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**PACIFIC FINANCIAL INCLUSION PROGRAMME
MPTF OFFICE GENERIC ANNUAL PROGRAMME NARRATIVE PROGRESS REPORT
REPORTING PERIOD: 1 JANUARY – 31 DECEMBER 2015**

<p>Programme Title & Project Number</p> <ul style="list-style-type: none"> • Programme Title: Pacific Financial Inclusion Programme • Programme Number (<i>if applicable</i>) • MPTF Office Project Reference Number: 00092020 	<p>Country, Locality(s), Priority Area(s) / Strategic Results</p> <p>Fiji, Papua New Guinea, Vanuatu, Tonga, Solomon Islands, Samoa</p>
<p>Participating Organization(s)</p> <ul style="list-style-type: none"> • UNCDF • UNDP 	<p><i>Priority area/ strategic results:</i> <i>Financial Inclusion: To reach 500,000 individuals with financial services by end of programme.</i></p>
<p>Programme/Project Cost (US\$)</p> <p>Total approved budget as per project document: US\$33,776,719</p> <p>MPTF /JP Contribution:</p> <p><i>By Agency</i></p> <ul style="list-style-type: none"> • UNDP US\$ 3,141,727 • UNCDF US\$ 6,294,544 <p>Agency Contribution: n/a</p> <p>Government Contribution n/a</p> <p>Other Contributions (donors) <i>Australia US\$11,249,528</i> <i>New Zealand US\$2,851,529</i></p> <p>TOTAL US\$14,101,057</p>	<p>Implementing Partners</p> <p>Regional financial service providers, Central Banks and/or Government Agencies in Fiji, Solomon Island, Papua New Guinea, Samoa, Vanuatu, and Tonga.</p>
<p>Programme Assessment/Review/Mid-Term Eval.</p> <p>Assessment/Review - if applicable <i>please attach</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Date: <i>dd.mm.yyyy</i> Mid-Term Evaluation Report – <i>if applicable attach</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Date: <i>dd.mm.yyyy</i></p>	<p>Programme Duration</p> <p>Overall Duration (<i>months</i>): 60 months</p> <p>Start Date 01/07/2014</p> <p>Original End Date 30/06/2019</p> <p>Current End date 30/06/2019</p>
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LIST OF ABBREVIATIONS

BB	Branchless Banking
BIMA	BIMA Mobile Microinsurance
BSP	Bank of the South Pacific
DFS	Digital Financial Services
EU	European Union
FinEd	Financial Education
FSP	Financial Service Providers
HR	Human Resources
M & E	Monitoring & Evaluation
MM	Mobile Money
NFIS	National Financial Inclusion Strategy
NFIT	National Financial Inclusion Task Force
PFIP	Pacific Financial Inclusion Programme
PIC	Pacific Island Countries
PNG	Papua New Guinea
SOI	Solomon Islands
SPBD	South Pacific Business Development
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme

This Consolidated Annual Progress Report under the Pacific Financial Inclusion Programme covers the period from 1 January to 31 December, 2015. This report is in fulfilment of the reporting requirements set out in the Standard Administrative Arrangement (SAA) concluded with the Donor. In line with the Memorandum of Understanding (MOU) signed by Participating UN Organizations, the Annual Progress Report is consolidated based on information, data and financial statements submitted by Participating Organizations. It is neither an evaluation of the Joint Programme nor an assessment of the performance of the Participating Organizations. The report provides the Steering Committee with a comprehensive overview of achievements and challenges associated with the Joint Programme, enabling it to make strategic decisions and take corrective measures, where applicable.

EXECUTIVE SUMMARY

The Pacific Financial Inclusion Programme (PFIP) is a joint programme of the United Nations Capital Development Fund (UNCDF) and United Nations Development Programme (UNDP). PFIP receives funding support from the Australian Government, the European Union (EU), and the New Zealand Government. PFIP's goal is to increase the number of low-income customers in the South Pacific who adopt formal financial services. PFIP supports the development of entire financial ecosystems, from the customer level to the policy space, leading to the achievement of this objective. PFIP's primary mode of operation is working directly with financial service providers (FSPs) to develop innovative products and channels to foster the inclusion of those Pacific Islanders who are currently un- or underserved by the formal financial system. PFIP 2 has reached more than 260,000 people with financial services since 2014, with 172,000+ reached in the reporting period of 2015. PFIP also works at the policy level to facilitate in-country decision making bodies and written strategies to bring about a favorable environment for financial inclusion, including five countries which have government-sanctioned National Financial Inclusion Strategies at the end of 2015. In addition, PFIP has integrated a culturally-appropriate unique curriculum on Financial Education into the schools in all districts of Fiji, training almost 3,500 Fijian teachers on the curriculum in 2015.

I. Purpose

The PFIP is a joint programme of UNCDF and UNDP funded by the Australian Government's Department of Foreign Affairs and Trade, the EU, and the New Zealand Government's Ministry of Foreign Affairs and Trade. The overall objective of PFIP is to increase the number of low-income customers who adopt formal financial services. PFIP does this by making performance-based grants to financial service providers and providing technical assistance to policy makers. The primary countries of focus of the PFIP are Fiji, Papua New Guinea (PNG), Samoa, Solomon Islands (SOI), Tonga and Vanuatu.

The first phase of PFIP ended in June 2014. PFIP 1 surpassed the programme objective, reaching 687,620 underserved clients and engaging policy makers across the region in a campaign to formalize financial inclusion policy. PFIP has embarked on its second phase from July 2014 to 2019 with the goal to deepen financial access to an additional 500,000 previously underserved, low-income people in the region.

PFIP 2's outcome areas are:

1. Better policies, regulations and coordinated actions
2. Deepening financial access through product/channel innovations
3. Better market information and access to knowledge
4. Informed and competent consumers

II. Results

PFIP measures the progress of the primary programme objective by monitoring the number of unique individuals with a PFIP supported service. The combined programmes of PFIP 1 and 2 have reached a cumulative total of 951,479 clients by the end of Dec 2015. In 2015, an additional 172,075 Pacific Islanders were reached with a financial service receiving PFIP support, bringing the total number of people reached since the beginning of PFIP 2 (2014-2018) to 263,859. This means that at the end of year two, PFIP has achieved 53% of the 5 year overall programme objective. Women currently make up approximately 23% of the PFIP portfolio overall and 68% of PFIP supported savings accounts are owned by women.

The core programmatic area which contributes to PFIP's overall objective is **Outcome 2: Deepening Financial Access**. In this workstream, PFIP supports financial service providers who launch initiatives to better serve un- or underbanked populations with new channels and products. The main output indicators in this outcome area are the same as the programme objective indicators, reflecting the central importance of this workstream. In addition, PFIP also tracks an array of indicators by partner, product type, gender, and geography. PFIP 2's current 263,859 clients are largely insurance policy holders in PNG, who now constitute just over half (51%) of the PFIP portfolio. This is followed by mobile wallet holders at 35%, branchless banking customers with 10%, remittances with 3%, microfinance customers at 1%, and savings club members at slightly less than 1%. The largest outreach is to urban clients (62%), followed by rural clients (30%), and women constitute 23% of the current portfolio. PFIP 2, now in its second year, has just surpassed its mid-point target, and with continued growth of the current products plus the addition of others in 2016 and 2017, PFIP is well placed to reach the additional 500,000 Pacific Islanders by the end of the programme.

While Outcome 2 is the main workstream to support the programme objective, PFIP also engages in other outcome areas to develop the broader ecosystem that makes outcome 2 activities successful. Under **Outcome 1**, PFIP works to develop an enabling policy environment. The primary outcome measure of this area is *whether service providers are able to innovate with digital financial service channels and products*. All countries score positively by this measure, due to deliberate actions taken by the regulator to create an enabling

regulatory environment. A core activity (and output measure) has been supporting National Financial Inclusion Task Forces (NFITs) and National Financial Inclusion Strategies (NFISs) in each country in collaboration with the Central Banks. As of 2015, there were five PICs with a NFIS and two countries developing their second round NFIS.

Under **Outcome 3**, PFIP creates knowledge products and market information useful to stakeholders in advancing the financial inclusion agenda. Most notably, in 2015, PFIP and three central banks co-published four large scale, 1,000+ household, and demand-side surveys in three countries. The results were used as the main evidence base in developing each country's NFIS. The same year PFIP also conducted a financial services sector assessment for Samoa, a government-to-person scoping in the Solomon Islands and DFS Studies in three countries.

Finally, PFIP's **Outcome 4** works to enhance financial competency. The flagship output achievement has been the implementation of the Financial Education (FinEd) Programme with the Fiji Ministry of Education. This curriculum has been fully launched across the entire country, and PFIP is now supporting ongoing training of teachers to implement the curriculum. In 2015, PFIP trained 3,488 teachers across Fiji in delivering the curriculum, and began work to replicate the program in PNG, Samoa and SOI.

Challenges:

PFIP is making significant strides in achieving its overall objectives, however, over the last year, certain workplan activities were not achieved as expected, or conditions on the ground required PFIP to change course. A few examples include:

- **Creating viable projects with FSPs in Samoa within 2015:** The 2015 proved to be overly ambitious in Samoa due to the lack of service providers able or willing to launch DFS initiatives. The PFIP office opened in May and was able to support the workflows associated with the demand-side survey and the construction of the national financial inclusion strategy. However, finding a service provider for a significant DFS initiative will require sustained dialogue over a longer time frame.
- **Resistance to change in Fijian tertiary institutions:** Since late 2014, the Fiji National University has been largely resistant to a review of its FinEd training programme against the national objectives and curriculum goals established by the Ministry of Education, causing concerns about the effectiveness of the FinEd programme down the track. Due to on-going engagement by PFIP, however, discussions early this year (2016) are taking a more positive note.
- **Recruitment delays:** Workflows in PNG were slowed this year by the lack of a fully staffed team. The position should be filled by June 2016.
- **PFIP lost its manager to a tragic accident in mid-2015.** However, senior personnel filled the gap with effective leadership and management and the programme stayed on track against annual targets.
- **Budget reductions:** PFIP realized a significant (26%) reduction in programme budget due to realized losses in donor funding from unfavorable foreign exchange rates between Australian and US dollars. This loss compounded the pre-existing funding gap from resources yet to be mobilized for the global programme budget. With current funding, PFIP will be able to finance the next phase of product

innovation and customer acquisition initiatives, but will need additional funds to enable scaling up of successful initiatives.

Lessons learned and Best Practices:

Financial Access Deepening (Outcome 2) activities are the primary driver of programme results. PFIP will focus programme resources on Outcome 2 activities, and design initiatives in other Outcome areas with evidence-based measures on whether they will contribute to the expansion of financial services.

Projects with service providers will focus on creating customer value that inspires adoption. Many providers in the region have launched first generation implementations to build DFS channels and enroll customers. However, customer adoption has been slow and dormancy rates are high. The next generation effort needs to focus on creating products that address pain points and create value for customers. This will be the focus of projects with components for rigorous and structured design work.

Efforts to create policy consensus are important, but their contribution to financial inclusion is difficult to measure with evidence-based indicators. PFIP's efforts to create the NFITs and the NFISs have clearly raised awareness and achieved important policy objectives. However, the policy areas that make a direct contribution to access to finance are few and specific. With the broader initiatives now well underway, PFIP will focus on the areas of regulation and policy that have a direct impact on customer adoption of financial services.

Reporting system improvements: 2015 represents the first calendar year of PFIP 2's new results measurement and reporting system, after hiring an M & E specialist in 2014. Two quarterly dashboards and two in-depth bi-annual reports were produced in 2015, to favorable feedback from the Investment Committee. Under the new system, reliable outreach information is produced on a quarterly basis for each partner with disaggregated data on geography, gender, usage rates and several other specialized metrics depending on the product type, in addition to financial information, highlights and risk management, and grants pipeline enabling greater understanding and useful analysis for PFIP and partners. In the bi-annual reports, the previous quarterly data lag in reporting under PFIP 1 was eliminated, allowing for greater visibility through up-to-date data on client outreach.

Specialized skill sets are key to PFIP effectiveness: In 2015, PFIP hired a technical specialist with a deep domain knowledge of the insurance industry and experience with insurance in emerging markets. This has led to several initiatives across the region in the policy sphere, including increased product development and collaboration between FSPs.

Qualitative Assessment:

PFIP 2 is on track to surpass the programme goal of reaching an additional 500,000 clients. More importantly, the initiatives that are driving this success reflect a new focus in the DFS industry that will accelerate customer adoption of financial services. Many FSPs have launched DFS channels and achieved reasonable success in enrolling customers. But customer adoption has been very low, with disappointing results for FSP business models. The most committed FSPs are aware that there is significant ground to gain from a structured approach to designing services to create customer value. PFIP is well positioned to support this second generation effort, leveraging the longstanding working relationships and PFIP's ability to source international technical resources in product design.

PFIP's strong working relationship with policy makers has also been an important achievement. In every country in the region, financial inclusion is now an institutionalized priority in public policy dialogue. Most importantly, the regulators have made deliberate efforts to enable the innovation initiatives in DFS. PFIP has been directly involved with the regulators as they have formulated their policies. PFIP will leverage this good

will now to encourage governments to use their role as a payer and payee in the market to encourage people to adopt digital channels.

Gender has been mainstreamed throughout the PFIP programme, with gender-disaggregated diagnostics building a comprehensive picture of the gender gaps in each country with regard to financial inclusion. These studies have enabled PFIP to shape the NFIS for Fiji, PNG, Samoa and SOI to include specific targets on gender equality and women's economic empowerment. PFIP Project Appraisal documents for grants require partners to commit to specific gender outreach targets, and results measurement places a strong emphasis on monitoring progress. In addition, PFIP's media strategy includes a strong emphasis on women's empowerment.

PFIP continues to refine its theory of change with evidence-based assessments of its activities. The programme has achieved most of its output targets and can present qualitative and quantitative measures of development in the areas of policy, consumer education and empowerment and market information. However, the question of how and how much these areas contribute to an expansion of mass market financial services – the core financial inclusion objective – is more difficult to measure. PFIP is now capable of a more nuanced and granular assessment of which activities are more important in the evolution of a market, and which therefore merit more attention and resources.

ii) Indicator Based Performance Assessment:

Impact Level	Output Target Indicator	Current Status
Programme Objective: To increase the number of low-income Pacific Islanders with access to formal financial services	500,000 low income Pacific Islanders gain access to formal financial services	263,859
	250,000 low-income women (40%) get access to financial services	59,964
	150,000 customers get access to a savings account	60,975
	At least additional 60,000 (40%) women get access to formal savings account	25,099
	Average savings of USD 10 in active savings account	277
	15% of MM/BB clients are active	3% (Digicel), 54% (BSP), 100% (SBPD), 74% (BIMA), 100% KlickeX
Outcome 1: Better Policies, Regulations and Coordinated Actions	# of PICs with NFITs	4 (Fiji, Samoa, PNG, SOI)
	4 PICs with FI Strategies	5 (Fiji, Samoa, PNG, SOI, Van)
	3 PICs with FL Strategies	5 (Fiji, Samoa, PNG, SOI, Van)
	# of PICs reporting on Money Pacific Goals	6 (Fiji, Samoa, PNG, SOI, Van, Ton)
	# of PICs signatory to Maya Commitments	6 (Fiji, Samoa, PNG, SOI, Van, Ton)
Outcome 2: Deepening Financial Access	Points of Service	826
	Number of clients - rural	79,862
	75,000 women savers	20,071
	Number of savings club members	422
	Total number of products	6
	Number of workshop participants	4,038

Outcome 3: Better Market Information and Access to Knowledge	Number of workshop participants - women	2,630
	Number of scholarships	27
	Number of KM Products	9
Outcome 4: Informed and Competent Consumers	3 countries have Fin Ed curriculum	1
	# of students involved in financial education	Approx. 199,350

iii) A Specific Story

Problem / Challenge faced:

Papua New Guinea (PNG) is one of the least-insured countries in the world, with the life insurance regulator, Bank of Papua New Guinea estimating that in 2014 only 2-5% of businesses and the population having some form of insurance coverage^{1,2}. The impact of ‘shocks’ such as serious injury in the family, or death of a loved one can put significant financial stress on households. Prior to BIMA’s entry into the market, formal insurance products required high, lump-sum premiums which the average citizen could not afford.

BIMA, a world-leading, mobile micro-insurance provider, focused on offering mobile financial services to financially underserved communities believed they could meet this real customer need. Before launching, BIMA conducted market research with revealed cultural barriers to formal insurance. Most Papua New Guineans depended on the ‘wantok’ tradition (one talk = one language), system of communal sharing and informal ‘social insurance’ in the case of expensive events like funerals or hospitalization of loved ones. This system places significant pressure on individuals and communities, particularly if a large number of shocks occur within a short time frame. Moreover, over time the influence of the ‘wantok’ system is reducing.

Programme Interventions:

PFIP supported BIMA’s launch in the PNG market. BIMA entered the Papua New Guinea market in 2014 and operates in partnership with local insurance company Capital Life Insurance (the underwriter) and one of the largest mobile network operators in PNG, Digicel.

BIMA’s insurance products are cheaper, more convenient, and simpler to use than traditional insurance, making them appealing to low-income customers.

Upon subscription by a simple text message, incremental, affordable insurance premiums are set up for automatic deductions for the innovative microinsurance product. For as little as PGK 3.60 (USD \$1.43) per month – the equivalent of one hour’s work at the average wage in PNG - a person’s life can be insured for a minimum of PGK4,000 (USD \$1,596). In comparison, on an average wage, an individual saving the same amount of PGK3.60 a month would take 92 years to try to reach PGK4,000.

Result:

By the end of 2015, about a year into operations, BIMA has 211,890 customers in PNG. With an average PNG household size of approximately 5 people, BIMA is now providing an important safety net to approximately 1 million people, or a staggering 15% of the population³.

Of these customers, outreach to 135,088 was made possible through a grant of over USD \$500,000 provided by the Pacific Financial Inclusion Programme in June 2015. The grant enabled BIMA to substantially increase its number of agents and to mitigate some of the high costs associated with taking microinsurance products to the rural and highland areas.

The timely payouts (claims are paid within 3 business days) provide badly needed help to low income families with the financial stress of funerals, especially if the deceased is the sole bread winner, without

¹ <http://www.oxfordbusinessgroup.com/news/strong-potential-papua-new-guinea%E2%80%99s-insurance-market>

² <http://www.pwc.com/pg/en/png-industries-2015/industries-financial-services.html>

³ 2011 National Population and Housing Census of Papua New Guinea -- Final Figures (National Statistical Office, PNG)

having to resort to the increasingly unreliable obligations of ‘wantok’. Policyholders enjoy the peace of mind that their families will be taken care of financially, even while dealing with the loss of their loved ones. Payouts can also help with day-to-day expenses, allowing families to get back on their feet rather than falling prey to predatory moneylenders or other high cost credit options.

Lessons Learned:

The PNG market gave rise to new challenges for BIMA, such as the low uptake of e-money in PNG compared with other markets in which BIMA operates. Undeterred, BIMA used the widely understood airtime top-ups instead of e-money as an innovative way to focus on what people want (the coverage) without tripping up over the problem of e-money adoption in PNG.

BIMA realised the importance of intra-community trust to their success and therefore placed locally-recruited agents in target communities. The agents are able to converse in multiple languages and thus able to gain trust and ensure that customers understand the product being sold to them. BIMA has also installed a call center that assists customers in processing claims. This has been a successful channel for assisting illiterate and technology-illiterate populations.

BIMA has very effective feedback loops for collecting customer input and has modified several of its product features in response – such as offering life cover for families, and allowing flexibility of premium payments.

This year BIMA, again in partnership with PFIP and Digicel, plans to expand its services to other parts of the Pacific. A ‘Pacific hub’ will be set up from a central Pacific country and will serve 5 markets through a centralised call centre, thus taking their proven business model to meet the needs of other un-insured, vulnerable populations.