



BRINGING  
SMART  
POLICIES  
TO LIFE

# 3<sup>RD</sup> AFI PACIFIC ISLANDS REGIONAL INITIATIVE (PIRI) LEADERS ROUNDTABLE DIGITAL FINANCIAL SERVICES IN THE FACE OF DE-RISKING

GAZELLE INTERNATIONAL HOTEL,  
KOKOPO, EAST NEW BRITAIN PROVINCE,  
PAPUA NEW GUINEA 30 MAY-1 JUNE 2017

AFI SPECIAL REPORT

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## INTRODUCTION

The 3rd Pacific Islands Regional Initiative (PIRI) Leaders Roundtable, “Digital Financial Services in the Face of De-risking”, was co-hosted by the Alliance for Financial Inclusion (AFI) with the Bank of Papua New Guinea, 30 May-1 June 2017 at Gazelle International Hotel, Kokopo, East New Britain Province, Papua New Guinea. Around 60 regulators, financial inclusion experts, financial services providers and development partners participated in this high-level forum. The meeting was preceded by the Experts Group Financial Inclusion Policy (EGFIP) meeting on 30 May 2017.

The PIRI Leaders Roundtable recognized the tangible efforts of the EGFIP to strengthen regional cooperation in pursuing greater financial inclusion in the Pacific. The leaders unanimously adopted the PIRI Charter and approved the work plan developed by the EGFIP, underlining the need to finalize the draft on climate change.

The two-day meeting underscored the progressive role of PIRI in advancing financial inclusion in the region, both through a regulatory environment that has empowered women and enhanced SMEs, and its undeterred efforts to address the challenges posed by de-risking and climate change. The meeting also discussed the variety of experiences, challenges and solutions to digital financial services, de-risking, green finance, national financial inclusion strategies, empowering women and enhancing MSMEs through technology in the PIRI region.

### PIRI LEADERS AND REPRESENTATIVES AT THE 3RD LEADERS ROUNDTABLE

<a href="#">Denton Rarawa</a>	Governor	Central Bank of Solomon Islands
<a href="#">Loi Bakani CMG</a>	Governor	Bank of Papua New Guinea
<a href="#">Simeon Athy</a>	Governor	Reserve Bank of Vanuatu
<a href="#">Jessie Cocker</a>	Deputy Governor	National Reserve Bank of Tonga
<a href="#">Nur-Aini Djafar Alkatiri</a>	Deputy Governor	Banco Central de Timor Leste
<a href="#">Jenifer Sullivan*</a>	Deputy Governor	Central Bank of Seychelles
<a href="#">Gilbert Wongsin</a>	Assistant Governor	Central Bank of Samoa
<a href="#">Christina Rokoua**</a>	Manager, Financial Systems	Reserve Bank of Fiji

\* Observer \*\* Representative



Leaders from the Pacific Islands Regional Initiative

## DIGITAL FINANCIAL SERVICES: BARRIERS AND ENABLERS - THE PACIFIC EXPERIENCE

Drawing on country experiences and expertise with digital financial services (DFS) across the Pacific region, the panel discussion was guided by the theme, “Financial Inclusion is About Financial Lives”. Posing the question, “What is stopping us?”

Panelists discussed the major challenges and barriers to uptake and usage of DFS in the region, including ICT infrastructure, lack of coverage, connectivity, service design, information and data on usage behavior and regulation. The panel discussed the evolution of DFS in AFI member countries and some of the key developments and challenges, such as interest payments on mobile wallets, full integration, credit insurance, public awareness, sustainability and willingness to act.

Regulation has been very accommodating in most Pacific countries, with some including DFS as a key priority in their national financial inclusion strategies while also using digital platforms to deliver other services.

Other challenges included a preference for cash, the viability of agent businesses, training of agents, client protection, merchants and low acceptance of mobile money among the rural population, who continue to rely heavily on cash as a form of payment.

### PANEL MEMBERS FROM THE INDUSTRY HAVE MADE SOME PROGRESS IN IDENTIFYING KEY ENABLERS FOR DFS USAGE



Providing value-added services to mobile wallets while also meeting a need, creating incentives and developing acceptable infrastructure, were also discussed. However, barriers to growth remain, including issues with agents, capacity, training and aggregating mobile wallet and bank accounts. Trust remains an issue as well, both in terms of loss and fraud and the social issues and obligations that make DFS challenging to use.

## DE-RISKING IN THE PACIFIC: IS THERE A REGIONAL SOLUTION?

This session discussed the negative effects of de-risking in the Pacific brought on by a declining appetite for risk among global banks complying with enhanced global AML/CFT requirements. Panelists attributed the closure of remittance accounts in the Pacific Islands to a market failure, namely, the unwillingness of banks to implement a risk-based approach that allows flexibility in meeting AML/CFT standards.

The panel deliberated on the challenges of de-risking, especially its effects on correspondent banking and remittances, which play an important role in Pacific Island economies given their contribution to GDP. Panelists representing KlickEx and the IFC presented their solutions and called on PIRI leaders to join them in public-private partnerships. In light of the negative effects of de-risking, the session called upon policymakers to work with other stakeholders to find a regional solution to the challenges of de-risking.

De-risking has been recognized as a byproduct of the September 11th terrorist attacks and the 2008-09 global financial crisis, which prompted major foreign-owned banks to avoid the risk of being blacklisted. It was pointed out that none of the industrialized countries have complied with the 48 regulations on AML/CFT, yet the same regulations apply to small island countries. To safeguard against de-risking, regional regulators are trying to ensure their systems are in compliance with AML/CFT standards, but for some the cost is a major challenge as financial institutions are being asked to police the regulations.

### WHAT CAN BE DONE TO MITIGATE THE RISKS OF DE-RISKING?

A regional solution makes sense given that it is a regional problem. One proposed solution was to connect directly to money-clearing systems by forming an entity or regional clearing system to connect to larger markets and banks in Australia.

This would require creating a small pool of funds with which to connect to and launch in Australia and New Zealand clearing systems. Integrating these systems has its own set of challenges and depends on the willingness of banks and countries to cooperate (IFC encountered this recently when attempting to set up a regional credit bureau).

The takeaway from this discussion was that de-risking is a challenge, but there is a regional solution and PIRI is working on it.

## GREEN FINANCE AND FINANCIAL INCLUSION

Global warming is a real concern given the geographical location of the Pacific Islands and regular natural disasters in the region. Some countries have put subsidies in place for energy-efficient technologies, such as solar panels, and introduced agricultural schemes that subsidize insurance premiums for farmers (such as in Seychelles). Government initiatives are also encouraging financing for businesses to invest in renewable energy.

Still, more can be done to educate the public and monitor these projects. Smaller island countries are most vulnerable to climate change and incur significant economic and financial losses. However, with limited capacity to respond, they must rely primarily on donor support. Rural populations are most affected, with destruction to tree crops creating major setbacks in access to economic opportunities.

The panel noted the need for capacity building in response to climate change, such as creating cash buffers. One of the major challenges of green finance is coming up with viable project proposals to secure funding. While most governments have a natural disaster framework in place, building resilient infrastructure is a challenge. The finance sector can assist in mitigating the effects of climate change as governments alone cannot fully respond to the challenges.

In most regions, financial institutions may not have the skills to assess the risks associated with climate change and the impact on non-performing loans. Given the limited penetration of insurance coverage, some members are taking a sector-wide approach, using the pool of funds held within pension funds to assist with natural disaster recovery.

Green finance remains a challenge, as is the role of central banks. The panel noted there is scope for a regional solution through technical capacity building, understanding, coordinating and harmonizing initiatives, as well as monitoring and measuring indicators of climate change.



## NATIONAL FINANCIAL INCLUSION STRATEGIES: CHALLENGES AND LESSONS LEARNED FROM IMPLEMENTATION

A session on National Financial Inclusion Strategies (NFIS) brought together leaders from four central banks to share their experiences and the lessons they have learned from implementing their strategies. Panelists reported on the status of NFIS implementation in their respective countries. Papua New Guinea is implementing its second NFIS and Timor-Leste is launching in July. Both shared the practical challenges of the process, which arise mainly from a lack of data and coordination.

The panel emphasized that efficient coordination of all stakeholders was the key to successful implementation. The discussion concluded with proposals to address the challenges and constraints in the journey to NFIS implementation.

For the Solomon Islands, the first major challenge of its NFIS was access to financial services and the second was usage. Efficiently addressing legal issues, data collection, quality and aggregation, and capacity building were also issues at the central bank. One lesson was that involving all stakeholders makes implementation easier while recognizing that it takes time. After completing its draft strategy in 2016, Timor Leste has launched its Board on Financial Inclusion and plans to introduce a new template for its action plan soon.

The Reserve Bank of Vanuatu launched its NFIS in 2012, which covered financial literacy and its regulatory framework. It has been challenging to ensure financial literacy is taught in schools and has taken some time to implement. There are also some capacity constraints at the Bank, limited support from stakeholders and a lack of supportive policies and systems, including processes for approving legislation. Going forward, some possible solutions are to have a well-implemented strategy that is aligned with new government initiatives, while also making it easier to measure and monitor outcomes.

THE DAY ENDED WITH  
THE LAUNCH OF A GENDER  
POLICY BY THE CENTER  
FOR EXCELLENCE  
IN FINANCIAL INCLUSION.



## WOMEN'S EMPOWERMENT IN THE PACIFIC: THE DENARAU ACTION PLAN

In this session, panelists provided updates on policy initiatives to close the gender gap in financial inclusion, explained their gender equality and social inclusion (GESI) principles and their work on gender-centric programs to empower women.

The discussion covered the various economic, social and geographical challenges Pacific women face in accessing financial services and concluded with a unanimous decision to strengthen the role of all stakeholders in unlocking economic opportunities for women in the Pacific through women-centric policy solutions. One of the key challenges is usage, and financial literacy and programs that provide access to markets can help to mitigate this.

Deputy Governor Jessie Cocker from the Reserve Bank of Tonga pointed out that 50% of the population in Tonga is female and women more likely to be self-employed. While banks prefer land as collateral to secure loans, women are disadvantaged because they are not entitled to own land under customary laws. Another challenge is that banks have a higher concentration of loans on the main island than remote islands due to the associated cost of doing business and the cost of transport. Alternative sources of finance, such as private money lenders, charge very high rates and are too costly to access. As a result, women have difficulty accessing cheaper loans. The challenge for Tonga is getting the private sector to understand the female market and provide products and services that meet women's financial needs.

The Microfinance Expansion Project in Papua New Guinea highlighted some of its efforts to empower women through the country's second national financial inclusion strategy. For example, the NFIS now makes provisions for gender equality in its GESI policy. The policy requires microfinance institutions to rollout programs on key business areas, training and capacity building, monitoring and evaluation, leadership and operation of businesses run by women.

For Samoa, gender is a predictor of financial competency. Results from its demand-side survey show that more women are excluded from financial services than men, and there are no savings or cultural barriers to accessing financial services. There has been some progress in implementing the Denarau Action Plan. Overall, Samoa is more gender balanced in terms of participation in the financial system. From an industry perspective, Gunanidhi Das of Women's Micro Bank in Papua New Guinea highlighted a host of challenges and issues. While women are good money managers, encouraging a savings culture is key to unlocking the benefits of access to financial services.

## ENHANCING MSMEs IN THE PACIFIC: THE ROLE OF TECHNOLOGY

Session six on enhancing MSMEs in the Pacific through technology featured discussions on the importance of SMEs, different channels to raise SME capital and innovative solutions to address these needs supported by SME-centric legislation. Innovative SME mobile applications developed by IFC and Mastercard for SME financing and value chain financing were presented. The bilateral solutions being applied in some countries were acknowledged, but participants emphasized the need for a regional solution to facilitate collateral-free lending to SMEs through a supportive legal and regulatory framework. The panel discussions concluded that public-private partnerships are vital to enhancing SMEs in the Pacific using available technology.

For island countries, constraints are largely related to the level of risk a borrower poses. Bank South Pacific (BSP) gives unsecured loans of up to 100,000 kina to SMEs in Papua New Guinea. Developing a financial pathway to access credit is crucial. Different scoring methods are used for unsecured loans to encourage SMEs to enter the formal sector. East New Britain cocoa farmers, for example, incur transportation costs to travel to banks for financial services. One piloted solution is to use trade stores as agents, with sellers receiving payments from buyers straight into their accounts. However, greater financial literacy is needed for this technology to see more use. While bank fees are charged to maintain a balance in a savings account, a pay-as-you-go approach is applied to mobile banking as an incentive to participate in the financial sector without eliminating cash as a form of payment.

Digicel is working in partnership with ANZ to build a Pacific-wide strategy and is looking at six markets to offer its 'Money Minded' program, which builds financial literacy and basic business skills for Digicel staff. IFC, meanwhile, has been working in partnership with BSP on mobile banking, creating an ecosystem that has been trialed with farmers and commodity buyers. A total of 51 million kina has been loaned to SMEs under this platform. In Vanuatu, an MSME survey showed access to finance is difficult and costly, with businesses having a lifespan of just three years or less.

The results showed that most SMEs do not have access to mobile financial services and have limited understanding of how to use mobile technology. Most SMEs still use cash for business transactions and consider technology difficult to use.

## NEXT STEPS FOR PIRI LEADERS

- > Adopted the PIRI Charter, endorsing the work plan developed by the EGFIIP and resolved the leadership issue.
- > The PIRI Leaders Roundtable applauded the efforts of the EGFIIP in strengthening regional cooperation on financial inclusion. There have been tangible results over the years and leaders emphasized the need to maintain this dynamism in the pursuit of smart policies for inclusive growth.
- > Participants agreed to fully comply with the covenants of the PIRI Charter on all issues.
- > PIRI leaders unanimously adopted the PIRI Charter and called upon those at the meeting to finalize the Announcement on Climate Change.
- > The meeting concluded with the Central Bank of Samoa agreeing to host the next PIRI meeting.



## ANNEX: SESSION SPEAKERS

### Session 1: Digital Financial Services: Barriers and Enablers - The Pacific Experience

#### Moderator

Mark Fleming, Pacific Financial Inclusion Programme (PFIP)

#### Panelists

Christina Rouka, Manager, Financial Systems Development, Reserve Bank of Fiji

Jon Stewart, Director, Government Affairs and Public Policy, VISA

Saliya Ranasinghe, Director, Centre for Excellence in Financial Inclusion (CEFI), PNG

Tony Westaway, Managing Director, Nationwide Microbank

Paul Thornton, General Manager, Retail Banking, Bank of South Pacific

### Session 2: De-risking in the Pacific: Is there a Regional Solution?

#### Moderator

Eden Dema, Financial Inclusion Consultant, Bhutan

#### Panelists

Gilbert Wongsin, Deputy Governor, Central Bank of Samoa

Robert Bell, Managing Director, KlickEx

John Vivian, Senior Financial Sector Specialist, IFC

### Session 3: Green Finance and Financial Inclusion

#### Moderator

Eliki Boletawa, Head of Policy Programs & Regional Initiatives, AFI

#### Panelists

Jenifer Sullivan, Deputy Governor, Central Bank of Seychelles

Dr. Michael Hililan, Advisor, Reserve Bank of Vanuatu

Christina Rokoua, Manager, Financial Systems, Reserve Bank of Fiji

### Session 4: National Financial Inclusion Strategies: Challenges and Lessons Learned from Implementation

#### Moderator

Eden Dema, Financial Inclusion Consultant

#### Panelists

Loi Bakani CMG, Governor, Bank of Papua New Guinea

Denton Rarawa, Governor, Central Bank of Solomon Islands

Simeon Athy, Governor, Reserve Bank of Vanuatu

Nur-Aini Djafar Alkatiri, Deputy Governor, Banco Central de Timor Leste

### Session 5: Women's Empowerment in the Pacific: The Denarau Action Plan

#### Moderator

Norbert Mumba, Deputy Executive Director, AFI

#### Panelists

Jessie Cocker, Deputy Governor, National Reserve Bank of Tonga

Lanna Lome-Ileremia, Manager, Financial Systems Development, Central Bank of Samoa

Robyn Cornford, Microfinance Expansion Project (PNG)

Gunanidhi Das, General Manager, Women's Micro Bank Ltd

### Session 6: Enhancing MSMEs in the Pacific: The Role of Technology

#### Moderator

Peter Dirou, Senior Financial Sector Expert, ADB Pacific Private Sector Development Initiative (PSDI)

#### Panelists

Simeon Athy, Governor, Reserve Bank of Vanuatu

Paul Thornton, General Manager, Retail Banking, Bank South Pacific

Eddie Sukanaivalu, Digicel PNG

Dominic Sikakau, Financial Inclusion Specialist, IFC

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