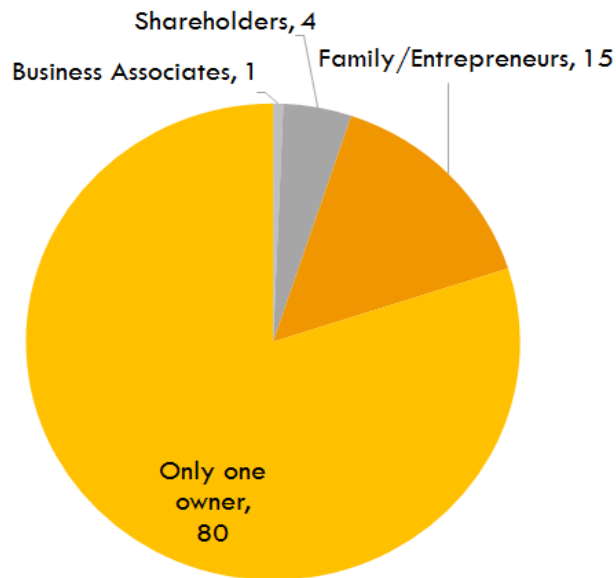
1.4 Ownership and types of MSME structure

There are various ownership types of MSMEs which are uniquely different in legal consequences. The forms of MSME ownership in Vanuatu can be grouped into four broad types: the sole proprietorship, the partnership, companies and trusts.

The sole proprietorship and the partnership are unincorporated entities but required to hold a business license. While the sole proprietorship has a single proprietor, partnership has multiple owners. Similarly, companies and trusts have multiple owners. The two latter forms of ownership are incorporated entities with the businesses separate from the owner as legal entities.

The sole proprietorship is the most common form of MSME in Vanuatu. The sole proprietorship (only one owner) was found to be the most common form of MSME enterprise ownership in Vanuatu. More than three quarters (80%) of total MSMEs in Vanuatu were found to be sole proprietors (Chart 15). Family or entrepreneurs [more than one owner], shareholders and other ownership forms follow with 15 percent, 4 percent and 1 percent, respectively.

Chart 15: Percentage share of forms of ownership of businesses in Vanuatu

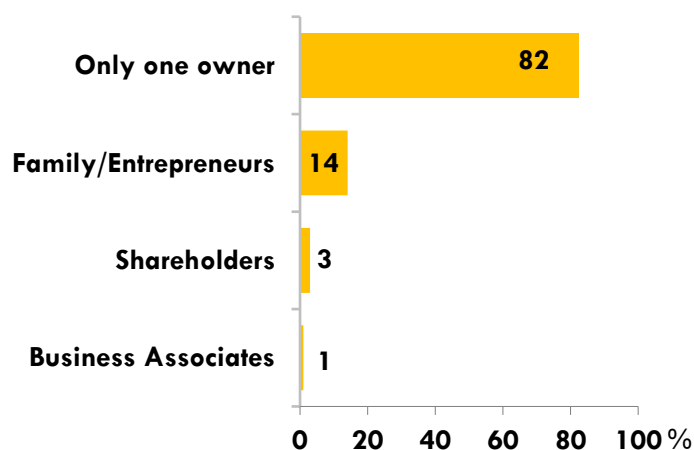


Sole proprietorship does not require a large amount of capital to establish, although businesses are required to have a business license (Department of Customs and Inland Revenue, 1998) and pay a minimum annual fee of VT10,000 (USD92) to their local provincial councils. The prevalence of this form of MSME can be explained by the decentralization service of registration to the local council provincial areas, where the area administrators are given the responsibility of business license registration, renewal, and the collection of the license fees.

The Shareholders category includes cooperative associations and other forms of associations that are registered with the Office of the Registrar of Cooperatives and Business Development Services (ORCBDS) under the Cooperative Societies Act [Cap 152] of 1987 (Office of the Registrar of Cooperatives & Business Development Services, 2015).

Sole proprietorship is more prevalent in informal MSMEs. The survey found that sole proprietorship is more prevalent among informal MSMEs. The survey defined informal MSMEs as businesses that are registered with local authorities (provincial councils) with an annual turnover of less than VT4 million, with no permanent salary workers.

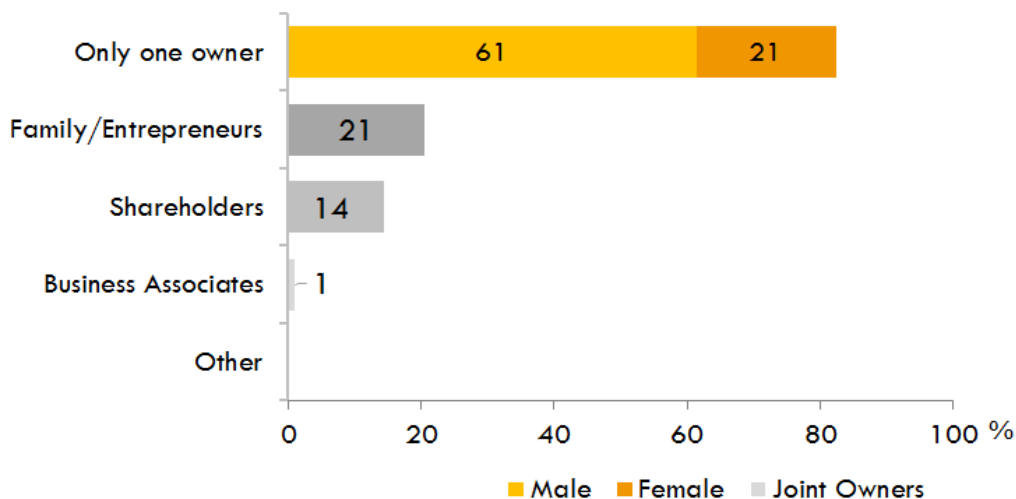
Chart 16: Percentage share of informal businesses by ownership form



The percentage share of business ownership by sole proprietorship is particularly high for informal MSMEs compared to ownership share of any other ownership type. Eighty-two (82) percent of informal MSMEs are owned by sole proprietors, with only 14 percent owned by a family or more than one entrepreneur, and 3 and 1 percent by shareholders and other ownership forms, respectively.

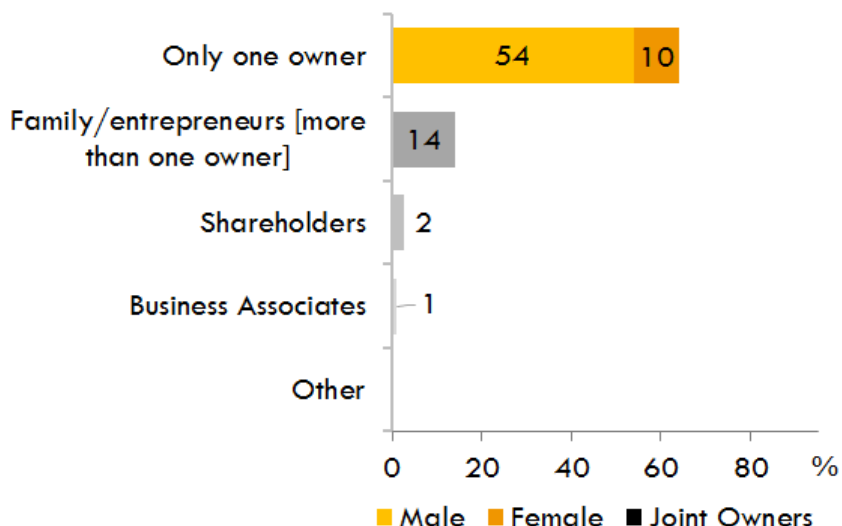
The proportion of sole proprietorship reduces gradually with business size structure. The high proportion of sole proprietorship in Vanuatu is concurrent with the observed participation of the women in informal businesses sector (Chart 17).

Chart 17: Percentage share of informal MSMEs by ownership form



As business type changes from the informal sector to medium-sized MSMEs, the lower the proportion of sole proprietorship becomes. The percentage of sole male owners also falls from 61 percent of informal MSMEs to 53 percent of formal MSMEs, and for sole female owners, from 21 to 10 percent, respectively (Chart 18).

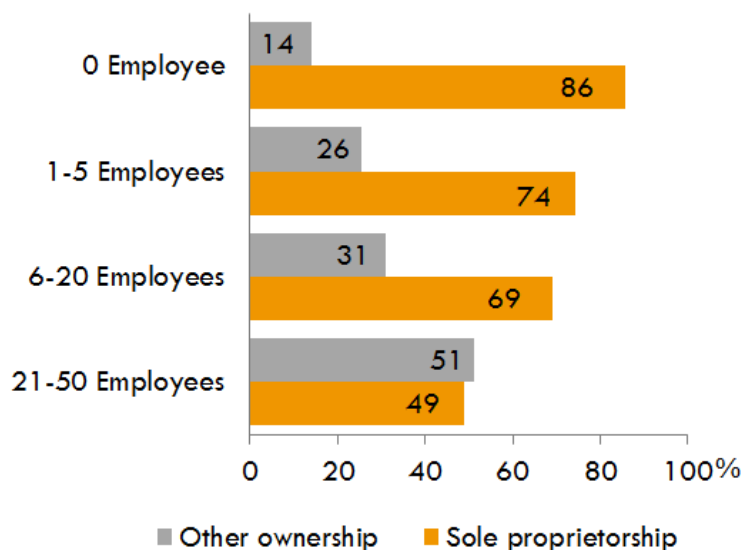
Chart 18: Percentage share of formal MSMEs by ownership form



Another graphic representation of MSME ownership by employment size is given in Chart 19. As expected, the number of MSME employees rises as the business structure becomes bigger. Eighty-six (86) percent of sole proprietorship businesses employs no workers; 74 percent employs one to five workers; 69 percent employs six to twenty employees, and 49 percent of sole proprietorship employs

around twenty-one to fifty employees. By contrast, 90 percent of MSMEs employing over 50 employees fall in the category of “other ownership”.

Chart 19: Percentage share of MSMEs by ownership form and employment size

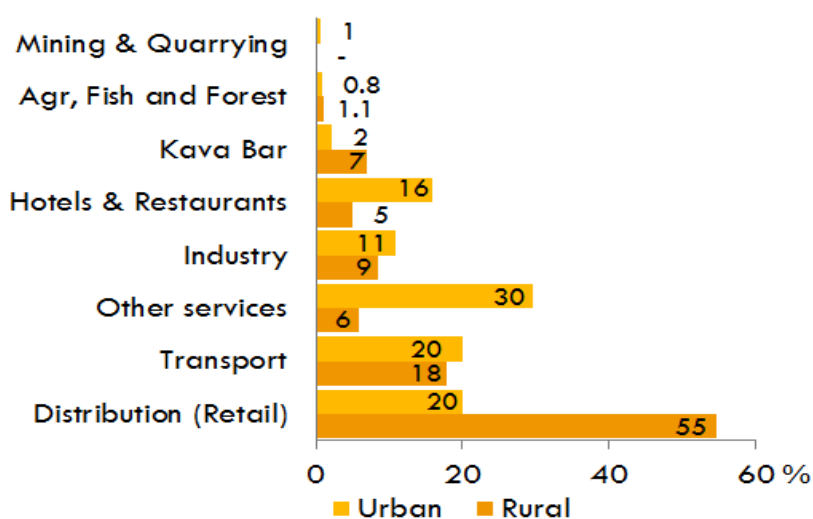


1.5. MSME by type of business activity

The survey covered 89 percent of businesses in the services sector, and 9 percent and 1 percent in the industry and agriculture sectors respectively. For purposes of the survey, business activities associated with public administration and financial services were excluded from the survey sample.

Retail business, within the services sector, is predominant in the rural areas while other services sector business is dominant in the urban centers. Fifty-five (55) percent of businesses surveyed in the rural areas are in retail business. As expected, business activities are more varied in urban centers. A higher percentage of respondents are engaged in other businesses in the services sector (30%), with kava bar operators and food-stall businesses having the highest share of business activities (Chart 20).

Chart 20: Percentage share of MSMEs by type of business activity, and by location

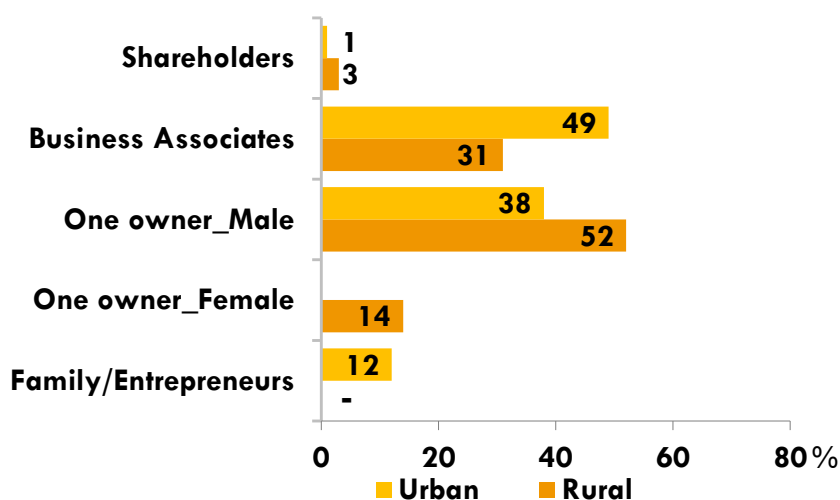


1.6 Business turnover

Business turnover was reported for the last 12 months preceding the survey, and the analysis is from the perspective of the owner of businesses.

The largest business turnovers are for those with male ownership. Forty nine (49) percent of the total annual turnover of businesses in Vanuatu is generated by male entrepreneurs, followed by business associates (35%), female entrepreneurs (11%), and family owned (3%) and shareholders (2%). The finding is not surprising, considering that 49 percent of business ownership is by male entrepreneurs.

Chart 21: Percentage share of annual turnover by ownership structure and location

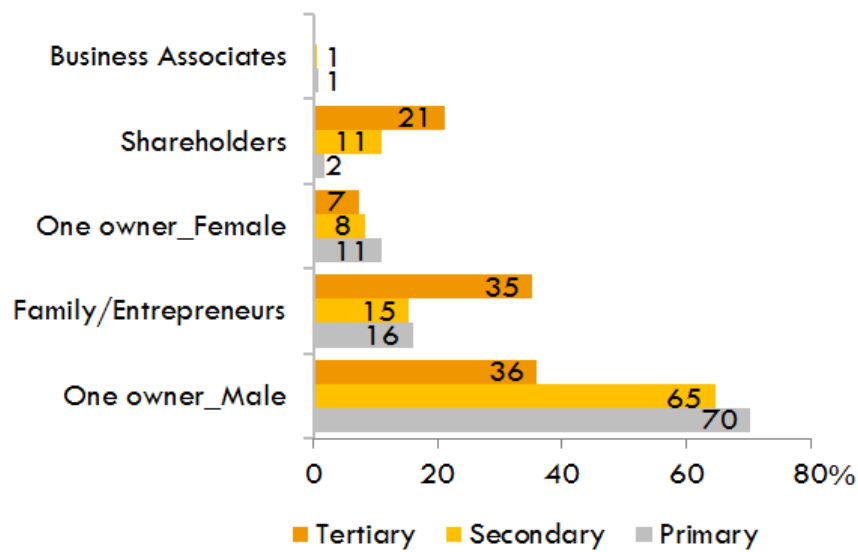


By location, the results indicated that the largest percentage of annual turnover in all categories is in businesses with male ownership (Chart 21). Male-owned businesses generated 52 percent of the annual business turnover in the rural areas, followed by business associates (31%), female entrepreneurs (14%) and shareholders (3%). In the urban areas, 49 percent of the annual turnover is generated by business associates, male owner (38%), family-owned businesses (12%) and shareholders (1%).

Business owners with a tertiary education tend to generate higher business turnover. The findings showed that 45 percent of annual business turnover was generated by owners who had completed a tertiary level of education, followed by 40 percent by owners who completed secondary education, and 15 percent by operators who completed primary education.

Analysis by forms of ownership and education level, showed that out of the total annual turnover generated by businesses with owners who completed primary education, a significant proportion (90 percent) was earned by male owned businesses, followed by family-owned businesses (16%), female owners and shareholders 11 percent each, and business associates (1%). Similarly for businesses with owners who completed secondary education, male owned businesses contributed a large proportion (65 percent) of the annual turnover, followed by family-owned businesses (15%), shareholders (11%) and female owned businesses (8%) business associates (1%). For businesses with owners who completed tertiary education, male owners contributed the most (36%) to the annual turnover, followed by family (36%), shareholders (21%) and female owned businesses (8%) (Chart 22).

Chart 22: Percentage share of annual turnover by ownership structure and education level

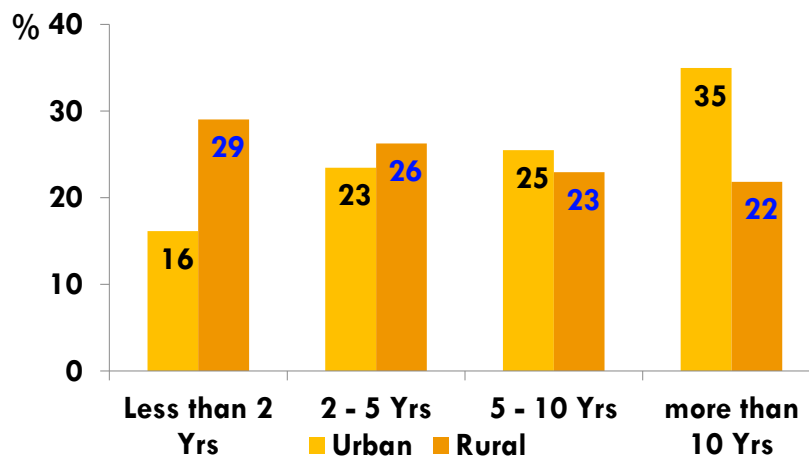


1.7 MSME by type of start-up

Businesses indicated the number of years they have been operating. The period covered ranges from less than two years, reflecting a more recent business start-up, to more than 10 years, reflecting well-established businesses.

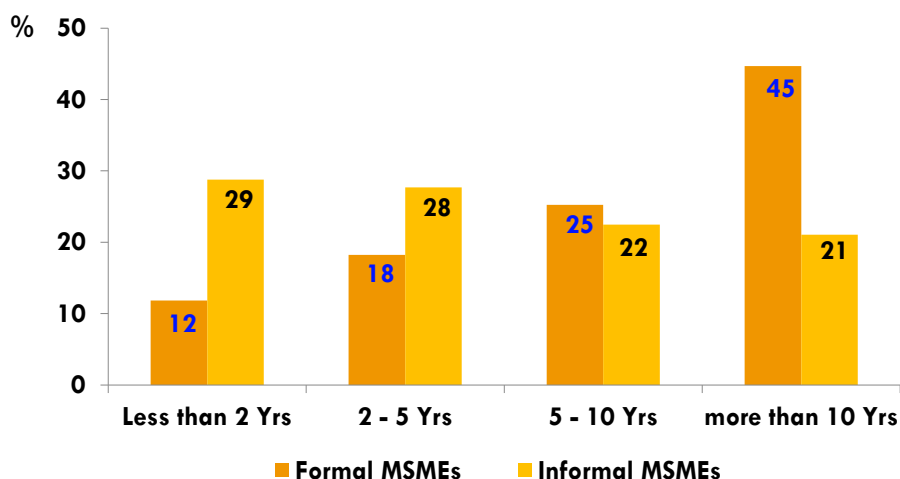
Businesses in the urban centers tended to be more well-established than those in the rural areas. According to the survey, 35 percent of businesses in the urban areas were registered more than 10 years ago. In the rural areas, the highest proportion of businesses (29%), were registered only less than 2 years ago (Chart 23).

Chart 23: Percentage share of business registration (years) by location



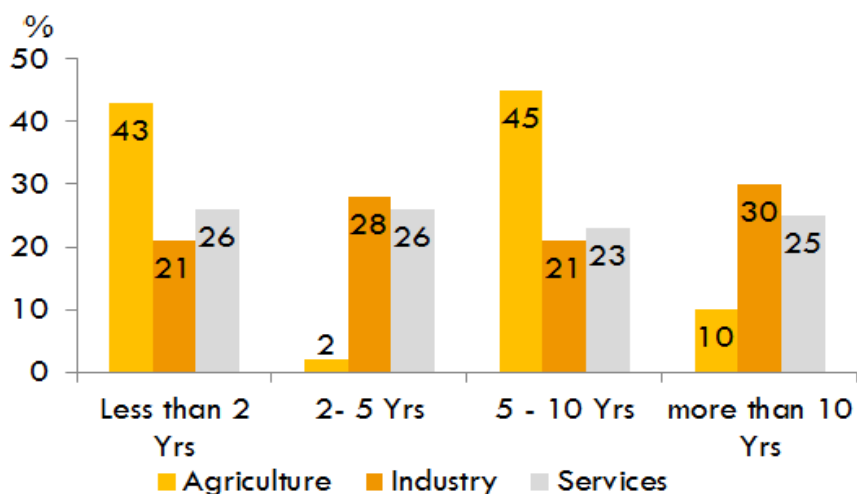
The majority of the informal MSMEs were established in more recent periods than formal MSMEs. The survey indicated that 45 percent of formal MSMEs were registered over 10 years ago while, 29 percent of informal businesses were registered between 2 – 5 years ago (Chart 24).

Chart 24: Percentage share of business registration (years) by business size



A higher proportion of businesses in the industry sector, which includes those in manufacturing, were registered over 10 years ago, relative to agri-businesses. A higher portion of the businesses that were registered over 10 years ago are from the industry sector (30%), and the portion of business start-ups in the services sector are well-distributed across all periods. However for agri-businesses, the highest percentages, 45 percent and 43 percent, were businesses registered between 5 - 10 years and less than two years respectively, as shown in Chart 25. The high proportion of agri-businesses which were set up in the period of less than two years partly reflected the government recovery measures to assist farmers by supplying livestock, poultry and root crops to revitalize their business after Cyclone Pam.

Chart 25: Percentage share of business registration (years) by economic sectors



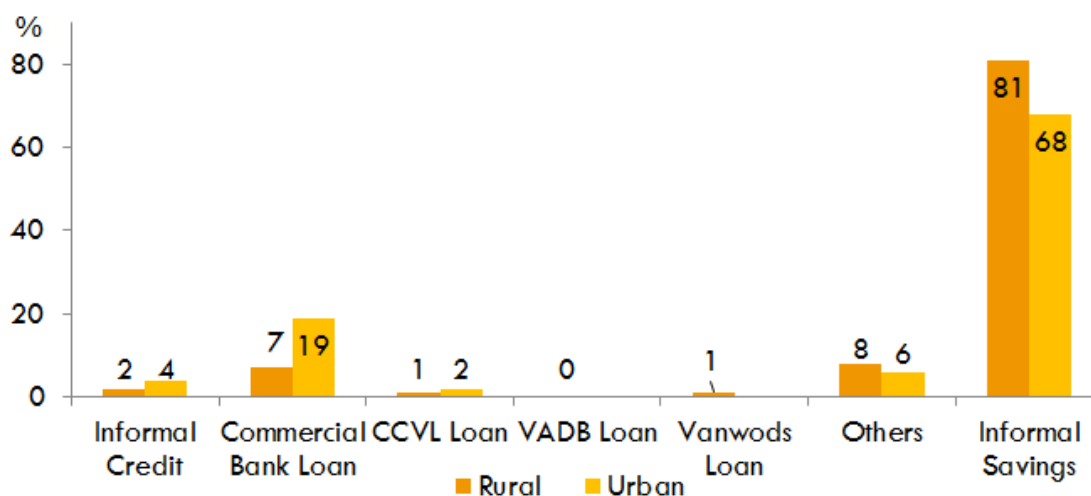
1.8 Start-up financing

Under this section, businesses revealed the sources of financing for business start-ups. Financing sources are categorized into formal and informal financing. Formal financing institutions include loan from a

commercial bank⁶, Vanuatu Agriculture Development Bank (VADB), Credit Corporation Vanuatu limited (CCVL) and other financial institutions such as Vanwods and Apma Financial Investment Centre (AFIC). Informal financing sources refer to informal savings (savings at home) and informal credit such as borrowed money from a friend or relative, or a money lender. Other sources include those not classified elsewhere; the survey results did not specify the sources.

1.8 (a) A high percentage of businesses accessed informal financing sources for business-start-ups. The survey indicated that in the urban centers, 68 percent of businesses used informal savings for businesses start-ups, followed by 19 percent which indicated access to commercial bank loans. In the rural areas by contrast, 81 percent used informal savings, while only 7 percent of businesses used commercial bank loans as a source of business start-up (Chart 26).

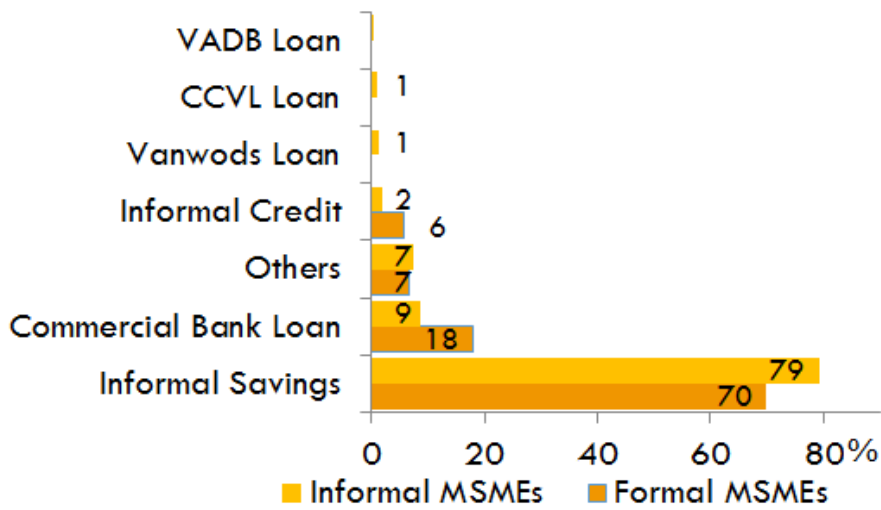
Chart 26: Percentage of business start-up financing by location



The second highest source of financing for business start-ups is from commercial banks. If the analysis is characterized according to business size, the most prevalent source of financing for both informal and formal MSMEs is from informal savings. Seventy-nine (79) percent of informal MSMEs and 70 percent of formal MSMEs access informal financing. However, in considering the contribution of formal financial institutions, a higher percentage of formal MSMEs (18%) accessed loans from commercial banks, compared to 9 percent by informal MSMEs. Furthermore, 1 percent of informal MSMEs also accessed loans from Vanwods and CCVL, respectively (Chart 27).

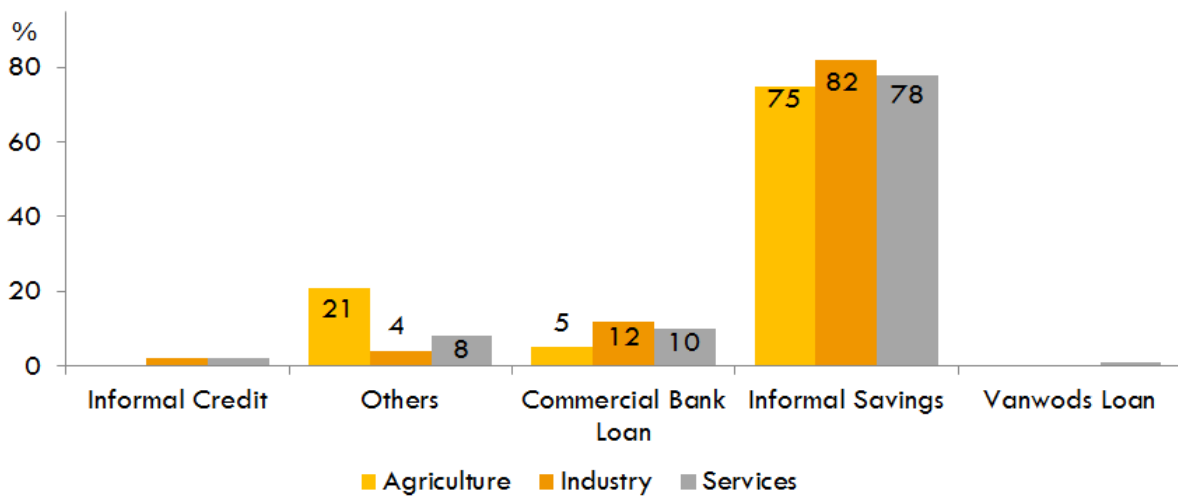
⁶ These include: ANZ, NBV, BRED and BSP

Chart 27: Percentage share of business start-up financing by business size



A larger percentage of businesses in the industry sector accessed more financing from formal financial institutions than those in the services and agriculture sectors. As seen in previous analysis, informal savings is a dominant source of financing if businesses are classified by economic sectors. As regards to formal financing sources, 12 percent of businesses in the industry sector accessed commercial banks for start-up financing followed by 10 percent and 5 percent for business within the services and agriculture sectors, respectively. Access to other formal and informal sources of financing for business start-up is comparatively trivial (Chart 28).

Chart 28: Percentage share of business start-up financing by economic sectors



2. Type and situation of the business

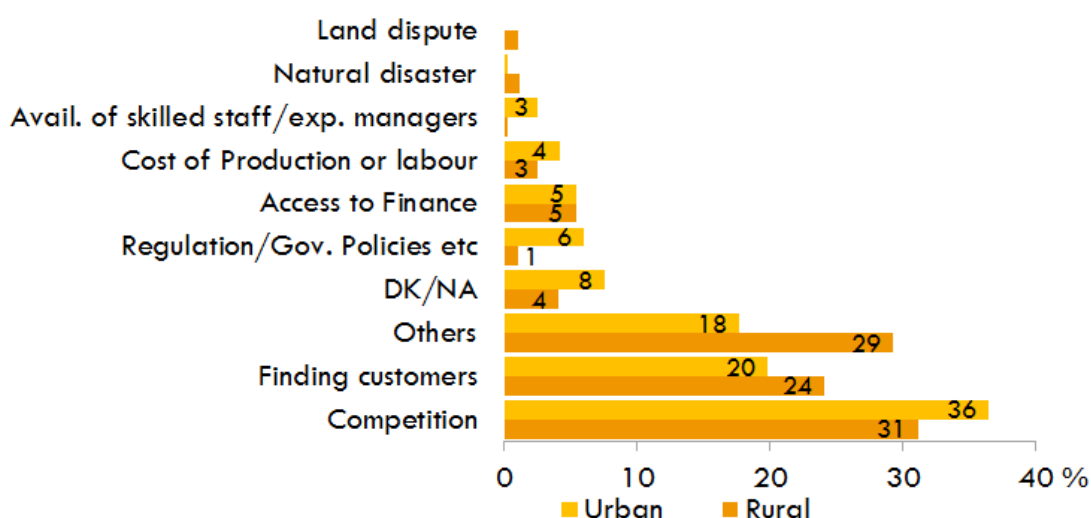
2.1. Most pressing problems faced by businesses

Businesses identified the current most pressing problem faced by businesses. These relate to finding customers, competition, access to finance, cost of production or labor, availability of skilled staff or experienced managers, regulations/Government policies, natural disasters, land disputes and others. The survey results do not specify problems other than these.

Competition and finding customers are the most pressing problems for businesses in Vanuatu.

As noted in the foregoing, a high percentage of businesses in the rural areas comprised of informal MSMEs. The findings showed that 31 percent of those businesses indicated competition to be the major pressing problem of businesses, followed by 24 percent identifying finding customers as a major problem. Similarly, in urban areas, 36 percent and 20 percent of businesses identified competition and finding customers, to be the most pressing problems faced by businesses, respectively (Chart 29).

Chart 29: Percentage share of pressing problems according to location



Twenty-nine (29) percent of respondents in the rural areas reported “other problems” as the third largest problem faced by business, while 18 percent reported the same in the urban centers.

Access to finance⁷ was identified as a pressing problem by 5 percent of businesses in both rural and urban areas. Other problems associated with regulation and government policies, finding skilled staff and cost of production are more widespread amongst businesses in the urban centers relative to rural businesses (Chart 29).

Competition tended to be a higher pressing problem in the services sector (34 percent), while finding customers was the major pressing problem for businesses in the industry sector (22 percent) and agriculture sector (34 percent), respectively.

⁷ Informal MSMEs are survivalist by nature and access to finance may not be the most current pressing problem.

2.2. Application of technology among MSMEs

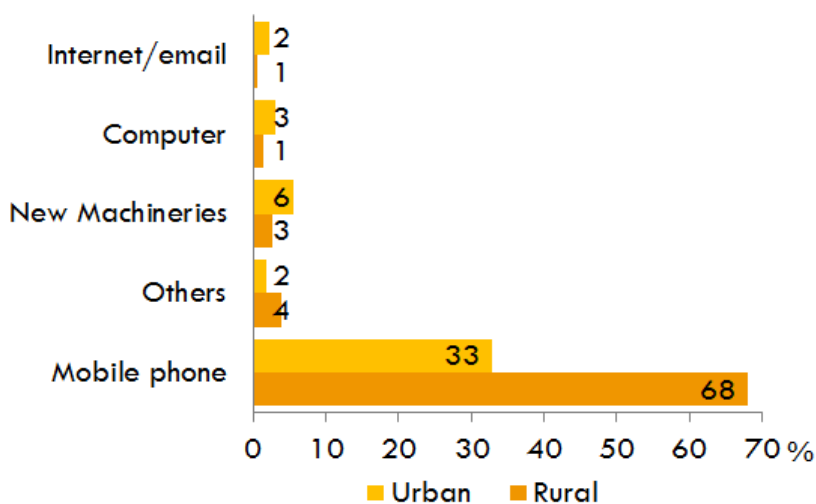
The role of technology and innovation in business is critical because it helps businesses expand in a more rapid and efficient manner. In the survey, respondents were asked whether they had introduced technology in forms such as a computer, internet/email, mobile phone, new machinery⁸ and other forms of technology⁹ over the past 12 months.

Usage of mobile phones is widespread amongst businesses in Vanuatu.

The most common form of technology introduced by businesses over the past year is mobile phones. Sixty (60) percent of total respondents reported having introduced or having access to a mobile phone. Less than 5 percent of the total respondents reported introducing other technologies, such as computers (1 percent), internet/email (1percent), and new machinery and other forms of technology (3 percent each). The results are in line with the findings from the 2009 Population and Housing Census indicating that “internet and use of computers are not widespread, (and) almost every household has at least one mobile phone” (Vanuatu National Statistics Office, 2011).

These findings imply that the use of mobile phones is prevalent among businesses in Vanuatu given that it is one of the least costly among business-related technologies. The increasing use of mobile phones is indicative of the need to design and enhance financial services through mobile platforms. The telecommunication network is relatively accessible in all provinces which allows businesses to access internet instantly, and be able to place orders or market products. Regular promotion and product upgrades by telecommunication companies have also enabled businesses to regularly upgrade mobile phones and applications. Respondents also revealed that businesses continuously upgrade mobile phone technology every two to three years.

Chart 30: Percentage share of technology by location



The use of mobile phones is widespread, across allocations, business sizes and economic sectors. More than 68 percent of businesses in the rural areas have introduced mobile phones, with 33 percent in the urban centers (Chart 30). Businesses also introduced a combination of technology over the last twelve-

⁸ New machinery identified by respondents included: steel and iron roofing, compactors, compressors, vehicles, water pumps, new frames for sawmills, etc.

⁹ Other forms of technology identified included: new accounting systems, security surveillance systems, tablets, laptop, cash registers etc.

month period. The findings revealed that 47 percent of businesses in the urban areas introduced a combination of technology (computers, internet/email, and mobile phones) relative 10 percent in the rural areas. Less than 10 percent of businesses introduced new machineries, computer and internet/email respectively, in both rural and urban areas. Seventeen (17) percent of businesses in the rural areas introduced other forms of technology than urban areas.

By business size, 68 percent of businesses which introduced mobile phones are informal MSMEs, while 48 percent are formal MSMEs. Mobile phones have been widely introduced by businesses in the services sector, while the application of computers, new machinery and other forms of technology are more prevalent with businesses in the agriculture and industry sectors, respectively.

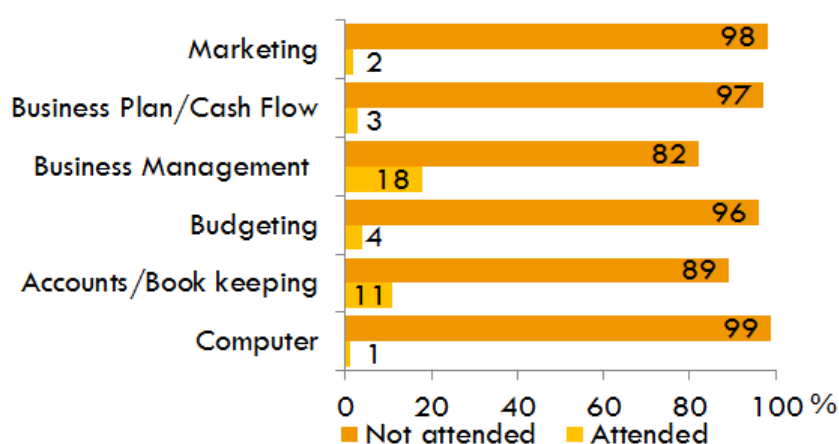
2.3 Training

Various business training providers are available in Vanuatu through the Vanuatu Government, in partnership with donors and non-government organizations, as well as other training provider platforms. These include the Vanuatu Chamber of Commerce and Industry (VCCI), Office of the Registrar of Cooperatives and Business Development Services (ORCBDS), Technical and Vocational Education and Training (TVET), Vanuatu Rural Development and Training Centers Association (VRDTCA) and Australian Pacific Technical College (APTC).

Businesses were asked if they are aware of, and had attended training provided by these training providers, and the types of training they had participated in.

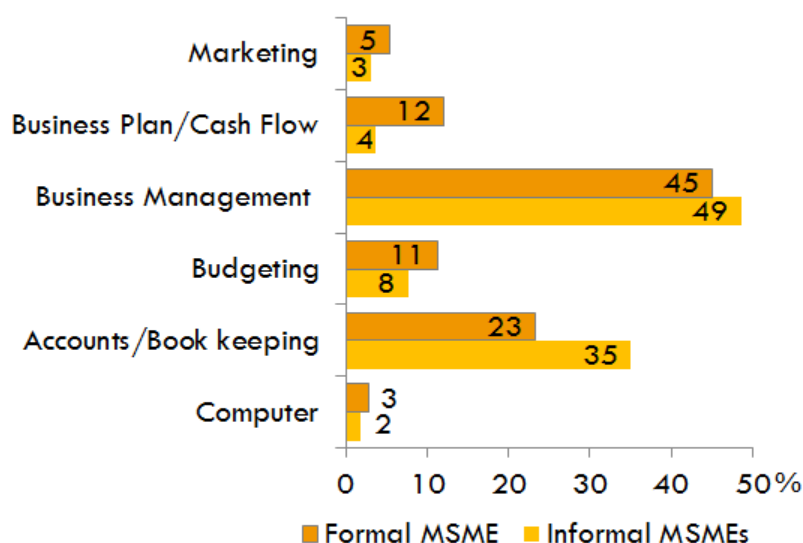
Business training remains a major concern among businesses in Vanuatu. Although substantial work has been undertaken by various training providers, the survey results indicated that a majority of businesses still lack training in business-related courses. Chart 31 shows that a substantial proportion of respondents have not attended computer training (99%), marketing courses (98%), business planning (97%), budgeting (96%), accounts/bookkeeping (89%) and business management courses (82%).

Chart 31: Percentage share of training attended by business



Businesses still lack computing and marketing training. Although the results indicated that training in business management is dominant in both urban and rural areas, the majority of informal and formal MSMEs cited the need for training in computing and marketing (Chart 32). The results indicated that computer training is mostly attended by businesses in the services industry while businesses in the agriculture and industry sectors reported 0% attendance, indicating the need for more tailored trainings across different business sectors in Vanuatu.

Chart 32: Percentage share of training attendance by business size



The reasons for non-attendance of training may partly be related to education level. The survey found that a high proportion of business owners who completed primary (59%) and secondary schools (49%), indicated “not knowing where or how to obtain training” as the main reason for non-attendance, while the majority of owners who completed tertiary education (41%) stated that training was “not relevant to their business.” (Table 2)

Table 2: Reason for not attending training, by education level

Reason	Primary (n = 1,124)	Secondary (n = 1,003)	Tertiary (n = 319)
I do not need it	17%	21%	27%
Financial constraint	7%	5%	5%
I don't know where or how to get it	59%	49%	27%
Not relevant to business	17%	25%	41%

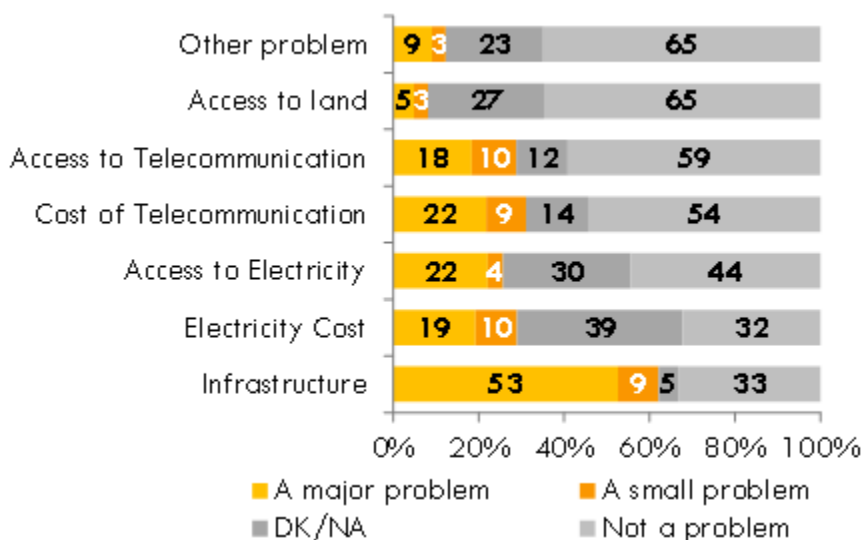
2.4 Ranking of key problems of MSMEs

Respondents were asked how much of a problem each of these factors detrimental to their businesses is; infrastructure and utilities, relationship with government, workforce issues, market access/competition issues and other business production cost issues.

2.4a Infrastructure and Utilities

This section discusses the findings on problems associated with infrastructure and utility and encompasses lack of proper infrastructure (roads, ports, etc.), electricity costs, access to electricity, telecommunication/internet costs, access to telecommunication/internet, and secure access to land.

Chart 33: Ranking of infrastructure and utility problems (percent)



Lack of adequate infrastructure was cited as a leading problem for businesses in Vanuatu. Of the total number of business respondents, 53 percent indicated the lack of proper infrastructure (roads, ports, etc.) as a major problem affecting businesses, 22 percent reported both access to electricity and cost of telecommunications, and 19 percent cited electricity costs as a major problem. Eighteen (18) percent indicated access to telecommunications as a major problem and 5 percent identified access to land as the main problem (Chart 33). Lack of proper infrastructure was identified as the leading problem in both rural and urban businesses. Fifty-six (56) percent of business owners in the rural areas stated lack of proper infrastructure as the major problem, compared to 41 percent of respondents in the urban centers.

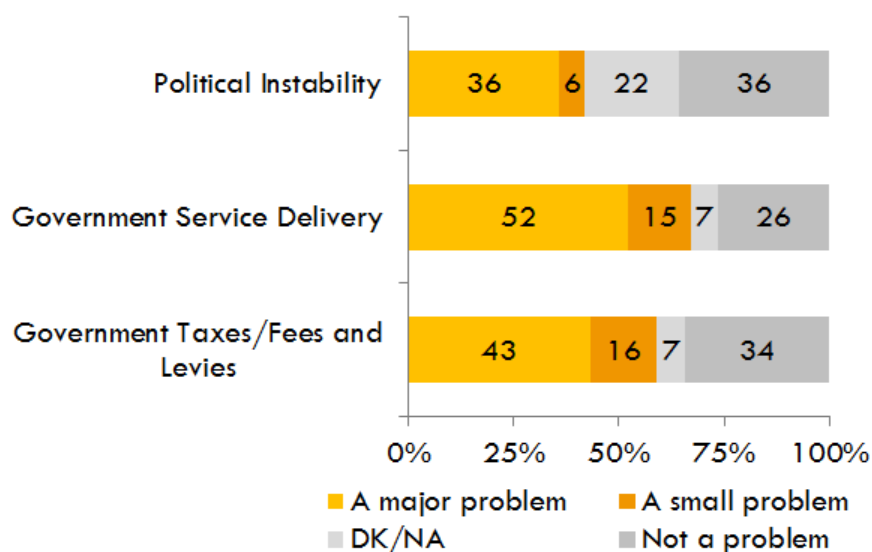
One of the main business impediments among the informal and formal MSMEs relate to access to electricity and high electricity costs. By business size, 72 percent of the informal business owners indicated access to electricity as the main problem faced by businesses, while 64 percent of formal MSMEs noted electricity costs as the main problem.

2.4b Relationship with government

This section discusses the findings about business views on government taxes, service delivery and stability as a problem for businesses.

Inefficient Government service delivery is viewed as a major problem for businesses. Fifty-two (52) percent of MSME businesses indicated that they view government services delivery as a major problem. Forty-three (43) percent viewed high or inconsistent Government taxes and fees as a major problem, irrespective of the type of business (Chart 34). Although 36 percent of the business respondents viewed political instability as a major problem, another 36 percent say this only happens during a change or reshuffle in the government. Fifty-four (54) percent of business owners in the rural areas and 63 percent of informal MSMEs also cited inefficient Government service delivery as affecting their businesses.

Chart 34: Ranking of issues faced with government (Percent)



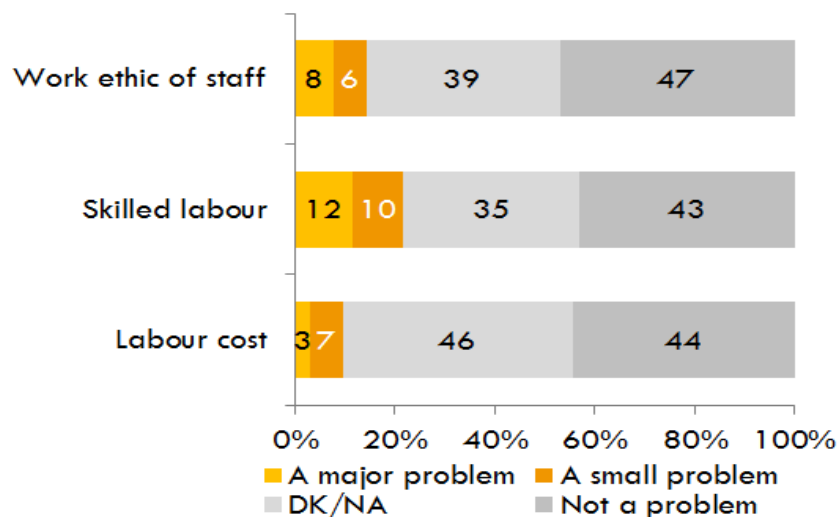
Government taxes and fees and political instability are viewed as the main problem for formal MSMEs in the urban centers. According to the survey, 51 percent of urban businesses reported government taxes and fees as the main problem faced by businesses. Furthermore, 46 percent of formal MSMEs viewed political instability as a main problem of businesses.

2.4c Workforce issues

This section relates to findings about business views on workforce issues, including labour costs, the level of labour skill and efficiency, and the work ethic of staff.

Workforce issues are of less concern to businesses in Vanuatu. Almost half of the businesses find no major issues with the workforce (Chart 35). Nonetheless, 12 percent of businesses indicated finding skilled labour a major problem. Only 8 percent and 3 percent of business respondents viewed the issue of staff work ethic and labour cost as major problems, respectively. A large proportion (53 percent) of informal MSMEs indicated staff work ethic as a major problem while formal MSMEs (90 percent) considered labour cost to be a major problem for businesses.

Chart 35: Ranking of problems in the workforce (percent)



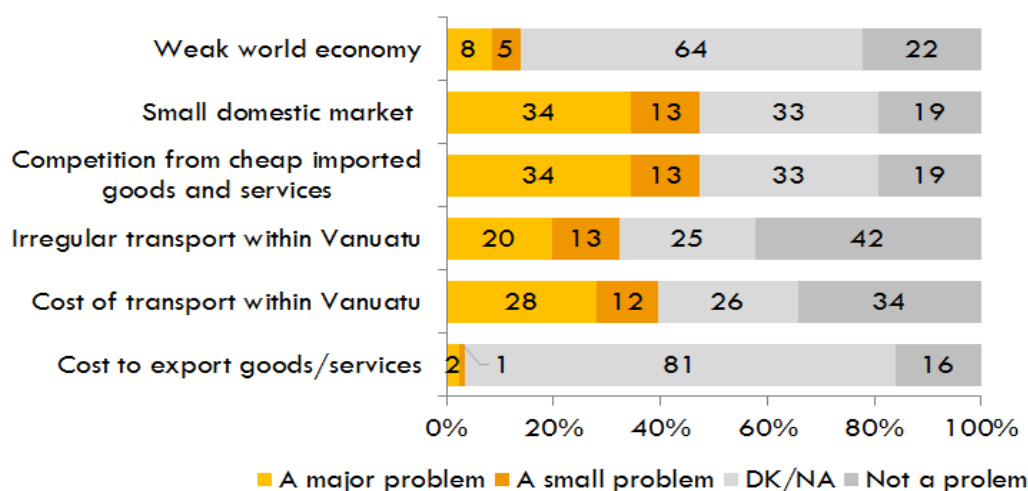
2.4d Market access/competition issues

This section relates to findings about business views on market access/competition issues. The issues under this category include costs associated with export goods/services, transportation costs within Vanuatu, transport within Vanuatu, competition from cheap imported goods/services, small domestic markets, costs associated with export of goods/services and the world economy.

Competition from cheap imported goods/services and small market size are the main problems identified under market access and competition issues. The survey found that 34 percent of businesses faced challenges with competition from both cheap goods and services and the small sized market economy (Chart 36). Of the businesses indicating competition from cheaper goods and services as their main problem, 28 percent were urban-based and 15 percent in rural areas. The issue of small market size as a problem was cited by 35 percent of businesses in the urban centers and 34 percent in the rural areas.

The cost of transportation was cited by 28 percent of business operators as a major problem followed by irregular transport (20 percent). Eight (8) percent and 2 percent of business operators identified a weak world economy and costs to export goods/services as the main problems, respectively.

Chart 36: Ranking of problems on market access and competition (percent)



Irregular transport and cost of transportation were viewed as major hindrances for informal and formal MSMEs, respectively. By business size, 66 percent of informal MSMEs identified irregular transport as the main problem, while 59 percent of respondents in the formal MSME sector cited costs of transport within Vanuatu as a major problem.

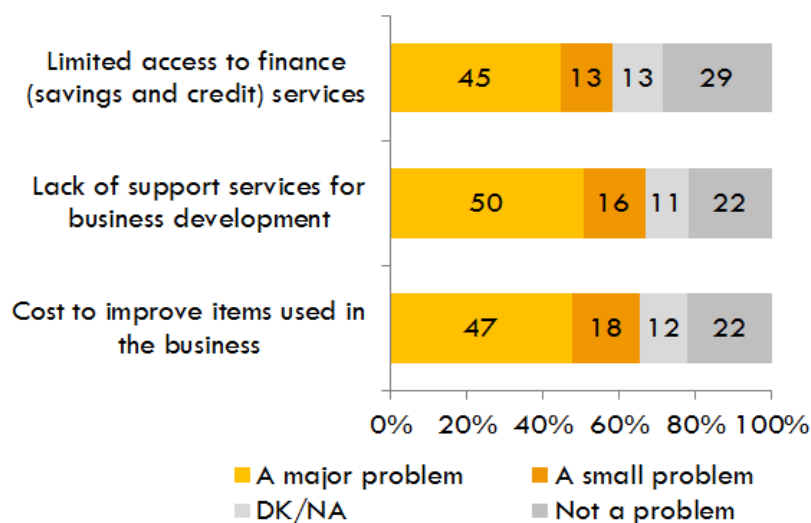
2.4e: Other business production cost issues

The survey identified several key problems associated with other business production cost issues including; high costs to improve items used in business, lack of support services for business development and limited access to finance (savings and credit) services.

Lack of support services for business development is highlighted as the main obstacle affecting businesses under the category of “other businesses production cost issues.” The survey found that 50 percent of businesses in Vanuatu lack support services for business development while 47 percent

argued that the cost to improve their businesses is a major problem and 45 percent viewed limited access to financial services as a major problem (Chart 37).

Chart 37: Ranking of other business production cost problems (percent)



Urban businesses viewed limited access to finance as a major problem. While lack of business support is identified as a main problem for 53 percent of businesses in the rural areas, a high proportion of businesses (46%) in the urban areas indicated the main problem is related to limited access to business finance.

Formal MSMEs identified costs to improve business as the main problem. The survey findings indicated that formal MSMEs viewed costs to improve items used in business as the main problem faced by businesses, compared to a higher percentage of business operators in the informal MSMEs which indicated lack of support services for business development as the main problem.

3. Business Financing

3.1 Access to business finance

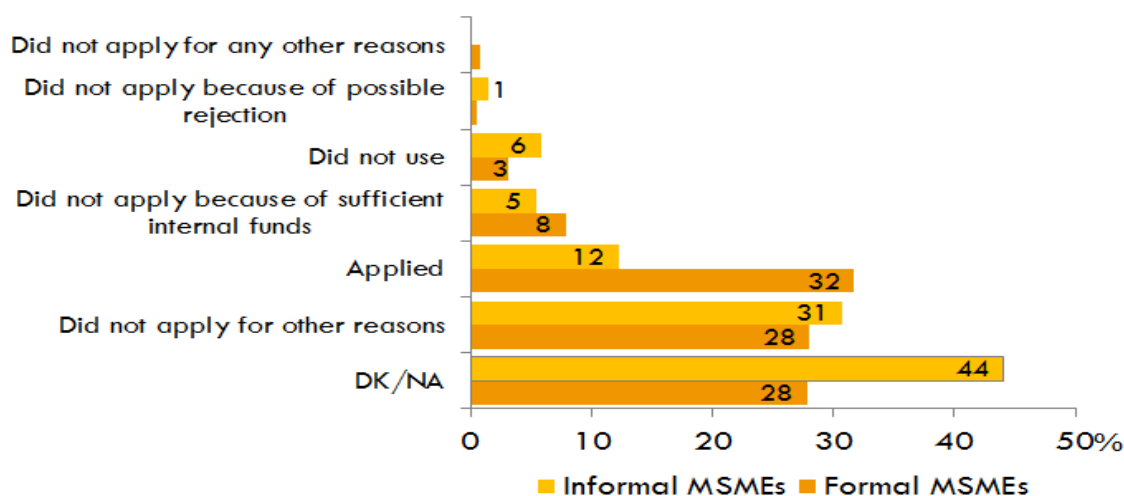
Businesses were asked if they had applied for business financing over the past 12 months, and if not, to state the reasons why.

3.1a Access to finance through commercial banks

Access to finance from commercial banks is a problem for businesses in Vanuatu. The survey found that only 15 percent of businesses (informal and formal MSMEs) in Vanuatu applied for finance through commercial banks over the past 12 months, while a higher proportion of 31 percent did not apply for other reasons. Forty-two (42) percent indicated that accessing finance is not applicable, 6 percent of businesses indicated did they not apply because of sufficient internal funds, 1 percent did not apply because of possible rejection and 5 percent did not use a commercial bank.

A large proportion of formal MSMEs tend to access finance from commercial banks, while informal MSMEs tend to use other financial institutions. The survey found that 32 percent of formal MSMEs applied for a commercial bank business-related loan over the past 12 months (Chart 38). However, 28 percent indicated not applying for other reasons, or, that it was not applicable for the business, respectively. Eight (8) percent did not apply because of sufficient funds, 3 percent did not use commercial banks and 1 percent did not apply because of possible rejection.

Chart 38: Access to a commercial bank loan



Access to finance is relatively more limited for the informal MSMEs, with 12 percent of businesses indicated having applied for a loan over the last 12 months. A high proportion of 44 percent indicated “don’t know/not applicable”, 31 percent did not apply for other reasons, 6 percent did not use commercial banks, 5 percent have sufficient funds and did not apply for a loan and 1 percent did not apply because of possible rejection.

The survey also found that 21 percent of businesses in the agriculture sector have applied for finance through the commercial banks over the past 12 months, compared to 15 percent and 14 percent in the services and industry sectors, respectively.

3.1b. Access to finance through other financial institutions

Businesses also revealed limited access to finance from other financial institutions. Only 1 percent of the formal and informal MSMEs have applied for finance at Credit Corporation Vanuatu Limited (CCVL) over the past 12 months, respectively, while 25 percent did not apply for other reasons and 66 percent did not know of a finance facility at CCVL. Only rural businesses have applied over the last 12 months.

Less than 1 percent of businesses have applied for finance through the Vanuatu Agriculture Development Bank (VADB) over the last 12 months, compared to 68 percent which did not know where and how to access finance through VADB. A high proportion of the applicants are urban businesses with regular income.

With regards to Vanwods, the survey findings indicated that 3 percent of the informal MSMEs have applied for finance at Vanwods compared to 1 percent of formal MSMEs over the past 12 months. Three (3) percent of the applicants were in the rural and 2 percent in the urban areas. However, over 60 percent of businesses did not know how to access this finance. The survey showed that those who applied for finance through Vanwods are largely from the industry (4 percent) and the services (2 percent) sectors, respectively.

The survey found that 3 percent of the informal MSMEs have applied for finance at Apma Financial Investment Center Cooperative (AFIC) compared to only 1 percent of formal MSMEs over the past 12 months. These are largely businesses from the rural areas mainly engaged in the agriculture sector. Over 28 percent did not apply for finance at AFIC for other reasons and over 63 percent did not specify a particular reason for not applying.

Only 1 percent of formal MSMEs applied for finance through the Survival Indigenous Microfinance Scheme (SIM) compared to less than 1 percent of the informal MSMEs over the past 12 months. The majority of these were from the urban centers and from the services sector. Of the total respondents, 22 percent did not apply for other reasons while 73 percent did not provide any reason of accessing finance through SIM.

Only 1 percent of businesses applied for finance through credit unions over the past 12 months while over 23 percent did not apply for other reasons and over 60 percent did not provide any response. Those which applied were mostly from the rural areas (1 percent) and businesses in the services sector.

The findings indicated that only 1 percent of businesses applied for finance through Melanesian Savings and Loan Society (MSLS) over the past 12 months. These businesses were concentrated in the urban areas (1 percent) and mainly in the services sector. Of the total respondents, 23 percent did not apply for other reasons while 72 percent did not provide any response.

The survey revealed that only 1 percent of the informal MSMEs in the rural area have applied to access finance through other cooperative organizations over the past 12 months. These businesses are largely from the services sector. Nonetheless, 25 percent of businesses did not apply for other reasons while 69 percent did not provide any response.

3.2 Usage of financial products and services

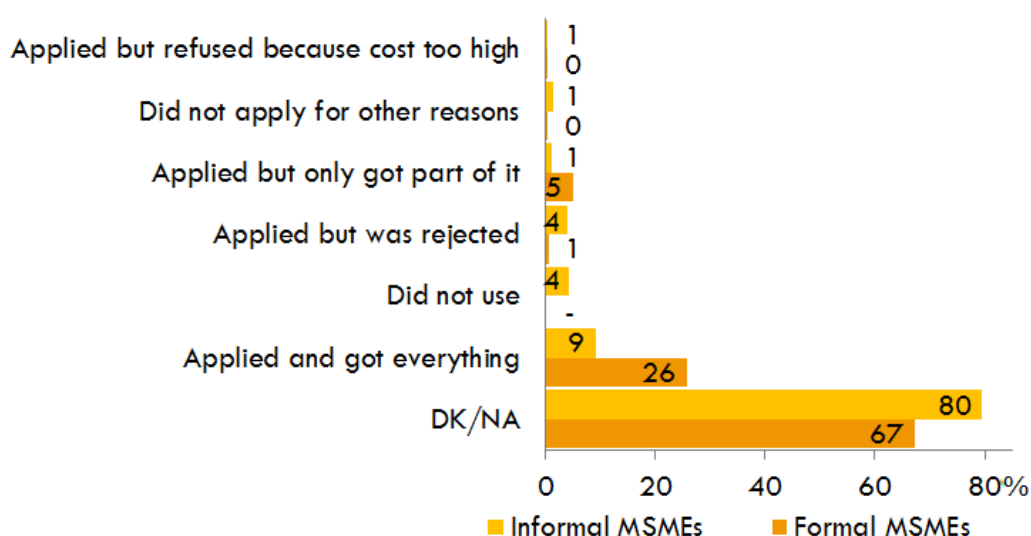
Businesses were asked if they had applied for business financing over the past 12 months, and if they had received all the financing they requested, only received part of the financing they requested,

applied but was rejected, applied but refused because cost was considered too high, did not apply for other reasons and did not use, or the financing was not applicable to their business.

3.2a Use of commercial bank loans

Usage of commercial bank loans by MSMEs is relatively limited to the formal sector. The survey found that 26 percent of formal MSMEs had applied for a loan from a commercial bank over the past 12 months and got everything, 1 percent of businesses applied but were rejected, and 5 percent applied and got part of it and another 1 percent did not apply for other reasons. However, 67 percent of formal business did not apply for loans from a commercial bank over the past 12 months. A similar trend was seen for informal MSMEs, where only 9 percent applied for a loan and received everything, while 80 percent did not apply (Chart 39).

Chart 39: Use of commercial bank loan (percent)



If the respondents are segregated by location, 23 percent of businesses in the urban centers applied and got everything over the past 12 months, 3 percent got part of it and 8 percent were rejected. Similarly, in the rural areas, 20 percent of businesses applied and got everything, 1 percent got part of it, 1 percent was refused because of perceived high cost, 2 percent were rejected and 1 percent did not apply for other reasons.

By type of economic sector, a high portion of MSMEs in the industry sector (23%) applied over the past 12 months and got everything, followed by those in the services sector (20%) and agri-business sector (9%). Eight percent (8%) of businesses in the agri-business sector applied but refused because of perceived high cost while 4 percent of business in the services sector applied but were rejected.

3.2b Limited use of loans from other financial institutions by businesses.

Thirteen (13) percent of informal MSMEs applied for loans from other financial institutions over the past 12 months and got everything, even though 85 percent did not use the facility, or responded as “not applicable”. By contrast, 8 percent of formal MSMEs applied for loans from the other financial institutions and got everything, while 2 percent did not apply for other reasons.

By location and type of economic sector, a number of rural businesses (12%) applied for loans from other financial institutions over the past 12 months compared to 7 percent of businesses in the urban areas. The businesses are mainly from the industry sector (15%), followed by services sector (11%) and agriculture sector (3%).

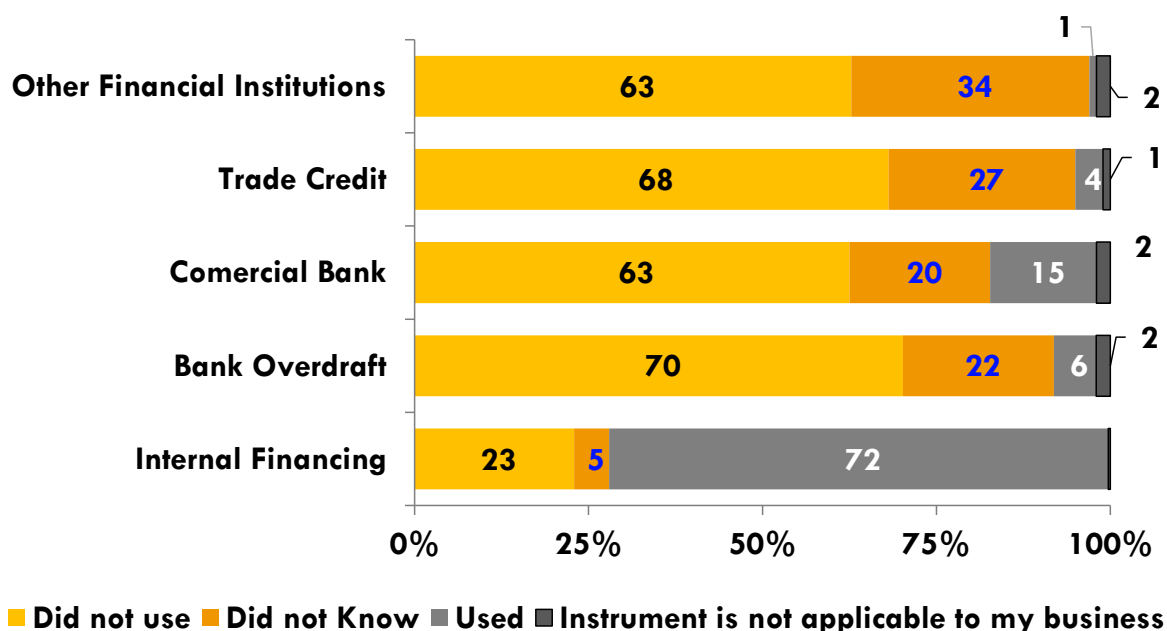
3.3 Business financing

This section relates to the financing structure of businesses such as internal funds and the different types of external business financing such as overdrafts, loans and trade credits, available from commercial banks and other financial institutions.

3.3a The main source of business financing for businesses in Vanuatu is internal funds.

Chart 40 shows that over 72 percent of businesses used internal funds for business operations over the past 12 months compared to 15 percent which used commercial bank loans and 6 percent bank overdrafts.

Chart 40: Use of financial facilities (Percent)



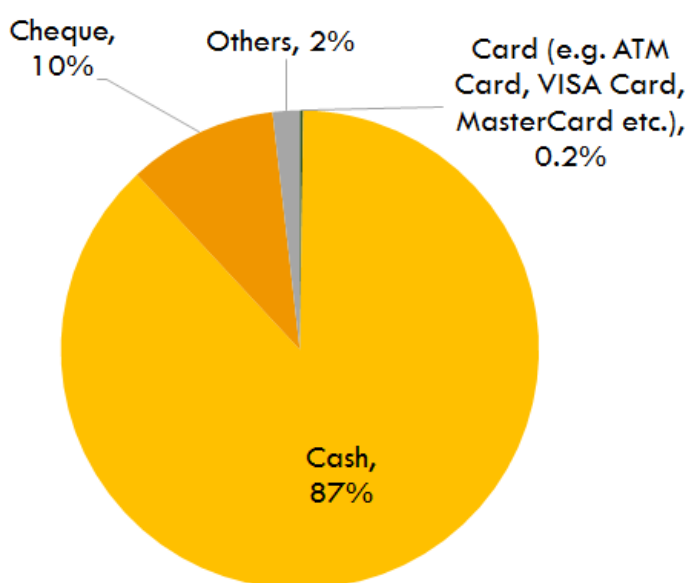
4. Payment system and banking products/services used by MSMEs

Under this section respondents were asked about the method of payments used by business, the use of internet banking and the type of banking products/services needed by businesses.

4.1 Cash is the main means of payment used by businesses in Vanuatu

Most MSME businesses in Vanuatu are cash-based. Eighty-seven (87) percent of total businesses surveyed used cash for transactions, 10 percent used cheques, 2 percent used other modes of payment¹⁰, and only 0.2 percent used electronic mode of payments such as ATM card, Visa card and Master Card (Chart 41).

Chart 41: Payments system of businesses



The use of cash is more prevalent than other forms of payments. Ninety-five (95) percent of businesses in the rural areas make payments using cash, compared to 60 percent in urban centers. Businesses in the urban centers reported a higher percentage use of cheques and other mode of payments. By business size and industry level, 95 percent and 76 percent of informal and formal MSMEs used cash, respectively. By economic sector, 88 percent of businesses in the services sector indicated using cash, compared to 84 percent in both the agriculture and industry sectors.

4.2 Internet banking is not widely spread amongst businesses due to lack of understanding.

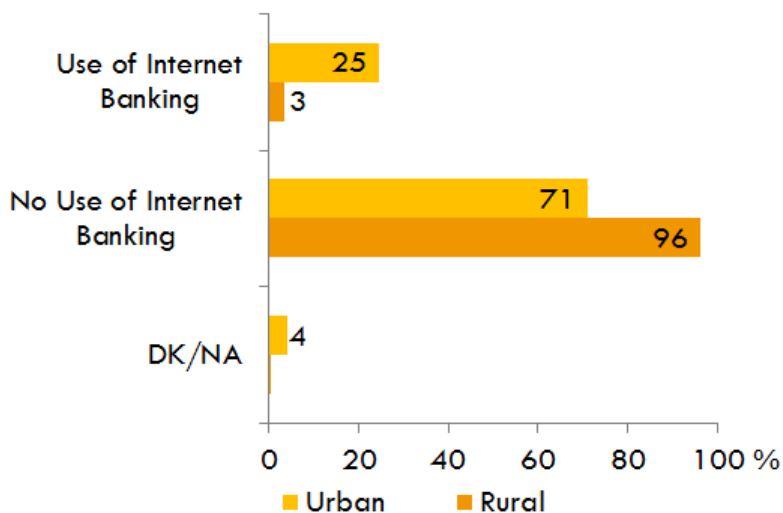
Although internet access on mobile phones is widespread, internet banking is not. Only 8 percent of the total businesses interviewed used internet banking, while 92 percent reported they have not used internet banking.

The findings also revealed that internet banking is less common in both rural and urban areas. Twenty-five (25) percent (one out of four) of urban businesses that responded used internet banking, while

¹⁰ Other modes of payment in this survey include bank telegraphic transfers and direct debits from bank accounts

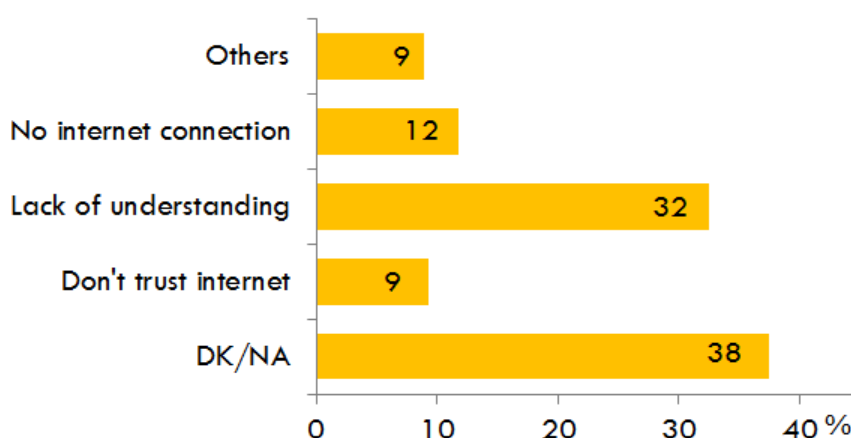
more than 71 percent did not. In the rural areas, 96 percent of businesses did not use internet banking, compared to around 3 percent that did. The picture remained the same even if businesses were classified by size of business and by economic sector. Ninety-six (96) percent and 81 percent of informal and formal MSMEs are not using internet banking, respectively. If the data is disaggregated by sector more than 80 percent of businesses in all sectors are not using internet banking.

Chart 42: Percentage share of business using internet banking by location



Even though a high proportion of businesses indicated internet banking was not applicable to their business, lack of understanding of the product is cited as the main reason for not using internet banking. According to the survey, 38 percent of respondents indicated that internet banking is not applicable to their business, 32 percent indicated a lack of understanding, 12 percent do not have internet connections, 9 percent indicated a lack of trust in the internet and 9 percent stated other reasons (Chart 43).

Chart 43: Reasons for the low usage of internet banking services (percent)



4.3 Businesses in Vanuatu are in need of loans and savings.

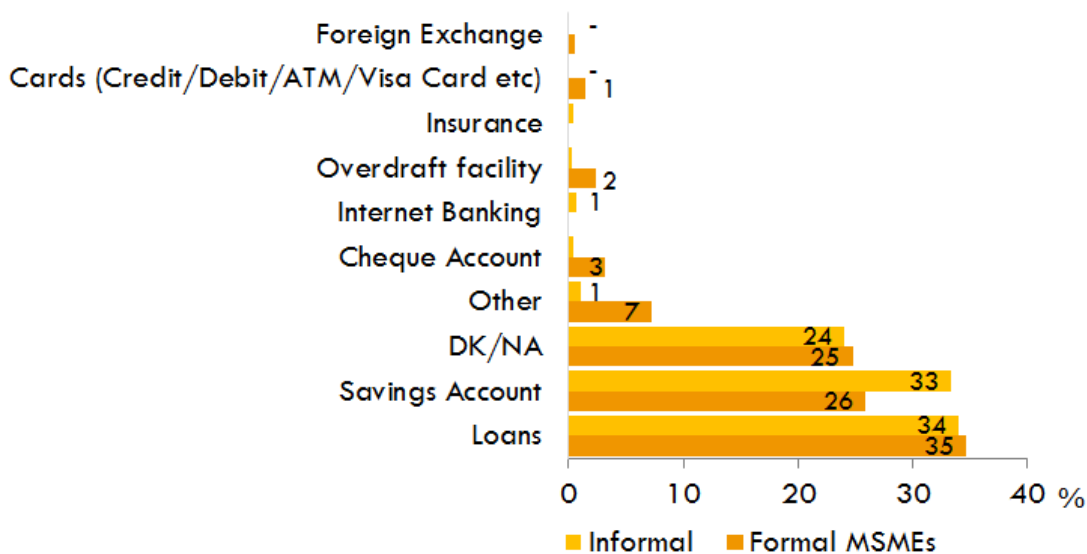
The survey found that 34 percent of businesses are in need of loans, followed by 33 percent of businesses indicating a need for a savings account, while 24 percent of respondents considered it was not applicable to the business. Businesses' need for other bank products such as cards

(ATM/credit/debit/Visa/MasterCard), cheque accounts, foreign exchange, insurance, internet banking, and overdraft facilities are insignificant.

Businesses in rural areas are in need of savings, while those in urban centers are in need of loans.

Forty-three (43) percent of businesses in the urban centers indicated a need for loans, while 16 percent were in need of savings. Conversely, in the rural areas, 38 percent of businesses indicated a need for savings while 32 percent were in need of loans. By business size, 34 percent of informal MSMEs were in need of loans, and 33 percent were in need of savings. Thirty-five (35) percent of formal MSMEs were in need of loans, while 26 percent were in need of savings (Chart 44).

Chart 44: Need for banking services, by business size (percent)

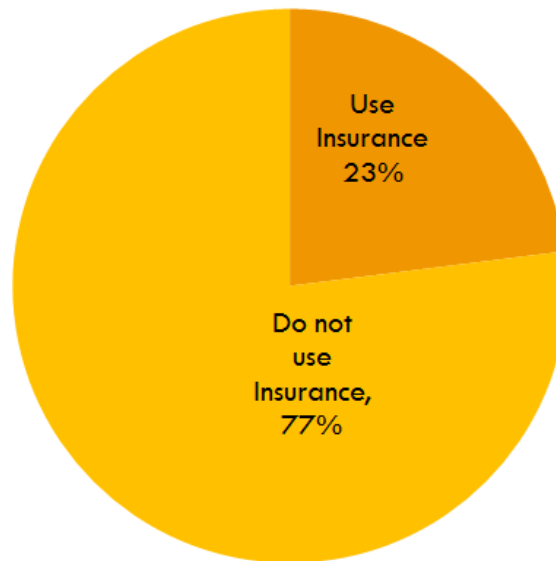


5. Use of insurance by business

5.1 A significant proportion of MSME businesses in Vanuatu lack insurance cover.

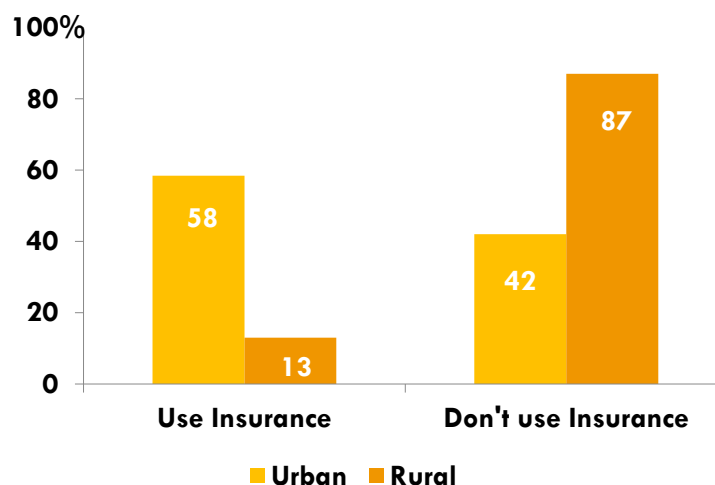
The findings showed that only 23 percent of businesses have insurance cover, while 77 percent did not (Chart 45). The lack of insurance may be attributed to several factors, including lack of awareness and understanding by businesses, and affordability (Pacific Financial Inclusion Programme, 2016).

Chart 45: Percentage share of business with insurance



A larger proportion of businesses in the rural areas do not have insurance compared to businesses in the urban areas. Eighty-seven (87) percent of businesses in the rural areas did not have insurance cover compared to 42 percent in the urban areas (Chart 46). This could be due to lack of access to insurance services in rural areas.

Chart 46: Percentage share of businesses with insurance by location



Businesses in the agriculture sector are least likely to be insured. Only 13 percent of businesses in the agriculture sector have some form of insurance compared to 16 percent and 24 percent in the industry and services sector, respectively (Chart 46).

Chart 47: Percent of businesses with insurance by economic sector

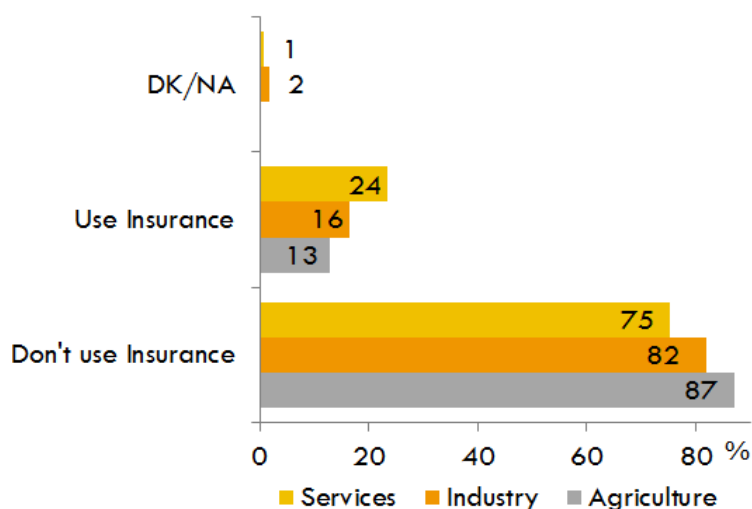


Table 3 showed the most cited reasons for not having insurance, by economic sector. Thirty-two (32) percent of businesses in the agriculture sector stated that they did not trust insurance companies, while 38 percent of those in the industry sector said they “do not need it” compared to 30 percent in the services sector which cited “not knowing what insurance is or how it works”.

Table 3: Reason for not having insurance, by industry sector

Reason	Agriculture (n = 32)	Industry (n = 209)	Services (n = 1 603)
I do not need it	20%	38%	23%
I don't know what it is or how it works	19%	21%	30%
I don't know where or how to get it	10%	18%	25%
I don't trust insurance companies	32%	10%	4%
Used to have it but had a bad experience with it	0%	1%	0%
Too expensive	19%	12%	17%

6. Future growth and obstacles to growth

In this section, businesses were asked about their views on the growth of the business, on an average per year basis, in terms of employment and turnover over the last three years and to provide their outlook for the next two to three years.

6.1 Businesses have improved over the last three years and expected to grow over the next three years.

Forty-six (46) percent of businesses indicated that business have improved over the last three years, followed by 27 percent which reported that business remained unchanged; 14 percent indicated they did not know the trend of the business while 7 percent reported a deterioration in business over the last three years (Chart 48). Considering the business forecast for the next two to three years, 72 percent of businesses interviewed indicated that they expected their businesses to improve, 16 percent indicated that their businesses will remain unchanged, 5 percent of businesses reported not knowing the prospects of their businesses, and another 5 percent expected their business to deteriorate.

Chart 48: Growth in business for the last three years (percent)

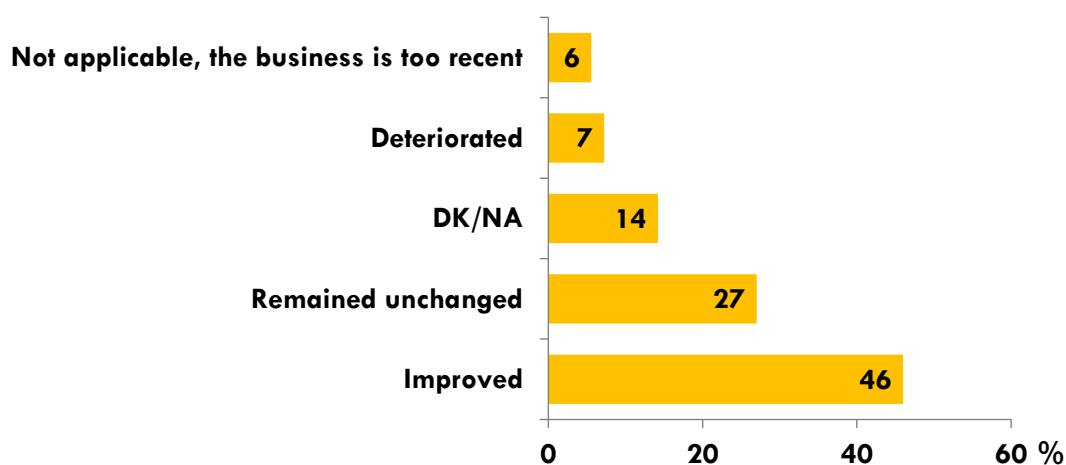
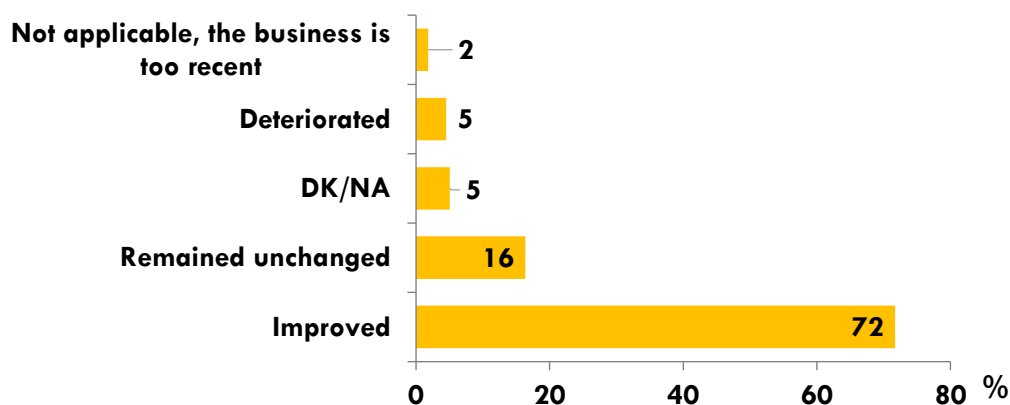


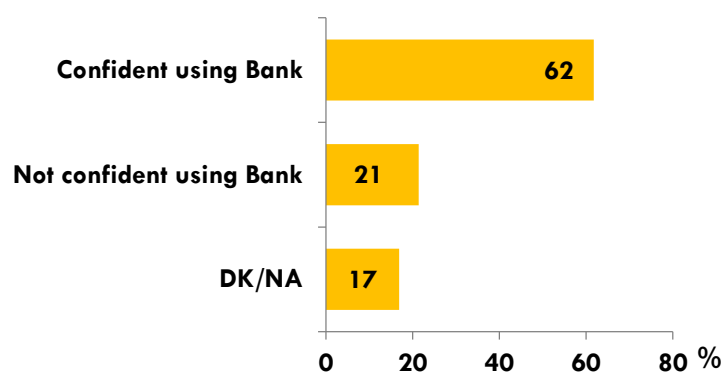
Chart 49: Growth in business for the next two to three years (percent)



6.2 The majority of businesses are confident to talk to financial institutions about financing needs

Respondents were asked about their confidence in discussing financing with banks and other financial institutions, in particular, about improving their business for the next two to three years. The survey indicated that 62 percent of respondents are confident to talk to financial institutions about financing needs, 21 percent are not confident, and 17 percent considered the issue not applicable to their business (Chart 50).

Chart 50: Percentage share of business confident to talk to financial institutions



If the data is segregated by location, 70 percent of businesses in the urban centers are confident to talk to a financial institution about their financing, while 15 percent stated otherwise. A similar trend is depicted in the rural areas where 58 percent of businesses were confident, while 23 percent indicated they were not confident to approach financial institutions. Furthermore, the results indicated that 67 percent of MSMEs were confident to talk about their financing needs, while 17 percent stated otherwise. For the informal sectors, 56 percent indicated that they were confident, while 24 percent were not confident approaching financial institutions for discussions about financing.

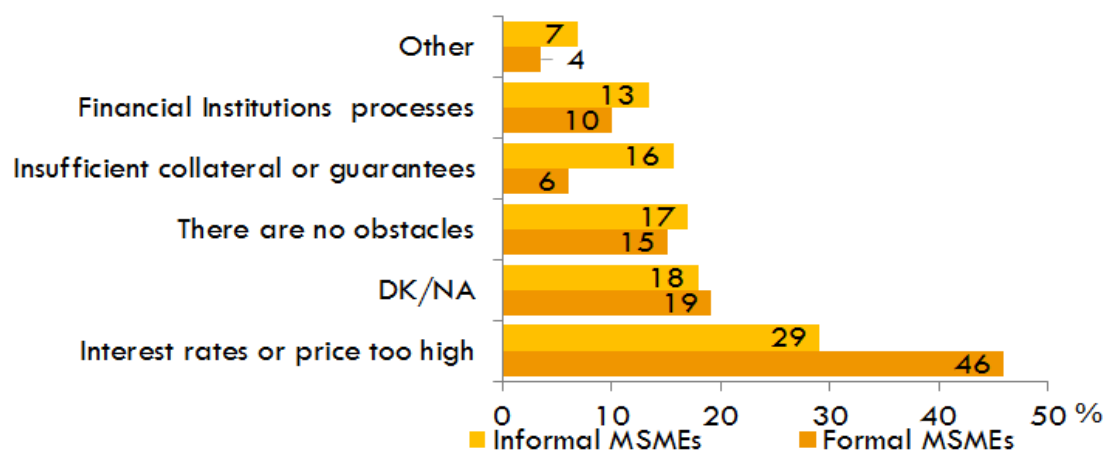
6.3 Interest rates are viewed as the most limiting factor in obtaining external financing for businesses.

Businesses were asked if they needed external financing for business growth, and what they see as the most limiting factor to get the required financing.

Although businesses were confident to talk to financial institutions about financing needs, they cite interest rates as the key obstacle in attaining this. The highest percentage (27 percent) reported high interest rates as the most limiting factor, followed by 17 percent which did not know, 16 percent which saw no obstacle, 13 percent which reported insufficient collateral or financing, 12 percent which cited financial institution processes as an obstacle, 3 percent stated other reasons, while less than 3 percent of respondents reported no financing at all and reduced control over their business.

By business size, 46 percent of formal MSMEs indicated high interest rates as the most limiting factor, followed by 15 percent indicating no obstacle, 19 percent indicating the issue was not applicable and 10 percent citing financial institution processes as an obstacle. Twenty-nine (29) percent of informal MSMEs stated interest rates as the most limiting factor, followed by 18 percent indicating it was not applicable to their business. Seventeen (17) percent indicated no obstacle, 16 percent cited insufficient collateral and 13 percent indicated financial institution process as an obstacle (Chart 51).

Chart 51: Limiting factors in external financing by business size (percent)



The result is broadly similar by location. Of the rural businesses, 25 percent indicated high interest as the most limiting factor followed by 16 percent each for those indicating that the question was not applicable to their business, or that they see no obstacles. Fifteen (15) percent indicated insufficient collateral and 12 percent indicated financial institution processes as an obstacle. For businesses in the urban centers, 34 percent indicated high interest rates, followed by 16 percent each for those that indicated the issue was not applicable to them and those that cited no obstacles, and 13 percent of respondents indicated that financial institution processes are an obstacle.

The following factors were also cited as limiting businesses from obtaining external financing:

- High project financing requirements from banks, such as project proposal and feasibility studies which required costly engagement of engineers or appropriate technicians to carry out the required task given the lack of expertise among businesses;
- The dependence of income (sales) among business owners in the informal sector such as handicraft vendors on cruise-ship visits, and the lack of regular income among Recognised Seasonal Employer¹¹ (RSE) workers made it difficult to obtain a loan given credit risk perceptions. RSE workers are regarded as unemployed by commercial bank policy standards;
- Lack of awareness of business loan products among business;
- The need for shareholder agreement on external financing in businesses with more than one owner;
- The preference for other forms of financing other than debt financing;
- High credit risk associated with lending to agri-businesses, due to impact of seasonality of crops, climate change and natural disasters on agri-business income.

¹¹ The Recognized Seasonal Employer (RSE) scheme came into effect in April 2007. The policy allows the horticulture and viticulture industries in New Zealand to recruit workers from overseas, including from Vanuatu, for seasonal work in New Zealand.

7. Recommendations for further understanding of MSMEs in Vanuatu

This section presents some preliminary suggestions for stakeholders to consider to further improve businesses access and usage of financial services and products.

- 1) It is recommended that Vanuatu adopt a national MSME definition to provide legal certainty and to fully understand the characteristics and challenges faced by MSMEs such as through a specific Act of Parliament. Different definitions currently apply across the Government, financial service providers and the Vanuatu Chamber of Commerce, posing a challenge to an inclusive approach in developing strategies for MSMEs in Vanuatu. Although MSMEs provide the backbone of the economy and entrepreneurial spirit and innovation, the survey uncovered an MSME sector in Vanuatu with significant challenges. An adoption of a national MSME definition helps provide clarity of direction for policy development and the mechanism for channeling support and programs exclusively for MSMEs.
- 2) Data limitation by micro, small and medium-sized businesses at the level of provinces makes it difficult to disaggregate MSMEs by their different components, limiting any future research or policy on specific components of MSMEs. To address data limitations in rural areas it is important for provincial councils to develop and standardize a business registry based on the different categories and definitions of MSMEs that is nationally accepted.
- 3) The Government should develop a central business registry within the Ministry of Industry, Tourism Trade and Ni-Vanuatu business. This registry should be updated on a regular basis to facilitate the assessment and the monitoring of MSME related development initiatives. The data custodian is to liaise with relevant licensing authorities, provincial capitals and other data custodians to develop and maintain the MSME business registry.
- 4) There is need for a national MSME Census to gauge the contribution of MSMEs to the economy (GDP), to provide a basis in which future MSME surveys could be framed and to facilitate a central business registry on MSMEs.
- 5) Future MSME surveys should place strong emphasis on the participation of marginalized groups in business, such as women and youth and in particular, the disabled. This is to allow policy makers to develop specific policy actions for those targeted groups and to migrate them to formal business. This can also contribute to addressing gaps in our Maya commitment such as on women in business. Future surveys should consider capturing businesses which are not registered with any formal institutional structure to ensure that they can be monitored and to enforce compliance.
- 6) Digital finance provides an alternative to improving business access to finance. The RBV should collaborate with financial institutions and telecommunication providers to design savings and credit products that can be accessed on mobile phones given their prevalent use among businesses. Furthermore, a high proportion of MSMEs are cash-based thus, there is a significant opportunity for increasing digital transaction through awareness and service approaches.
- 7) Commercial banks need to actively promote internet banking among their corporate customers through a combination of incentives and disincentives. Incentives can be lower fees or no fees. Disincentives may entail the increase of fees for direct branch banking or use of cheques or cash.

- 8) Due to the poor response rate of businesses in urban areas the RBV may consider amending its Act to empower it in data collection from businesses for future MSME surveys.
- 9) The RBV needs to formalize its internal processes and review data requirements to address the incomplete supply-side data on MSMEs and marginalized groups (women, youth, and the disabled) on financial access from financial institutions.
- 10) Access to formal finance particularly by informal MSMEs is low. Businesses reported a high level of requirements from commercials, citing financial institution processes and collateral requirements. Furthermore, lending to businesses in the informal sectors or RSE workers are perceived by banks as highly risky given the lack of regular income. Stakeholders should therefore develop strategies to improve access to finance for MSME businesses.
- 11) Ways should be found to establish micro insurance and create more awareness on the importance of insurance cover for businesses.
- 12) To alleviate the challenges faced by MSMEs in Vanuatu it is highly recommended for Vanuatu to develop and adopt a holistic approach to MSME financing and development through the following means:
 - Identify or develop financial infrastructure to support MSME financing and development;
 - Establish a credit guarantee institution, preferably the RBV, to act as a guarantor to MSMEs that do not have sufficient collateral to access finance from commercial banks and other financial institutions;
 - Set up a central coordination agency for human resource development, information dissemination and financial products for MSMEs in Vanuatu. This agency is expected to carry out the following tasks;
 - Coordinate the various organizations involved in MSME development to minimize duplication of tasks by these institutions, for example on training, advisory services, data collections etc.;
 - Develop a credit information database specifically on MSMEs to facilitate the process for MSMEs to access finance;
 - Liaise with commercial banks and other financial institutions to establish specific units responsible for providing products and services tailored to MSME needs; and
 - To ensure the MSMEs are not only aware of the available services provided by the MSME-supporting agencies, but to ensure there is easy and affordable access and effective use by those enterprises.

Annex 1. Micro, Small and Medium Businesses Survey Methodology

1.1 Survey method, scope and coverage

There were 8 main populations of interest or regions from which estimates for the MSMEs (micro, small and medium) and informal businesses were required: the provincial rural areas (Torba, Sanma, Penama, Malampa, Shefa, Tafea) and the urban areas (Luganville and Port Vila).

The sampling unit or the target population are the 2016 registered businesses. Where possible, within the sampling frame, the various business establishments of a same entity are identified, regrouped under one entity and then later classified according to their main economic activity. The large businesses with an annual gross turnover of VT200 million (approximately USD1.8 million), the financial institutions and the public owned businesses are excluded from the population of interest.

1.2 Sample design

The MSME Survey was a two-stage sample survey and stratified by geographic areas and the three main sectors of the economy. The first stage is a purposive sampling based on the modified DSS systematic sampling proportional to size for the selection of the areas, and the second stage of sample selection consists of a systematic random sampling of businesses at the area level done by sector.

Owing to resource constraints, the geographic stratification was limited to Urban and Rural, not by Port Vila and Luganville, and not by provinces. Port Vila and Luganville centers are grouped as urban, and the selected areas from the six provinces as Rural. The economic activity sectors covered all three sectors, Primary, Secondary and Tertiary sectors, though better precision could have been achieved at the industrial and MSME size levels. The third most needed stratification, which is by firm sizes (micro, small and medium), was not feasible, particularly for rural areas due to some limitations with the provincial sampling frame and also due to resources constraints.

At the first sampling stage, the areas selected were Qeremane in Mota Lava, Sola and Vetiboso in Vanua Lava; West Malo, North Santo and Canal Fanafo on Sanma; Central Malekula (Litzlitz and Lakatoro), North West Malekula, West Ambrym (Creg Cove and Baiap) on Malampa; South Pentecost (Malbangbang), East and West Ambae on Penama; Erakor, Malorua, Epi (Varisu and Vermaul) on Shefa; and West Tanna (Lenakel), South West Tanna and West Erromango on Tafea. In the rural areas, the provincial listing frames were not up to date which required therefore a listing exercise that was undertaken prior to the enumeration.

At the second sampling stage, from each selected area a business list by sector was used for the sampling of enterprises. For each selected area, each sector list is sorted by industry and by employment size for the drawing of the sample by systematic random sampling.

1.3 Sample size

Within each stratum (urban and rural), the sample areas were selected purposively. Following the selection of sample areas, a new listing of businesses was conducted in each of the selected areas. A final sample of 814 businesses was targeted in the second sampling stage, 425 from urban and 339 from rural or the six provinces.

A total of 737 out of the 814 selected businesses responded to the survey, resulting in an urban and rural response rates of 55 percent and 129 percent respectively, and adjustments were made accordingly to respective weights. The over sampling in the rural areas flags the potential

difficulties with the undertaking of the listing and sampling in the rural areas. Furthermore, the Port Vila and Luganville low response rates reveal the inherent problem in enterprise survey undertakings in urban areas. The risk of a poor response will most likely be high if no proper measures are taken to address the issue through adequate awareness and follow-up. Generally, the non-responses were those businesses that did not either fully respond or provided inadequate information to be included in the survey or, most probably could not be contacted nor replaced during the survey period.

1.4 Survey operations

One questionnaire form was designed in English and translated into Bislama and incorporated into tablets for a face-to-face interview. The instrument was designed to collect information on business general characteristics, general information on the type and situation of businesses, the financing of the business, the use of insurance and the future growth and obstacles to growth.

The survey was conducted over a five-week period beginning in the last week of October and finishing at the ending of November 2016. The survey Technical Committee (TC) recruited and trained six teams of interviewers to conduct the survey. The enumerators and supervisors participated in one week of training, at the end of which a one-day pilot test was undertaken to conclude the training. Over the survey period each of the six teams was assigned to one province, and a collaborative effort from all teams was required to enumerate the two urban areas of Port Vila and Luganville. Each team is comprised of a supervisor and an enumerator.

The one-day pilot test revealed some potential issues with the data capture system, which adopts the Computer Assisted Personal Interview (CAPI) technic intended to speed up the field data processing and transfer of data via the internet. However, the situation could not be effectively rectified in time for the field work. Unfortunately, this has to some degree adversely affected the data processing and the timeframe of the data analyses.

Glossary

MSME

Refers to Micro, Small and Medium Enterprises. A micro enterprise is a business that has an annual turnover of less than VT4 million with 1 to 5 employees, a small enterprise has an annual turnover of less than VT50 million with 6 to 20 employees, a medium enterprise has an annual turnover of less than VT200 million with 20 to 50 employees.

Formal MSMEs

Refers to all other business categories which are registered with the Value Added Tax (VAT) office and generate an annual turnover of VT4 million and over.

Informal MSMEs

Are businesses with annual turnover of less than VT4 million, employing zero to five permanent paid workers. These businesses are registered with the Department of Customs and Inland Revenue office) and provincial governments.

Economic sectors

The economy is classified into three sectors. The agriculture sector includes farming, livestock and dairying, fishing and logging. The industry sector covers manufacturing, construction, mining and quarrying and the services sector encompasses distribution, tourism, and transportation. Further breakdown of these sectors follows the International Standard Industrial Classification of All Economic Activities (ISIC) Rev.4 of the United Nation Statistics Division (United Nations, 2017).

Location

Refers to location of business either in the urban or rural areas. The rural areas included all six provinces, Torba, Sanma¹², Penama, Malampa, Shefa¹³ and Tafea while the urban areas included Port Vila and Luganville.

Business size

Size of business was classified according to informal MSMEs and formal MSMEs.

Employment

The survey considered employment as formal or wage employment which excludes family members and casual.

Ownership Type

There are four types of ownership, the sole proprietorship, the partnership, the companies and the trusts. Sole proprietorship has a single proprietor, partnership has multiple owners. These are unincorporated entities and hold a business license. Companies and trusts have multiple owners and are incorporated entities which means the owners and the businesses are separate and legal entities.

Youth Category

Youth category are business owners within the age ranging from 15 years to 30 years.

¹² Excluding Luganville

¹³ Excluding Port Vila

Commercial Banks

Refers to four domestic banks such as ANZ, BSP, National Bank and BRED.

Other Financial institutions

Refers to CCVL, Vanwods, AFIC and VADB

Formal financial institutions

Includes Commercial Banks, Vanuatu Agriculture Bank (VADB), Credit Corporation Vanuatu limited (CCVL) and other financial Institutions such as Vanwods and Apma Financial Investment Centre (AFIC).

Informal Financing Sources

Refers to informal savings and borrowed money from friends, relatives or money lenders and other sources apart from commercial banks and other financial institutions.

Demand Side Survey (DSS)

Financial Inclusion Demand Side Survey was a household based survey conducted by the Reserve Bank of Vanuatu in collaboration with the AFI, PFIP and VNSO in 2016 prior to the MSMEs Survey.

Maya Declaration

This is a statement of common principles regarding the development of financial inclusion policy made by a group of developing nation regulatory institutions during the Alliance for Financial Inclusion's (AFI) 2011 Global Policy Forum held in Mexico.

AFI

The Alliance for Financial Inclusion (AFI) is a network of financial inclusion policymakers. AFI's core mission is to encourage the adoption of inclusive financial policies in developing nations, to lift 2.5 billion citizens out of poverty. AFI was founded in 2008 as a Bill & Melinda Gates Foundation-funded project, supported by AusAID, in order to advance the development of smart financial inclusion policy in developing and emerging countries. AFI's network has more than 100 institutions from more than 89 member nations.

PFIP

The Pacific Financial Inclusion Programme (PFIP) has helped 1.5 million Pacific Islanders access formal financial services. Access to safe and affordable financial services enables low-income households to manage their money and improve their livelihoods. Bringing Pacific Islanders into the formal financial sector improves their lives, and contributes to economic growth and stability.

Maputo Accord

During the 2015 Global Policy Forum meeting in Maputo, 29 countries signed up for the Maputo accord and agreed to make specific SME finance commitments. The RBV made a commitment under the Maputo Accord to adopt concrete policy targets on SME finance and development. The commitment included putting in place policies to support SMEs, the implementation of the Personal Properties Securities Act (Secured Transaction Act), a review of legislation and regulations to strengthen client protection and empowerment, and market conduct in relation to the use and the delivery of financial services

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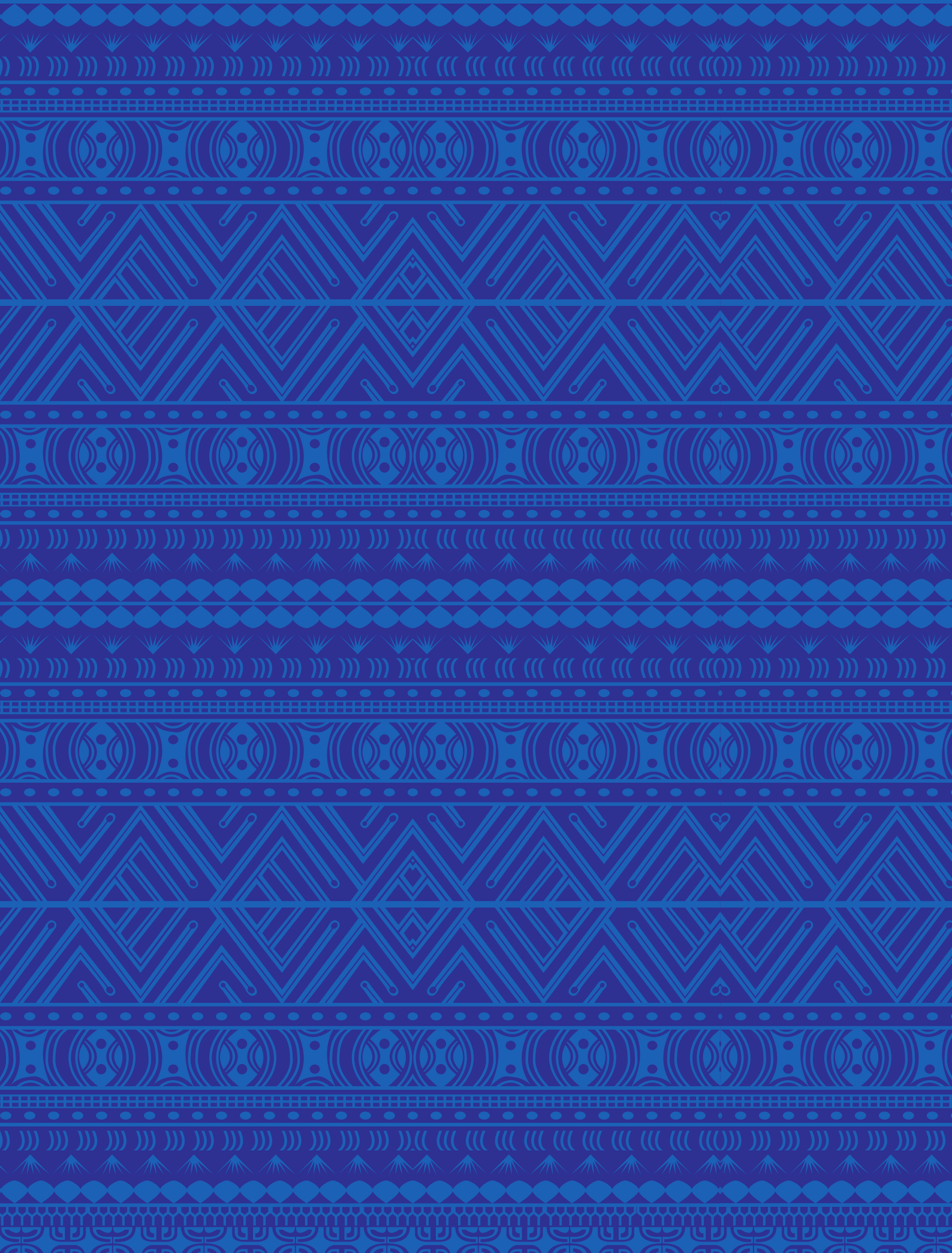
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