The Alliance for Financial Inclusion (AFI) co-hosted, along with the Reserve Bank of Vanuatu (RBV), the 2nd Annual AFI Pacific Islands Regional Initiative (PIRI) Forum on 2-3 June 2016 in Port Vila, Vanuatu. AFI member institutions that comprise PIRI include central banks from Fiji, Samoa, Solomon Islands, Vanuatu, Papua New Guinea, Timor-Leste and Tonga.

The forum convened approximately 50 high-level policymakers, regulators, stakeholders and partners to hold discussions under the overarching theme of "Islands of Inclusive Finance—SMEs and Financial Inclusion in the Pacific". During the forum, the Honorable Deputy Prime Minister of the Republic of Vanuatu, Mr. Joe Natuman, delivered the keynote address. Opening remarks were also offered by Mr. Denton Rarawa, Governor at the Central Bank of Solomon Islands (CBSI) and PIRI Chairperson, as well as Mr. Norbert Mumba, Deputy Executive Director at AFI. Mr. Simeon Athy, Governor of RBV was in attendance along with other Governors and Deputy Governors from AFI member institutions.

The forum followed the fourth Experts Group Financial Inclusion Policy (EGFIP) Meeting on 1 June 2016, where key activities and outcomes of PIRI were outlined, which, along the identification of current trends for prioritization, were documented and formally submitted and approved at the PIRI Leaders’ Roundtable on 2 June 2016.

AFI members of PIRI reiterate the commitment of each institution to share and exchange knowledge, utilizing the AFI network’s peer-to-peer approach, with one another and other stakeholders to address the unique constraints to financial inclusion in the Pacific, including identifying the following objectives and undertaking the subsequent measures to secure full implementation of basic financial services to all Pacific Islanders:

1. **Status and Progress of Financial Inclusion in the Pacific:** AFI members of PIRI reiterated their commitment to the financial inclusion agenda, which continues to grow in importance within the Pacific Islands region, and needs to be given greater support. The delegates from Fiji, Papua New Guinea and Timor-Leste identified financial literacy and financial education as an integral component of their current progress in terms of awareness and expositions, training/piloting, and savings campaigns. The parties concurred that regulators should not stand in the way of innovation in the Pacific region, but should allow financial services providers to continue with new products as long as they identify risks associated with the products and provide mitigating factors.

2. **Developing a Holistic Ecosystem to Support SME Finance:** It was agreed by all parties that the development of a holistic and coordinated framework is imperative to promoting the development of the SME sector in all Pacific Islands Countries (PICs).
Lessons learned from Malaysia indicated that for effective development of SME sector, the financial inclusion initiative must be addressed at national levels, which includes government involvement. Members stated the development of working groups and task groups is crucial for effective development and implementation of financial inclusion strategies. The following deliverables were identified by members as important for the effective development of SMEs: Development of a harmonized SME definition; set up of more efficient application processes; the implementation of an enabling infrastructure; conducting financial literacy awareness, with an emphasis on a need to embed financial literacy into education curriculum; establishment of a well-coordinated SME structure; creation of community-based driven policy; formulation of better coordination framework with involvement of all national stakeholders; and, an expansion of data collection.

3. **Insights and Dialogue: Rethinking the Regulation of Digital Financial Services:** PIRI members, as well as stakeholders and other present parties, noted and have taken under consideration the presenter’s suggestions and thoughts, which included an acknowledgement that there is a need to strike a balance between regulators and financial service providers to foster a more collaborative channel to facilitate digital financial services (DFS). Furthermore, it was noted there needs to be a clear distinction between the role of the telecommunications regulators and the financial services providers, while the role of the financial regulator needs to be clarified in order to enable the digital financing of consumers. Members identified that one topical issue on the PIRI agenda is to rethink the role of regulators; on a regional level, it was noted that a National Payment System Act is currently being drafted which could facilitate new policies in line with this. Members of PIRI agreed more work needs to be conducted to protect the interest of consumers—notably ensuring that consumer protection is standardized over different industries.

4. **(i) Financial Literacy: Empowering SME Entrepreneurs (ii) Consumer Protection: Avenues to Seek Information and Redress for SMEs:** In regards to financial literacy, it was agreed there is a need to empower SMEs through education so they know their rights, and an emphasis should be placed on raising awareness, with outreach programs a potential solution, while information on NGO and Government support is also necessary to help an entrepreneur deciding to start a business. Financial literacy programs need to be tailor made because of the specific needs and requirements of SMEs. Furthermore, business laws and regulations are important to know when starting a business. PIRI members highlighted the importance of outlining priorities for consumer protection, with a need to identify the right authorities who are responsible for consumer protection. Additionally, it is important to distinguish the appropriate mechanism for consumer protection, with a need to identify the dispute resolution mechanism.

5. **Policies and Regulatory Approaches to Enhance Access of Women-Owned SMEs to Financial Services:** It was agreed the majority of women have no access to funding from the formal finance sector due to following challenges: Lack of collateral; lack of
data to provide information on women SME entrepreneurs; inability to manage business; financially literate or limited business savvy; no linkages between trainings provided by institutions, which creates confusion for women, notably in regards to bookkeeping and general start-up; and lack of support from the national level—governments are not committed. PIRI members also concurred that access to finance is a human right, regardless of whether that person is male or female. PIRI members stated that moving forward there is a need to for disaggregated data identifying women participation and detailing current women employment and information on potential women opportunities. Parties stated the creation of SME development strategies framework would enhance SME development both at the national level and community level. There is a need to create enabling policies that clearly state the policy objectives and actions that would develop women SMEs through establishing institutional framework and facilitating SME success in business development. The creation of a SMEs advisory institution where women can access information could be helpful, along with the enhancement of training by introducing financial literacy programs for MSMEs. Also, members considered: Creating a mechanism to access credit financing; bridging the gap between regulation of informal financial sector and formal financial section through implementation of policies and legislations as well as better networking; enhancing access to markets; and, creating client-centric products and services.

6. **Inclusive Insurance:** PIRI members stated that the creation of regulatory framework to help mitigate risks could facilitate more inclusive insurance—specifically because many SMEs are exposed to natural disasters and financial shocks. It was established that the creation of good public partnerships and collaboration among all stakeholders is imperative to the development of Insurance inclusive. Regulators need to provide an enabling environment to promote inclusive insurance. Additionally, regulators have a role in influencing government policies through the fiscal policies such tax exemptions that will provide incentives for SMEs to engage in insurance. Representatives also noted the possibility of pooling resources together with stakeholders to conduct risk assessment and examine climate change issues. Central banks and regulators need to balance financial stability concerns with SME security issues that support frameworks to make SMEs bankable and insurable.

7. **Secured Transactions and Other Policies to Support SME Finance:** It was agreed that because the formal financial sector typically does not lend without collateral, members of PIRI need to identify solutions to the financing challenges since the lack of access to financial credit inhibits the growth and expansion of SMEs. Moving forward potential solutions could include expanding outreach and financial institutions scalability, creating microfinance policy and/or enabling policies, and the introduction of mobile banking to reduce transaction costs. Furthermore, the creation of an SME development plan, guaranteed funds, and/or regulatory requirement policies and guidance on moveable properties, particularly in regard to what is acceptable collateral could prove useful.
8. **Towards Commitments and Actions**: Members of PIRI endorsed the Zero Draft of the AFI Action Plan for Gender and Women’s Financial Inclusion, noting that the Action Plan rightly links financial inclusion and social policy issues. Furthermore, PIRI members heartily agree with and accept the overall intent and goals of the Action Plan. In addition, PIRI members strengthened their commitments to the Maya Declaration by announcing they will pledge commitments to SME finance under the Maputo Accord at the 2016 AFI Global Policy Forum in Nadi, Fiji, on 7-9 September 2016.

PIRI members will continue to leverage a peer-learning and knowledge-sharing approach to a variety of financial inclusion policy areas highly relevant for all small-island nations in the Pacific. PIRI members will return to their home countries and implement deliverables and action items to which they have committed. PIRI’s mission remains to create and foster conditions that lead to the financial empowerment of all Pacific Islanders.

The PIRI EGFIP will re-convene ahead of the 2016 AFI Global Policy Forum in Nadi, Fiji, in September 2016.

In the closing ceremony, it was announced the next location of the 3rd Annual Pacific Islands Regional Initiative Forum will be Port Moresby, Papua New Guinea.