Pacific Financial Inclusion Programme
focus note

NO.03 November 2010

Formulating a National Action Plan for Financial Inclusion in Solomon Islands

In Solomon Islands an estimated 85% of the population is without access to financial services. Financial services, including credit, savings, insurance and money transfers are essential to enabling them to build up usable lump sums of money for emergencies, investment, education and health. They also need to manage day to day expenses with very irregular incomes. From this perspective, financial services work to increase people's levels of social protection and are therefore an essential tool in the effort to alleviate poverty.

When a service is provided on a sustainable basis, it has a greater chance of enduring for a long time, and a greater probability of reaching large numbers of people. This is certainly true for financial services, which is why best practices state that when providing financial services a primary goal must be full cost recovery. This is particularly relevant to Solomon Islands where services have largely failed in the long-term because they were not sustainable.

An Overview of Financial Services in Solomon Islands

The financial services sector is represented by large, modern and profitable institutions based in Honiara while financial services and infrastructure elsewhere is extremely limited. The products and services are mostly designed to serve higher income earners, business owners, government and their employees, and do not meet the needs of low income or rural people. Bank of the South Pacific (BSP) maintains the largest branch network, albeit it is costly, and ANZ Bank has a similarly costly rural programme that sends trucks to collect deposits in some rural areas. There have been some efforts to extend ATMs to more rural locations, but this only helps those who already have a bank account.

Organisations based in rural areas such as credit unions and savings clubs have had limited success. Of the 33 credit unions reportedly active at the time of the 2005 conference, only nine are reporting to the credit union league in 2010, all of which are larger employer-based and in urban areas. Savings clubs have also experienced a similar decline. The severity of the decline is not known as most of the registered savings clubs do not report. It is unlikely that the credit union movement will be revived in rural areas in the near future. However, savings clubs are proving more resilient.

Financial services providers at a glance (June 2010)

- Three international retail commercial banks, BSP, ANZ, & Westpac with 13 branches, 9 agencies and 34 ATMs, and approximately 129 EFTPOS terminals.
- ANZ mobile banking has two vans used to provide banking services in rural areas.
- Credit Corp Ltd. in Honiara, with 2009 after tax profit of SI$ 2.5 million (US$ 312,500).
- The Solomon Island National Provident Fund (SINPF), a superannuation fund, mandatory for salaried employees and optional for self employed, with 84,608 contributing members.
- Development Bank of Solomon Islands (DBSI) now under court administration.
- 175 credit unions historically registered, of which nine report with up to 4,010 active members.
- 292 historically registered savings clubs, of which 18 report with up to 359 members.
- Three insurance companies (one life insurer, two general insurers) and six intermediaries (three brokers and three corporate agents)
- One licensed Money Transfer agency (Western Union)
- Eight currency exchange bureaus

PFIP Pacific Financial Inclusion Programme

Government officials, expert consultants, and donor agencies have strategized and studied ways to extend the financial sector to low income people and rural areas for many years. The Government and others have invested time and money in these efforts with disappointing long-term results. Many organizations have decided not to get involved given the formidable challenges and there is a fatigue among stakeholders, some of whom are hesitant to invest even more time and effort for an uncertain outcome.

Beyond the 2005 National Conference on Revitalizing Rural Finance

The recommendations from the 2005 National Conference on Revitalizing Rural Finance were well researched and insightful. Unfortunately, the conference failed to catalyze the necessary broad-based actions. One challenge was determining who takes ownership of the process. There currently is no single agency, organization or individual that can solve this problem themselves. The issues involved are large and diverse including: constraining legislation, a lack of rural infrastructure, poor product design, a dearth of market data, and a lack of financial literacy across the country. To make progress on these issues we must first educate a large number of stakeholders on these issues, learn from the failures and successes of the recent past and formulate a strategy and action plan to address these issues together.

Some other key lessons from 2005 are:

- Solid recommendations must be organized into a governing strategy, and accompanied by an action plan to achieve the desired results. Further, recommendations need timelines for completion, or measurable indictors.
- Ambitious recommendations require adequate capacities and resources.
- There needs to be an organization or group to drive recommendations into action and then monitor the quality of progress towards recommendations.
- A private-public effort is required. In 2005, most recommendations laid responsibility for action on either the Central Bank of Solomon Islands (CBSI) or the Government, leaving the rest of the stakeholders void of responsibility and without a clear roadmap for action.

Over thirty countries around the world have embarked on preparing a national financial inclusion strategy. From these experiences there has emerged a growing body of knowledge that stakeholders must keep in mind while formulating this national strategy. The core elements are presented below[1] :

- The planning process should begin with an extensive diagnostic of the financial sector. This has been done by PFIP which will be made available to all stakeholders.
- A diverse number of stakeholders should be consulted to ensure all opinions are voiced, conclusions are representative and ownership is taken for outcomes.
- Outcomes are usually a five year strategic plan, accompanied by a short term action plan to start moving towards the longer term goals. Recommendations must have an agreed upon timeline with measurable indicators.
- A strong national driver is a key element to ensuring that outcomes are implemented. In some countries this role is played by the Central Bank, or the Ministry of Finance, whereas in others, such as in Fiji, a group of stakeholders works to measure and evaluate progress together.

[1] *Many elements of this list are taken from: Duflos, Eric & Jasmina Glisovic-Mézières, (2008) National Microfinance Strategies. CGAP, Washington DC.*

A Timely Moment for Action

In 2010, there are some exciting developments that were not available in 2005. There is greater donor agency interest and commercial sector commitment to developing retail products and services that promote financial inclusion. Donor agencies including the multi-donor Pacific Financial Inclusion Programme (PFIP), Asian Development Bank and International Finance Corporation have been supporting everything from branchless banking to financial literacy efforts throughout the Pacific. The Australian Agency for International Development (AusAID), recently published its five year strategy for providing financial services to the poor, and recently announced a partnership with the International Finance Corporation which launched the four year, multi-million dollar Pacific Microfinance Initiative. The three commercial banks have been undertaking some new product development for lower-end retail clients in other countries, including the innovative use of technology. Mobile network operators are also entering the scene, helping financial service providers improve communication between branches at reduced cost and two providers have launched mobile money services. These services resulted in part from several years of healthy competition between operators, something that has just begun in Solomon Islands. Finally, the CBSI has joined the Pacific Central Bank Financial Inclusion Work Group and the Alliance for Financial Inclusion to evaluate policy and regulation with regards to financial inclusion.

The political and economic situation is also improving. After years of considering Solomon Islands too unstable or undeveloped a country in which to invest, private sector players now seem ready to invest.

Three Fundamental Focus Areas

Three areas may be of particular interest to the National Conference. They are as follows:

Branchless Banking, Technology and use of Agents: Technology offers a low cost way to reach clients, including ATMs, point of sale devices (POS) and mobile phones. To reduce transaction costs and in Fiji and Papua New Guinea, platforms have been developed to allow people to make financial transactions over their mobile phones while in other countries banks are using wireless POS devices to reach clients. Recently in Solomon Islands there has been a large expansion in POS systems, and increased competition in the telecom sector has lead to a new 3G network in Honiara, and the rapid expansion of network coverage by the new network provider. There is every reason to believe that technological solutions will play a large role in increasing financial inclusion in Solomon Islands in the near future. Each of these technologies can be further expanded through the use of agents-existing businesses or organizations that use the financial service providers technology to provide basic transaction services to clients in hard to reach places.

Community Based Models & Developmental Synergies: Customized strategies will be needed for those living beyond the reach of roads and mobile phone networks. There has been a history of communities in Solomon Islands forming savings clubs to help themselves save, take small amounts of credit, and make communal investments. Often these clubs operate without support and could greatly benefit from some systems to help them improve their operations and take advantage of opportunities available to them. As member driven, voluntary clubs, any support to must avoid compromising the solidarity and inherent incentive structures of these groups. However, these groups may provide an entry point for other financial and development services. People living in these rural areas do not just lack financial services but often also lack electricity and other amenities that enhance standards of living. Therefore when working in these areas synergies with other developmental outcomes should be explored to maximize the impact on quality of life in these communities.

Financial Competency: There has been a rising interest in financial competency around the country and the region. CBSI, UNDP, PFIP, commercial banks and other organizations are at different stages of developing and rolling out financial literacy training in communities. It is a great time to organize and coordinate these efforts to maximize impact. Studies show that financial literacy works best when provided in conjunction to access to financial services, and also has a greater impact when given to women. Solomon Islands has endorsed the Money Pacific Goals that includes putting financial literacy in the national curriculum by 2020, to provide adults with access to financial education and consumer protection and the half the number of people who are unbanked

SWOT Analysis for the Financial Services Sector

Strengths

- Strong support of CBSI and donor community
- Recognition of the importance of financial literacy
- Demand for savings is high (as evidenced by voluntary savings clubs and ANZ Rural Banking)
- Wide range of economic activities in rural areas, and numerous sustainable livelihoods programmes supporting them
- Historical demand for microfinance programmes (rural banking, savings clubs, credit unions)
- There are some innovative models on small scales seemingly working well
- Recognition of need for improvement and willingness of stakeholders to work together

Weaknesses

- Difficult enabling environment for business
- The formal financial sector is focused on salaried workers
- Government, NGOs have set a dangerous precedents by giving handouts and offering loans that they did not collect
- Lack of appropriate products and services
- Weak microfinance support institutions
- Lack of accurate data and knowledge-sharing among organisations
- Extremely expensive transportation, and unreliable communications network
- Few large networks or associations
- Savings clubs lack support
- Credit Unions with weak regulation, and hampered by interest rate cap
- Very low financial literacy

Opportunities

- New Our Telekom 2G network around the country and 3G in Honiara.
- New services from bemobile
- Donor focus on basic infrastructure improvement (roads, wharfs)
- Honiara, the Gizo-Noro-Munda triangle, and Auki-Malu'u corridor are population centres with significant economic activity and little financial services
- Leverage a current rural network to provide financial services
- No competition for a new start-up microfinance institution
- Solomon Islands Postal Service (SIPC) has a large network and interest in financial inclusion
- Increased donor commitment and funding available for new approaches
- Financial education efforts of multiple players

Threats

- Potential political instability
- Unstable macroeconomic environment, only recently stable inflation, low GDP growth, high poverty rates
- Archaic land tenure systems, land unavailable for collateral
- If RAMSI leaves, there could be more instability.
- Deteriorating infrastructure
- Economic downturn in 2015 when timber is exhausted
- Government intervention in private finance
- Inability for stakeholders to coordinate
- Extending financial services without financial education could be detrimental

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Source: In Search of Sustainability: The Provision of Rural Financial Services in Solomon Islands
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Supported by UNCDF, Australian Government AusAID, UNDP