

Transforming the Pacific Islands Working Group (PIWG) to the Pacific Islands Regional Initiative (PIRI)

BACKGROUND

As per UNDP estimates (2008), 80% of the low income Pacific Islanders do not have access to formal and informal financial services. This coupled with low levels of financial literacy has restricted many people's ability to realise their full economic potential, thereby having a negative impact on the overall socio-economic development of the region.

An expansive and fragmented geography, low population densities, poor infrastructure, political instability and vulnerability to natural calamities make delivery of sustainable financial services in the region a challenging task. The first real policy impetus to develop financial services for the excluded came from the Forum Economic Ministers Meeting (FEMM) in 2006 that gave recommendation to member countries to prioritize financial inclusion and include it as a national policy agenda. This was followed by the Coombs Declaration in 2008 where PICs represented by

finance ministers, central bank governors and donor partners recognized the importance of financial capabilities of low income households in promoting equitable and sustainable growth. Subsequently, the Money Pacific Working Group was formed and four regional goals were endorsed by the FEMM in 2009 to promote equitable and sustainable growth for an inclusive finance landscape in the region. These regional goals, to be achieved by 2020, include:

- 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 put in place; and
- 4 Twice as many Pacific Islanders to have access to basic financial services

Against this backdrop, in 2009 Central Bank Governors from the PICs agreed to commit to have financial inclusion as an integral agenda part of the Central Banks goals for a sustainable and equitable economic growth in the Pacific.

2009

Six of the Central Banks in the Pacific Region decided to form a Working Group to collaborate in the work of financial inclusion thus the inception of Pacific Islands Financial Inclusion Working Group (PIWG).



2010-2014

In partnership with Alliance for Financial Inclusion (AFI) and Pacific Financial Inclusion Programme (PFIP), a number of key initiatives and policy decisions have been implemented in seven countries.

2014

At the 2014 AFI Global Policy Forum, it was agreed to expand the PIWG into a Pacific Islands Regional Initiative (PIRI).



FORMATION AND RATIONALE OF PACIFIC ISLANDS FINANCIAL INCLUSION WORKING GROUP (PIWG)

The Pacific Islands Central Banks Financial Inclusion Working Group (PIWG) was formally established and endorsed by the governors of the Central Banks during the annual Forum Economic Ministers Meeting (FEMM) and South Pacific Central Bank Governors meeting in December 2009.

Among the founding members were Central Bank of Papua New Guinea (PNG), Fiji, Samoa, Solomon Islands and Vanuatu, along with the Banco Central Timor-Leste. All members of the Alliance for Financial Inclusion (AFI). The National Reserve Bank of Tonga joined in 2012. Since the inception of PIWG, AFI has extended generous support and guidance, together with a number of other development partners for its operations.

There was a strong motivation for the Pacific Islands financial regulators to come together on financial inclusion. That was to build a collaborative dynamic between peers in the region, exchange knowledge and information on key issues relating to financial inclusion, as well as to discuss and share the current situation and priorities in their countries.

EXPANDED EVIDENCE BASE FOR POLICYMAKING THROUGH REGION-SPECIFIC FINANCIAL INCLUSION INDICATORS

PIWG members recognized early on the importance of financial inclusion data that reflects specific needs and priorities of the Pacific Islands.

In 2012, delegates from the Central Bank of Solomon Islands, the Central Bank of Samoa, Bank of Papua New Guinea, Reserve Bank of Fiji, Banco Central de Timor-Leste, and Reserve Bank of Vanuatu went on an AFI Knowledge Exchange visit to Bank Negara Malaysia, as a first step towards building a Pacific Islands Financial Inclusion Data Measurement Framework.

In 2013, the PIWG members agreed to develop and adapt 'Core Plus' Set of financial inclusion indicators, based on the AFI Financial Inclusion Data Working Group (FIDWG) Core Set.

In line with PIWG members' interest, the PIWG Core Plus Set captures data on access and usage of financial services disaggregated by gender as well as types of channel, including mobile phones.

THE FOLLOWING VISION AND MISSION GUIDES THE WORK OF THE PIWG



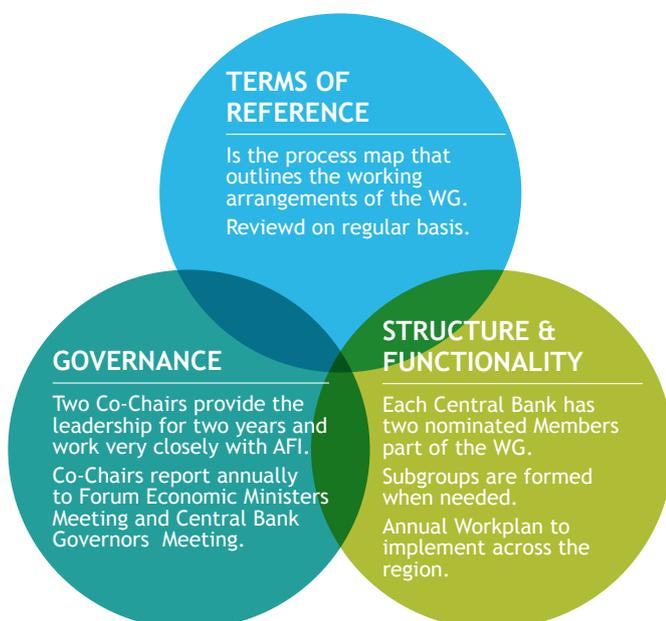
STRUCTURE OF THE WORKING GROUP

To ensure that this was a genuine collaborative and partnership model among the regulators of the PICs, certain guiding principles were incorporated in the terms of reference to ensure a smooth implementation of the objectives of the Working Group (WG).

The role and responsibilities of the Members are as follows:

- 1 The group aims to meet twice per year, and may schedule other group activities such as knowledge exchange visits. The group endeavours to convene one of its meetings at the annual AFI Global Policy Forum when possible.
- 2 Each member appoints two permanent participants, one of whom will be the lead contact point, and have the option to appoint a third participant on a regular or rotating basis.
- 3 Participants should be at the Deputy Governor or department head level, and/or have bank-wide financial inclusion responsibilities/portfolio (head of financial inclusion unit).
- 4 Members will host working group meetings on a rotating basis. The meeting host is responsible for local logistics such as securing the meeting venue, arranging transport, visas, sourcing local experts, and taking meeting notes. Hosts will share the costs of the meeting via in-kind contributions (such as providing meeting rooms at the central bank) and expenditures (such as hosting dinners or providing other logistical services). Hosts can identify a number of central bank staff to attend the meeting as observers.

OUR GUIDING PRINCIPLES



TRANSITION FROM PIWG TO PIRI

At the 2014 AFI Global Policy Forum, the members of the PIWG (henceforth referred to as the technical committee), felt strongly that a more permanent structure than a working group in the form of a regional initiative was vital to operationalize the broader mandate to advance financial inclusion together in the region. It was also recognized that a regional initiative would be more appropriate due to a number of factors that include:

- > High level representation by Governors of all the Member countries required something more substantive than just a technical committee;
- > Considering the importance of the financial inclusion agenda in the Central Banks' approach for inclusive economic growth and development, it was integral to recognise this in the form of a regional initiative;
- > A regional platform also provides more presence and visibility than a working group within the AFI global network and the group's dialogue with bilateral and multilateral development partners; and,
- > There is more flexibility to adapt to financial inclusion issues as they arise in the region.

Despite the impressive progress made by member countries of PIWG in financial inclusion in the respective countries, the Pacific region continues to have one of the highest rates of financial exclusion globally and requires sustained commitment to address this problem. This led to the decision taken at the 13th meeting held in Port of Spain, Trinidad and Tobago on 8 September 2014 to transform PIWG into a regional initiative. This decision was fully endorsed at the 6th AFI Global Policy Forum. There was a consensus that PIRI was unique in the sense that it has been designed to cover multiple policy topics.

There was one more reason that later evolved to be the primary reason for elevation of the PIWG into the regional initiative that we now know as the Pacific Island Regional Initiative (PIRI). That reason was "to identify activities that the group could do together to advance financial inclusion in the region and to build capacity."

PIRI will continue to adopt the mission set by PIWG which is guided by a vision to ensure that financial products and services are widely accessed and used by all Pacific Islanders. To move forward towards this vision PIRI sets out to create conditions that lead to the financial empowerment of the population of the Pacific Islands. This transformation into a regional initiative will enable members to achieve this vision and related objectives more effectively. In the first year of PIRI implementation, AFI has partnered with the Pacific Financial Inclusion Programme (PFIP)¹ to scale up PIRI program and activities with a combination of funding and knowledge resource support.

KEY MILESTONES IN THE PACIFIC ISLANDS TO DATE

AFI has created a unique model of South-South engagement and peer learning that is highly valued by policymakers from the Pacific Islands region. These policymakers see engagement in AFI as essential to increasing access to financial services for the unbanked. They also see the AFI network as an ideal platform to engage with key stakeholders, including PFIP, as well as with the private sector.

To date, 21 policy reforms to advance financial inclusion have been developed by member institutions in the Pacific Islands as a result of their participation in AFI. (See Annex 1 -Policy Changes in the Pacific Islands due to AFI's Activities). Since its inception in 2009, a total of 13 meetings have taken place under the leadership of the Co-Chairs of the WG over the last five years. AFI's members from the Pacific Islands are among the most dedicated and active champions of financial inclusion policymaking. Since its launch in 2009, the Pacific Islands Working Group (PIWG) has:



By rotating the venue of the meetings as well as the Co-Chairs, PIWG encourages ownership and accountability among the Members.

1 PFIP is a Pacific-wide programme helping low income households gain access to quality and affordable financial services and financial education. It is jointly managed by the UN Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP) and receives funding from the Australian Government, the European Union and the New Zealand Government.

PFIP aims to add one million Pacific Islanders to the formal financial sector by 2019 by spearheading policy and regulatory initiatives, facilitating access to appropriate financial services and delivery channels and by strengthening financial competencies and consumer empowerment.



MAYA DECLARATION COMMITMENTS BY THE REGION

Membership in AFI has strengthened the commitment of the Pacific's policymakers to develop and implement financial inclusion regulatory reforms. An important illustration of this has been the endorsement by AFI members of the Maya Declaration—the first global and measurable set of commitments by policymakers from developing and emerging countries to unlock the economic and social potential of 2 billion unbanked people through greater financial inclusion

These commitments are a public promise made by AFI members to their national constituencies and to the AFI network to expand access to financial services at the national level in specific and measurable ways.

There are 53 institutional commitments to the Maya Declaration, to date. Of these, six commitments have come from seven of the Pacific Islands member countries.

THEMATIC AREAS OF COMMITMENTS FROM THE PACIFIC ISLANDS



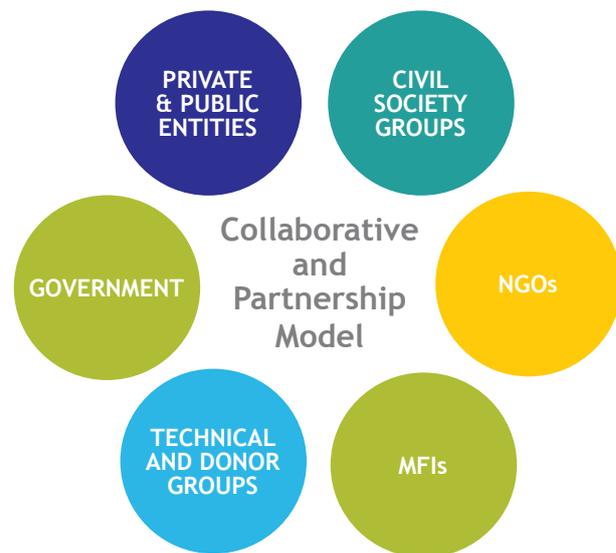
FINANCIAL INCLUSION ACHIEVEMENTS IN THE REGION

Over the last five years each of the Central Banks have taken the lead in a number of policy areas of financial inclusion and implementing it in their respective countries. Upon successful implementation phase, the process has been replicated in other PICs. Some of the key areas of financial inclusion initiatives rolled out in this region as part of PIWG are illustrated below.

Apart from the core policy areas, PIWG also looks at other financial inclusion areas such as financial education and literacy, microinsurance and remittance. In pursuing these policy areas, a number of Members from the region were able to participate in Knowledge Exchange visits to other AFI Member countries that are seen as policy leaders in these areas. Together with this, the development partners made financial and technical assistance available to the Members for formulation and implementation stages.

WORKING WITH DEVELOPMENT PARTNERS

This effort of advancing financial inclusion in the region would have been futile had it not been for the collaborative and partnership model adopted in each of the Member countries. Development partners not only assist in the formulation of the policies but assist in implementation and evaluation phases as well.



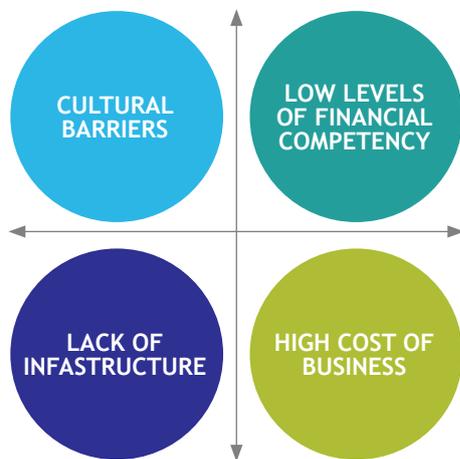
KEY AREAS OF FINANCIAL INCLUSION INITIATIVES ROLLED OUT IN THIS REGION AS PART OF PIWG

National Financial Inclusion Strategy	<ul style="list-style-type: none"> > 42% of the Members have a Government endorsed National Financial Inclusion Strategy. > Fiji has successfully completed its first strategy and are now in the process of finalizing the Second Strategy
Financial Inclusion Data	<ul style="list-style-type: none"> > Six of the Seven Members have collated the AFI Core Set of indicators. > Fiji, Samoa and Solomon Islands have completed the first ever National Demand Side Survey on Financial Inclusion to assist in evidence-based policymaking.
Mobile Financial Services	<ul style="list-style-type: none"> > All 7 Member countries have either Mobile-led or Bank-led models. > Papua New Guinea for instance, has both types.
SME Finance	<ul style="list-style-type: none"> > Members have different form of SME financing programs. > For example, in Fiji there is a SME Credit Guarantee Scheme where as in Papua New Guinea, Samoa, Solomon Islands and Vanuatu there is Secured Transaction Processing.
Consumer Protection and Market Conduct	<ul style="list-style-type: none"> > Fiji has set up a Complaint Management Unit within the Central Bank to handle consumer complaints pertaining to formal financial system.

CHALLENGES/ CONSTRAINTS/ BARRIERS OF REGIONAL WORK

Post independence, the Pacific Island Countries (PICs) have been able to achieve significant progress in key areas of socio-economic development. However, there is still a range of pertinent global issues that are very much prevalent in these small island states due to a number of contributing factors.

The challenges faced by most of these countries are very similar in nature due to their location, cultural and behavioural patterns, lack of resources, a narrow export base, vulnerable to economic shocks and slow or negative economic growth.



There is a range of issues that acts as barriers to financial access and usage in the Pacific. This includes the cultural and social beliefs, which results in a mindset that makes it difficult for people to comprehend the measure available to improve their livelihoods. In addition to this, there are generally low levels of financial competency among low-middle income households which results in lack of budgeting and planning for future.

Moreover, due to the geographical dispersion of the islands, access to these areas makes it exorbitant for both the suppliers and receivers of financial services.

Another interesting aspect about the region is its population size. Apart from Papua New Guinea, all other countries in the region have a population of less than a million, which results in diseconomies of scale for most financial institutions.

In the case of lack of appropriate, affordable and accessible financial services to all individuals in particular to the vulnerable and low-income households have become a global agenda and Pacific is no exception. It is believed that having an inclusive financial system can be a catalyst in lifting a number of people out the vicious poverty cycle and in the long run contribute to economic equality and growth.

RESPONSIBILITY TO OTHER SMALL ISLAND NATIONS

Not all the fourteen islands represented in the Pacific Islands are members of the Alliance for Financial Inclusion. Reasons include the countries not having a regulatory body or policymaking institution that is leading the work on financial inclusion. For PIRI, extending its support to the other small island nations that are not part of the initiative is a great responsibility. Most of these small island nations lack the resources and capacity, with financial exclusion being prevalent within. Leveraging of its knowledge that it has accumulated over time, the initiative provides the ideal platform to share the benefits to these other small island nations. It plays a key role and must undertake this role rather than offloading it to another entity.

KEY LESSONS LEARNT

PEER LEARNING MODEL

Ensures good practices among the Member counties as it allows for sharing and replicating the success stories.

CAPACITY BUILDING

Allows for capacity building within institution who in turn share this knowledge with peers around the region.

GLOBAL RECOGNITION

As a small open economy, concerns may not always be heard, however, as a region it allows to be represented in decision making forums.

DEVELOPMENT PARTNER MOBILISATION

COMMON PLATFORM FOR POLICYMAKERS AND REGULATORS

REGIONAL INTEGRATION AND COOPERATION

ANNEX 1 - POLICY CHANGES IN THE PACIFIC ISLANDS DUE TO AFI ACTIVITIES

COUNTRY	POLICY/REGULATORY CHANGES
Fiji	The Reserve Bank of Fiji (RBF) implemented the national strategy on financial education and literacy for 2013-2015. As a part of this strategy, financial education will be integrated into the school curriculum.
Fiji	The RBF issued Agent Banking Policy to Commercial Banks (CB) in 2012 for the establishment of agent networks.
Fiji	The RBF issued a Microfinance Policy in April 2009 directing commercial banks to have a MF unit. All banks complied with creative new services by January 2010.
Fiji	Launched e-money trust account arrangements.
Fiji	Implemented Credit Product Pre-Contractual Disclosure on 1st of July 2013.
Papua New Guinea	National Payment System and National Payment System (NPS) Act was passed by Parliament in 2013.
Papua New Guinea	National Strategy for Financial Inclusion & Financial Literacy 2014 - 2015.
Papua New Guinea	Savings & Loan Societies (S&L) Act review.
Papua New Guinea	Establishment of the Centre of Excellence in Financial Inclusion (CEFI)
Samoa	With support from an AFI grant, the Central Bank of Samoa developed a data collection framework for measuring access and usage of financial services for the Pacific Region. The grant included a knowledge exchange visit to Bank Negara Malaysia. A data framework provides an in-depth and concrete measurement of the main barriers in accessing financial services. This is clearly a solid first step to better policy design.
Samoa	MFIs were brought under the supervision of the Central Bank in a recent change to oversight rules.
Samoa	The National Payment System (NPS) Act came into force in 7th April 2014.
Samoa	The Central Bank of Samoa (CBS) Act was amended in 2010 to expand the mandate of the CBS to promote financial inclusion and financial literacy.
Solomon Islands	National Financial Inclusion Taskforce (NFIT) set up in 2011 and cabinet endorsed the implementation with mandate to deal directly with donor agencies.
Solomon Islands	A significant achievement on legislative reform is the new CBSI Act 2012 passed by the Solomon Islands Parliament in November 2012. The new Act also provides for power to promote financial inclusion and its related activities, power to ensure licensed financial institutions establish customer complaints unit with their organization, regulating of Credit information system, and regulating, licensing, and registration and oversight of payment system.
Solomon Islands	Financial Education is now integrated into National Curriculum syllabuses, a special committee is working on pushing this forward this year and beyond.
Solomon Islands	A guideline for a relaxed minimum KYC was issued to the commercial banks in January 2013.
Solomon Islands	Prudential Guideline 8: Disclosure of Interest Rate, Fees and Charges to be effective on 1st November 2013.
Timor-Leste	Financial System Development Master Plan launched and implemented.
Vanuatu	August 2012 workshop on financial inclusion and develop financial inclusion strategy.
Vanuatu	The National Payment System Act is scheduled to be passed in July 2013.



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