Conference Overview and Session Synopsis

Pacific Microfinance Week, 2013

Nadi, Fiji, Monday 21 to Friday 25 October, 2013

Microfinance in the Pacific - Increasing Access, Enhancing Impact

Convenor

Organiser

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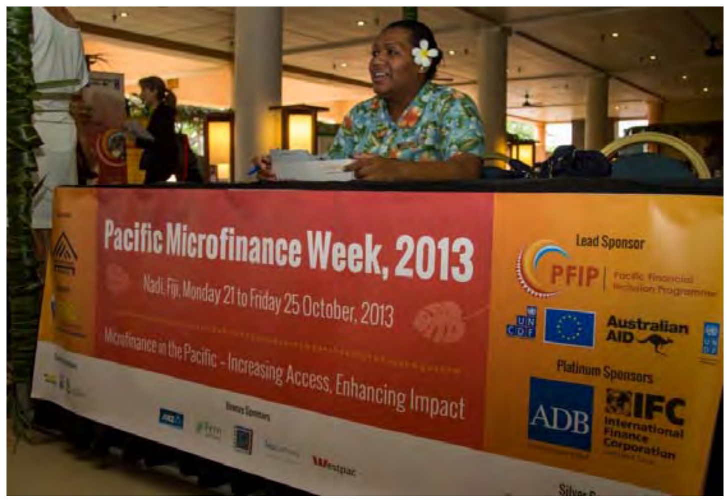
Introduction

The Microfinance Pasifika Network (MFPN) held the 4th Pacific Microfinance Week 2013 (PMW) in Nadi, Fiji from October 21 - 25. PMW 2013 comprised a week-long series of events including workshops, field visits, seminars, and a formal conference, providing a comprehensive platform for Pacific financial sector stakeholders to share knowledge, network and engage in technical exchanges to further the effective, efficient and sustainable delivery of financial services within the unique constraints of the region. Microfinance institutions, development partners, commercial and central banks, learning institutions, government agencies and private companies were all represented at the event.

The main theme of the event was "*Microfinance in the Pacific, Increasing Access, Enhancing Impact*". This report provides an overview of the plenary and panel sessions held during Pacific Microfinance Week 2013.



Members of the Microfinance Pasifika Network Executive Committee and representatives of the core sponsors formed a steering committee who assisted PMW convenor, the Foundation for Development Cooperation (FDC), identify a range of themes and topics to advance financial inclusion in the Pacific.

In a departure from previous PMW's, the decision was made to supplement plenary and panel sessions with a range of action learning workshops to give delegates opportunities to build capacity and network with other stakeholders. In total, PMW offered 12 workshops, 6 panel and 5 plenary sessions. Field visits to several microfinance operations were arranged by Westpac, South Pacific Business Development (SPBD) and Fiji Council of Social Services (FCOSS).

Pacific Microfinance Week At-a-glance

Monday 21 October

13:00 - 17:00 Registration Opens

Day 1 - Tuesday 22 October

8:00 Registration

9:00 Opening Plenary Session
Welcoming remarks
Sponsor Introductions
- Pacific Financial Inclusion Programme
- Asian Development Bank
- International Finance Corporation

Keynote Address
Overview of key regional initiatives and forward plans

10:30 MORNING TEA

11:00 Plenary Session
Global and Asia regional trends and initiatives
- Consultative Group to Assist the Poorest
- Pacific Financial Inclusion Programme
- Asian Development Bank

12:30 LUNCH

	Option 1	Option 2	Option 3
13:30	Panel 1: Financial Inclusion Indicators and Metrics of Success	Workshop 1: Agricultural Finance - Credit Products for Smallholders	Workshop: 2 Digital Financial Services for the under-banked - Research, Design and Delivery

15:00 AFTERNOON TEA

	Option 1	Option 2	Option 3
15:30	Panel 2: Inclusive Insurance - how to expand insurance outreach based on lessons learnt from the Pacific	Workshop 3: Introduction to client protection	Workshop 4: Electronic banking solutions for financial inclusion: a Pacific case study

18:30 Pacific Microfinance Week 2013 Welcome Dinner

Day 2 - Wednesday 23 October

9:00 Plenary Session
Microfinance Policy and Regulation
- Policy and Regulation for Financial Inclusion
- Market conditions and self-regulation in the Pacific
- Branchless banking and consumer protection

10:30 MORNING TEA

Please note that this program is subject to change.

11:00 Plenary Session 3
Non-bank financial institution sustainability
- What has worked? What hasn't?
- Global innovations in small & remote communities
- Leveraging the outreach of non-bank financial institutions

12:30 LUNCH

	Option 1	Option 2	Option 3
13:30	Panel 3: Building women's leadership in the Pacific	Workshop 5: SME Finance - credit products for small businesses	Workshop 6: Building the capacity of non-bank financial institutions (client assessment)

15:00 AFTERNOON TEA

	Option 1	Option 2	Option 3
15:30	Panel 4: Understanding clients and the products/ services they need	Workshop 7: SME Finance - credit appraisal techniques for small business loans	Workshop 8: Financial education in the classroom

Day 3 - Thursday 24 October

9:00 Plenary Session
Making financial inclusion a reality in Fiji
- Financial literacy working group - National Financial Literacy Strategy
- Statistics Working Group - Financial inclusion mapping project and indicators
- Microfinance Working Group - Awareness through expos

Inaugural Fiji Microfinance Awards

10:30 MORNING TEA

	Option 1	Option 2	Option 3
11:00	Panel 5: Best practice in financial literacy education	Workshop 9: Building the capacity of non-bank financial institutions (designing financial products)	Workshop 10: Building partnerships for financial inclusion

12:30 LUNCH

	Option 1	Option 2	Option 3
13:30	Panel 6: Remittances: enhancing use and value to workers and households	Workshop 11: Social performance management	Workshop 12: Effective corporate governance structures to improve performance

15:00 AFTERNOON TEA

15:30 Closing session
- Observations, insights and implications for financial inclusion in the Pacific

Friday 25 October

9:00 - 14:00 Field visits (details to be advised upon registration, Monday 21 October)

Day One

Opening Session

Welcome Remarks, Mr. Benny Popoitai, (MBE), Deputy Governor, Bank of Papua New Guinea and immediate past Chairman, Microfinance Pasifika Network

Keynote Address, Mr. Barry Whiteside, Governor, Reserve Bank of Fiji

Overview of Key Regional Initiatives and Forward Plans, Mr. Clay O'Brien, Senior Sector Specialist, Financial Inclusion, AusAID

Welcome Remarks

Mr. Benny Popoitai provided delegates with a warm welcome to Pacific Microfinance Week 2013, and thanked the sponsors, conveners and organisers of the event.

The growing importance of financial inclusion was noted, most recently in the program of the APEC meeting in Indonesia the previous month. Having a national policy to empower people to participate in the monetized economy is becoming the norm. However, while much has been achieved around the region in financial inclusion through advancements in communication technology and its liberalization, much more needs to be done.

The value of targeted events such as Pacific Microfinance Week was acknowledged, along with the work of the Microfinance Pasifika Network in creating avenues for networking that bring together microfinance practitioners, donor agencies, government agents and regional organisations whom through their interventions, improve the quality of life for the many economically disadvantaged. Partnerships and networking between and among different stakeholders were seen as critical to ensure the bulk of the unbanked rural majority have access to affordable financial services into the future.

Several examples of financial inclusion initiatives of the Bank of PNG were highlighted, including

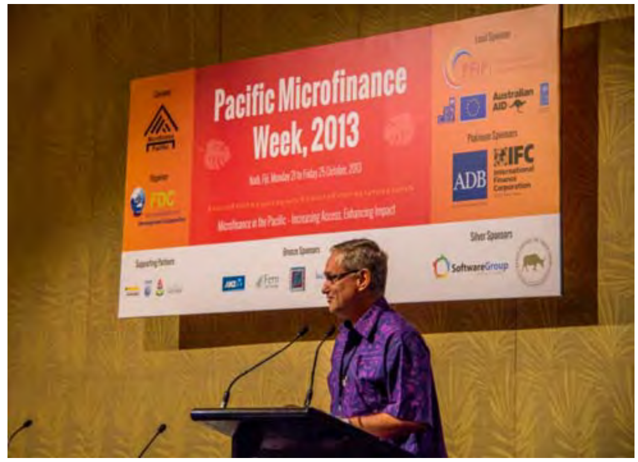
- Contributions to Microfinance Sector Development;
- Facilitation of Electronic and Mobile Banking;
- Support of Financial literacy and Education;
- Initiation of the Centre for Excellence in Financial Inclusion;
- Improvements in the National Payments System - (KATS); and
- Preparation of a National Strategy for Financial Inclusion & Financial Literacy.

It was observed that while advancements in technology to enable a leapfrogging of outreach to the unbanked are significant, so too is the commitment and work of the many financial inclusion champions throughout the region. Regional programs and networks are a vital means to connect stakeholders to provide guidance and advice, and to learn from each other's experiences with objectives being to increase access, enhance impact and ultimately, eliminate financial exclusion.

Keynote Address

The theme of the event, "*Microfinance in the Pacific - increasing access, enhancing impact*" reflected the tremendous drive seen in the region towards the inclusion of the many underserved, unbanked and poorest citizens. The combined and individual commitment and leadership of Pacific Island states is reflected in the fact that the Pacific is the only region in the world to have a its own Working Group amongst the 87 member countries around the world forming the Alliance for Financial Inclusion - the Pacific is seen to be a leader on the world financial inclusion stage.

The growing importance of financial Inclusion is reflected in a range of global forums, including at G20 Summits, with the appointment of Her Majesty Queen Maxima of the Netherlands as UN Special Advocate for Inclusive Finance for Development, and more recently, the first Global Policy Forum of the Alliance for Financial Inclusion. At the highest global levels, there is the clear recognition that deliberate financial inclusion measures and initiatives are essential to reach the 2.5 billion people who do not have access to any form of financial services and products and who remain in poverty. While a global challenge, the task in the region is even more daunting, with an estimated 6.5 million Pacific Islanders and 80 percent of low income people not having access to formal financial services - making it one of the most neglected regions in the world in terms of banking services.



The theme of Pacific Microfinance Week, "*Microfinance in the Pacific - increasing access, enhancing impact*", raises questions such as how to reach the unbanked or those that do not have access to microfinance or any form of financial service, and how to make a difference to their lives? The challenges can only be met by taking a non-traditional and non-conventional approach to problem solving. It requires innovative thinking – especially given the Pacific's circumstances of small island countries, dispersed over a wide area of sea, with generally low economic growth rates, only pockets of resources, and generally, small populations.

Technology is one key to delivering financial services to the unbanked, and in a cost effective way to enable financial products and services to be affordable to the unbanked.

Enhancing impact is very important because it emphasises the fundamental reasons stakeholders do what they do in this area. All financial inclusion interventions must translate into a measureable outcome that impacts and enhances the lives of Pacific people. All financial inclusion strategies and policies must, in the end, have a measurable impact on individual countries and the region. Measurable impact should be realised in the disposable income of its citizens. An increase in disposable income can lead to increased savings, consumption and investment, within the county's economy, with flow-on effects in the region.

Fiji has begun the journey, and achieved notable progress in its target of reaching 150,000 unbanked Fijians by 2014, including:

- Establishing the National Financial Inclusion Taskforce, National Financial Inclusion Strategy, and National Financial Literacy Strategy;
- Completion of National Financial Competency Surveys;
- Holding of Financial Inclusion Expositions;
- Creating a set of Financial Inclusion Indicators to measure access and usage;
- Creating policies around Consumer Protection;

- Integrating financial education (FinED) into the existing schools curriculum;
- Establishing Microfinance Units within each commercial bank branch;
- Implementation of micro insurance policies;
- Establishing a policy framework for branchless (agent) banking; and
- Mapping all financial service access points and coverage across Fiji.

Planning to take financial inclusion to the next step begins in 2014, with an intended emphasis on providing the necessary tools and access to enable the underserved to make their own way.

Receipt by the Reserve Bank of Fiji of the inaugural Maya Declaration Award confirms that, though the Pacific comprises small island nations, a small country having passion, commitment, cooperation and planning, can surpass bigger nations. Countries in the region may be at different stages of development, but all share the goal of building a prosperous nation. Pacific Microfinance Week provides an ideal platform to work towards this goal through sharing, learning and affirming commitments in advancing financial inclusion across the region.

Overview of Key Regional Initiatives

Australia has been working on Financial Inclusion in the Pacific for more than a decade, with a focus in recent years on four areas:

- Policy and regulatory environment;
- Capacity of financial service providers and infrastructure;
- Innovative models of financial service provision; and
- Capacity of clients.

The total value of program commitments since 2005 is more than AUS $20 million. Involvement in financial inclusion will elevate from 1 December when Australia chairs the G20 and co-chairs the Global Partnership for Financial Inclusion, a platform for all G20 countries, interested non-G20 countries and relevant stakeholders to carry forward work on financial inclusion, including implementation of the Financial Inclusion Action Plan.

AusAID works with several partners in delivery of its key regional initiatives in the Pacific, including:

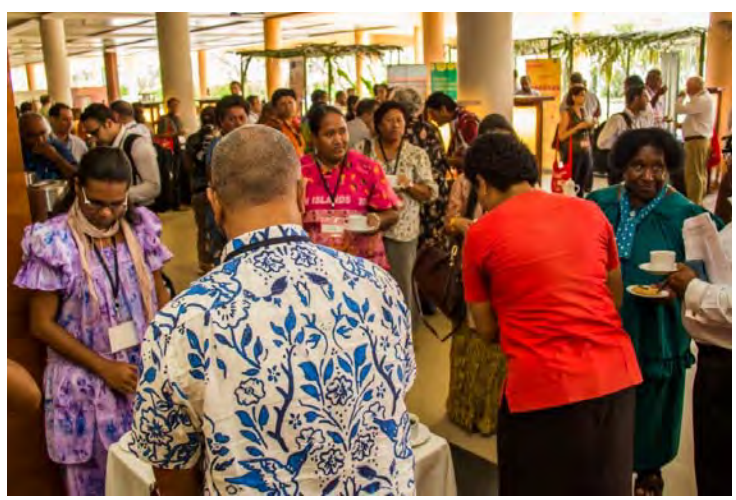
- The IFC Pacific Partnership (including the Pacific Microfinance Initiative);
- The Pacific Financial Inclusion Programme (along with the UNCDF, EU, and UNDP);
- Mobile Money for the Poor (UNCDF);
- GSMA mWomen;
- Send Money Pacific website (together with the New Zealand Aid Program);
- PNG Microfinance Expansion Program (ADB);
- Private Sector Development Initiative (lead by the ADB, with participation from other partners);
- Consultative Group to Assist the Poor (CGAP); and
- Alliance for Financial Inclusion (AFI).

These regional initiatives respond to a range of challenges, including the large proportion (36%) of the Pacific population (10.5m) under the age of 15 years, the large proportion (20% - 30%) living below the poverty line, the large number of countries (14) dispersed over 30 million square kilometres, and a large proportion (up to 90% in some countries) of the population who do not have access to formal banking services, such as savings, loans and insurance. These challenges are exacerbated by the fact that some global initiatives often overlook the Pacific region and global data sets do not include data from the Pacific region (i.e., Global Findex – the Global Financial Inclusion Database). In addition are external factors across the globe that have contributed to a slowdown in microfinance outreach, including donor fatigue and changed priorities, the global financial crisis (and subsequent crises in individual countries and regions), and inappropriateness of standard products in reaching and meeting the needs of many clients.

There are several success stories and notable achievements:

- Fiji's Financial Literacy Program (supported by PFIP) has been called a world leader, and is featured in the Maya Declaration Progress Report for 2013. Following a successful pilot project in 2012, FinEd Fiji was launched in all schools at the beginning of the 2013 school year. It includes resources and assessments for classroom learning, and up-skilling and professional development of existing teachers. 200,000 students from 910 schools are engaged every year.
- Bank of South Pacific support with technology and regional agents (supported by IFC) in PNG, uses electronic products, such as EFPTOS and mobile phones that are linked to a bank account and a debit card. It reaches 104,000 previously unbanked customers, of whom 31% are women, working through 176 agents. With IFC support, BSP is now expanding rural banking to the Solomon Islands.
- MiCash in PNG (with support from the ADB and PSDI) is a Nationwide Microbank bank-led mobile banking product, which received the business innovation award for 2012. It involves a major marketing campaign around savings, using a MiCash mobile wallet for remittances, and training customers on financial literacy, as part of registration and account opening process.
- A region-wide mobile banking initiative with 11 branchless or mobile banking deployments in six countries. In six countries PFIP supported Westpac to introduce 'in-store' banking, where clients can withdraw and deposit money, pay bills, and receive and make transfers through trained banking agents equipped with point-of-sale devices. In the Solomon Islands all three leading commercial banks introduced mobile banking services within a year, with ANZ and BSP in the last month. In Tonga, Fiji, Samoa, and Vanuatu Digicel Pacific introduced a low-cost, phone-based mobile wallet. In PNG, MiLife now offers the first mobile microinsurance scheme in the South Pacific.
- The Pacific Islands Working Group (PIWG) was established to identify opportunities and barriers unique to Pacific Island countries and to formulate appropriate policy responses. PIWG includes central bankers from Fiji, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga and Vanuatu. Member institutions participate in national-level discussions and agreed on a Core Set of Indicators to measure the progress of their own financial inclusion targets.

Greater reach and impact of regional initiatives will in future require a high level of donor coordination and collaboration, partnering with non-traditional stakeholders e.g. telcos, remittance companies, retailers/agents, increasing uptake of branchless banking products (through client education and targeted marketing, development of user friendly products, building trust in the new services, investments in hardware and agent networks, and extending regulatory reform beyond finance sector (e.g., secured transactions, and broader business/economic reforms).



Plenary 1: Global and Asia Regional Trends and Initiatives

Session Moderator:
Mr. Manoj K. Sharma, Director, MicroSave

Speakers:
Mr. Eric Duflos, Regional Representative for East Asia and the Pacific, CGAP
Mr. Reuben Summerlin, Regional Financial Inclusion Advisor and Project Manager, PFIP
Dr. Andrea Iffland, Regional Director, ADB, Pacific Liaison and Coordination Office

Significant change is occurring in the microfinance sector and methods adopted by MFIs, NGOs, governments, donors, commercial banks and others in reaching the financially excluded. Innovation in technology, products and services, and creative approaches in delivery models and supplier and enabling alliances, has led to a substantial increase in access to finance. At the same time, the impact of financial inclusion initiatives on the livelihoods of the economically disadvantaged, sustainability of microfinance institutions and consumer protection are among the continuing challenges for stakeholders. This session highlighted key trends and new initiatives in the world having potential implications for the Pacific.

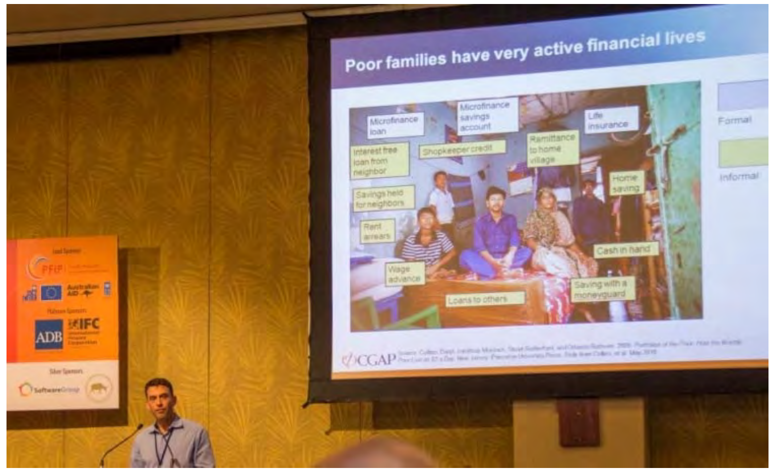
Global Trends in Financial Inclusion

Recent estimates indicate that 77% of the world's poor remains unbanked[1] and that young and old populations remain the most disadvantaged demographics regardless of the region. Financial inclusion is important to the lives of the poor as it helps them achieve their aspirations, whether it be securing a better home, growing and protecting livestock or providing better education opportunities for their children. Poor families throughout the world have very active financial lives. Their experiences with finance often include both formal and informal financial systems such as microfinance loans, receiving wages, and remittances, receiving loans from friends or family or rent arrears.

There are four major factors which limit access to formal financial services. The first is long distances and low population densities. This is particularly a challenge for those in rural areas which do not have local branches to service them, resulting in clients being required to travel long distances in order to access their accounts. The second factor is high bank costs relative to income. Recent research suggests that the most common reason amongst the poor for not opening a formal bank account is that the cost is too high. When comparing the costs of formal services with informal services, however, the cost of informal services are often 5-10 times higher. The third major factor is low levels of financial education or literacy skills amongst the poor. Lastly, poor product or channel design also acts as a significant barrier as inappropriate products fail to adequately meet the needs of the poor.

In order to overcome these challenges and achieve financial inclusion, both scale and presence are required. Traditional banks often have scale, however, they lack the presence where poor people live. As such, microfinance institutions (MFIs) are important players as they are better able to maintain presence in poor communities - but they lack scale. Overtime, the cost of microcredit has seen a decline but operational costs have remained high which is still a major challenge for MFIs to operate effectively. Another important aspect of microfinance is that it rarely reaches the poorest, to which the provision of credit alone is often inadequate. In recent years microcredit has also received a great deal of criticism with reports of MFIs and microfinance investors exploiting the poor for usurious profits.

[1] Source: Global Findex Database, World Bank (2012)



To overcome these challenges and achieve greater financial inclusion, several new innovations and technologies are paving the way for a new era of microfinance in which financial services are more able to reach a greater number of people and at lower cost. Branchless banking represents one of these innovations. Branchless banking makes it possible for financial services to be provided outside of traditional bank branches through the use of available technologies such as cell phones, magnetic strip cards and biometric applications. Branchless banking models require extensive networks in order to operate effectively and reach scale. This is usually done through the use of retail locations as agents where customers can have access to financial services such as deposits, withdrawals, money transfers or bill payments. Branchless banking models have the potential to significantly reduce costs and also provide access to greater numbers of people who are currently unbanked or underserved.

While branchless banking solutions have been gaining traction around the world and are showing great potential, they are also facing significant challenges. These challenges mostly stem from finding the right business model; regulation, including regulation for agents; identifying and building the capacity of agents; and educating, attracting and retaining customers. Retaining active users is a major issue with branchless banking with the vast majority of registered customers currently not active (estimated only 12% globally are active users).

Several other global trends are showing promise for effective solutions to increase financial inclusion and to use microfinance as a tool to alleviate poverty. Examples include the successful Graduation Model, which focuses on sequencing financial services targeted at the poor to gradually lift them out of poverty. Opportunities have also been found in using Government to Person (G2P) payments to expand the use of bank mainstream accounts. Policy makers around the world have also recently embraced financial inclusion with the formation of the G-20 Global Partnership for Financial Inclusion (GPFI).

Global Financial Inclusion Programmes

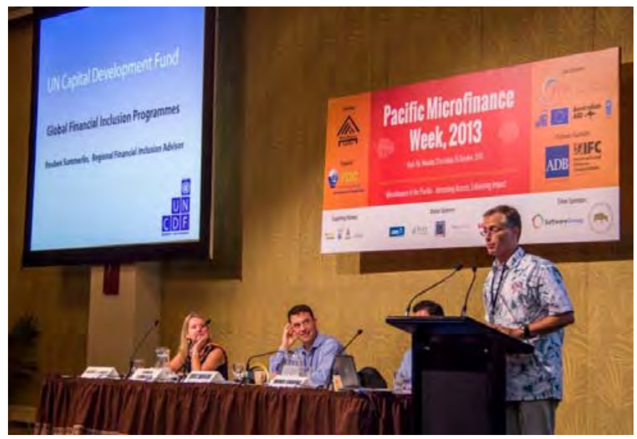
The UN Capital Development Fund initiated and manages several leading global financial inclusion programmes for the world's least developed countries supporting the growth and development of the microfinance industry and ensuring more low income households and small businesses have access to a range of financial products and services.

The Better Than Cash Alliance (BTCA) is an alliance of governments, private sector and development organizations committed to a global movement from cash to electronic payments. It was founded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, Omidyar Network, USAID, VISA. The Alliance achieves this by focusing on three major elements: advocacy and awareness, building evidence and the provision of policy, technical and financial assistance. Through advocacy and awareness, the Alliance aims to drive government, civil society and private sector commitments to digitize their payments (e.g., salaries, pay for work programs, payments to vendors, pensions, social welfare payments, emergency relief payment) to poor people. By building evidence of the advantages (cost savings, speed, transparency, security of making disbursements, increasing financial inclusion and new market access) the Alliance works to develop new knowledge products that will further drive transformation. By providing policy, technical and financial assistance the Alliance is able to catalyse the shift to electronic payments. It's relevance to the

Pacific is illustrated in Fiji's recent move to an electronic government-to-person welfare payments program. BTCA is preparing case studies to serve as useful examples for stakeholders to consider.

MicroLead and MicroLead Expansion is a facility that aims to increase access in underserved markets, primarily savings-led initiatives. Programs have been rolled out in Timor Leste, Vanuatu, Samoa, and Solomon Islands. Lessons learned include:

- The best outreach has come from agent-led models with commercial banks
- Long term, on-site technical assistance has been more successful than short term in-and-out assistance.
- Quality service requires intentional focus.
- Dormant accounts, keeping usage up, and reaching women remain as key challenges (but this is not unique to the Pacific).



YouthStart is another important initiative operating mainly in Africa, which supports the development and roll-out of youth related (targeting people aged between 15 and 24) financial services and products. The program achieves this by advocating for policy which allows regulation to be more conducive to ensure outreach. For example, lowering the legal age to open accounts, allowing more flexible ID requirements or the integration of national curriculum in financial education. YouthStart also works directly with financial service providers to help them understand the business case for youth-related services and to develop more appropriate marketing strategies and distribution channels that are more attractive to youth. There are not yet many institutions specialising on this demographic, and therefore, not many models to refer to. Challenges include the particular vulnerability of this group and lower levels of financial competency. Youth need time to learn about finance and the responsibilities that come with it.

The mission of Mobile Money for the Poor (MM4P) is to reach four million new customers with branchless and mobile financial services, including 1.4 million of the unbanked. This initiative focuses on countries which have the greatest number of financially excluded (i.e. less-developed countries) and aims to build greater financial ecosystems that are not limited to a single service provider. It also focuses on marginal markets with smaller, dispersed subsistence populations with the goal of finding new economically viable ways to expand agent networks and building partnerships to achieve economies of scale in development of less expensive products. MM4P also aims to develop new innovative business models that attract bulk users and retain them. Policy development is also important to the MM4P strategy with a specific focus being applied to building partnerships that will help to shape a more conducive regulatory environment for reaching economies of scale. Increasing take-up will require greater training of agents, and increasing client awareness and trust in the products and agent. A strong and dedicated CEO and team – focused on providing financial services, rather than mobile money as just another product, are keys to success. Over the counter services are increasing in popularity. More banks are getting involved, as clients prefer having a bank account as part of their mobile service.

The Pacific Financial Inclusion Programme is another global initiative of UNCDF, which many delegates will be familiar with. PFIP's main roles are policy, advocacy and coordination, developing innovative products, services and delivery channels, financial literacy and competency, and research and knowledge sharing.

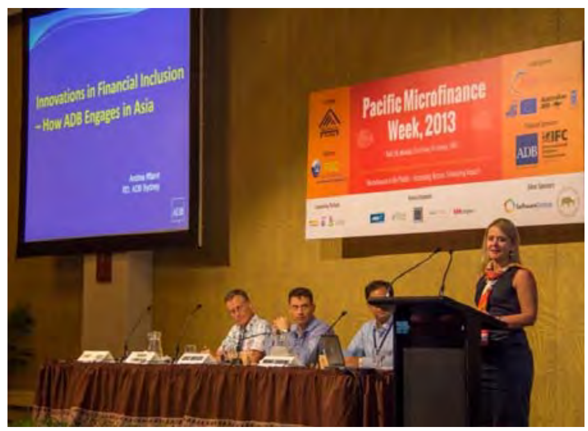
Innovations in Financial Inclusion – How ADB Engages in Asia

A basic premise driving the ADB's engagement in microfinance and financial inclusion is the enormous number of people living in poverty in Asia, with less than 10 per cent of the poor having a bank account.

ADB's microfinance development strategy (first developed in 2000) focuses on strengthening and building policy environments, financial infrastructure, viable institutions, pro-poor innovations and social intermediation. While there has been much advancement since the strategy was developed 13 years ago, the fundamentals remain relevant.

The ADB's strategic response is at three levels:

- macro (economy), including policy, regulation and supervision, to underpin not only safety, but trust by borrowers and depositors ;
- meso (financial market), which includes basic infrastructure such as credit bureaus and rating agencies, secure transaction frameworks, and networks; and
- micro (service providers) – including MFIs, NGOs, insurance companies, non-bank financial institutions, women's agencies, financial agencies, remittance services providers, etc.



Within Asia there are a number of current issues which ADB has shaped its strategy to address. These specific challenges the ADB is responding to in Asia include financial literacy to assist borrowers understand products an planning for economic cycles and unplanned events, reaching remote communities (isolated by lack of transport and technology) and large unbanked populations such as the urban poor, helping regulators keep pace with the rapid pace of market and technological development, overall legal framework for customer protection, and generally dealing with a very large informal market of lending, insurance and remittance services.

The ADB is also focusing on investigating and developing innovations in rural finance such as mobile banking solutions, no frills savings and loan products, a Kisan credit card (revolving line of credit for farmers), the "credit plus" approach (bundling credit with business development services and entrepreneurial training) and value chain financing (supporting finance for suppliers along the value chain, such as working capital for traders, advances for contract farming, etc.).

Key initiatives in Asia include:

- Development of basic account product, IDs, and cash transfers (Pakistan)
- Microinsurance (Philippines, India)
- Mobile money (Mongolia, Afghanistan)
- National policies on financial inclusion (Thailand)
- Consumer protection and financial education (Philippines)
- Institutional development (Tajikistan, Pakistan, Nepal, Vietnam)
- Policy and regulation innovations (Lao, Kyrgyz Republic)

ADB's current Access to Finance (A2F) portfolio is significant and contains 121 microfinance projects of USD 2.6 billion and 92 SME finance and leasing projects of USD 1.5 billion.

Observations

Several key observations were made in the course of this plenary session:

- There are many similarities in the challenges and innovations occurring in Asia and other parts of the world, and the Pacific
- Communal obligations as distinct from individual or household obligations (covering saving, borrowing and income distribution) may be one point of difference in the Pacific (but are not unique to the Pacific). Group/communal lending in may be more efficient than individual lending in very small, remote and isolated places
- The wheel seems to be turning full circle with the emphasis on micro and small enterprise finance; which had lost some focus in the early years of ascendancy of microfinance.
- Clients need a wide range of financial products and these are unfortunately not available to them from formal channels
- Technology will play a key role in enhancing outreach and reducing costs – however, the ideal technology based model is still evolving
- Micro and small enterprise finance will see increased emphasis as it creates real jobs
- More documentation is needed on the impact of microfinance and more needs to be done to document case studies in the Pacific

Panel 1: Financial Inclusion Indicators and Metrics for Success

Session Moderator:
Mr Emmanuel Moyart, Coordinator, ACP/EU Microfinance

Speakers:
Mr. Bill Ford, Lead, Market Intelligence, Microfinance Information Exchange Inc.
Mrs. Lanna Lome-Ieremia, Manager – Financial System Development, Central Bank of Samoa
Mr. Muhammad Awais, Social Performance Specialist, Good Return

Providing the poor and financially excluded with access to, and enabling their use of a range of financial products and services lies at the heart of financial inclusion. Measuring the level of access to and evaluating the impact of financial inclusion is becoming increasingly important to bank and non-bank financial institutions, regulators and policy makers, investors, communities and other stakeholders. The efficient collection of reliable data from clients and institutions and its analysis and reporting for benchmarking and decision-making purposes was the focus of this session. This session outlined current programs and new initiatives applicable to the Pacific, and opportunities for data providers and decision-makers to enhance the effective collection, reporting and use of financial inclusion data.

Reducing Reporting Burdens and Improving Market Understanding

Data collection has always been an important aspect of MFI operations. Over the years, the data ecosystem has become increasingly inefficient. MFIs are increasingly burdened with multiple data reporting requirements with the average MFI reporting to up to 7 data collectors as many as 50 times a year. These data collectors are also asking for multiple reports, such as interim updates and social performance reports, and the high number of disparate calculations and indicators leads to greater burden and inefficiencies. MIX conducted a world-wide survey of MFIs and found that many of the data points collected by the various actors were the same or nearly the same with minor differences. Those data points that are unique often do not provide those asking as much value to merit the cost to the financial service provider.

In response to this issue, the MIX Market developed a new data collection platform called the MIX Report Express. The MIX Report Express uses an online platform and greatly reduces the number of metrics collected by the MFI. Through this platform, MIX also offers a MIX Gold membership status. MIX Gold MFIs are given the benefit of having MIX take the burden of collecting and analysing and act as the point of information for the MFIs investors.

In order to engage users at a greater level, MIX also uses Financial Inclusion Maps to communicate the data collected. As well as financial performance data, the maps can include contextual data on education, poverty, and electricity. The use of maps to present data makes it easier for analysts and decision makers to view and work with the data. An example of one of MIX's data maps can be viewed here: http://maps.mixmarket.org/zambia/. MIX also offers a more advanced online tool which allows users to interact with the maps and analyse "what if" scenarios (see: http://public.tableausoftware.com/views/Zambia_FSP_V2/ExploreContext?:embed=y&:display_count=no).

Conceptual Framework of the AFI Pacific Islands Working Group Data Project

The Alliance For Financial Inclusion Pacific Islands Working Group (AFI PIWG) Data Project aims to utilise financial inclusion data for informed policy making and monitoring. The rational for developing this project within the Working Group was the lack of data related to financial inclusion currently available in AFI member countries, the need to design appropriate interventions, monitor progress against targets and reveal market opportunities. To accomplish these tasks, the PIWG established a data subgroup. This subgroup is currently working to identify and agree on appropriate indicators. These indicators will stem from AFI's core set of indicators but also adopt new sets.

The AFI PIWG Data Project will address important topics and issues relevant to the region such as access and usage, barriers to access, gender, mobile financial services, patterns of sending and receiving money, Maya commitments (i.e. access – financial education, credit and protection and governance) and regulatory environment and private sector sentiment. A specifically designed framework will allow the AFI PIWG to more accurately measure financial inclusion data. This framework is expected to evolve as financial inclusion progresses. The framework will be modified in the future to better facilitate monitoring of additional focus areas such as micro insurance and SME financing.

Measuring Poverty and Tracking Changes Overtime: Using Progress Out of Poverty Index (PPI)

The Progress out of Poverty Index (PPI) is an objective country specific and easy to use poverty score card that pro-poor programs can use to estimate the likelihood that a household has expenditure below the poverty line. The traditional/direct approach to poverty measurement via surveys is both difficult and costly whereas the PPI method utilizes an indirect approach which is quick, simple and inexpensive. Through the PPI approach, poverty is measured through 10 non-financial verifiable indicators such as if members of the household attend school, what sort of material is used for the floor in their home and what type of fuel is most commonly used for cooking. By ranking each household against these indicators a score is calculated providing an objective ranking of the poverty level of the household.

There are three basic uses of the PPI for MFIs. The first is to measure current poverty rates and provide a number or percentage of poor clients at a point in time. This data is particularly useful for reporting to donors, investors, boards, etc. It also allows managers to set more appropriate goals for poverty outreach. The second basic use of the PPI is to measure changes in poverty over time. Managers can effectively track changes in the poverty of their clients and further report these changes to other stakeholders. The third basic use is to target, or classify, clients for specific microfinance and/or other development programs. With the data collected through the PPI, managers are better able to assess which clients would be most likely to benefit from specific products or programs.

With regard to financial inclusion, the PPI is a useful method to help ensure that the poor remain a central focus to national financial inclusion agendas. It also makes it easier to identify the poor so that they can be more effectively targeted for specific interventions. Lastly, the PPI can greatly support the monitoring, evaluation and impact assessment of policies, programs and institutions related to financial inclusion. Good Return, in partnership with South Pacific Business Development, is in the process of developing a PPI scorecard for Fiji.

Workshop: Agricultural Finance – Credit Products for Smallholders

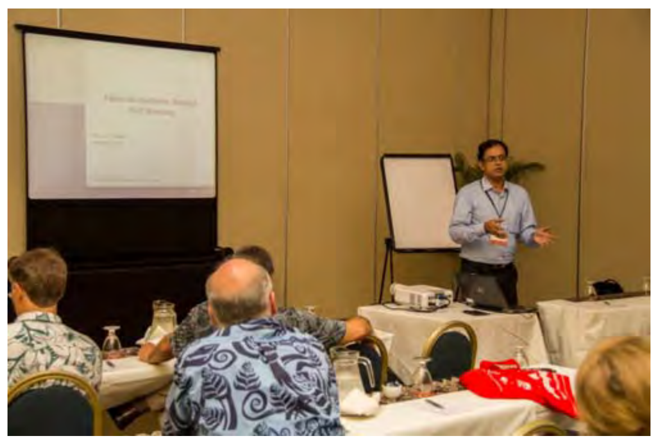
Facilitator: Asian Development Bank

The objective of this workshop was to encourage financial service providers in the Pacific to implement financial products for agriculture smallholders according to identified market needs and client creditworthiness. The workshop focused on how to translate client needs into feasible products (including practical examples) and how to design proper client assessment techniques.

Workshop: Digital Financial Services for the Under-banked – Research, Design and Delivery

Facilitator: MicroSave

The advent of digital financial services in the Pacific has been a relatively recent phenomenon and has its own set of challenges. The aim of this workshop was to share global best practices on digital financial services and the specific challenges in the Pacific. The workshop focused on innovative products and services (design and delivery), agent networks (development and monitoring), and research tools for digital financial services.



Panel 2: Inclusive Insurance – How to Expand Insurance Outreach Based on Lessons Learnt From the Pacific

Session Moderator:
Mr. Ramanathan Subramanian, PFIP Regional Technical Analyst Research and Inclusive Insurance, PFIP

Speakers:
Mr. Sanjeev Jain, Acting General Manager, LICI
Mr. Trudi Egi, Head of Sales & Customer Service for Nationwide Microbank
Mr Vereimi Levula, Chief Manager Financial Systems Development & Compliance Group, RBF
Ms. Carol Stewart Chan, Private Sector Development Initiative, ADB

Inclusive insurance is one of the fastest growing and dynamic elements in the microfinance suite alongside savings and credit, and a cornerstones underpinning financial inclusion. This session provided four perspectives on recent lessons learned, the challenges and opportunities ahead, and insights into next steps and plans for the scaling-up of inclusive insurance across the Pacific.

The Business Case for Inclusive Insurance

The poor are often more vulnerable to financial risk, and as such, insurance products can play an important role in their ability to maintain steady livelihoods. Insurance needs vary, but for the most part can be separated into three major categories. The first category of insurance needs are those due to crises and emergencies. Examples include death or sickness of a family member, loss of employment, fires or theft. Second are those due to life cycle events such as marriage, funerals, childbirth, establishing a household, festivals, rituals or educating children? The last category of insurance needs are these due to structural factors. This includes issues such as seasonality, inflation or vagaries of weather.

The characteristics of an inclusive insurance market are that insurance is available, affordable, sustainable and convenient. Providing insurance products, however, also has its own degree of risks. These risks generally stem from issues such as moral hazards, fraud, adverse selection or over usage. The degree of risk also differs depending on the type of insurance product. For example, a moral hazard risk is limited for life insurance products whereas this risk is substantial for property insurance products.

Providing the poor with access to microinsurance products is critical. Microinsurance can be defined as a financial service which augments savings and credit which the poor and uninsured use to manage their risks and create an inclusive financial market. Microinsurance is also a strategic tool for different nation-level development agendas such as pro-poor financing, agricultural and rural development, social security development or mitigation of climate change.

There are many challenges associated with the provision of microinsurance. The first is that it requires a high degree of technical specialization, or more specifically, specialized actuarial capacity which is complicated by the lack of reliable data on low-income and informal markets. Marketing and sales of microinsurance is also a major challenge due to the fact that most poor people do not understand insurance or may be biased against it. Lastly, distribution channels represent a significant challenge since microinsurance requires a distribution system that can handle small financial transactions efficiently. From a client's perspective, these challenges are magnified due to several issues common to low-income households such as irregular cash flow, weak financial capability, lower education levels or lack of trust in formal financial services. The below table outlines the key differences between micro and conventional insurance.

Conventional Insurance	Microinsurance
Premium collected mostly from deductions in salary/ bank account/ Internet/ direct payment	Premium often collected in cash or associated with another financial transaction
Regular premium payments	Premiums should be designed to accommodate customers' irregular cash flows
Agents and brokers are primarily responsible for sales	Agents/ Intermediaries may manage the entire customer relationship, perhaps including premium collection and claim payments
Market is largely familiar with insurance	Market is largely unfamiliar with insurance
Screening requirements may include a medical examination	If there are any screening requirements, they would be limited to a declaration of good health
Limited eligibility with standard exclusions	Broadly inclusive, with few if any exclusions
Sold by licensed intermediaries e.g. Agents	Sold by Licenses and unlicensed intermediaries

Conventional Insurance	Microinsurance
Large sums insured	Small sums insured
Priced based on age/specific risk	Community or group pricing
Complex policy document	Simple, easy to understand policy document

Four key elements underpin an effective microinsurance product offering. The first is that the quality of value-for-money products is measured in terms of financial viability, demand-orientation and broad outreach. The second key principal is to understand that microinsurance is an integral part of the financial system and should be promoted as such. Integration with other sector policies is the third key principal. Integration with policies such as Agricultural Development or Consumer Protection results in more effective microinsurance approaches. The last key principal is the importance of financial education to build client capability.

Risk Protection for the Grassroots People Arrives in PNG

Papua New Guinea (PNG) has one of the lowest insurance penetration rates in the world. To-date the focus has been on urban areas. It is estimated that up to 85% of PNG's workforce is active within the nation's informal economy and formal insurance products specifically designed for the low-income market are virtually non-existent. This represents a significant un-tapped market, however, the challenges to enter it are also significant. Even though microinsurance is part of the wider national financial inclusion agenda, there remains very little understanding of rural risk mitigation and market demand for formal insurance or the people's needs or living situations.

In 2013 Nationwide Microbank launched a mobile-linked microinsurance product call MiLife. To develop this product Nationwide first undertook extensive market research with its strategic partners across three markets in PNG. Through this research they were able to identify the three main priorities for households in relation to insurance, which were 1) sickness or hospitalization, 2) death within the household and 3) education. Based on these demand research results, Nationwide, in partnership with PMMI, designed a funeral product. This product was initially piloted as a bundled product of Nationwide's mobile money platform on the island of Lihir in April 2013. The launch of this pilot represented PNG's first microinsurance product as well as the first mobile microinsurance product in the South Pacific region. The pilot is intended to continue for one year prior to full roll-out across the country.

The MiLife pilot product provides a non-renewable term-life product (covering both husband and wife) with one year duration. Clients pay an annual premium of PGK 5,000. As a bundled product, microinsurance is mandatory for clients of Nationwide's mobile banking product known as MiCash. By bundling the product Nationwide is able to build on existing infrastructure while also strengthening its core business. The MiLife product is also designed to be as inclusive as possible and uses a simple enrolment and claims processing system. There is also a specific focus on providing fast payouts (within 24 hours of claim).

One of the important aspects of MiLife is that it strengthens Nationwide's existing product portfolio and provides a potential future revenue source. More specifically, MiLife adds to the value proposition of MiCash (as a bundled product), creates an attractive feature which helps to differentiate from competitor products and strengthens Nationwide's mobile money channel. As a pilot program, the risks of MiLife are limited, however, within the pilot stage it is also not a revenue generator for the bank. More importantly, the pilot program provides a chance to monitor and evaluate the product within a contained environment. The overall aim of the pilot is to verify the business model of MiLife prior to full roll-out across PNG.

Regulatory Initiatives to Create an Enabling Environment in the Pacific

Insurance markets throughout the Pacific region, which largely consist of life and general insurers and brokers, are mainly regulated by their respective central banks through various insurance acts. By international standards, these markets are considered relatively small and insurance penetration is low. For example, in Fiji insurance penetration is estimated at only 15%, most of which are mid-high income earners. The total gross insurance premium pool is also small.

In Fiji, the central bank is working to support the development of the insurance market. As a first step, it is working on a regulatory framework to facilitate a better policy environment to allow the local industry to grow and become sustainable. This framework aims to support both down-scaling and up-scaling of various industry elements. For example, it aims to downscale by having licensed insurers to provide microinsurance products through agency networks. Through the use of distribution networks, insurance products can be more effectively sold and bundled with other financial products. The framework also supports the pilot testing of insurance products, mainly through faith-based organizations. Regarding up-scaling, the regulatory framework aims to better formalize, regulate and supervise informal insurance schemes and create a more proportionate regulatory environment.

Onsite and offsite supervision is also important from a regulatory perspective. Through risk-based supervision, regulators can be more proactive rather than reactive and ensure effective processes and procedures that support a risk based regime. The development of performance indicators is also important with suitable performance indicators and reporting/disclosure requirements necessary for effective monitoring of microinsurance schemes. Developing and maintaining comprehensive statistical data will better enable offsite and onsite analysis.

Technology-based microinsurance is administratively heavy as it generally involves large membership but low premiums. The additional volume of paperwork and record keeping can make such schemes cumbersome. However, technology-based schemes also produce greater cost effectiveness and greater efficiency given the large volume of transactions which keep premiums at affordable levels for low-income households. This benefit can be further enhanced through the use of mobile network platforms for payments of premiums and claims through e-wallet services. Through this method greater cost efficiency can be achieved through operations.

Raising awareness and supporting broader education programs for financial literacy and insurance products more specifically is also very important. Regarding awareness, the focus should be placed on insurance services and products as well as transparency and disclosure, redress mechanisms and financial literacy. Capacity building for supervisors is also critical to ensure that they have the necessary skills for risk-based supervision and supervision of microinsurance. Lastly, dialogue between regulators and insurers is important to encourage insurers to extend their services to low income population segments.

The Role of Donors in Expanding Inclusive Insurance

Donors play a crucial role in the expansion and development of insurance markets; particularly for lower-income population segments. To create an inclusive insurance environment all stakeholders, including policy makers, regulators, risk carriers, and distribution channels, must play their role in meeting the needs of the clients. Donors provide necessary support across all stakeholder groups to help ensure the development of sound regulation, valuable products, efficient delivery and inclusive markets.

More specifically, donors play an active role developing a better understanding of the market, creating an enabling regulatory environment, forming partnerships, assisting with product design and acting as a knowledge portal. In building a better understanding of the market, donors aim to identify key constraints and carry out demand research (i.e. client needs and their willingness to pay). To build a more enabling environment donors support capacity building initiatives for regulators, provide training to insurers and intermediaries as well as support clients with financial literacy and customer awareness programs. The formation of partnerships is also important to achieve greater efficiency and share risk to create more viable business cases. Donors support this by developing innovative partnership models as well as facilitating stronger ties between the public and private sectors. With regards to product design, donors are able to address actuarial data constraints, provide expertise for product design and produce key performance indicators to better assess client value. Lastly, by providing a knowledge portal, donors actively support monitoring and evaluation, develop and share tools for best practice and provide further capacity building to various stakeholder groups.

From the donor's perspective, insurance should be a part of greater financial inclusion and market development strategies. Further to this, development of the traditional insurance sector should precede the development of the microinsurance sector so that the later can build on the infrastructure already in place. Donors also recognize that trust barriers with regards to clients represent a significant challenge and that innovative business models are most likely to succeed in overcoming this. In countries with small populations donors have found that Public-Private-Partnerships (PPPs) are a good option to better achieve outreach and scale.

Observations

Several key observations were made in the course of this panel session:

- In order to achieve an effective balance of market development and prudentially strong providers, it is critical to develop a strong supervisory framework. A strong supervisory framework and regulatory certainty would potentially attract more investors and capital leading to further development of a robust and inclusive insurance market.
- There is a need to extend beyond the $10-20 product, as there is a growing middle income class and vulnerable non poor segment who have the capacity, willingness to pay for insurance but do NOT have access. Also it makes a stronger business case for intermediaries, insurers to target these segments and gradually extend to the lowest income segment (rather than going the other way round).
- Insurance should be integrated with the National financial inclusion and market development strategies. And for inclusive insurance development, it is critical to have a sound supervisory framework and established insurance market development (these can happen concurrently depending on each country context).
- It is critical that prudential oversight and consumer protection is never compromised. Insurance provides intangible benefits at the point of sale and the actual discovery of benefits take place only during a point of claim. So for positive discovery of insurance, it is critical registered, licensed insurers are encouraged.
- Recent evidence from many developing countries has demonstrated that clients in the low income segment can afford to make periodic contributions towards insuring themselves against risks, and that the risks they face are eminently insurable.
- Given the difficulties in reaching the large percentage of uninsured population, it is critical for insurers to partner with alternate distribution channels that can sell the insurance products to their large client base.
- There is an untapped SME/MSME segment in the Pacific, with huge scope for insuring the human and physical assets across the value chain (vulnerable Non-poor).
- There is potential for expanding access to health and other products to the poor, and elderly through risk transfer arrangements involving public private partnerships between Government and formal insurers where the premiums are fully or partly subsidized (extreme poor, poor).
- There is scope for government to effectively transfer their fiscal risk for managing losses arising out of natural disasters by opting for layered approach to disaster risk financing where insurance could be used as one of the instruments.

- Key actions for the future, endorsed by the PIWG, include developing a model regulations / guidelines to facilitate expansion of inclusive insurance and integrate it with the country level NFI strategy (to be led by PFIP), and building the regional capacity amongst supervisors in risk based supervision, compliance to IAIS ICPs in a proportionate manner, and developing modules for reinsurance (to be led by ADB).

Workshop: Introduction of Client Protection

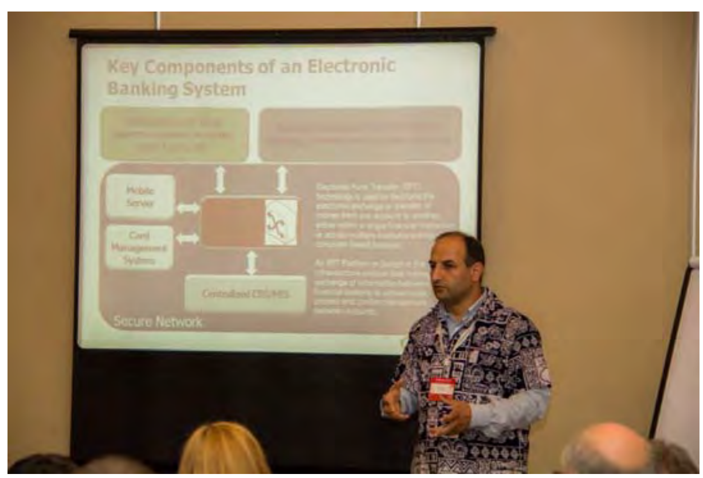
Facilitator: Good Return

This workshop introduced the concept of client protection to MFIs in the Pacific. The workshop covered the work of the Smart Campaign, the need for client protection in the Pacific, client protection principles, standards and indicators of the Smart Campaign, client protection assessment and certification.

Workshop: Electronic Banking Solutions for Financial Inclusion: A Pacific Case Study

Facilitator: Software Group

This workshop took the form of a panel of IT experts including representatives from core banking (Fern), payment solutions (Paycre8) and delivery channels specialists (Software Group). In this workshop facilitators provided an overview of electronic banking, explain the key components and requirements of the system and present the delivery channels made available via Electronic Fund Transfer (EFT) such as mobile banking, branchless banking, internet banking and ATM/POS. A member of the National Bank of Vanuatu management team shared his motivation for and experience with EFT, outlining the importance of addressing both organizational and client needs to meet financial inclusion goals, the prerequisites of an effective solution and an overview of an implementation process and key stakeholders.



Day Two

Plenary 2: Microfinance Policy and Regulation

Session Moderator:
Mr. Gane Simbe, Deputy Governor, Central Bank of the Solomon Islands

Speakers:
Mr. Eric Duflos, Regional Representative for East Asia and the Pacific, CGAP
Mr Eliki Boletawa, Policy Manager, Alliance for Financial Inclusion
Mr. Erik Aelbers, Private Sector Development Initiative ADB

Policy and regulation have a fundamental role in fostering financial inclusion and provision of innovative, sustainable and responsible financial services within Pacific communities. Microfinance products, services and delivery modalities continue to evolve as financial and development communities strive to extend access, pursue sustainable growth, and help build more inclusive financial systems. Regulatory and supervisory systems also need to develop in parallel (if not in advance) to ensure that consumers are appropriately protected and that long term sustainable business models are in place. This session provided an overview of the approaches by policy makers and regulators in various jurisdictions as they respond to product, service, delivery innovation and increasing competition amongst regulated and unregulated providers.

Policy and Regulation for Financial Inclusion

Conducive policies and regulation are crucial for the poor. Such regulation can provide important benefits to the poor such as a legal basis for them to access a broader range of financial services and legal organizations. Regulation can also introduce important practices such as transparency requirements which can protect the poor from negative or unfair behaviours. On the other hand, poorly designed regulation can exclude the poor, for example through interest rate caps or onerous Know Your Client (KYC) requirements. To achieve a positive policy and regulatory environment that is supportive of financial inclusion, it is important to understand the re-enforcing linkages between financial inclusion and the regulatory objectives of financial integrity, consumer protection and stability.

Financial inclusion has several important dimensions which are important for policy makers and regulators to understand. The first of these dimensions is access indicators which reflect the depth of outreach of financial services. Such indicators include penetration of bank branches or ATMs or POS. The second dimension is that of usage. This is the way in which clients use financial services such as average savings balances or the number of transactions per account. A third dimension is the quality of financial services. This refers to the ability of the service or product to meet the needs of the consumers as well as the range of options available, level of convenience, product-fit, transparency, safety and consumer protection. The last important dimension is the level of impact. These are the direct benefits that poor people receive from the financial services they access and include savings, transfers, insurance or credit.

Financial inclusion is provided by a range of entities that provide financial services to the poor and micro-enterprises. Examples of such entities include NGOs, commercial finance (and leasing) companies, financial cooperatives, commercial banks, non-bank retail agents and mobile network operators. On the policy and regulation side, there are also parts of government that are involved in financial inclusion such as representatives of national and local executive branches, national and local legislative branches, central banks including regulatory and supervisory authorities, as well as members of unions, political parties and other socioeconomic political organizations. Some examples of specific government ministries that are typically involved in financial inclusion are the Office of the Prime Minister, Ministry of Finance, Central Bank, Ministry of Agriculture, Ministry of Education (financial literacy), Ministry of Planning (foreign aid), Ministry of Social Affairs (G2P) and the Ministry of Communication.

Regulation for financial services is often classified as either prudential or non-prudential. Prudential regulation aims to protect the financial solvency of the regulated institution in order to protect depositors from the loss of their savings and to protect the financial system from the so-called "contagion effect" when one depository institution fails. Non-prudential regulation involves regulatory objectives that can be achieved regardless of the financial health of the regulated institution. Some examples of non-prudential regulation include consumer protection regulation (other than depositor protection), regulation on financial crimes such as Anti-Money Laundering (AML) or Combating the Financing of Terrorism (CFT) and regulation for broader national-level strategies. Politically exposed persons (PEP) also are of increasing interest to both banks and regulators in the Pacific. A dilemma some Pacific commercial banks face is the careful management within the one institution of two AML/ CFT / PEP standards – one that applies to smaller microfinance clients, and another to larger commercial clients. The Central Banks of some Pacific Islands countries adopt a graduated approach where requirements are based on identification available, size of account, etc. of bank customers.

When prudential regulation requirements which are applicable to depository institutions are applied to microfinance institutions and activities they often require adjustments such as capital requirements, loan provisioning, reporting and loan documentation. Many of the differences in regulation and supervision of microfinance relate to the distinctive features of traditional micro-lending methodology. The approach in some South Asian countries to limit the deposit taking of microfinance institutions may be effective prudentially, but force microfinance institutions to seek external, usually more expensive, capital for lending. Pacific regulators were encouraged to examine different models in Asia.

Supervision of prudential regulation is very important as it is intended to protect poor people's money, however, it is also very costly to both the supervisor and the MFI. Generally speaking, the cost per client is much higher relative to the amount on deposit than for higher income clients. It also requires new skills which supervisory authorities often lack. Since effective supervision is costly, the issue of who pays for this cost presents a challenge. If the MFI pays, the cost will simply be transferred to the clients making products and services less affordable. But having the Bank supervisor or donors pay for this is also often problematic. Due to these issues, it is crucial for the regulator to be selective in which organizations need to be prudentially regulated.

Branchless banking provides an example of new regulatory challenges for financial inclusion because of the number of new or non-traditional actors that are involved with the services. For example, branchless banking models incorporate third parties (agents) to conduct activities on behalf of the financial service provider. In such cases, regulators need to examine the model carefully to understand how the allocation of risks may potentially change. This leads to the question of whether and how regulation should be changed or adjusted to suit a new model. Regulators also need to consider key issues surrounding the regulation of branchless banking agents. Determining who can act as agents, what approvals are needed, if agents can be

exclusive or open accounts and addressing liability issues for transactions conducted at agents all add to regulation and supervisory requirements.

Market Conduct and Self-Regulation

Market conduct encompasses aspects of both market discipline and consumer protection and its objective is to create confident, informed and empowered clients. In order to provide active oversight of market conduct, regulation must include both on-site and off-site supervision. Market conduct regulation also greatly benefits from engaging stakeholders such as industry or consumer associations as well as the media. The principles and standards of market conduct are usually embedded within laws and regulations.

Market conduct standards alone are not enough to be effective and they must be complemented with initiatives which are designed to empower consumers. This consumer empowerment includes helping consumers to develop greater competence and confidence. There are three ways to achieve consumer protection through regulation. The first is through effective policy and regulation (both prudential and market conduct) competition laws and effective ongoing supervision. The second is through effective enforcement measures (both judicial and administrative processes). The third way to achieve consumer protection through regulation is indirectly by self-regulation.

Self-regulation is a "soft law" meaning that it can be purely voluntary, mandated or delegated. Through self-regulation, rules are applied that are usually not enforced or supervised by public authorities. Instead, they are supervised by the regulated entity itself or by another self-regulatory organization. The benefits of self-regulation are that it establishes a level playing field for similar, participating players. It is also based on experience and detailed knowledge of the business and stakeholders and so is more easily tailored to be appropriate for the institution and clients. Self-regulation is also highly flexible and it can provide incentives for the regulated entities to comply with self-imposed rules.

Self-regulation also carries with it a number of risks which require attention. Examples of risks include lack of transparency, improper enforcement (or lack of enforcement), biased enforcement or abusive disclosure. These risks can each be mitigated however, through the design of specific mechanisms and processes to review procedures, involvement of other stakeholders and disclosure of self-imposed rules to allow for public control and strengthening consumers trust.

To support a greater emphasis on market conduct within regulatory environments, the Alliance for Financial Inclusion established the Consumer Empowerment and Market Conduct Working Group (CEMC) to lead developments in this area. In 2013 the CEMC conducted a survey amongst its group members to determine if they were currently working on the four identified policy and regulation priority areas for financial inclusion: transparency and disclosure, sales and marketing practices, avenues of help and redress and financial education. The majority of responding institutions stated that their countries currently have national strategies or objectives in place for each of these four policy areas.

In 2012, the AFI Pacific Islands Working Group (PIWG) conducted a review of legal frameworks currently in place across the Pacific nations. From this survey AFI was able to conclude that while there is some level of regulation on banks, there is relatively less regulation on insurance or other regulated financial services. For non-bank institutions, little or no regulation was common. Furthermore, with regards to marketing there was generally little or no regulation of advertisement/brochures/marketing as well as little or no regulation of debt collection and contract enforcement. Within the insurance environment there were some cases of regulation of agents, but little elsewhere. Based on the results of this survey the PIWG is now considering how to best prioritise and proceed to develop a stronger regulatory environment in the Pacific.

Branchless Banking and Consumer Protection

Attention to consumer protection came into focus during the global financial crisis with prominent examples of provider 'mis-conduct' from around the world – developed and developing countries alike. Consumer protection is important as it ensures that consumers of financial services receive responsible products and fair treatment. It also reduces power imbalances between providers and consumers and encourages trust, confidence and stability in the financial system.

The SMART Campaign has developed seven standard consumer protection principles which it promotes as a self-regulation option for financial service providers. These principles are:

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution

Branchless banking requires special attention for consumer protection as it involves a greater number of players (both banks and non-banks) as well as the use of agents and new technology. Branchless banking also opens up financial services to customers who may have been traditionally excluded from the formal financial system and also those who are typically poorer and less experienced. Due to their lack of experience these new market segments are more vulnerable which leads to increased concerns about the welfare and protection of customers. The lower level financial product and operational experience of agents, compared to banks, also contributes to the challenge. As such, the issues and perceived risks from branchless banking must be identified and policy objectives put into place to mitigate these risks.

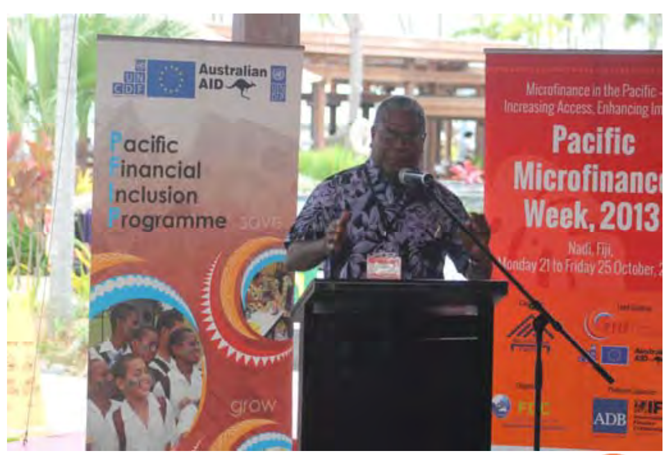
Specific issues of client welfare related to branches banking include:

- clients loosing funds due to provider insolvency
- agents not carrying sufficient cash, or having technical difficulties
- clients loosing funds to fake agents
- clients being pressured to buy products
- fees and charges not being disclosed or understood by agents
- mis-use of client personal information
- clients don't knowing how to complain or resolve a problem

A number of practical responses were identified, with a key being continued attention to communication and raising awareness – of consumers by agents and providers, and of agents by financial service providers.

Codes of practice are important and have a useful role, but are not always comprehensive, and ultimately, are voluntary (and offenders are the most unlikely to be subscribers).

The development of sound regulation for branchless banking will take time and resources but it should not be rushed as inappropriate regulation can often be an obstacle for financial inclusion. In order to determine what regulation is necessary constant monitoring of emerging issues should take place to prioritise



regulatory requirements. Regulation must also be proportionate and effective, meaning that it should align market conduct supervision with existing prudential supervision. Where supervision is deemed necessary, resources must also be in place to ensure that capacity constraints are met. Lastly, as a general principal, providers should remain responsible for agents' performance and compliance with regulation (the fruits for financial service providers in building awareness, reputation and trust, with both agents and clients, are evidenced in the success of M-PESA).

Plenary 3: Non-bank Financial Institution Sustainability

Session Moderator:
Ms. Julie-Ann Sala, CEO, VANWODS.

Speakers:
Mr. Manoj K. Sharma, Director, MicroSave
Mr. Jay Supetran, Development Finance Specialist, PF Technical Advisory Services
Ms. Sabine Spohn, Private Sector Development Specialist, ADB

In many places, non-bank financial institutions are at the vanguard of providing financial products and services to the most financially excluded. Social mission (e.g., providing the poor with access to financial services, and economic opportunity) and financial sustainability of these institutions often are competing goals. This session provided examples, experiences and constructive insights from within and outside the Pacific on: reaching clients in geographically diverse and highly dispersed populations; building the service delivery, leadership and organisational capacity of institutions; achieving efficiencies in a high-cost structure environment and hard to reach areas; and opportunities that innovation in new delivery models, partnerships and technology offer to non-bank financial institutions.

Sustainable Non-bank Financial Institutions: What Works and What Hasn't?

Microfinance institutions have evolved from non-financial service providers recognizing the need to build financial disciplines within their services. The financial interventions that followed included the provision of non-collateralized loans to groups. Overtime time MFIs have become more commercialized with an increased focus on their bottom lines. This commercialization, while beneficial to MFI sustainability, has in some instances, resulted in negative consequences, such as aggressive pursuit of loan portfolio growth, leading to client over-indebtedness, and has further brought the microfinance industry to the attention of regulators. The subsequent increased oversight of MFIs has led to a renewed focus on a double-bottom line and need for bringing greater focus on the client. MFI's continue to search for the right business model which utilizes an appropriate balance between financial viability and meeting the needs of clients. This process has sparked a greater focus amongst MFIs for product innovation, technology powered delivery channels and more holistic product offerings with the aim of lowering costs and better meeting the needs of clients.

The microfinance industry will need to adopt a renewed outlook in order to achieve sustainability. Firstly, stakeholders must recognize that microfinance is not a substitute for other social and economic development programs (i.e. infrastructure, sanitation, education, etc.), and that it is simply one of the many tools which can be used to alleviate poverty. The value proposition of financial inclusion must be sought with the aim of developing a better understanding amongst stakeholders of the role which it plays within the broader development scheme. Next, MFIs need to be more forward-looking and focus more on long-term sustainability. In this regard, technology is key and should be considered an investment rather than an expense. MFIs also need to bring the client back to the focus of their operations. To achieve this, they will need to spend more time getting to know their clients to better understand what they need. As their specific needs are identified, MFIs are better positioned to develop innovative products which will allow them to meet those needs. Lastly, MFIs need to put greater emphasis on measuring social performance. By tracking social indicators MFIs can more easily modify their systems and processes to maximize their social performance.

Unfortunately, microfinance remains among the last surviving businesses which prioritize products and processes over client needs. There is no substitute for client centricity and MFIs need to address the holistic needs of their clients. This entails looking beyond financial assistance and introducing other non-financial initiatives such as value chains or providing support for water and sanitation or education. In terms of credit provision, MFIs should also increase their efforts to develop micro, small and medium size enterprise products to promote greater entrepreneurship.

There are three key components to MFI sustainability: human resources, technology and products and processes. For human resources, a key component of MFI sustainability is their ability to recruit the right people and invest in building their capacity through training. Regarding technology, MFIs need to leverage on technology to increase their ability to offer a wider range of products and in a more efficient manner. Developing the right products and processes is also a critical factor for sustainability. MFIs need to be wary of bundling products and services and ensure that products are not loaded with features which clients do not actually need. Also, standardization and compliance of processes (drawn from international best practices) is crucial for sustainability. Lastly, regarding products and services is ensuring that MFIs actually engage with their clients to understand their needs and not simply rely on implied good intentions.

Global Innovations in Servicing Small and Remote Communities

The challenges of providing financial services to small or remote communities generally stem from two main issues: small populations, which results in fewer potential clients; and lesser developed local economy, resulting in less demand for credit. In such environments the cost of establishing and operating a bank branch typically outweighs the potential profit with transaction volumes generally expected to be low. As such, in order to provide services to small or remote communities financial service providers need to find ways to reduce their operating costs and/or shift those costs to others. The largest contributing factors to branch operating costs are client identification, promotion and client monitoring.

Mobile and/or agent banking are examples of recent innovations which financial service providers are adopting as a way to provide services to remote communities and remain viable as a business case. Through the agent banking model, agents are used to conduct specific tasks such as repayment collection, cash handling activities, product promotion or discernment. Similarly, the mobile banking model uses the telecom kiosk as agents. An additional benefit of the mobile banking model is that it is possible for some client monitoring to take place through mobile communication.

While mobile or agent banking can potentially reduce operational costs associated with the traditional branch model in remote communities, they also face several challenges. Within the agent banking model, the MFI still has to bear the largest operational costs, and associated overheads, such as promotion, client identification and monitoring and follow-up activities. Also, the agents require training and ongoing monitoring as well as incur additional costs to enhance their cash management capabilities. These factors create additional costs for the MFI. The mobile banking model faces similar challenges, but also has its own unique costs/issues such as the need to build and maintain a working technology platform or the multiple layers of fees (i.e. kiosk owner fee and telecom platform fee).

While agent and mobile banking models may be successful at reducing some costs, they do not significantly reduce the largest sources of branch operating costs (promotion and client identification). Client monitoring, another major cost to MFIs, can in some cases be outsourced to the agent or kiosk, however, by doing so there is potential to weaken risk management. Lastly, as noted above, these models also incur their own additional costs, so the cost-benefit ratio may not be as appealing to MFIs.

In Asia there are examples of successful models which MFIs have used to access remote communities. In Cambodia, MFIs follow a cost-reduction strategy where the branches act as the main profit centres. The branches also handle the more expensive activities such as promotion, and client identification. Assessment and discernment are also centralized at the branch where economies of scale can be maintained. These MFIs further utilize sub-branches which are located within the isolated communities. The sub-branches run on a (near) break-even bases. The branches will outsource certain tasks such as repayment collection and monitoring to the sub-branch which has minimal staff and overheads to increase cost efficiency. This modular system can be used to replicate service delivery points and group structures

In the Philippines and Vietnam, MFIs follow a different strategy known as "cost-shifting." Under this strategy, almost all branch activities, including promotion, client identification, assessment, repayment collection and monitoring, are conducted by "volunteers" who are not paid but have a stake in the MFI's operations. As part owners of the MFIs, these volunteers represent cooperative members in the Philippines or the local chapter of the Women's Union in Vietnam. By conducting these transactions for the MFIs they are able to increase their dividends. The volunteers work on an ad-hoc basis for most activities and conduct transactions 2-3 days per month.

Sustainability of institutions in more remote communities can be enhanced by treating borrowers as partners in local development, rather than as beneficiaries or clients, as has been the practice in the past. The benefits to MFIs of this approach include greater borrower loyalty and contribution to the institution's social performance

Leveraging the Outreach of Non-bank Financial Institutions

An MFI's ability to reach potential clients is commonly constrained by three factors: 1) the costs to deliver services on a cost covering basis, 2) unsuitable legal systems and 3) capital constraints to expand operations. Secured transaction reform represents an option with potential to assist in overcoming these constraints. Through such reform MFIs are more easily able to use "movables" (i.e. personal or intellectual property) as collateral for loans. In order to achieve this, legislative changes that provide for an efficient framework are required along with the implementation of an online collateral registry to assist lenders in evaluating borrowers.

A secured transaction system allows for loans to be created backed by collateral, any claims to be prioritised against collateral, the publicising of claims, and enforcing claims if loans remain unpaid.

The benefits of secured transactions reform are significant as it enables borrowers without traditional collateral to receive longer term loans and at lower interest rates. Most importantly, it allows access to credit for small businesses further enabling them to develop and expand.

To help MFIs manage risk, the Asian Development Bank (ADB) initiated the Microfinance Risk Participation Program. Over the years, a growing number of funding sources have become available for MFIs including traditional sources such as donations from NGOs, or investments from commercial banks. Today, MFIs can also access funds from a new variety of sources such as microfinance investment funds, bonds, initial public offering (IPO) or risk participations.

Under the ADB's Microfinance Risk Participation Program MFIs form a partnership with a local financial institution. This partner institution can then make requests for loans to the MFI. After approving the loan limit, the partner institution provides the loan to the MFI in local currency. The partner financial institution also submits quarterly reports to the ADB. Under this model, the default risk of the MFI is equally shared by the partner financial institution and the ADB and provides a less risky source of capital for the MFI.

Panel 3: Building Women's Leadership in the Pacific

Session Moderator:
Ms. Carolyn Blacklock, Resident Representative (PNG), IFC

Speakers:
Ms Amy Lofgren, General Manager of South Pacific Business Development (Tonga)
Ms Gima Kepi, Manager Women's Banking, Nationwide Microbank (PNG)
Mr Adrian Hughes, General Manager, Westpac (Fiji)

There remains significant gender inequality across the Pacific - women make up just 3 per cent of parliamentarians in the Pacific - the lowest in the world. In the paid workforce, men outnumber women outside the agricultural sector by approximately two to one, and the Economist Intelligence Unit's Women's Economic Opportunity Index places both the Solomon Islands and Papua New Guinea in the bottom five countries in the world. What increased knowledge, skills and opportunities are needed to enable more women leaders in economic settings? Financial institution executives discussed the social and cultural issues women in leadership face, how they overcome the barriers and respond to opportunities (and what works in their respective countries/organisations) and other related experiences.

Barriers to Leadership

Several factors currently inhibit leadership roles for women in the Pacific. Social rankings within society make many women reluctant to approach or engage with leaders (both male and female) due to social ranking or status ("I have no voice, I cannot speak"). Women also struggle to assert authority when in leadership positions, with colleagues commonly not respecting their leadership role ("I wouldn't know how to approach any of the women leaders I know – they are higher than me"). There are highly defined roles and levels of respect. Social ranking is a function of age, education, family, position in the family, church, village, etc. ("When I first went to the centres it was very hard for me to lead because the members were older than me – some days it is still hard – they treat me like I am a school girl on days I don't wear my uniform").

Networking and mentoring opportunities are important to help build capacity and confidence amongst women. However, even when such opportunities are provided many women feel too intimidated to participate. Having the confidence to speak and interact is one of the greatest barriers to women in the Pacific. Network coaching programs and facilitating local and regional networking opportunities should be encouraged.

Common traditional values in Pacific culture also are a major barrier for women, with many women sharing the feeling that even if they managed to secure leadership positions that men would be unwilling to listen to them. And there is also a view that no matter how successful a women is in business, it is her responsibility to first take care of the family and anything related to cultural activities. Many traditional values also dictate that certain leadership roles are to be designated to women (i.e. leader of a woman's church group, or taking care of family and cultural activities), whereas other roles such as becoming a member of Parliament, are designated to men.

While the proportion of women in leadership in many Pacific Island countries is amongst the lowest in the world, of note is the number of women in CEO and leadership positions in business, government, and community organisations.

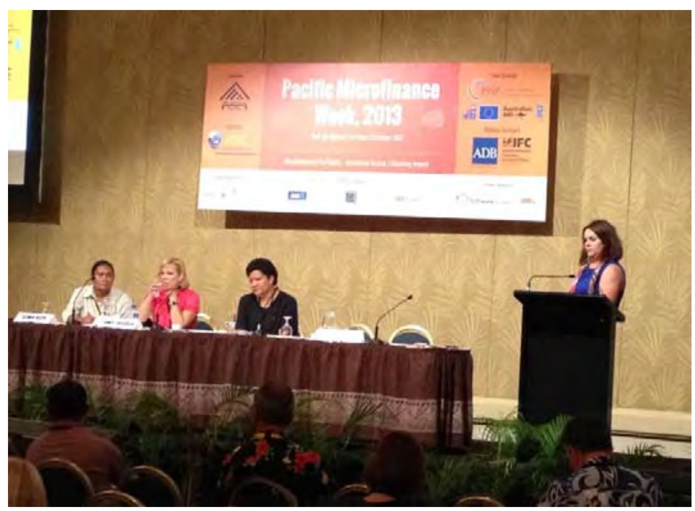
The design of effective leadership training needs to consider for what purpose, for who's purpose, the type of training, what is the target population (don't forget the men), and appropriate channels of delivery.

Building Women's Leadership within Papua New Guinea's Context

Addressing the need for building women's leadership in Papua New Guinea (PNG) is a critical issue and particularly relevant at this time when the country is experiencing stable periods of economic boom but at the same time, struggling with significantly low human development indicators. One of the reasons for this current situation can be attributed to the exclusion of women at all levels of leadership across all sectors. This imbalance will continue to remain until women's status is improved.

According to PNG's National Census in 2000, the majority of women in PNG live in rural areas. PNG's rural areas are characterised by geographic isolation (including mountainous ranges and islands) along with highly patriarchal societies which are grounded on "big man" leadership concepts and customs. These communities are effectively creating "strongholds" that form the barriers for progressing women's leadership in PNG.

More specifically, these barriers can be categorized as structural or circumstantial. Structural barriers include those factors which arise from traditional and contemporary culture and other socio-economic characteristics. Examples include the culture of male entitlement or weak law enforcement. Furthermore, customs such as bride price and polygamy are also widely practiced which further impacts the status of women in society. Circumstantial barriers include those factors which arise from household dynamics, education levels, economic activities and access to opportunities. Even in environments where opportunities are more widely available, these may not applicable to women. Due to common traditional beliefs that women are subordinate to men, their rights are systematically violated and violence against women is considered socially acceptable.



PNG is currently ranked amongst the lowest countries in the world in in terms of the Human Development Index (HDI), with the 2013 United Nations Development Programme's (UNDP) gender-related development index report ranking PNG's HDI at 156 out of 187. With regard to political participation, PNG has only 2.7% of female representatives and only six women have ever been elected to PNG's parliament in the last 37 years. Within the private sector, only a small minority of professional women hold senior executive roles. There are signs of progress, however, with the recent

Local Level Government elections seeing more women nominations than ever before and one woman making history by becoming the first female town mayor.

Microfinance has always been regarded as a tool which, if applied appropriately, can be an effective means to empower women. However, in PNG most microfinance clients are men. In February 2012, PNG's Nationwide Microbank (NMB) established a Women's Banking Unit with the specific aim of improving the ratio of women clients against men clients. By working with churches, NGOs and other community-based organizations the unit is better able to engage with and identify potential women clients. NMB further introduced its mobile money product (MiCash) as a particular product which was determined to be useful to women clients and has since increased its outreach to more than 2,500 women since the Unit was established.

NMB's Women's Banking Unit also provides financial literacy training workshops for women. Those who participate in the training graduate with a MiCash account. Women are also given further access to financial products through bundles available with the MiCash account. Additional services such as microinsurance and credit are also planned to be available soon. Women's usage of the MiCash account and additional services highlights their first steps toward financial empowerment.

Experiences from Westpac

"The change we need starts in the classroom and goes all the way to the boardroom" (Gail Kelly, CEO, Westpac). Westpac Bank leads by example, with Westpac Fiji's team consisting of 53% women, the majority of whom are in leadership roles. These women leaders within Westpac Fiji hold senior roles within their local communities and have significant financial and non-financial responsibilities. This large number of women in leadership positions at Westpac is not driven by any quota or Head Office directive, but simply based on merit. Westpac and recognizes the unique qualities women bring to the business such as their tendency to be less hierarchical or their willingness to seek more information or consult more broadly in decision making processes. But first and foremost is their ability to get the job done.

Four years ago Westpac implemented a grant program called "Westpac Women's Education Grant." Through this initiative females from primary, secondary and tertiary education institutions were asked to submit essays on a topic provided by Westpac for a chance to win monetary prizes for their education. The theme for the grant in 2013 has been "Empowering Tomorrow's Women." With successful careers being built upon the foundations of family, lifestyle and education, this grant scheme gives girls and women a financial boost and a chance to better their education. To further complement this program, Westpac also provides free financial literacy programs for women to help build their financial capability. These programs are not limited to urban areas, but are also provided in rural and maritime communities. Other training programs for women who are particularly interested in business are also provided to assist them develop confidence and other skills and qualities necessary to operate an effective business.

Westpac also provides a free facility through its Microfinance Markets for women to sell their wares and network with other women. These markets have helped many women develop greater business skills and leadership qualities. Westpac has also recently launched a new Instore banking initiative which allows women to have greater opportunities to manage their money independently, leading to greater empowerment culturally.

Workshop: SME Finance – Credit Products for Small Businesses

Facilitator: Asian Development Bank

The objective of this workshop was to encourage financial service providers in the Pacific to implement financial products for small businesses according to identified market needs and client creditworthiness. The workshop focused on how to translate client needs into feasible products (including practical examples) and how to design proper client assessment techniques.

Workshop: Building the Capacity of Non-bank Financial Institutions (Client Assessment)

Facilitator: PF Technical Advisory Services

The workshop covered the basic knowledge and skills required for assessing potential clients, whether in a group or individual setting. Assessment has two aspects. The first is the determination of whether the potential client is part of the market segment being targeted by the MFI. The second is an assessment of the potential client's willingness and ability to repay a loan based on the "5 Cs" of lending: capital, character, capacity, collateral and conditions. Although client assessment is handled by personnel working in Operations of the institution, the policy decisions that establish the assessment process are made by Management. For this reason, senior managers were targeted for this workshop.

Panel 4: Understanding Clients and the Products/Services they Need

Session Moderator:
Mr John Aruhuri, Head of Rural Banking Services, National Bank of Vanuatu

Speakers:
Mr. Ramanathan Subramanian, PFIP Regional Technical Analyst, PFIP
Mr. Ajay Verma, General Manager, SPBD Samoa
Mrs Kamal Haer, Head of Marketing, Retail Sales and Distribution, Pacific and Fiji, ANZ Bank
Ms. Catherine Highet, Pacific Manager, GSMA mWomen

Impressive gains have been made in recent years in providing the unbanked in the Pacific with access to financial services and products. Attention is turning to increasing the use of financial services and products, achieved in part by education and in part by creating products and services that meet consumer needs. Creating such products in turn requires a sound understanding of how consumers use money, what influences these uses (i.e., economic or life cycles), how consumers interact with providers and engage in related networks, and the inter-relationship among a variety of financial products required to meet the overall needs of an individual, household, or small enterprise. In this session, financial service providers and stakeholders highlighted their experiences in understanding clients and the products they need.

Papua New Guinea Financial Diaries

Financial diaries is a longitudinal study that allows researchers to examine the economic transactions of the target group, including cash, non-cash and events. It further allows for closer examination of the value, type (i.e. cash or e-money), gender and location of transactions. By mapping the financial behaviour of low income people researchers are better able to track and understand how low income population segments engage with formal and informal financial products and services.

Financial diaries research is important in PNG, particularly since there is currently very limited information about how people engage with financial services, with current estimates of up to 90% of the PNG's population being unbanked. By collecting this information through financial diaries, researchers hope to find better ways to improve access and usage of financial services. Financial diaries also enables practitioners to link consumer financial behaviour with their own product development. In addition, it also helps to inform policy makers on how to best frame market conduct and consumer protection laws.

A financial diaries program was recently implemented in PNG in partnership with the Pacific Financial Inclusion Programme (PFIP), the Bank of PNG and Microfinance Opportunities (MFO). This study, which was conducted in three provinces (Kimbe, Port Moresby and Goroka), covered a broad range of low-income livelihoods. 240 respondents participated, 51% of which were women. One participant per household provided data which was collected over a period of 22 weeks, with an additional 45 in-depth interviews. Based on the transactional data gathered from each household, customer profiles were generated. Over the space of the data collection period over 30,000 transaction records were collected and analysed.

By examining the data collected through the financial diaries program, researchers were able to analyse a wide range of behaviours based on the transactions. For example, researchers could analyse transaction interactions and sequences, transaction networks and spatial distribution of transactions. Through analysis they could also gain further insights into household behaviours such as cash management, future planning and use of financial services. The expected outputs of this research are due to be shared in November 2013 through workshops at the national and sub-national levels in PNG. The research team will also develop three topical publications to further illustrate particular aspects of the findings. Stakeholders will be provided with a cleaned data set and "how to use" guide so that the research can be more easily continued/replicated with other population segments.

Experiences from SPBD Samoa

South Pacific Business Development (SPBD) is the largest microfinance network in the South Pacific, operating in four countries (Samoa, Fiji, Tonga, and Solomon Islands) and reaching over 70,000 clients. Being client-oriented is at the core of SPBD's operating model. This is achieved by providing a robust suite of products and services that is based on the life-cycle needs of clients. Recognizing that the needs of clients are dynamic and continuously evolve, SPBD maintains close and constant engagement with their clients so that product design can keep up with their needs. This is done through weekly contact with each client at Centre meetings, facilitating a financial literacy program, and maintaining regular financial diaries (with a focus on financial and personal goal setting), regular collection of information, such as data on clients' businesses, households or future requirements and conducting regular client training workshops and meetings (in the field or offices).

Through this regular engagement with their clients, SPBD has been able to develop a range of products and services tailored specifically for their needs. Examples include an SME loan product which has been developed to support the funding needs of clients with mature and larger businesses, overseas worker loans to support the travel costs of family members working overseas and spouse insurance to provide additional family protection from financial shocks. SPBD is also currently working on a mobile money/remittance product which will be launched soon.

From SPBD's experience, having a well-defined product launch process has been key to their success. The management process of a successful product launch includes four important elements: 1) Product planning to identify needs, conduct market surveys, research and design product features; 2) Client acquisition process to define processes, identify clients and create a budget; 3) Pilot testing and launch, including team training and documenting learning and making further modifications; and 4) Tracking and correction of key parameters and deviations as well as developing new ideas.

From this approach SPBD has learned some valuable lessons. The first and foremost is that maintaining the continuous client focus is crucial to creating comprehensive economic value. Having a methodical and disciplined approach to Know Your Client (KYC) is also important to achieving this. And, by pilot testing new products and making modifications as required they are more likely to be effective in meeting the needs of clients.

Some important challenges that SPBD has encountered include raising resources to develop, test and launch new products, creating technology back-ups for new products and keeping the focus on the core product and mission.

At the Forefront of Banking the Unbanked

The ANZ "goMoney" product was designed to offer a full mobile banking solution for customers who don't have access to financial services. The mobile banking platform allows customers to perform most banking transactions from their mobile phone. By offering a "virtual bank", costs are reduced to provide a range of services including payroll and bulk disbursements, person-to-person payments, cash-in and cash-out services at merchants, the purchase of goods, Airtime top up, bill payments and balance enquiries.

Having been launched in four countries (PNG, Samoa, Solomon Islands and Vanuatu), ANZ hopes that goMoney will revolutionise how customers manage their money, delivering on ease of use, safety and convenience. To increase ease of use, the product allows customers to open a bank account on the spot without having to go to a branch. They can also use their phones for a range of functions such as managing money, linking bank accounts, send and receive money at low cost and top up airtime or pay bills. Safety is increased by making it possible for customers to receive their cash (i.e. domestic wire transfers or wages) and make payments electronically. Corporate customers will have less risk for transporting payroll and underserved customers will gain a safe depository for their cash. Increased convenience is provided to customers wishing to bank outside of ANZ branches by visiting any of the more than 120 ANZ merchants.

Increasing Women's Access to Mobile and Financial Services

Globally, women are underserved in terms of ownership and use of mobile phones, with women 21% less likely to own a mobile phone than a man in low to middle-income countries. Further to this, women in the Pacific underutilize the formal financial sector. For example, in Fiji only 30% of women own a bank account compared to 45% of men or in PNG women are less likely to own any type of financial product than men. The reasons for this gender gap stem from low levels of financial and traditional literacy (which effects perceived value and use of services), lack of trust in formal financial services, finance being a major cause of marital conflict, saving being a relatively new concept with limited perceived value, limited economic opportunities and the high cost of financial services.

Mobile financial services (MFS) represent an excellent opportunity for more women to have access to, and be engaged with, financial services. However, there are several barriers which create significant challenges for having this technology more widely adopted by women, including women being less likely to own a mobile phone, lower levels of literacy, limited agent networks in place, lack of understanding and trust and other market-specific barriers. Having access to a mobile phone is a key barrier for many women and there are many factors that play a role in this. The cost of owning a mobile phone (including the cost of the handset, services and charging) is a challenge for many low-income women. Traditional cultures also create barriers with several women citing that their husbands would not allow it. Many women also feel that they would not know how to use a phone if they had one, highlighting technical literacy as an additional barrier. Lastly, perceptions of value are low with many women not seeing any value in owning a phone.

GSMA's "mWomen" initiative aims to increase mobile access and usage to resource-poor women in low- and middle-income countries. The initiative has three main objectives which are to encourage industry to serve resource-poor women, increase availability of life-enhancing value-added services, and to promote solutions to women's barriers to usage. GSMA has learned a number of valuable lessons from this initiative. One of these lessons is the value of a gender-inclusive approach since excluding men can create immediate group detractors. Customer insights are also a key to success with research needed to understand customers' habits and behaviours. Leveraging existing networks is also important, particularly building on trusted relationships. Lastly, appropriate marketing that takes into consideration the customer's lives and what would appeal to them is crucial to helping them see the value in the product.

Workshop: SME Finance – Credit Appraisal Techniques for Small Business Loans

Facilitator: Asian Development Bank

This workshop provided participants with the opportunity to deepen their understanding of techniques used in conducting proper client assessments in small business lending. The workshop focused on case studies and practical exercises (e.g., cashflow-based loan appraisal and client interview techniques).

Workshop: Financial Education in the Classroom

Facilitator: Pacific Financial Inclusion Programme

The Workshop included a 15 minute presentation on Financial Education, the Pacific policy environment and the Fiji experience. The presentation was followed by a hands-on experience with the Fiji financial education student and teacher resources within a student-centred learning environment. The workshop provided an opportunity for a wide audience to have a first-hand encounter with a Pacific's Island's ground-breaking response to Goal Number 1 of the 2020 Money Pacific Goals. The last portion of the Workshop focused on key decisions that need to be made when thinking about implementing Financial Education within the school environment.

Day Three

Plenary 4: Making Financial Inclusion a Reality in Fiji

Session Moderator:
Mr. Robin Yarrow, Chairman, National Financial Inclusion Taskforce

Speakers:
Mr Tevita Nagataleka, General Manager, Fiji National Provident Fund
Mr Kevin McCarthy, Country Manager, Bank South Pacific
Mr Elrico Munoz, General Manager, SPBD Fiji

Building an enabling environment for financial inclusion improves livelihoods and helps poor households. Partnerships between government, communities, the finance, private and other sectors are key to increasing access to and enhancing impact of products and services for the financially excluded. This plenary session provided a snapshot of the experiences and outcomes of the National Financial Inclusion Taskforce in Fiji.

Financial Literacy Working Group – National Financial Literacy Strategy

The mandate of Fiji's Financial Literacy Working Group addresses three key focus areas. The first is development and implementation of a national financial literacy strategy. This involved carrying out assessments of the current status of financial literacy programs and establishment of a baseline for financial competency amongst the population. The second focus area is development of a national school curriculum for financial competency. This involves integration of financial education into the school curriculum from class one to form six. Lastly, the Working Group aims to further develop household competencies through the provision of adult financial literacy programs to complement the school programs for children.

The strategy provides guidelines for policy and regulation as well as an overarching framework for better national coordination and support of resources for financial literacy from all key stakeholders. The Group's vision for this strategy is one where citizens have a better understanding of, and management skills for their finances so that they will be more likely to save for the future and also be more capable of using financial services as a means to improve their wellbeing.

The National Financial Literacy Strategy has been in development since 2011 with the first step in its creation being a financial competency survey. This survey, which was carried out by the Reserve Bank of Fiji (RBF), the Fiji Bureau of Statistics and the Pacific Financial Inclusion Programme (PFIP), examined samples taken from low income households and interviews with their main financial decision makers. The results showed that most households had low to moderate levels of financial competency and that a general poor understanding of the cost of money was prevalent. Most households also lacked a long-term plan and did not have adequate provisions for retirement.

In September 2012, RBF and PFIP hosted a national workshop to discuss the findings of the research and seek the views of other stakeholders. Through these discussions, the Financial Literacy Working Group was able to identify and agree upon key priority areas which were then formulated into the National Financial Literacy Strategy.

Strategic objectives of the National Financial Literacy Strategy include: the integration of financial literacy into broader national development plans; strengthening the coordination and development of financial literacy programs for both the formal and informal sectors; providing support for the development of appropriate, affordable and accessible financial services; ensuring effective market conduct and appropriate consumer protection mechanisms; creating and supporting initiatives that promote adequate provisions for retirement; and establishing a performance measurement framework to monitor progress.

There have also been a number of challenges faced in the development of this strategy. By introducing something new, the Working Group was met with a barrage of questions which required timely and effective responses to maintain the trust of stakeholders. The critical task of identifying what institutions would lead and monitor various elements was also found to be difficult. To build a foundation for the strategy, the Working Group did not have many comparable examples from other countries to examine (relying mostly on adapting relevant aspects from the experiences of Australia, New Zealand and Canada). In terms of prioritising the main focus elements of the strategy, reaching agreement on these was also found to be a challenge due to the wide range of stakeholders and their various views and perspectives. Working with the Government and having them involved as a key stakeholder early on was considered to be a crucial aspect of the Working Group's success in formulating the strategy.

Statistics Working Group – Financial Inclusion Mapping Project and Indicators

Fiji's Statistics Working Group was established in 2010 as a subcommittee of the National Financial Inclusion Task Force (NFIT). Its members comprise of a range of stakeholders including private and public entities, civil society, NGOs, donor agencies and Government bodies. The role of the Working Group is to map the outreach and coverage of existing Financial Service Providers (FSPs), determine the demand and supply of current financial services, facilitate the statistics requests by other Working Groups under the NFIT and to monitor the NFIT target of reaching 150,000 unbanked.

The role of data is critical for the financial inclusion agenda, with data from non-regulated financial institutions being particularly important for decision making purposes. The Statistics Working Group supports the use of financial inclusion indicators as a tool for evidence-based policymaking. However, these indicators currently only include data from regulated financial institutions. Within the case of Fiji, the Working Group has been focusing on three main perspectives for the indicators, these being: access, usage and quality.

With regard to access, data is collected and assessed on demographic information such as the total number of branches, ATMs or EFTPOS per 10,000 adults. Data is also collected on a geographic level with information on branches, ATMs and EFTPOS per 1,000km2 being assessed. For usage, the number of regulated deposit and credit accounts per 10,000 adults is collected. With all of this data, analysts can further create benchmarks based on points such as population size or density.

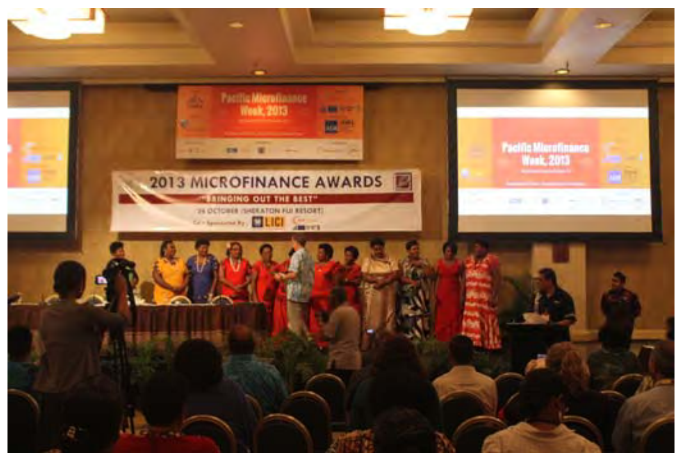
Challenges which have been faced by the Statistics Working Group include the high degree of technical knowledge required for most of the data analysis tasks, the limited resources of the National Statistics office, lack of available data and duplication of data due to the lack of a unique identifier. In their attempts to overcome these challenges, however, the Working Group has learned many valuable lessons. The Working Group has found that a collaborative approach among all partner stakeholders is crucial success; with particular emphasis on having the National Statistics office playing a key role. Having the Central Bank take the role of the Secretariat has also added significant credibility to the work output.

Microfinance Working Group – Awareness through Expos

Fiji's Microfinance Working Group (MWG) consists of member representatives from the public and private sector, NGOs and government. The main objectives of the MWG are to facilitate greater public-private sector participation and partnership, support the development of Fiji's legal framework for microfinance, advocate for the use of existing infrastructure, promote good governance and enhance skills through training. As part of the NFIT, the MWG aims to create greater awareness about financial services through expos.

These expos, which are held in targeted underserved communities, are used as a way to raise greater interest about how to access and use financial services. They also encourage financial services providers to interact with the wider community and learn about their financial service needs. For the service providers, the expos provide additional encouragement for them to establish service points of presence in the communities.

The organization of the expos is led by the NFIT Secretariat (Reserve Bank of Fiji). An Expo Committee is established to assist with the coordination and a cost-sharing arrangement is implemented amongst stakeholders involved in the organization of the expos. Since 2010, the MWG has organized a total of 15 expos in rural, maritime and urban areas.



Key challenges that have been faced including scheduling conflicts with the communities to ensure that a high number of the population are able to attend, lack of knowledge amongst the MWG with regard to appropriate locations for expos as well as other factors such as demographics, identifying suitable financial services to have highlighted at the expos that meet the needs of the target community and communication issues between the coordinating team and local communities. To overcome these challenges the MWG aims to establish strong partnerships with all participating stakeholders and spend more time trying to understand the target communities and their financial services needs. To resolve communication issues a strategy of simplifying information provided on awareness pamphlets has been adopted. Lastly, in order to increase the effectiveness of the expos, more focus is applied to the underserved segments of the communities targeted.

Panel 5 – Best Practice in Financial Literacy Education

Session Moderator:
Mr Michael Nacola, General Manager Distribution and Marketing, BSP Life

Speakers:
Mrs. Kelera Taloga, Deputy Secretary Education– Professional, Fiji Ministry of Education
Deputy Governor Benny Popoitai, Bank PNG
Eseta Nadakuitavuki, Manager for Sustainability, Westpac Fiji
Karan Sharma, Regional Coordinator for Asia & Pacific, Child & Youth Finance International

This session explored examples of financial literacy education strategies and programs within the Pacific and elsewhere in the world, and identifies: what makes for successful partnerships between educational and financial institutions and departments; experiences in the delivery of educational programs; the results – how programs impact on the financial literacy of students and other target audiences; the main challenges confronting effective financial literacy education; and the key policy and practice success factors - based on experience.

Implementing a National Financial Education Strategy in Schools: A Fiji Experience

In 2009 the Pacific Islands Forum Economic Ministers Meeting (FEMM) agreed that each Pacific Island nation, through combined actions of the public and private sectors, achieve the following goals by 2020:

1. All children to receive financial education through core curricula;
2. All adults to have access to financial education;
3. Simple and transparent consumer protection to be in place; and
4. Halve the number of households without access to basic financial services.

As part of their commitment to achieving these goals, Fiji's Ministry of Education, in partnership with the Pacific Financial Inclusion Programme (PFIP), launched the Fiji Financial Education Project (FinED). The overall aim of this project is to introduce, integrate and strengthen financial education into the school curriculum from Class 1 to Form 6 by December 2012. The anticipated outcomes from the initiative include a new generation of young women and men leaving school that are financially competent, can enjoy a financially secure future and are better able to contribute positively to family, community and the economy. As of April 2013, 197,000 Fijian students have had exposure to FinED on an annual basis.

Prior to the roll-out of the project a number of critical decisions had to be made. The first was that the FinED project would aim to benefit all children in schools from primary to secondary levels and that financial education would be taught within all core subjects (i.e. subjects taken by every student). It was also decided that Financial Education would not be introduced as a new subject for students, but rather integrated into the learning programs of existing subjects. Lastly, the decision was made to have the project formalized within Ministry documents.

At the primary school level, students are introduced to basic principles such as managing money, income and wealth and planning ahead. When they reach secondary school, the students will be introduced to more advanced concepts such as payments and credit, managing risk and financial planning. The FinED project has produced a number of results including a full range of student and teacher resources and a pool of active regional champion teachers as a resource within the education district. FinED has also been included within Fiji's Financial Literacy Strategy and the National Education Framework curriculum documents. The project is currently being implemented nationwide with 735 primary schools and 175 secondary schools. A monitoring exercise for the program is also currently under development.

PNG Centre for Excellence in Financial Inclusion

The Centre for Excellence in Financial Inclusion (CEFI) was established in April 2013 with a vision to eliminate financial exclusion in PNG. The mission of CEFI is to provide coordination and information sharing on financial inclusion initiatives and to establish and promote partnerships with international development partners for financial inclusion. Furthermore, the Centre aims to promote excellence in financial services, innovations in delivery channels and financial education.

Despite financial inclusion gains in recent years, there is still much to be done with approximately 85% of PNG's population currently unbanked. CEFI has been tasked with coordinating PNG's National Financial Inclusion and Financial Literacy Strategies for 2014-2015 and beyond. PNG has made several financial inclusion commitments for

2014-2015 which CEFI will help to achieve. Some of these commitments include: reaching one million more unbanked and underserved (50% of whom will be women); create a financially competent generation of Papua New Guineans through financial education and financial literacy; to actively support innovative use of technology for scaling-up access to financial services and financial literacy; and to strengthen consumer protection by issuing prudential guidelines and creating a platform for various national regulators and industry networks to monitor consumer protection.

CEFI will also begin the process of integrating financial inclusion into the local and national government policies and strategies and promote regular collection and use of financial access data to inform policy making and help identify key dimensions of financial inclusion in PNG. Furthermore, CEFI will also optimize these results through knowledge sharing and effective coordination of stakeholders.

Making a Difference through Financial Education – The Westpac Approach

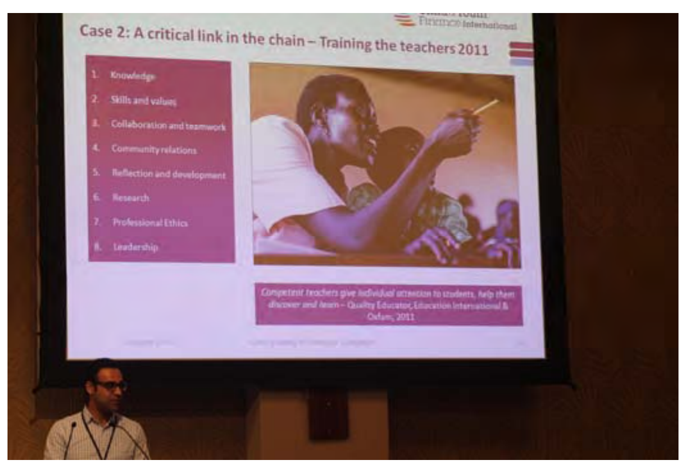
Westpac's "Everywhere Banking" model is currently being implemented in Fiji, Solomon Islands, Vanuatu, Tonga, PNG and Samoa. This model aims to bring together a number of new and existing services which enable customers to transact outside of a traditional bank branch or ATM which are normally only found in urban areas. There are three core aspects to the Everywhere Banking model, these being: financial education, a Choice Basic Bank Account and in-store banking merchants.

Financial education is provided to set the necessary financial literacy foundation and assist with longer-term sustainability. The Choice Basic Account has been specifically designed to meet the needs of low income earners with modest transactional needs. It further provides a low pay as you go fee structure with no monthly account maintenance fees. Through the use of in-store banking merchants additional services such as withdrawals, deposits, account transfers, bill payments and balance enquiries are made more accessible. To access these services, customers are given a "handycard" and unique PIN for security. Merchants wishing to operate as in-store banking merchants are selected based on a set criterion.

The implementation approach for the Everywhere Banking model is designed to be interactive with the merchants and rural community and build the necessary behavioural changes through FFS delivery. Supporting merchants and customers in the local communities to ensure that they derive the full benefits of being financially included is also key to the approach. Since implementation, Westpac has been able to monitor the transactional behaviours of clients using these additional services. The most popular activities have been balance enquiries (41%), withdraws (40%) and deposits (16%).

Best Practice in Financial Literacy Education – Global Case Studies

Child & Youth Finance International presented insights on three financial literacy education programs from around the world having potential application in the Pacific.



Aflateen Digital's "Gamification" Initiative

Gamification is the use of game thinking and game mechanics to engage users in solving problems and enhance learning. Aflateen Digital's Gamification initiative has a goal to circumvent the need to train teachers, with a specific focus on financial and social education for youth aged between 15-18. The delivery method used for this is an online interactive platform. A key attribute of the program is that it is based on the industry acknowledged Aflatoun Curriculum. It can also be developed and modified for different contexts and complexities. With access made possible directly through the internet, users are incentivized through challenges and rewards. To-date, the project has been successfully piloted in five countries with a combined sample of 200 beneficiaries and evaluations have shown an increased understanding of financial concepts such as individual saving and money matters amongst participants.

Education International and Oxfam – Training the Teachers

Recognizing that an education system is only as good as its teachers, Education International and Oxfam have partnered on a program to improve the quality of education in Mali by developing teacher capabilities. The overall goal of the program is to develop and implement a systematic way of training teachers to fill the national gap in Mali and to sustain high competencies within the teaching workforce. By examining the skills and competences required by teachers to deliver quality education the program aims to enable teachers to be better able to teach basic and life skills. The program supports the involvement of local stakeholders and national authorities to consider the local context, both for the formal and informal sectors. In terms of outcomes, the program will develop teacher competency profiles and a national teacher training curriculum.

Government-led Financial Education

The Financial Education Steering Committee, in partnership with the Monetary Authority of Singapore have spearheaded a government led initiative in Singapore with the aim of enabling Singaporeans to be more self-reliant in their financial affairs. The program focuses on five main competencies, these being: understanding money, understanding yourself (rights and responsibilities), selecting suitable financial products, managing everyday money and planning ahead. The program is delivered through school channels, public private collaborations, media, games and a dedicated website. A unique element of the program is that it targets adults via employees and their work place. The program has benefited from very successful multi-stakeholder collaboration and has resulted in over 200 published educational articles as well as several events and workshops reaching almost 100,000 beneficiaries. The program is considered one of the best examples of best practice in all of Asia and the Pacific.

The three case studies illustrate the importance of fitting strategies and programs to fit the local context (infrastructure, readiness, stakeholder's involvement, etc.). A key to success financial education programs is resource mobilization – support from government stakeholders, private sector contributions and drawing on open source materials. Stakeholder support and enthusiasm can fade over time, so it's important to develop and apply rejuvenation strategies.

Workshop: Building the Capacity of Non-Bank Financial Institutions (Designing Financial Products)

Facilitator: PF Technical Advisory Services

The microfinance sector has evolved considerably from the days in which MFIs offered generic group or individual loan products. Risk management, profitability and social impact can all be enhanced through purposely designed financial products. This workshop looked at how the results of market research can be used to design the main features of a credit product, and how to use risk mapping to develop policies and procedures for effectively delivering those products. Due to the link made between product design and MFI policies, the workshop targeted senior managers.

Workshop: Building Partnerships for Financial Inclusion

Facilitator: SPBD Network

The objectives of this workshop included: sharing of learning and insights from the 2013 Microcredit Summit in Manila; discussion on potential partnerships between microfinance institutions and the government, private sector and the civil society; presentation of SPBDs experiences in building partnerships with other institutions, what works and what are the challenges; and discussion on how networks – like the Microfinance Pasifika Network – can lead in the building of tactical and strategic partnerships for its members.

Panel 6 – Remittances: Enhancing Use and Value to Workers and Households

Session Moderator:
Mr John Vivian, Access to Finance, International Finance Corporation - East Asia and Pacific

Speakers:
Mr. Jonathan Capal, Director, Developing Markets Associates Asia Pacific
Dr. Don Abel, Senior Remittances Advisor, The World Bank
Mr. Ron Bevacqua, Managing Director, PF Technical Advisory Services

Money transfers back home to the Pacific from migrant workers are an important source of family income and represent a significant percentage of GDP of receiving countries (and in some cases as or more important as foreign direct investment and aid flows). Panellists in this session examined and discussed three key drivers of enhanced use and value of remittances in the Pacific - an enabling regulatory environment, efficient markets and infrastructure, and enhancing use and the choices made by recipient households for greater impact.

SendMoneyPacific

SendMoneyPacific (SMP) is a website which enables users to compare the cost of remittance services. It was commissioned by AusAID and NZAID and aims to reduce costs and increase transparency of remittances across the Pacific region. The need for such a service was recognized back in 2008 when it was estimated that remittance costs from Australia and New Zealand to the Pacific were amongst the highest in the world with overall average costs as high as 25%. In 2011 SMP was reviewed by the World Bank which resulted in the service expanding to include the USA and also incorporate a sister website, SendMoneyAsia. Today, SMP is now accessible across a range of platforms including mobile phones, desktop and tablet computers.

SMP complements other global initiatives. In 2009, the G8 set a target to reduce the global average cost of remittances to 5%. This target has also more recently been adopted by the G20 as well. Since the launch of SMP, it has reported a trend of decreasing costs for remittances in the Pacific; however, there is still a long way to go to bring the costs down to the 5% average target.

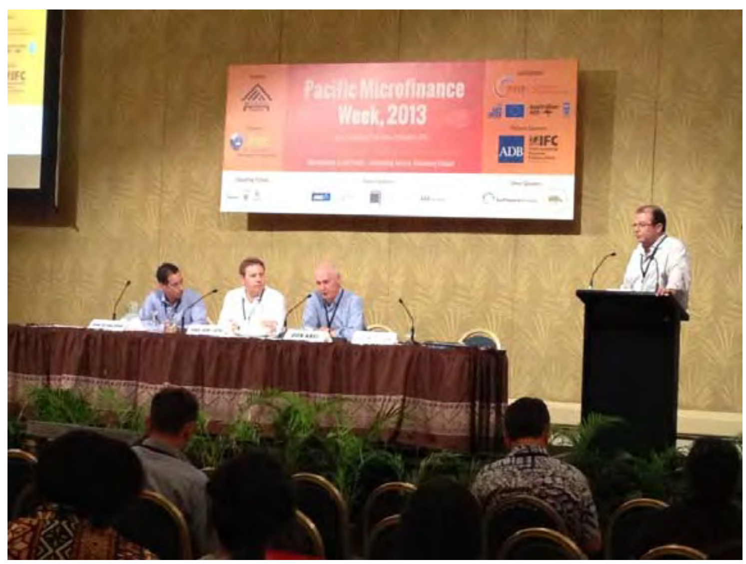
SMP note that the main reason for costs dropping in due to an influx of new providers for most corridors, many of which are offering online or mobile services. Greater competition and awareness amongst remittance senders has also contributed to the reduction in fees. Lastly, regulatory developments in Australia and New Zealand have been crucial to impacting the cost of remittance services. The impact of these factors can be most clearly with Money Transfer Operators (MTOs), with the overall average costs falling by 31% in Australia and 39% in New Zealand over the last four years.

By reducing the cost of remittances, there is potential to bring about greater benefits for Pacific households. In Fiji, it is estimated that in 2012 up to USD 174 million was received in personal remittances. This money is crucial for many Fijian households and represented 4.5% of Fiji's GDP. It is estimated that there are currently about 180,000 Fijian migrants overseas, the majority of which are based in Australia, New Zealand, Canada and the UK. SMP reports that while the costs are slowly falling, there is still a major gap in the disclosure of transfer costs. SMP further estimates that if the average cost of remittances is successfully reduced to 5% it could result in nearly USD 20 million in additional remittance receipts to Fiji every year.

To achieve this, SMP aims to reach as many communities as possible, including those without internet access through a full range of marketing and promotion tools (i.e. radio, press, social media, internet and events/workshops. SMP also aims to provide up to date information on the latest remittance price information.

Regulatory Perspectives

Recent estimates indicate that remittances are a lifeline for up to 700 million people globally. By reducing the cost of remittances there is a great opportunity to greatly enhance the welfare of many of these households that rely on them. The average cost of international remittances remains high for several reasons and the reasons vary between countries/regions. Common examples include underdeveloped financial infrastructure, limited competition, scarce transparency, regulatory obstacles, lack of access to the banking sector by remittance senders/receivers or difficulties for migrants to obtain the necessary identification documentation to enter the financial mainstream.



To help address these challenges, the World Bank developed a set of five General Principals for International Remittance Services:

1. Transparency and Consumer Protection
2. Payment Systems Infrastructure
3. Legal and Regulatory Environment
4. Market Structure and Competition
5. Governance and Risk Management

Regarding the 3rd principal (legal and regulatory environment) there are certain prerequisites which must be met in order to achieve a well-founded framework. First is that the framework needs to be sound, meaning that it is well understood to minimize risks faced by both the remittance service providers and their customers. Next is that the framework must be predictable and clearly outline which laws and regulations are relevant and that it does not change with excessive frequency. The framework must also be non-discriminatory and be equally applicable to different types of remittance service providers. Lastly, proportionality is also important to ensure that the legal and regulatory framework should not be overly restrictive and burdensome relative to the possible issues it is designed to tackle of the number and value of transfers involved.

In designing the content for the regulatory framework, it is crucial that the remittance industry be consulted to help ensure that the regulation is proportionate and effective. In terms of the specific content, there are a number of elements which should be considered. For one, the framework needs to meet internationally agreed standards, and in particular, AML/CFT recommendations. The framework should also adequately address transparency of conditions applicable to end users (i.e. prices and execution times) as well as customer protection measures (i.e. dispute resolution mechanisms). Adapting adequate measures to mitigate risks faced by remittance service providers is also important (i.e. legal, credit, liquidity and operation risks). All of these elements should be supported by an appropriate licensing/registration regime.

The regulatory environment for remittances in the Pacific can be enhanced, but not so much by new enactments or regulations, as by the interpretation and practical application of existing rules, supported by government agencies, to focus enterprises on where money laundering and the financing of terrorism risk actually resides. It will be through government agencies encouraging enterprises to provide a full and open disclosure of their fees and services in a way that senders and receivers can readily understand. And it will be through ensuring that competition can thrive in a remittance market not constrained by practices that serve the interests of large providers alone. The issues are defined. The challenge is to find a way through that enhances outcomes for Pacific families that want nothing better than to help themselves.

Enhancing Value for Senders and Recipients

The international remittances market in many places promotes a culture of dependency. Remittance senders (migrants) save small amounts of income which is sent home and have little influence on how their family spends the money. In turn, the family members, who generally do not conduct any long-term financial planning spend the money on consumption rather than asset building.

The term "enhancing value" for remittance senders and receivers is gaining interest as the potential for remittances as a valuable welfare/livelihood enhancement tool becomes more recognized internationally. By enhancing the value of remittances, programs are injected into the traditional remittance chain (as described above) to provide migrant workers and their families back home with additional services and products. Under this alternative model, rather than having the remittances transferred between banks or money transfer operators, the funds are instead channelled via microfinance institutions (MFIs). The inclusion of MFIs is crucial as they are specifically designed to provide services to low-income clients. Furthermore, they are willing and capable of developing products that are more appropriate to the needs of these clients. MFIs are also able to provide important services, such as continuous financial education training. They can also offer credit products to cover any shortfall if the migrant saves more of his/her income rather than sending it home.

The utilization of microfinance service providers within the remittance chain is not without its own challenges. For one, microfinance service providers need to adopt a unique view of the migrant workers and their families as a distinct market segment which requires additional effort to understand and meet their needs. Non-bank microfinance service providers are also not able to offer deposit services; however, this can be overcome through linkages with depository banks or by offering investment instruments in lieu of deposits. Regulatory barriers between banks and non-bank microfinance service providers often create limitations for partnerships, but partnerships between MFIs and money transfer organizations or mobile platforms are still an option in many cases. Lastly, while MFIs may have an advantage in engaging with the migrant's household back home, they generally struggle to reach out to the migrants themselves. Remittances could be deposited directly into their own savings account to better enable MFI to provide additional financial services to the migrant and his/her family. The volumes of remittance flows are such that it is possible potentially, for MFIs to expand financial inclusion to migrants and their family members - while simultaneously funding themselves at rates cheaper than their current sources.

Workshop: Social Performance Management

Facilitator: Good Return

This workshop introduced Social Performance Management to MFIs in the Pacific and provided benchmarks for assessing and reporting their performance against financial and social standards. The workshop covered Social Performance, Social Performance Management and Universal Standards for Social Performance Management as well as poverty measurements through PPI.

Workshop: Effective Corporate Governance Structures to Improve Performance

Facilitator: International Finance Corporation

This workshop examined and discussed how good governance can help MFIs and other financial institutions improve performance and presented a practical framework to implement sound governance structures, including setting up a well-functioning board of directors and designing effective management control functions.

Closing Session

Moderator: Mr Greg Casagrande, President, South Pacific Business Development and Deputy Chairman, Microfinance Pasifika Network

Mr. Reuben Summerlin, Regional Financial Inclusion Advisor and Project Manager, PFIP
Mr. Gane Simbe, Deputy Governor, Central Bank of the Solomon Islands
Mr. Eric Duflos, Regional Representative for East Asia and the Pacific, CGAP
Mr. Robin Yarrow, Chairman, National Financial Inclusion Taskforce

Pacific Microfinance Week 2013

The general conclusion was that PMW 2013 offered a variety of constructive sessions with good structure and content, as well as opportunities to learn, network, talk and share experiences. The different agenda in PMW 2013 should enable delegates to take what they learned in the workshops back to their home base. A highlight of the week was seeing a financial inclusion target, in this case groups of Fiji women, receiving awards and hearing their perspective on the opportunity for change and what they had achieved. The awards ceremony was inspiring for both the awards nominees, and PMW delegates. The suggestion was made for the next PMW to extend this to include children recalling their stories and learnings from involvement in financial literacy education.

In spite of differences in size and stages of development in the PICs, a commonality of needs and challenges is very apparent. PMW reinforced the value and benefit of sharing experiences – positive and negative, learning from each other, illustrating the strength of the network and opportunity for lesser advanced countries to leapfrog or piggyback off some of the gains of the more advanced or bigger countries.

Financial Inclusion Achievements and the Road Ahead

There was a recognition that much of what was discussed is still relatively new. Five years ago there were no national financial inclusions taskforces or strategies, no moveable collateral, no credit bureaus, no mobile money, no branchless banking, few MFIs, and little micro insurance.

The specific challenges of the Pacific compared to other parts of the globe were noted, including lower access, limited usage of accounts, less branchless banking, lower level of financial literacy, limited number of large scale institutions, significantly difficult position of women, and high cost of remittances.

The Pacific is often overlooked in research, but boxes above its weight, and in many ways is at the forefront of financial inclusion development. There advances and lessons learned that the Pacific can share with the rest of the world, include BSP rural, international remittances to mobile wallet, financial education integrated into core curriculum in schools, and progressive work of the Pacific Islands Working Group (evidenced by the Reserve Bank Of Fiji winning the Maya Declaration Award).

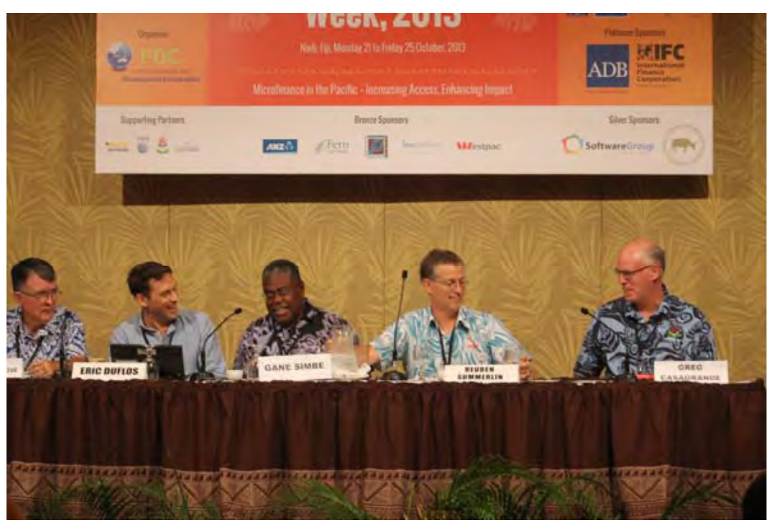
Several 'stars' underpinning progress in the Pacific were noted, these being:

- Collaborative policy makers – with PIWG being the first regional grouping of central banks in the world, and actively engaged in dialogue with providers on programs such as financial literacy education, indicators, and branchless banking. This was seen as best practice in regulators getting together to respond to opportunities and tackle common problems.
- Coordinated donors and investors (with AusAID being key to this coordination), comprising constructive goal focused personalities, leading agencies and good people working together.
- Creative providers – banks, NGOs, MNOs, researchers, and associations focused on the sustainability of the sector.

While progress has been made, the Pacific remains one of the least banked regions in the world. The challenge is translating the progress made to date into fully inclusive financial systems.

Notwithstanding the progress made, big questions remain:

- How do we increase the activity level of mobile money and branchless banking deployments, and how do we keep activity levels high over time;
- How do we develop robust distribution networks so that more people have access not just to the last mile within current footprints, but to the next mile outside the current footprint;
- How to increase financial literacy and client knowledge of how to use products and services that are available responsibly – and what their rights are; and



- How do we make this sustainable so that it's not just here today and gone tomorrow?

A client centric approach is a part of the solution as well as increasing financial competency of the unbanked masses. This client-focus also includes being open to and responding to customer complaints (an important source of feedback).

There are lessons the Pacific can learn from global examples in areas such as cashflow analysis for SME lending, corporate governance, targeting women clients, building women leaders, insurance services, mutual benefit associations, etc.

There is a need to improve indicators and measurement of financial inclusion data (not just access, but usage, quality, and impact).

The need and challenge remain great and models responding to these will be different in the future. There is an innovative and creative group of people, institutions and organisations in the Pacific that need to not only continue to work together, but get more players involved. Microfinance and financial inclusion are inspiring fields with many inspiring people involved keen to make a difference in the Pacific.