Pacific Microfinance Week 2015
Overview and Session Synopsis

Honiara, Solomon Islands
21-25 September 2015

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Introduction

The Microfinance Pasifika Network (MFPN) held the 5th Pacific Microfinance Week 2015 (PMW) in Honiara, Solomon Islands from September 21 - 25. PMW 2015 comprised a week-long series of events including workshops, field visits, seminars, and a formal conference, providing a comprehensive platform for over 180 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 “Next mile financial services in the Pacific”. This report provides an overview of the plenary and panel sessions held during Pacific Microfinance Week 2015.

Core support for PMW was provided by the Pacific Financial Inclusion Programme (Lead Sponsor), and the Asian Development Bank (Platinum Sponsor), with the Central Bank of Solomon Islands as local host. PMW 2015 was organised by the Foundation for Development Cooperation, with the support of a steering committee comprising the Executive Committee of the Microfinance Pasifika Network and representatives of the Pacific Financial Inclusion Programme and Asian Development Bank.

Mr. Denton Rarawa, Governor of the Central Bank of Solomon Islands provided a Welcome Frens Address, and Ms. Judith Karl, Executive Secretary, United Nations Capital Development Fund, provided the Opening Address.

In total, PMW offered 6 workshops, 7 panel and 6 plenary sessions. Field visits to several microfinance operations were arranged by ANZ Bank, South Pacific Business Development and World Vision. The Solomon Islands inaugural Women Microbusiness Awards were held during PMW2015.
Pacific Microfinance Week At-a-glance

Monday 21 September
15:00-17:00  Pacific Microfinance Week Registration opens

Day 1 - Tuesday 22 September
8:00-9:00  Registration
9:00-10:00  Welcome and Introduction
- Introduction
- Welcome Address
- Opening Remarks
10:00-10:30  Coffee Break & Networking
10:30-12:00  Plenary Session
- Digital finance and delivery channels in the Pacific
12:00-13:30  Lunch & Networking
13:30-15:00  Plenary Session
- Policy and regulation attuned to the Pacific
15:00-15:30  Coffee Break & Networking
15:30-17:00  Option 1 - Panel Session
- Growth pathways, partnership models and sustainability strategies for development-oriented financial institutions.
Option 2 - Workshop
- Informal savings groups: entryways to financial inclusion.
Option 3 - Workshop
- Alternative delivery channels and technology – navigating the options.
18:00-19:00  Launch of the “Solomon Islands Financial Services Demand Side Survey” report by the Central Bank of Solomon Islands. Cocktails hosted by the UNCDF/UNDP Pacific Financial Inclusion Programme
19:00-21:00  Pacific Microfinance Week 2015 Welcome Dinner

Day 2 - Wednesday 23 September
9:00-10:30  Plenary Session
- Growing micro clients’ businesses
10:30-11:00  Coffee Break & Networking
11:00-12:30  Plenary Session
- Women’s empowerment through access to finance

Day 3 - Thursday 24 September
08:30-10:30  Plenary Session
- Special session on financial inclusion in the Solomon Islands.
10:30-11:00  Coffee Break & Networking
11:00-12:30  Option 1 - Panel Session
- Effective corporate governance structures to improve performance.
Option 2 - Panel Session
- Is human centred design the key to finding the missing pieces in the Pacific financial inclusion puzzle?
12:30-13:30  Lunch & Networking
13:30-15:00  Option 1 - Panel Session
- Inclusive Insurance: Building resilience through partnerships.
Option 2 - Panel Session
- Improving the availability of credit information in the Pacific.
15:00-15:30  Coffee Break & Networking
15:30-17:00  Plenary Session
- The potential of value chain microfinance
17:00-17:30  Closing Session

Friday 25 September
9:15 - 15:30  Field Visits
Plenary 1: Digital Finance and Delivery Channels in the Pacific

Session Moderator:
- Ms Claire Cochrane, Counsellor – Development Cooperation, Department of Foreign Affairs and Trade

Speakers:
- Mr. Neil Singh, Regional Head of Diaspora and mCommerce, Digicel
- Mr. Shailendra Prasad, Head of E-Commerce and Corporate Affairs, Vodafone Fiji
- Mr. Aubry Dodd, Head of Digital and Channel Management – Pacific, ANZ Bank
- Mr. Tillman Bruett, Programme Manager, Mobile Money for the Poor, UNCDF
- Mr. Cameron Penfold, Acting Country Head, Solomon Islands, Westpac Pacific

Digital financial services are not new to the Pacific with most Pacific countries having one or more mobile services available. The success and growth of digital financial services in the Pacific has been remarkable given the region’s challenging geography and dispersed populations. This success has led to the Pacific becoming one of the world’s most progressive mobile and branchless banking regions.

In rural areas of the Pacific digital financial services are providing new ways for communities to access a range of financial services, which in many cases have not previously been available. Through mobile applications such as ANZ Go Money, Westpac’s Everywhere Money, Digicel Mobile Money or Vodafone M-PAiSA, more Pacific islanders are being able to access financial services than ever before without the need to visit a physical bank branch.

In Tonga, the use of mobile money has been particularly successful. With over fifty inhabited islands, Tonga has taken advantage of the country’s high mobile phone penetration rate to significantly increase outreach by leveraging mobile phone networks without the need for physical bank branches on each island.

Challenges

A common challenge for digital financial services in the Pacific is how to get customers to use their mobile wallets and accounts for more than just transferring funds. More incentives are needed to encourage customers to load their wallets and utilize them as a secure savings service rather than just a transfer service. To address this many banks and mobile operators have begun offering financial literacy workshops in villages to better educate their customers of the benefits of utilizing their mobile wallets in a variety of ways. However, the lack of acceptance of e-money at end points is a major hindrance in getting more customers to make use of features such as making...
payments from their mobile wallets. This highlights the need for more work to be done to develop the infrastructure for digital financial systems in the region to make it a more viable and convenient option for customers which will encourage them to leave money in the wallet, rather than cashing out. Currently, it is estimated that up to 97% of funds deposited into mobile wallets is withdrawn for cash to then be spent on purchases, rather than being saved for later or used to pay for purchases directly through the wallet.

Government-to-people payments (G2P) represent significant financial flows in Pacific economies, and where governments take a role in transacting with digital money they can enable the development of the necessary ecosystem for these products and services to be more widely accepted in the region.

Financial education is also very important and successful methods continue to be a challenge for financial inclusion in the Pacific. In certain markets, many people do not know how to use their ATM cards, which is an indication of the level of education that still needs to be achieved. One method of financial education which has shown promise is the delivery of lessons on the topic of keeping money secure which are then directly followed-up by opportunities for those taking the course to open a savings account.

Researching global trends and case studies of successful financial inclusion programs outside of the Pacific can provide useful insights, but in many cases the unique environments of the Pacific Islands make it difficult for such programs to be replicated. Interoperability is one example of a global trend which is of interest in the Pacific and the case of Tanzania’s success in developing the world’s largest mobile money network with full interoperability between providers connected at a wallet level can be a useful source of insight and inspiration. In the case of Tanzania, their success with interoperability has resulted in an increased total volume of transactions which benefits both the providers and customers. A key element of their success has been Tanzanian regulators allowing interest gathered to be paid back to the clients resulting in a significant number of customers using digital financial services more. Such case studies provide useful examples to Pacific stakeholders on how they might successfully increase the take-up and usage of digital financial services in the region. However, care must be taken to ensure that attempts at replication are done so within the context of the Pacific region’s unique characteristics.
Lastly, mobile network operators face a major challenge in the Pacific in having to charge for digital financial services that banks can offer for free. Banks can generate revenue from other services such as credit or for payment services where the recipient absorbs the fee. This issue of free digital services is causing competitive tensions within the financial services industry requiring careful monitoring and regulation.

**Role of Agents**

Agents and agent networks are critical in the delivery of digital financial services, but the agent model has its limits. Providers need to have realistic expectations of their agents as they often do not have the capacity to provide all of the desired services or at the same standard as their peer agents. Most agents are expected to facilitate transactions and explain services and risks to customers while also managing their own business. This is compounded where agents are also managing several different electronic wallets and systems. The use of agents is a critical element for successful digital financial services, and it is important that providers recognize that if agents are put under too much pressure they may lose interest in acting as an agent. This is especially the case where returns are minimal and regulations onerous. It is also essential that agents have sufficient volume of transactions to stay incentivized. Service providers cannot impose higher charges because the consumer will not want to use the product, but the agent also needs a percentage or fee from the transaction. So many providers have to fund the agents for their products, taking the risk that they may never recover these funds.

Providers also need to help agents manage their liquidity, especially within the current environment where the majority of customers prefer to withdraw all of their cash. Encouraging clients to transact electronically eases cash liquidity problems and helps create a micro-economy in a community or village. Education of both agents and clients is key.

When choosing an agent, due diligence checks are important. This would usually include an examination of aspects of the potential agent such as the size of the local population who would have easy access the store, the size of the store and whether it has sufficient liquidity and whether or not their security procedures are sufficient.

Agent networks are successful when providers and agents work together, and both know their customers and their needs.

**Cultural Considerations**

Cultural considerations must be kept in mind when designing products to meet the needs of customers. For some people, going into town to pay their monthly bill may be something they look forward to as it may be their main social outing. In such cases, there is less incentive or reason to make the payment through a digital channel.
Similarly, people may not want access to peer-to-peer payment services. The difficulty of sending money may be used as an excuse not to do it, as saying no can have its own ramifications. Providers need to be conscious of how the society works, and how they are evolving and adapting to these products and services, rather than assuming that that is what everyone wants.

**Digital Financial Services and Women’s Economic Empowerment**

With access to the right financial services, women can improve the lives of their community by taking actions such as investing in the education of their children, their family health or purchasing insurance products. Women may also find the confidential nature of digital services particularly appealing as it is easier to keep the knowledge that they have a bank account on their phone to themselves. Also, by being able to access their funds on their mobile, they no longer need to travel to a bank reducing their risk of harassment and assault. Providers can also use the mobile network to provide information, for example on women’s health, weather warnings, crop disease and educational tools for children.

From a provider’s point of view women often make better agents due to women generally being more community-minded. Many providers are now focusing on how to get more women involved for this reason. Furthermore, studies have shown that women are more likely to pass on education and training to their family members. In many cases an account is held in the name of a male while it is a woman who is running the family business; thus making them the main focal point for customers and conducting transactions. As a result, it is important for providers to recognize the role of women in banking and the benefits of developing this role to support the growth of micro economies.

**Key Points from the Session**

- Providing access to digital financial services is only an effective means of financial inclusion if those services are being used. Furthermore, the use of these services should result in tangible benefits for customers. To achieve this, more incentives are needed to encourage customers to make use of digital financial services available to them in a larger variety of ways such as to make payments or the purchase of insurance products. Such progress would result in greater number of transactions and lead to greater benefits to both the providers and customers.

- A major challenge in utilizing mobile wallets in the Pacific region is the lack of end-points that accept e-money. Until there are adequate end-points willing to accept this form of transaction the majority of mobile wallet users will continue to use the wallet primarily for transferring
funds, and cash-out to make purchases. This lack of funds which are currently being retained in mobile wallets is a major drawback for providers. Governments have a role as enablers in building the necessary ecosystem for digital money to be more widely accepted, contribute to system viability, and foster innovation.

- When exploring the possible application of new methods or technologies, Pacific stakeholders often find useful case studies from outside the region to learn from the success and shortcomings of other organizations which have attempted similar things. However, when planning to adopt something which may have been implemented outside the region particular care must be taken to ensure that it is relevant and viable for the Pacific context.

- Providers need to understand the communities they are operating or intend to operate in. When designing digital financial products and services research is needed to examine how such services might impact the local community on both positive and negative levels. Cultural aspects of each local community may mean that products and services which are popular in one village may not be in another.

- More recognition is needed for the important role that women have in banking. By supporting women as part of the industry’s strategy for growth, service providers can achieve greater results by leveraging the ability of women to pass on financial education with their family and other members of their community and distinctive ability to build enterprises.

Plenary 2: Policy and Regulation attuned to the Pacific

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

**Speakers:**
- Mr. Ross Buckley, CIFR King & Wood Mallesons Professor of International Finance Law, UNSW & ADB-PSDI consultant on digital financial services
- Mr. Abraão de Vasconselos, Governor, Banco Central de Timor-Leste
- Mr. Noel Vari, Director of Financial Institutions Supervision, Reserve Bank of Vanuatu
- Mr. Vereimi Levula, Chief Manager, Financial System Development, Reserve Bank of Fiji

The use of digital financial services is growing globally. This trend is also evident in the Pacific, however, there are several challenges that need to be addressed in order to realize the full potential of digital finance as a key component of financial inclusion. A pragmatic regulatory framework for digital finance in the Pacific for both banks and non-banks needs to stimulate innovation and access, while at the same time ensuring that critical issues such as consumer protection and interoperability are aligned with broader financial inclusion strategies.
Banks and payment providers operate in very different ways. For banks, risk can be viewed positively as it provides opportunities to make profits. On the other hand, payment providers are adverse to risk and attempt to minimise it by operating as close to real time as possible, and on a fully funded basis. Traditional banking involves managing risk and building relationships with customers, while payment providers utilize networks, with the greater numbers of users on the network enabling the provision of more valuable the services. Although banking and payment services have very different appetites for risk, they are regulated by a single institution. This is problematic because traditional bank regulation is not always applicable in the payment space.

Regulation is time consuming and expensive, so unless there is systemic risk there is no need for haste with heavy regulation. One issue which is hampering the success of digital financial services in the Pacific is the lack of consumer demand. Central banks can play a role in gathering data and bringing stakeholders together to explore options to stimulate consumer demand and use.

According to CGAP, there are five key elements that a regulatory framework for digital financial services should address:

- The regulation of banks or MNOs in using agents;
- Flexible, risk-based anti-money laundering and counter terrorism financing regime;
- Clear regime for non-banks issuing electronically stored value;
- Consumer protection tailored to digital financial services; and
- Payments system regulation that in the long-term at least allows broad interoperability and interconnection.

Furthermore, regulators should also consider enhanced transaction monitoring in order to simplify know-your-customer procedures.
A regulatory framework needs to provide consumer protection, while still leaving room for digital financial services to develop, as well as flexibility for cross regulation between the different agencies responsible for supervision of banks and telecommunications companies.

The Importance of Government Leadership

The financial industry globally is currently undergoing significant changes with digital financial services becoming more mainstream. Central banks have a role in overseeing these changes and their focus should be on ensuring that these services are adequately and appropriately meeting the needs of customers. Since many of these digital products and services have been developed by technology experts who often lack marketing skills this has led to many products and services being designed that do not adequately meet consumer demand. Ideally, innovation should be consumer driven rather than technology driven.

To promote financial inclusion, government-to-person payments are important for cultural change. People need a reason to make the change to using digital products and services, and receiving money from the government through digital channels can drive this change. Once they begin using digital finance platforms it is significantly easier for them to then try and use other digital products and services.

While the central bank can take a lead role, partnerships with financial services providers (banks, mobile network operators, microfinance institutions, insurance companies, money transfer operators, etc.), are essential in areas such as agent networks, consumer protection, and financial education. Government agencies (such as education departments and commerce commissions) and consumer councils are also essential partners in an effective financial inclusion ecosystem.

Proportionality in Regulation

An important feature of proportionality is that there should be different regulatory regimes for different sized financial institutions, as too onerous regulations may hinder the success of smaller agencies that are advancing financial inclusion.

There is an argument that bigger institutions carry a bigger risk for the overall financial system, and should be regulated more heavily. In terms of capital adequacy, there is no level playing field, so it makes sense to use proportionality as a guiding principle in the policy space.

Key Points

- Regulators need to understand the different needs and operating methods of traditional banks and payment providers. In most cases in the Pacific, both types of institution are regulated by the same institution and given the same rules. Governments should instead consider appointing different entities to regulate both types of financial services providers in order to
provide regulation which is more relevant, applicable and meeting the needs of both the institution and their customers.

- With the growing popularity of digital financial services, central banks can play a lead role to ensure that the needs of customers are being met. Furthermore, central banks can play an important part by gathering data and facilitating dialogue between stakeholders to further drive consumer demand.

- A one-size-fits-all method of regulating financial institutions may not be the most effective or efficient way to achieve the desired result. Instead, consideration should be given to how regulation impacts institutions of different sizes and apply proportionate regulation. Proportionate regulation will create a fairer playing field as well as support the growth and stability of smaller institutions.

Panel 1: Growth pathways, partnership models and sustainability strategies for development-oriented financial institutions

Session Moderator:
- Mr. Peter Dirou, Senior Financial Sector Expert, Asian Development Bank, Private Sector Development Initiative

Speakers:
- Mr. Deve R. Toganivalu, Chief Executive Officer, Fiji Development Bank
- Mr. Tony Westaway, Managing Director, MiBank
- Ms. Leta Havea-Kami, Chief Executive Officer, Tonga Development Bank

Development-oriented financial institutions, such as development banks, have had mixed success in the Pacific due to a range of factors, such as frequently changing government priorities and sector interests, diminishing access to soft or concessional finance, variable commercial practice, increasing competition from commercial banks, etc. To continue as contributors to financial inclusion in their countries requires a heightened commercial orientation. Key to this are the freedom to set prices for products and services according to market and viability imperatives, and a bank leadership with a clear view of the role their institution plays in the country’s financial system. The big challenge for development-oriented financial institutions is finding a balance between sustainability and development.
The emergence of Mobile Banking

Population density in the Pacific is a common issue which creates unique challenges for financial service providers. Since maintaining a physical branch requires critical mass, branchless banking solutions have grown in popularity. The use of mobile money as an innovative delivery channel shows great promise in addressing this issue, however, in order for it to truly become successful its value proposition needs to deepen.

One particular challenge associated with the growth and acceptance of mobile money has been the lack of interest by larger financial institutions. This is due mainly to the limited commercial incentive that the channel provides. In order for financial institutions to engage, they need to be convinced that offering a mobile money platform to their customers will be profitable for their business. Given these circumstances, it is likely the provision of financial services in the longer term will come more from locally owned financial institutions in the Pacific, drawing on their value proposition of being more a ‘community bank’ that works with local land owners, administrators and local businesses.

Interoperability in mobile money and removing agent exclusivity would assist in driving financial inclusion. If development-oriented banks are expected to be operate commercially, then the market in which they operate needs to be open, allowing the market to self-regulate.

Challenges to Development

Working with government can also be a challenge, especially for government-owned development banks. There can be political pressures to keep interest rates low in order to keep people happy, even if it does not make commercial sense. Often, considerable time is need to explain to government representatives that interest rates can be held low, but the consequence is low profitability, and limited ability to pay dividends back to government, or investment in product innovation. Such environments can make it difficult for development banks to operate in and can ultimately lead to their collapse if commercial and political interests are not aligned.

Another obstacle is providing women with access to finance, particularly in rural areas. It is not necessarily the lack of infrastructure which is hindering access to finance for women, but in many cases, it is the traditional views of men towards women that create the challenges. In the Pacific, women can manage family businesses, but these businesses are usually registered in the name of their husband. Making financial services more widely available and providing women with
appropriate tools would potentially provide better opportunities to grow and support their businesses. Providing financial infrastructure to women is important, but equality in financial inclusion requires a change in men’s views.

Risk Approaches

It is important to recognize the role of the provider and what factors are essential for the successful provision of these financial services. The profitability of any financial services provider has to be observed. But providers also need to consider risk and what methods can be used to manage it. In the Pacific, many development-oriented financial institutions have not been comfortable with taking risks and hence there has been an influx of commercial banks with more experience in managing risk. Development-oriented financial institutions are increasingly re-weighting their balance sheets with a smaller proportion of lower risk housing and personal loans in favour of higher risk (and growth) loans in areas such as agriculture, fishing, and tourism.

Development banks operate differently than commercial banks and this has an impact on how risk is managed within each institution type. For example, loan officers of development banks are often trained in specific areas such as to provide assistance to business owners to develop their own business plan. Government-owned development banks may also provide credit guarantee facilities for start-up loans.

There are an increasing number of risk sharing facilities, where risk is shared over a number of institutions, allowing borrowers to access loans that may not be available from a commercial bank. Development banks can be more comfortable with taking on risk than commercial banks due to their better understanding of the local environment.

A further challenge is structuring the businesses and loan book to take on risk while also meeting the demands of their shareholders. The loan book of development-oriented financial institutions can comprise a relatively large proportion of small and micro loans usually having less than twelve months duration resulting in a large turn-over and higher transaction costs. Working with clients to extend the maturity of loan terms would enhance sustainability.

Key Points

- Triple bottom line objectives and being all things to all people in the community are commendable aspirations, but unless development-oriented financial institutions are allowed to operate sustainably, it may be impossible for them to achieve their mandate and survive.

- More discussion and exploration is needed to determine appropriate business models for mobile money; particularly models applicable to larger institutions and that provide them with the incentive to engage in this new area of finance.
Responding to the political imperatives of the day can make the business and commercial plans of development-oriented financial institutions difficult to fulfil (with the time taken to restructure a loan portfolio usually much longer than most political cycles).

Compared to commercial banks, development-oriented financial institutions may have less access to capital to expand and invest, and not the sophisticated resources of large multinational banks and mobile network operators. However, development-oriented financial institutions may be more nimble, with decisions taken locally rather than referred to an overseas board or headoffice, and the inherent value and comfort some customers may feel knowing the institution is locally owned.

Provision of microfinance by development-oriented financial institutions can be costly as staff may not have the knowledge of working with clients at the frontier of the informal economy. Working in partnership with specialist organisations equipped to deliver on a broad mandate (such as providing funds to an MFI at wholesale rates), or organisation involved in a targeted program (such as a women in business initiative) can deliver synergy and benefits for both.

Plenary 3: Growing micro clients’ business

Session Moderator:
- Ms. Sweta Sud, Executive Director, Institute of Banking and Business Management Inc., PNG

Speakers:
- Mr. Trudi Egi, Head of Mobile Banking, MiBank
- Mr. Rico Munoz, General Manager (Fiji), SPBD Microfinance
- Mr. John Aruhuri, Head of Rural Banking services, National Bank of Vanuatu
- Ms. Anna Mendiola, President and CEO, Federated States of Micronesia Development Bank

Enhancing opportunity for micro and small entrepreneurs through diversification, new markets and other pathways is important to achieving financial inclusion in the Pacific. To successfully enhance these opportunities, a conducive environment must be provided, with financial service providers and agents having a key role.
The needs of microfinance clients

Many microfinance entrepreneurs need training to help them develop their business to become sustainable. Being sustainable impacts their ability to not only repay their micro credit loans but also can flow through to supporting themselves and their families. The provision of financial training and access to savings services are crucial for most microfinance entrepreneurs to provide them with the basic skills necessary to make their business successful while also providing the means for them to store, manage and grow their financial assets. Training and education is an opportunity for financial services providers, government and development partners to work together on delivery, as training and education needs are not necessarily product specific and benefit the community generally.

Due to the relatively small population base in the Pacific, microfinance clients must consider a range of strategies to grow, beyond selling more of the same. Diversification is one way that a small enterprise can maximize their income. If a microfinance client has a successful business selling fruit, that microentrepreneur may not be able to expand by selling more fruit, as they may run out of people to sell to. An alternative is for that microentrepreneur to secure a micro loan, and expand into other areas, such as sewing or baking. Microfinance can help whole households. For example, if a woman takes a loan to expand her business, a positive credit history developed as a result can enable her to later take a second loan for her husband to start a taxi business. Diversification is not just about one person doing more jobs, but about creating new jobs for more people.

Even if a start-up business fails, a client may still have developed a good credit history. In this case, they may take a second loan to try another business – and the second attempt may be more successful as the client will have learned from previous mistakes.

Savings and Alternative Loan Structures

A micro business requires savings to grow and expand. Having access to savings enables access to loans which can be used to support the development of their business. A bank account can provide a safe place for an individual to grow their savings, and accounts can be established in a way that limits access by family members and friends - giving the business owner direct control over the funds. While savings accounts can be very useful in this regard, many people prefer to put their savings into tangible assets such as livestock or jewelry, rather than into a bank account.

If a client does not have enough savings available to make a deposit, a financial institution may still grant a loan which might include a ‘forced savings’ requirement. Under such an agreement an agreed portion of income will be deposited into a savings account only to be withdrawn if it becomes necessary in order to expand or diversify the business. Setting aside some profit into
savings enables microentrepreneurs to think about other business opportunities to pursue.

Moveable assets are an increasingly popular source of collateral for security over a loan where a client does not own land. The use of such assets as collateral is very important for micro and small enterprises to be able to access credit and many developing countries are exploring formal ways by which such services can be provided and regulated.

Informal lending in the Pacific remains culturally popular and significant, but as financial institutions develop and diversify their savings and loan products, and the community becomes more aware of the security and opportunities an account offers, the problems with informal lending can be reduced.

Challenges

One of the biggest barriers for financial institutions to support micro and small enterprises is the cost of maintaining a loan program on a regular basis. For example, if a rural customer defaults, the cost of sending bank officers to these remote settings is very large. In order to be viable, financial institutions need to look to solutions that minimize their costs. Remoteness is a time cost for microentrepreneurs also, and time taken to travel to and from a bank is time that could have been spent on the business. Mobile and agent banking help address this challenge for both the financial institution and clients.

Another challenge is how to manage the (moral hazard) risk of clients using their business loan funds for non-business purposes. This risk can be mitigated through the provision of financial education to help customers make more informed decisions about how to use their loan and maximize the benefits and opportunity that having access to finance provides.

A challenge for development-oriented financial institutions working with people with a desire to build a small business but little education is how far to go with assistance and the client relationship. Is a bank account or mobile wallet enough? Maybe information about how to save and how to borrow. Perhaps explaining how different types of financial products can be used for different situations. Discussing the management of cash flow and other ways to grow a small
business. The approach is influenced by the institution’s mandate – it may be minimalist or holistic.

Institutions providing microfinance regularly monitor the number and types of enterprises operating in their areas through surveys and maintaining databases. This allows the institution to monitor the types of businesses and various product offerings available in any particular area so that when considering new business loans financial institutions are not inadvertently contributing to an oversupply of any one type of business. Where they can, microfinance lenders develop a portfolio of business types across different geographic areas as a means to reduce sector or portfolio risk and underpin the sustainability of the financial institution.

**Key Points:**

- Financial institutions supporting micro and small enterprises need to consider the level of engagement with clients in helping make their business sustainable and grow over time. Providing opportunities to develop the skills of clients can increase the success rate of their businesses, in turn enabling clients to repay their loans as well as support their families. Financial institutions can also help their clients understand the importance of diversifying their products as a key business strategy, and importance of developing a positive credit history which is beneficial should their business struggle or fail, or apply for additional funding to expand the business.

- Financial institutions can also encourage good savings habits with their clients, which can help micro and small businesses to grow and expand. This can include “forced savings“ to help clients realize the importance and value of saving and how it can impact the success of their business. Financial institutions can also look at ways clients’ can use their non-land assets as collateral to provide more opportunities to access credit.

- Financial institutions face several challenges in supporting micro and small businesses. Included among these is the often high cost involved to support these clients (and how to lower these costs to an acceptable level that makes lending a viable option for the bank), and helping clients understand how they can use their loan and the types of business decisions involved. Such challenges can be addressed through financial education programs offered as part of a loan program, and augmented with support of government and development partners. Lastly, the ability of financial institutions to help grow micro clients’ businesses depends on the sustainability of the institution itself, which requires a balanced loan portfolio and attention to broader market conditions and competition within the sectors their clients operate.
Plenary 4: Women’s Empowerment through to Access to Finance

Session Moderator:
- Dr. Vijaya Nagarajan, Gender Specialist, Pacific Private Sector Development initiative, Asian Development Bank.

Speakers:
- Ms. Amy Lofgren, General Manager (Tonga), SPBD Microfinance
- Ms. Gima Kepi, Manager, women’s Banking Unit, MiBank
- Dr. Alice Pollard, West ‘Are’Are Rokotaniken Association

The potential for women to participate in the private sector and contribute to a nation’s economic well-being is well documented, however, in the Solomon Islands over 70% of women remain excluded from the formal financial sector, with this level of disparity common across the entire Pacific region.

Microfinance in the Pacific is generally considered a successful method of supporting poor and disadvantaged families. The success of microfinance in the Pacific is attributed to how it leverages the already strong community ties which characterize the region. On a cultural level, Pacific women have for many years run businesses, accumulated savings and made financial decisions for their households. These skills provide a solid foundation for women to pursue pathways into the formal financial sector, given the opportunity.

Community Banking

The inclusive nature of communities and villages in the Pacific provides for a variety of approaches for solidarity banking in the Pacific, which have been adopted in particular by women. The level of group formality and nature of commitments between members vary from country to country and organization.

With group lending, women from a single community form a group in order to meet the requirements of a financial institution. Before a woman applies for a loan, the group will have already completed their own simple risk assessment by only inviting reliable women to join the group. A vigorous loan process follows which involves developing a business plan together with the lending institution. Before the loan is granted it must also be agreed to by the group. After a loan has been granted the financial institution will send staff to visit the client from time to time and conduct assessments on the woman’s business. If a member is found to be misusing money it is reported to the group which often results in a speedy correction of inappropriate behavior. This
type of group lending has been very successful in the Pacific. The method combines ensuring that members of the group understand their responsibility and role in the financing as well as careful loan analysis and processing by the financial institution.

Women’s savings clubs are widespread throughout the Pacific Islands, many having successful results. The common interests of women in communities and inherent skills to save, borrow and make considered decisions lend themselves to savings clubs in locations devoid of transport, electricity, formal education and other infrastructure. Business and broader microfinance education and training is essential to take the next step and build on the foundations created by savings clubs.

Take-up of finance by women has revealed the critical importance of financial products and services designed to meet women’s’ needs – access and use is greater where products and services are demand-driven. This covers the gamut of financial inclusion - savings, loan and insurance products, account features, fee structures, digital and branchless delivery channels, etc. Another key driver of take-up is trust. Women need to be confident about both the organization/institution they are banking with, and its products and services.

**Household Empowerment**

It is not only women who become empowered with access to finance, but their entire household. Women are able to borrow for themselves as well as for their husbands which can lead to stronger partnerships. After a woman’s business has become successful, in many cases their husbands have left their current work to work for their wife. The additional income generated through the woman’s business also allows mothers to invest more in their other family members such as paying for education for children or purchasing a car for a relative to become a taxi driver. Women’s empowerment has benefits that extend beyond financial security – it can be infectious, empowering the whole household.

**Challenges**

Financial education is essential for financial inclusion to be truly successful. Teaching women to save for important life events decreases the vulnerability of their loan funds. Financial institutions can teach women savings, budgeting, and how to take out loan products. Once a woman has been educated on what products are available, she can make more informed decisions on what
product is right for her. It is also essential that young people have access to business and financial education as this will provide them with important foundational skills that can be applied to give them further advantages later in life.

Market saturation is an increasing risk and challenge requiring both institutions and women clients to constantly seek new markets and business activities in more than one sector.

Research has shown that some rural women do not have the confidence to walk into a bank, as they may feel it is a place that only working class people are welcome. Mobile banking is a potential solution to this and other challenges associated with access; particularly for rural communities. Financial institutions can set up mobile agents who can travel to villages and provide financial education services as well as assist women to open bank accounts.

In some cases regulation and other obligations are limiting commercial and development banks from reaching women in the informal economy and at the lowest sector of the financial pyramid, particularly women in rural areas. There are also micro entrepreneurs looking to expand but are not able to access credit because they cannot satisfy the requirements of banks.

**Key Points**

- Empowering women through access to finance can be a powerful force for economic development, and there are examples of successful approaches throughout the Pacific that would benefit from documentation and distribution across the region to inspire other women and communities.

- Women’s savings clubs are an effective way in the Pacific to increase access to finance and engagement with formal financial institutions. The strong community linkages found within Pacific culture underpins the success of this model. This presents an opportunity for financial institutions to learn how these community linkages can be leveraged to design and deliver products and services that would be particularly beneficial to women.

- The impact that access to finance can have on a women can extend to their family members as well. A successful women entrepreneur will have opportunities to invest in new ways to support their families and improve their living standards. Financial institutions can work with clients understand and realize this potential.

- Raising awareness of and providing education about the financial products and services available and potential opportunities this enables, is critical to empowering women in the Pacific.

- Mobile and branchless banking innovations continue to provide opportunities for financial institutions to overcome challenges associated with reaching women in rural communities and providing services to new markets.
Significant growth in financial inclusion has occurred in recent years as a consequence of innovation across the financial ecosystem – in products, services, infrastructure, technology communications, policy, regulation – with an increasing attention to customer driven innovation. Innovative solutions are progressively reaching those parts of the population that are otherwise generally excluded from formal financial services, with tailored solutions to meet the specific needs of people to achieve positive impacts.

Growth in Digital Finance

The growth in global financial inclusion is in part due to the success of digital financial services and the low cost and convenient platform it provides for clients to access financial services including receiving salaries, making payments or purchasing goods.

Other factors driving growth in financial inclusion around the world include: mobiles phones, government-mandated accounts, government-to-person payments (the number one reason why people open a bank account in the Solomon Islands), and general utility from being able to access the financial system by customers that digital finance offers.

The National Bank of Vanuatu is trialing tablet banking. At the moment half of the Bank’s 28 branches are off-line, with processing of transactions at head office taking 7 to 10 days. “EasyMobile” is a tablet/mobile phone based system that will bring branches online and enable a range of services for both personal and business customers, including money transfers. It will enable same day value for deposits and transfers. The Bank is also introducing biometric identification, first for its staff. Variable mobile communications in Vanuatu is the main barrier to wider rollout. There is demand for microfinance in remoter areas and financial services by rural workers, but not the communications infrastructure to support this. One lesson here is that infrastructure is needed to support good ideas, and this infrastructure needs to be connected.
Given the prevalence of savings clubs in the Pacific and efficiencies that technology offers, there may be potential in ‘digitising’ the systems and trust developed within groups. Banks could then lend or interact with the savings group based on the pre-existing histories and discipline within the group.

Digital finance innovations of note in other parts of the world include E-Peso – an electronic payment platform for transactions in the Philippines, the remittances service Simba in Kenya, and First Access, which uses a range of mobile phone and utility company data of customers for credit scoring purposes. M-Shwari in Africa is a high profile success in terms of generating new accounts - with its next challenge being to stimulate customer use of those accounts. While M-Shwari is challenging the markets traditionally held by the banks, it is generating new accounts with previously unserved people and reaching the ‘next mile’ of the population.

Core Regulatory Principles

Financial institutions are continuously developing new ideas for products and services to meet the needs of their clients and provide them with access to new markets. In response, regulators (the Alliance for Financial Inclusion) and policymakers (G20) have prepared guiding principles for institutions to consider when approaching the regulation of new products and services for the unbanked and poor. These principals include:

- Leadership of the institution
- Level of diversity and competition in the market
- Innovation and responsiveness to customer needs
- Contribution to empowerment through financial education and building capability
- Cooperation amongst providers within the market
- Knowledge sharing with peers on similar issues within the region
- Applications of proportionality of regulation to allow for fairness among players
- The product’s place in the broader financial system ecosystem

If one goal of financial inclusion is reaching the next mile and the market isn’t responding adequately to this challenge, regulators and policymakers may increasingly encourage cooperation (i.e., between banks and MNOs) as well as competition amongst providers.
Importance of customer-driven innovation

In recent years the focus of financial inclusion has been on increasing access by the unbanked to financial products and services, but increasingly attention is shifting to use of financial products and services, and putting the customer at the centre of development. The effort that has gone into technology and methodology as drivers of access needs to be matched with an understanding of customer needs and circumstances.

For people to adopt new financial products and services they need to be: available, accessible (close), reliable, appropriate (relevant to their needs), appealing (not just a smart application), and affordable. Financial services providers cannot deliver on all of these elements by themselves - it takes everyone involved in the financial system to make this happen, and new product design needs to take into account other aspects of the financial system for new products to be used effectively.

An example of this whole-of-system approach is a bundled insurance product being developed in Fiji. In recent years, individual companies have introduced individual insurance products in the country, but without success. The new product is being developed in partnership with several companies and includes a bundle of insurance several products (life, health, general, personal accident), with a $10,000 potential payout that can be applied across different risks. Administration will be standardised to keep costs down and premiums more affordable. Initially it will be marketed through companies to their employees to build volume, then to the general public. This cooperative effort is being facilitated by the Reserve Bank of Fiji.

Determining what customers want and/or need is key. Prototyping and co-design – involving providers and customer in the design process involves testing ideas with customers at an early stage. Testing the idea with customers to see whether it’s going to work at the earliest stage of product and systems development is a prudent investment strategy for financial services
providers. There are great applications and technologies in Africa and Asia that have yet to connect with a customer need, and as a result are going nowhere.

In addition to technology, product and service innovation is increasingly being driven by customer data. There is much data in the financial system that is not being fully used by financial services providers. Data from mobile phone usage, utilities providers and even social media is being used and cross-referenced to provide instant credit references. At the same time, the rapid use of these data to provide instant access credit has raised questions about access to and distribution of personal data, which regulators are monitoring.

Innovation in financial services is also being pursued through deeper dives into the ecosystems and value chains of businesses and industries, with an increasing interest in applications, rather than products and technology. Identifying the problems in a sector, what those are that have a financial service link or solution, and then identifying who’s best placed to provide a solution. New products will increasingly be purpose rather than product or technology driven, and by providers who try to solve a problem, rather than just sell a service.

**Communicating with the customer**

Innovations in service are driven by constant and meaningful communication with customers, and need to adapt to the constant change in customer circumstances and the market environment generally. Financial services providers should periodically review the method and relevance of communications with customers. Is all the information traditionally requested on bank forms still needed, is the language used understandable by the customer? Do agents and contractors fully understand the provider’s products and contracts?

Positive behaviours for financial wellbeing can be reinforced through simple means such as text messages sent to clients when a payment is made towards a savings goal, and/or when the savings goal is achieved. In the Pacific, these simple automated communications can to be augmented with personal follow-up as face to face communication is very important culturally.
Panel 3: Show me the Data – Fresh Insights on Financial Inclusion in the Pacific

While Pacific Island countries are not widely represented in global datasets, there are plans to include the larger countries progressively in the future. In the meantime, several central banks and development partners are compiling comprehensive data sets on financial inclusion, bringing new information to the forefront of stakeholder discussions. These data are providing insights regarding the overall financial inclusion landscape and are a particularly important resource for stakeholders implementing specific market interventions or programs aimed at increasing access to formal financial services.

Demand Side Surveys (DSS) of the Pacific

To date, demand side surveys have been conducted in three PICs to understand the needs of the citizens, to explore barriers to access and to establish a baseline. They are nationally representative and conducted by central banks and/or bureaus of statistics, and captured information on the level of knowledge of various financial products within a particular population group, and which parts of the population are currently lacking access to formal financial products or services.

Fiji has the highest percentage (60%) of formally banked citizens, followed by Samoa (39%) and Solomon Islands (26%). The results indicate lack access to formal financial services is due to a lack of identification or necessary documents to open a bank account, time and cost of travelling to a bank branch, not knowing where to go, lack of money and trust issues with banks. The demand side surveys have also established that there is some variation in financial behavior between genders, it is more significant in Solomon Island and Samoa than Fiji. In terms of mobile money, the surveys found that generally mobile banking and wallets represent less than 10% of accounts; the main reasons being lack of awareness and trust in mobile wallets.
The surveys also revealed some surprising results, including a lower use of credit and ATM’s than expected.

Future research interests are likely to focus on products and services, digital finance, and level and impact of financial literacy.

**Solomon Islands**

In the Solomon Islands the total banked population is around 57%; of this, about 27% of accounts are held by women. 60% of the adult population hold a mobile bank account, with 34% held by women.

The Solomon Islands are using these data to monitor progress on financial inclusion in the country, the development of prudential guidelines, informing the national strategy for financial inclusion, comparing results against targets set in the strategy, and to identify areas of success and gaps in financial inclusion. Gender issues are important in the Solomon Islands, with the results of the survey helping to inform new initiatives in both policy and industry practice.

Data for the Solomon Islands is used to compare country activity and issues with that occurring elsewhere in the Pacific. Data can also be an important tool for policy and regulation as it can be used to influence regulators to change policy to better meet certain objectives, as well as be used to identify areas of success and gaps in financial inclusion. A key challenge in using the data is that it is often collected in several different languages depending on the region, and converting data into a single language can potentially compromise its overall quality.

**The Fiji Experience**

Fiji has established a National Financial Inclusive Taskforce which conducted a financial competency survey in 2011 as well as a demand side survey in 2014. The Reserve Bank of Fiji also collects supply side data which has been used to map access points such as branches, agents and mobile network operators, together with the bureau of statistics. Data from the 2011 financial competency survey was used to inform the design of Fiji’s national strategy for financial literacy. A high level of correlation was found between 2011 financial competency survey and the demand side survey.

Fiji’s National Financial Inclusion Taskforce along with the Reserve Bank of Fiji have been able to use the results of the demand side survey to measure how effective Fiji’s financial inclusion strategies have been. These results have also been instrumental to identifying key barriers for
financial inclusion and locating specific areas where people are still financially excluded. Using this information development programs are now being designed to address these issues and new methods being explored by which financial inclusion programs can be linked with other government and development programs to increase impact.

**Insights from beyond the Pacific**

In just one year, India’s banks managed to open 180 million new accounts. Rather than increase the number of staff or bank branches this was accomplished through the use of innovative technology and planning. A lead bank was created in every region which undertook the responsibility of collecting data and handing it to a central administrator. Initially banks did not want to share their data, as it was considered un-strategic to openly share it with their competitors. But through various methods of encouragement from the Government, including educating banks of the strategic advantages of sharing data, they have now become much more cooperative and willing to share their data. Work is now underway to encourage other key financial inclusion stakeholders such as post offices to share their data as well. As more stakeholders become comfortable with sharing their data it will result in benefits for the entire sector and make a significant contribution to financial inclusion efforts.

The importance of reliable data is evidenced by its use around the world in influencing better decisions, including moderating interest rates charged by financial services providers (India), tax thresholds (Philippines), and greater access to formal financial institutions (South Africa).

Where data from the Pacific can be compared with data from other counties, analysis may result in uncovering potentially useful solutions or common challenges experienced by others.

**Key Points**

- Financial institutions can make use of the information gathered in demand side surveys to better understand their clients and make informed decisions on how to best support customers or provide financial access to new markets. Recent surveys have provided important information highlighting the main reasons people in the Pacific remain excluded from the formal financial sector.

- The Solomon Islands provides a useful example of how data can be collected and used to inform financial inclusion strategy and policies. While comparing this data with other regions can often prove difficult, it is still important to recognize the benefits of utilizing quality data as a tool for progressing financial inclusion.

- Lessons on data collection and usage from Fiji and India have highlighted the impact that data collection can have on financial inclusion. These case studies have highlighted the importance of stakeholder cooperation, including identification of stakeholders, developing plans, using technology, and sharing data to raise awareness and influence decision makers.
The Solomon Islands has a population of around 580,000, with 80% of its population based in rural areas and operating within the informal economy. Seventy per cent of the population is excluded from formal financial services including 30% of which are completely excluded from any form of financial service. The Solomon Islands’ financial sector comprises 3 commercial banks, 1 superannuation fund, 1 credit institution, 4 insurance institutions, 1 microfinance institution and over 300 (NGO led) savings clubs. The country’s telecommunications coverage reaches an estimated 80% of the population. The rapid expansion of telecommunication coverage has seen financial access points (mobile banking agents, bank agents, EFTPOS, ATMs, etc.) almost treble from 200 in 2010, to almost 600 in 2015. The majority of accounts are held by men, with approximately one third of accounts are held by women.
The current priority areas for financial inclusion in the Solomon Islands area: innovative distribution channels for products and services, integrating financial education in the formal school curriculum, building financial competence of adults, building data sets and measurement of progress and growth, consumer education and protection, insurance services to informal and low income people and the participation of women and youth in the financial sector.

The revised financial inclusion target for 2017, overseen by the National Financial Inclusion Taskforce, is to extend access through a variety of appropriate and affordable financial services to an additional 160,000 Solomon Islanders through safe and sound institutions, with at least 50% of additional accounts being held by women, and 50% from rural areas.

**Savings Clubs in Solomon Islands – Their role and importance in Financial Inclusion**

Women’s groups and associations in the Solomon Islands have existed for a very long time as many women were already accustomed to gathering together in informal community and church groups. There was a recognition that millions of dollars are injected in the Solomon Islands to support various aid initiatives; however, very little of this aid reaches women in rural areas. The genesis of savings clubs arose from the potential to integrate the well-established women’s networks in rural areas with microfinance. The absence of these community based networks amongst men see very few men’s savings clubs in the Solomon Islands.

Savings clubs can act as a bridge between the hard to reach rural sector and the formal financial sector. Finance training is provided for women and girls, who then go back to their communities and share their knowledge. Savings clubs have been empowering for women, as they can join the club with as little as one dollar, and watch their savings grow. Many savings clubs provide business training and business opportunities, however, the very low literacy rate and language barriers limit widespread delivery. Mobile networks and technology have the potential to bridge some of the geographic and educational challenges.
Mobile and Branchless Banking – A bridge to formal financial inclusion in Solomon Islands

The rapid expansion of the mobile phone network across the Solomon Islands has been a game-changer. For example, in the Solomon Islands, the number of people with a bank account doubled between 2011 and 2014 with the emergence of branchless banking solutions largely on the back of mobile services. Apart from bringing many people into the banking system, the accounts offer security over traditional places cash was stored, and convenience and significant savings in time to access funds and make transactions. Mobile and branchless banking has and continues to enable innovative solutions to make banking easier for clients.

Financial inclusion is being approached holistically by creating an ecosystem of supporting merchants and providers. The mobile network is gender neutral and bank neutral. In addition to providing access to banking services, it provides a platform for delivery of complementary and critical information (for example on health, natural disasters, climate and financial inclusion programs).

Key challenges in extending the reach of mobile and branchless banking into rural and remote areas include: electricity for technology-based infrastructure and equipment; adapting education materials for different cultural and language groups; liquidity within the agent network; building the trust of people in financial institutions, the financial system, and financial institution; and reaching critical mass to underpin the sustainability of financial services providers.

The key is developing the financial ecosystem of partners who collaborate to meet these challenges – commercial banks, mobile network operators, the Central Bank, development partners, agents, microfinance institutions and other financial services providers and technology partners.

Key Points

- While substantial progress has been made in recent years, the majority of Solomon Islanders currently do not have access to formal financial services. Telecommunication coverage of up to 80% of the population highlights the opportunity for providers and stakeholders to leap-frog conventional delivery channels and use this technology to increase access to financial products and services.
Women’s savings clubs in the Solomon Islands continue as an important and successful method for bridging the gap between rural women and the formal financial sector. Education is key, and there may be lessons that can be applied to form men’s savings groups, to achieve greater financial inclusion.

There is scope for mobile and branchless banking to contribute to greater financial inclusion in the Solomon Islands, the challenge to financial services providers being the development of viable client-based solutions, effective management of agent networks, raising awareness of the benefits of formal financial services, extending financial education about the value and use of financial products and services, and building the trust of people in the financial system.

The challenges are best met by further developing the financial ecosystem and collaboration of partners – commercial banks, mobile network operators, the Central Bank, development partners, agents, microfinance institutions and other financial services providers, and technology partners.

Panel 4: Effective Corporate Governance Structures to Improve Performance

Moderator:
- Mr. Chris Razook, Corporate Governance Lead East Asia Pacific, International Finance Corporation

Speakers:
- Mr. Andy Cottam, Head of Audit, Risk and Compliance, National Bank of Vanuatu
- Mr. Gregory Casagrande, President, SPBD Microfinance Network
- Mr. Denton Rarawa, Governor, Central bank of Solomon Islands

Corporate governance is the backbone of the financial sector and touches all aspects of an organisation. Having appropriate and effective governance is a critical aspect for any organization as it determines how organizations are guided, controlled and managed and underpins the discipline on which a business is run. Further, good governance builds confidence and helps attract investment. While different organizations will require their own specific governance structure depending on their scope and size, the underlying principles for good governance remain the same.
In the case of MFIs and other financial institutions, good governance plays an important role in helping to improve their performance. Key elements of a practical governance framework include a functioning board (the board of directors is the heart of corporate governance); shareholder practices, rights and protections; control and assurance within the operation; transparency and disclosure of information; and succession planning.

The Importance of Corporate Governance

Corporate governance underpins effective organizations, be they state owned enterprises, small to medium enterprises, microfinance institutions or other financial services providers. Good corporate governance creates confidence within the organization, as well as the trust of shareholders, investors, and most importantly, customers. However, achieving good corporate governance and meeting everyone’s expectations can be challenging and often involves a wide range of stakeholders including clients, who have an interest in the organisation providing good products and services and value for money; investors, who look for security and return on investment; and governments, looking to ensure that organizations are adequately meeting regulations, contributing to financial system stability and ideally, making a positive impact on the economy.

Having effective corporate governance structures also plays an important role in the long-term success of an organization as it enables a company to plan ahead and understand the broader implications of their work. One area of particular importance is attracting the right people to direct the company and make board-level decisions. This is a significant challenge across the Pacific with relatively small populations and with corporate structures and cultures being relatively new to the region. Company directors need to be critical thinkers so that they can scrutinize board papers and query management performance and proposals, with board appointments based on merit rather than political, cultural or social ties.

The key responsibilities of a board should include:

1. Setting the company’s overall mission, and following through with appropriate strategies;
2. Attracting appropriate equity investment and/or securing debt finance;
3. Oversight of major capital expenditure;
4. Oversight of financial and operational controls (and compliance);
5. Management of high level human resource decisions and policies; and
6. Ensuring regulatory/statutory obligations are met.
While the board is at the heart of corporate governance, it is important for there to be a clear demarcation of board and management responsibilities.

**The Structure and Key Functions of a Board**

Board directors need to have a good understanding of most issues faced by the organisation. Boards should be diverse in composition, with a mix of skill sets in areas such as accounting and law, as well as external directors drawn from wider industry, having academic expertise in microfinance, or a microfinance leader from another market. Experience on other boards is valuable, but if a director becomes over committed to too many boards, some may suffer from a lack of attention. In terms of decisions and policies, the Shareholder agreement should provide a high level guide as to how the company should run, as well as the roles and responsibilities of investors, the board and other key stakeholders. Appointments should follow the guidelines set out in the shareholder agreement.

Many institutions in the Pacific have or are being devolved from government, with lingering expectations of politicians sometimes diverging with the charter of these new, independent organisations. Independence of the board (and board appointments) is of particular importance. Political interference can be minimized by specifying required qualifications in an organization’s legislation, articles of association, shareholder agreement, or other constitution; advertising the director’s position; and making the process of appointment as transparent as possible. Directors need to be aware that their fundamental duty of care is to the company, not shareholders/investors.

In the Pacific, individuals are subject to a multitude of complex influences – from family, the tribe, community, politics, etc., with the standard of governance reflected in how power is exercised in the management of the institution.

Assessing risk is an important task for board members. The types of risks a board needs to consider will cover geographic, environmental, financial, market, and operational risks, with each needing to be assessed in terms of likelihood and severity. Once risks are identified, responsibility for monitoring and management needs to be assigned. One strategy that the boards of larger organisations adopt is the use of independent audit committee which reports to the board rather than management. Risk profiles can be prepared and reported on at board meetings.

Conflict of interest and related party transactions can be addressed through disclosure at the outset of each board meeting, and promoting a culture of absolute transparency in board deliberations and decisions.

Proportionality should apply to governance, as the governance requirements for large commercial organisations would overwhelm smaller organisations and groups. Where possible legislation should be rationalised and keep governance regulations and expectations as simple as possible.
What is important is the practical application of basic governance principles. Vanuatu has a graduation provision within financial institution legislation that add more stringent provisions as MFIs grow through various financial and operational thresholds.

Panel 5: Is Human Centred Design the Key to Finding the Missing Pieces in the Pacific Financial Inclusion Puzzle?

Moderator:
- Ms. Robyn Robertson, Training & Capability Development Lead, Good Return

Speakers:
- Ms. Isabelle Barres, Vice President and Director, Smart Campaign
- Mr. Justin Connor, Director, 2nd Road
- Ms. Alexandra Fiorillo, GRID Impact (by video)

Human centred design refers to a product development methodology which puts particular emphasis on understanding and meeting the needs of the client. It mitigates risk by deliberately creating things that are good for people by meeting a genuine need.

Human centred design and behavioural research is being used across the financial inclusion sector to build products for the bottom of the pyramid and support the work and needs of regulators, providers and end users.

People need financial services to harness and channel their creativity and energy, such as savings to provide resilience in dealing with fluctuations, insurance to help recover from disasters and unforeseen events, payment systems to enable trade and engagement in the community, and credit to help progress their idea or grow their business.

The three levels of human centred design

Useful and viable product design takes place at three levels:

- The first level is designing great products, services and, experiences for people (such as savings clubs). Apart from the product itself are the challenges of the provider establishing the trust of the customer, and having access to infrastructure.
The second level is the design of organisations (financial services providers) and a culture that supports design of great experiences (with empathetic leaders, relevant KPIs, and effective organisational structures, etc.).

The third level is the ecosystem – the customer experience touches on many organisations. The challenge is how all organisations involved in the ecosystem can work together to accelerate financial inclusion.

**The challenge of convention**

Human centred design can face challenges within organisations: a preoccupation on the financial outcome or building a business case before knowing what it is the customer wants; pursuit of short term returns by shareholder, boards, management and staff; presumption by people of influence that they know what the customer wants or needs, and focus on promoting product features rather than customer benefits in marketing campaigns.

Organisations need leaders who understand the importance of products meeting customer needs, as well as financial, shareholder and market considerations, and create space within the organisation for new product design that is quarantined to a degree from these competing interests.

While the focus should be customer centric, products and services must also be good for the organisation – they have to be financially viable and technically feasible.

The prudent approach is to place ideas in front of potential customers and test these before the solution is built or even developed. The earlier in the process that ideas are tested, the lower the potential cost of product failure.

The simple approach that applies to both existing and potential markets, is to identify potential client segments and the product or service they need. Once the need is identified, production, operational and delivery requirements can be mapped out, and cost, revenue and other financial considerations identified, to determine whether the product is viable and sustainable in the market.
There may be a range of factors affecting adoption and usage of financial products and services – competition, infrastructure, delivery, etc., but it is important to also question the extent to which the product is meeting client needs. Since microfinance is part of a service industry, customers should remain the centre of attention.

Panel 6: Inclusive Insurance: Building Resilience through Partnerships

Moderator:
- Mr. Krishnan Narasimhan, Financial Inclusion Specialist for Solomon Islands, Pacific Financial Inclusion Programme

Speakers:
- Mr. Philip Tolley, Group Managing Director, Capital Insurance Group
- Mr. Simon Schwall, Country Manager-Papua New Guinea, BIMA
- Mr. Vereimi Levula, Chief Manager, Financial System Development, Reserve Bank of Fiji

Inclusive insurance refers to insurance products which are designed to reach those who do not yet have access. Those without access are primarily poor and low income households, the marginalized and small enterprises.

Communities in rural and remote areas tend to have fewer ways to mitigate risk than people living in urban areas. Traditionally in the Pacific the first reaction after a natural disaster or major unforeseen event is to look to government, donors or NGO community for financial assistance. Insurance offers the potential to build internal resilience within an economy.

The uptake of micro insurance products in the Pacific has benefited from the introduction of mobile technology to reach populations in both urban and remote areas, and ability for customers to use mobile phone credit to pay for their insurance products.

A major challenge to inclusive insurance at present is the current market, which generally lacks understanding about insurance and risk transferal. Education about the benefit of insurance and spreading risk is needed in most parts of the Pacific to support further uptake of insurance products. Education of insurance underwriters also is important to raise awareness of the potential of the micro-market.

In Papua New Guinea the mobile network has enabled broad distribution, and together with targeted and patient marketing has led to increased awareness and understanding about what
microinsurance is and how it can be used. And distribution by a mobile phone network operator allows for phone credit to be applied to insurance premiums. Bundling of insurance products and services has proved popular in PNG – more than in other parts of the world.

Growth in the use of microinsurance has occurred as a consequence of providing some conventional insurance products to a relatively new market, along with new customer-designed products and services specifically for Pacific circumstances.

There’s an increasing interest on the part of some regulators and policymakers on bringing clients into the formal insurance sector and working with the insurance industry to reach the excluded, rather than on micro insurance products offered outside the formal sector that may have potential to scale.

Growth in the insurance market for the excluded is dependent on providing customer based products and services, having established distribution partners, experienced underwriters familiar with risks in the Pacific, and an engaged regulator and policies conducive to microinsurance.

Microinsurance has not been able to gain traction in recent years due to a lack of understanding about what insurance is all about, its benefits, the concepts of risk, and risk management. Insurance is about risk transfer, which can be a challenging concept to explain. There is also a tendency in the Pacific for people to turn to or wait for government to assist in times of difficulty or crisis. On the industry side, there is limited loss experience of underwriters in the Pacific in developing cover, and awareness of the potential in developing cover for those excluded from conventional insurance.

Successful microinsurance requires obtaining small amounts of money from a lot of people. Viability is all about volume and focus on simplicity – of communications, products, pricing, and terms and conditions. Adapting premium payments (tied to claims payouts) to suit customer cash flow has also been beneficial.

When introduced in PNG, there was a concern that insurance wouldn’t be accepted because people would rely on wantoks. But once insurance was explained, take-up by the market was rapid. A simple range of three levels of cover was introduced and it was assumed that most would purchase the mid-price product, but surprisingly, a substantial number purchased the premium product. People were also interested in buying multiple products. Microinsurance is successful in PNG because of the experience and resources the partnership (a mobile network distributor, product provider, and underwriter) was able to contribute together to break the price barrier. The main challenges at present are the very creative approaches in submitting false claims, and
customer churn. However, the latter is more about people losing or changing phones, or changing phone numbers and falling out of the insurance program than dissatisfaction with the insurance product.

Building the premium pool is crucial – if it is not big enough, a market will not establish. There is a general perception in the population that insurance is not needed, largely because little is known about what it is and how it works. Insurance companies need to simplify insurance to make it more understandable to people. While microinsurance is succeeding in PNG endeavors by providers in Fiji have not been as successful. As a consequence, the Reserve Bank of Fiji has initiated a model insurance framework, with several insurance companies coming together to offer one product. The bundled product comprises life and general (health, fire, personal accident, etc.) insurance, with a simplified premium, application form, policy, and streamlined administration. It is a brand new market for underwriters, with government encouraging participation by offering incentives in the form of tax and stamp duty relief. The partners see this as an important innovation in the Pacific and are optimistic that it will work or at least provide useful insights for the future.

Crop insurance is the next big challenge in the Pacific – and opportunity, given the prevalence of agriculture in the Pacific. However, crop insurance is complex with premiums to date being too high to appeal to smallholders. There are crop insurance products available, however, distribution of these products in rural and remote areas in a volume sufficient to make it viable, is the main challenge.

Panel 7: Improving the Availability of Credit Information in the Pacific

Moderator:
- Mr. John Vivian, Financial Markets Specialist, World Bank Group

Speakers:
- Ms. Delores Elliot, General Manager, Data Bureau Limited
- Mrs. Leta Havea-Kami, Chief Executive Officer, Tonga Development Bank
- Mr. Christopher Robertson, Head of Relationship Banking, Bank South Pacific

Credit bureaus are a recent introduction to financial markets in several Pacific Island countries. These institutions can play an important role in the provision of credit, responsible lending and banking supervision. With an increase in the availability of credit information in the Pacific attention is turning to the opportunity of introducing credit bureaus to other Pacific Island countries and how credit bureaus can engage effectively with financial services and other credit providers.
Overview of Credit Bureaus in the Pacific

Credit bureaus are a relatively recent addition in the Pacific, having been established in Tonga, Papua New Guinea, Fiji, Vanuatu, Solomon Islands in the last few years with a sixth planned for Samoa. Fiji’s credit bureau began operating in 2001 with shareholders comprising several financial institutions and a New Zealand based partner. The bureau had a slow start, a key challenge being attracting members. However, developments in technology, the internet and partnerships with other bureaus enabled it to become a viable operation. Today it comprises 200 members, most of whom are financial and related institutions.

In the case of Tonga, until a few years ago, the banks used a credit check system developed amongst themselves. More recently, legal reforms such as the personal property security registry, and facility to allow new companies and businesses to register online, have made it easier for companies to launch and do business in the country. This coincides with an increase in the number of commercial banks. As a consequence of this heightened activity, credit checks became more complicated and took more time to turn around. In 2011, Tonga established their own credit bureau to streamline the process, but to date uptake by the banks has been slow.

The recent introduction of a credit bureau in the Solomon Islands has been a catalyst for the banks to update their credit check procedures, and has led to more discipline in how records of both borrowers and lenders are updated.

Credit bureaus do not provide members with a statement about whether or not a person or entity is credit worthy. Rather, the purpose of a bureau is to raise flags, provide a central source of information to facilitate a credit decision, or prompt the credit provider to make further enquiries or conduct more detailed discussions with the prospective borrower.

The focus of bureaus in the Pacific at the moment is on ‘thin file’ or negative reporting, but as credit systems gain acceptance and bureau capacity builds, positive or full file reporting will be introduced.

A key challenge is identification of the borrower. In many instances in the Pacific clients have no credit history or other identification, making it difficult for lenders to know they’re dealing with the right person. A common identifier is used in some countries - the National Provident Fund number in Solomon Islands, or National Identity Card in Tonga. Where there is no common identifier, lenders are encouraged to obtain as much basic information as possible, such as date of birth, address, phone number. Another challenge in finding a common identifier is that some people have and use different names. In Fiji the bureau is working with water and electricity companies to trigger a search of the bureau’s database with each new account application.
**Future Directions**

It is early days for credit bureaus in the Pacific with participation by more financial institutions and other credit providers expected to increase.

The next phase for existing bureaus in the Pacific is to work with telecommunications and utility companies to collect information to further validate identity, as the more information the system contains, the more effective it becomes. Legislation mandating use of bureaus is also likely, but will take time so as to ensure proper provisions are made around disclosure of data by both financial institutions providing information and the bureau. Regulators are likely to encourage greater use of credit bureaus as an effective means of minimizing indebtedness.

Bureaus also have plans to raise awareness of the role of bureaus with customers, such as what it means to have an adverse report and what clients can do about it. Programs will be prepared in local languages in rural communities where English is not well understood. In Tonga terms and conditions are provided in Tongan and also explained verbally to ensure customers understand the benefits and obligations when they apply for credit. While credit bureaus are developing and delivering programs to support consumer awareness, other stakeholders from both the private sector and government need to contribute for these programs to be effective.

The reality is that credit bureaus are a recent addition to the financial system in the Pacific. Further, bureaus are relatively new to banks and other credit providers, the market in each country is relatively small, and credit and credit history are new cultural phenomena and require patient consumer education. It will take time for bureaus to build up capability, membership and their databases, and build awareness and trust with borrowers, but ultimately bureaus will benefit both lenders and borrowers.

**Plenary 6: The potential of value chain microfinance**

**Moderator:**
- Mr. Moses Pelomo, Chairman, Pacific Horticulture and Agriculture Market Access

**Speakers:**
- Ms. Gima Kepi, Manager, Women’s Banking Unit, MiBank
- Mr. Bob Pollard, Managing Director, Kokonut Pacific Solomon Islands
- Mr. Ian Jones, Executive Director, Vanilla Growers Association (Vava’u) Inc.
- Mr. Amanaki Funaki, Vanilla Growers Association (Vava’u)
- Mr. Simon Thompson, Finance Sector Development Consultant, Pacific Private Sector Development Initiative, Asian Development bank
Value chain microfinance is emerging as a source of finance for smallholders and primary producers in the Pacific to build livelihoods, involving partnerships between producer cooperatives, market-connected companies and financial services providers.

**Economic Empowerment of Women**

Throughout the Pacific women are prominent sellers at markets; particularly in crafts and agriculture. Microfinance can enable women to move from the informal sector to registered businesses and to sell their goods to larger markets, including hotels and supermarkets. While many women have limited formal business skills there is an inherent capacity and strong interest in productive activity to generate income to sustain themselves and their families. The creation of cooperatives, accessing downstream markets, and financial literacy are the areas of capability they are looking to develop.

Access to financial services remains a challenge for women in the Pacific. Most women vendors do not have a bank account so selling products through informal channels is simply a way of sustaining themselves. Microfinance can provide opportunities to build savings to sustain themselves, and expand and make their livelihood activities and businesses more profitable. A key obstacle hindering women’s access to financial services has been the many requirements needed for a customer to get a bank account. With pragmatic approaches to know-your-client requirements, a bank account can now be opened with a letter from a person of authority in the community or church to confirm the applicant’s identity. A bank account enables women farmers, fishermen and other smallholders to transact with markets, producers and suppliers more efficiently and safely than a cash-based system. Where transactions and amounts are not large enough for conventional bank accounts, mobile wallets and payments through mobile money is an alternative.

**Challenges and Opportunities**

While downstream producers can help smallholders, providing all of their financing is not core business. Producers are better placed to work with financial services providers to secure finance for smallholders.

Producers based overseas are more inclined to engage with Pacific smallholders when there is appropriate legislation is in place, and this legislation is enforced.

Reliance by financial services providers on conventional forms of collateral including land with community or family title has limited access to finance by smallholders, but innovations in secured transactions and personal property now enable banks to take security over other assets such as contracts, inventory and commercial agreements.
For value chain financing, the value lies in the strength of the linkages, with the best place to start being the exporter or producer (or a big name in the chain who can demonstrate strength and longevity in a contract), and then working backwards.

An understanding of irregular cash flows associated with staged improvements, production cycles, and markets of farmers and the need to tailor repayments accordingly is important. Here development partners can work with banks to share best practice and build an understanding of how to work with producers. And for smallholders, how to manage cash flow, budget, save, use insurance, etc.

Value-chain financing is a collaboration between all stakeholders involved along the chain. For it to be a success, each person or organization link must work together and there must be a level of trust between all linkages in the chain. Transparency in arrangements, particularly pricing, is important. Collaboration of smallholders in the form of cooperatives or collectives helps strengthen the chain – in securing supply from the standpoint of producers, and for smallholders, in negotiating contracts and accessing finance. Education can help to explain the effect of the interlinkages and needs and interests of each link in the chain.

**Key Points**

- Value chain finance can be an effective way to empower women by providing a new, or strengthening an existing, conventional finance channel.

- In some circumstances, value chain microfinance may be the only way that smallholders can access finance, with members of a successful value chain demonstrating some understanding of the respective needs and interests of each link in the chain, be it a smallholder, producer, exporter or input supplier – it has to work for everyone or it doesn’t work at all.

- Microfinance is just one of the lubricants in a well-functioning value chain. Other pre-requisites include: guidance, support and good policies from government in fostering the industry; good support infrastructure in areas such as communications, ports and shipping; an understanding of how the value chain interacts with communities and cultures; and the nature of land tenure and place of the individual, family and community.
Pacific Microfinance Week 2015 Closing Session

Moderator:
- Mr. Tony Westaway, Managing Director, MiBank, and Chairman, Microfinance Pasifika Network

Speakers:
- Ms. Anna Mendiola, President and CEO, Federated States of Micronesia Development Bank
- Ms. Caroline Kanoko, Manager Financial Inclusion Unit, Central Bank of Solomon Islands
- Mr. Gregory Casagrande, President, SPBD Microfinance Network
- Mr. Cristian Shoemaker, Director, Centre for Excellence in Financial Inclusion

This fifth Pacific Microfinance Week was one of the most successful since their commencement in 2007, not only in terms of the number of delegates attending (over 180) but in the diversity of organisations participating and heightened level of interest in microfinance in the Pacific. The sheer mix of competencies, cultures and experiences present were seen as rare and unique in the Pacific.

Whilst the three days covered many subjects, there were several stand-out observations, including:

- The important role of regulators in consumer protection and education – more so in the Pacific than in other parts of the world arising from a cultural tendency of the least advantaged to remain silent and a hesitancy to exercise their consumer rights;

- Technology has led to a substantial increase in access to finance, however, remote and dispersed populations are too small for each individual company to viably provide individual access points - interoperability will be a key to access in the future;

- The importance of sharing to increase financial inclusion extends beyond interoperability – to knowledge, experiences, data, platforms, and agent networks;

- Discussions about consumer centricity and human centred design led some to pause and ponder the different approaches to financial inclusion taken by stakeholders depending on whether they are needs-driven, demand-driven, technology-driven, or donor-driven, and the tensions that arise from a need for short term results, and longer term planning and goals. A challenging question asked was whether the economically disadvantaged really need a particular product, or is it just complicating their lives?
• Helping women to transition from the informal to formal financial system is essential and financial services providers have a key role in encouraging women to register their enterprise as a formal business to help expand or diversify their business and pursue other opportunities;

• There were numerous times delegates were reminded that the Pacific is not Africa or Asia and importance of looking at the quality of microfinance and depth of the value proposition in the Pacific - and how this is changing lives;

• The positive approach to financial inclusion was epitomised by the style and commitment of the late Reuben Summerlin, who didn’t hesitate to confront challenges with a professional, collaborative and practical approach to fix things that weren’t working;

• The success of microfinance in increasing the level of financial inclusion across the Pacific is underpinned by its noble mission – and inherent passion and interest of individuals and organisations involved in the industry. With the increasing number and diversity of organisations involved and approaches adopted, it is essential for stakeholders to remain focused and not lose sight of the objective. Clients are the focus, and as evidenced by the inaugural Solomon Islands Women Micro Business Awards, they are inspiring. The impact of financial inclusion includes not only increasing access, but use of finance to help lift up individual clients, their families and others in their community; and

• Making a demonstrable impact on clients’ lives requires partnerships between microfinance institutions, insurance companies, telecommunications companies, the commercial bank, regulators, and others - an entire ecosystem. And a sustainable ecosystem requires the products and services to be relevant to each partner – and the client. Products and services need to make business sense to everyone involved.

Acknowledging the achievements to date, and opportunities and challenges ahead, the Microfinance Pasifika Network will continue to focus on the circumstances in the Pacific and the diverse and collective interest across the region in building relationships and sharing knowledge. The Network will remain a regional hub, platform and facilitator, drawing on the resources within the financial inclusion community and promoting collaboration amongst stakeholders.
Selected presentations and other materials are available at:

www.microfinance-pasiika.org/pmw2015.html

FOR FURTHER INFORMATION PLEASE CONTACT:

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