
SOLOMON ISLANDS NATIONAL FINANCIAL INCLUSION STRATEGY II (NFIS2) 2016-2020

NATIONAL FINANCIAL INCLUSION TASKFORCE (NFIT)

FINANCIAL
SECURITY

FINANCIAL
COMPETENCY

FINANCIAL
PRODUCTS

SUPPORTED BY THE CENTRAL BANK OF SOLOMON ISLANDS

Table of Contents

Glossary	ii
Governor’s Foreword	iii
Vision	iv
Mission	iv
Introduction	1
Conception and Inception of the First National Financial Inclusion Strategy (NFIS1)	1
Key lessons of NFIS1	1
Other key lessons of NFIS1 include the following	2
National Definition of Financial Inclusion	3
Current status of financial inclusion in Solomon Islands	3
Key Principles	8
Priority areas	10
Implementation Management	12
Coordination, Monitoring and Evaluation Framework	13
Monitoring	14
Evaluation	14
Appendix: Action Plan	16
Strategic Objective 1: Amplify the reach and quality of digital finance channels	17
Objective 2: Strengthen the MSME sector through more focused engagement and coordination	18
Objective 3: Include women, youth and rural families as fully engaged participants in the national financial sector	19
Objective 4: Build financial resilience in rural households	20
Objective 5: Build financial empowerment in ways that are relevant to daily life, motivating and actionable.	20
Objective 6: Execute NFIS 2 through effective stakeholder coordination, responsive data and sound evidence ...	22
References	23

Glossary

ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
AML/CFT	Anti-money laundering/combating financing of terrorism
B2C	business to consumer
CBSI	Central Bank of the Solomon Islands
CDF	Constituency Development Fund
CGAP	Consultative Group to Assist the Poor
CICO	Cash-in, cash-out
DFS	Digital financial services
DMT	Domestic money transfer
EFTPOS	Electronic funds transfer at point of sale
FIWG	Financial inclusion working group (NFIT)
FLWG	Financial literacy working group (NFIT)
G2P	Government-to-person payments
GSMA	Groupe Speciale Mobile Association
IFC	International Finance Corporation
KYC	Know-Your-Client
MCILI	Ministry of Commerce, Industry, Labor and Immigration
MSME	Micro, small and medium enterprise
MWYCFA	Ministry of Women, Youth, Children and Family Affairs
NFIS	National Financial Inclusion Strategy
NFIT	National Financial Inclusion Taskforce
NFIU	Financial Inclusion Unit (CBSI)
PFIP	Pacific Financial Inclusion Programme (UNCDF)
PIRI	Pacific Islands Regional Initiative
PIWG	Pacific Islands Working Group
SINPF	Solomon Islands National Provident Fund
SIPC	Solomon Islands Postal Corporation
TCSI	Telecommunications Commission Solomon Islands
UNCDF	United Nations Capital Development Fund
USSD	Unstructured supplementary service data
VSLA	Village savings and loan association
WEES	Women's Economic Empowerment Strategy

Governor's Foreword

Despite being a new phenomenon in the 21st century, financial inclusion goals however, have existed since Solomon Islands attained its political independence. However, the rapid momentum at which financial inclusion is being currently pursued and promoted in the country is a manifestation and realization of the need for improved livelihoods in the financially excluded segments of society.

It is therefore my pleasure to present this Second National Financial Inclusion Strategy (NFIS2) following the expiration of the first strategy in 2015. The NFIS2 is premised on the G20 Principles for Innovative Financial Inclusion. It has a four-year timeframe with the work plans anticipated to complete by 2020. The NFIS2 generally extended the work plans of the first national strategy, but with more elaborated and clear objectives. Moreover, the NFIS2 was formulated based on a demand side survey for financial services which was conducted in early 2015. The first national strategy had focused on *access* to financial services while in this second strategy, the focus is on the *usage* of financial services.

The NFIS2 has six key specific objectives which are further elaborated by key result areas (KRAs) and action plans. A key distinct feature of NFIS2 is that it will be implemented through the establishment of four working groups, namely: the Digital Financial Services Working Group (DFSWG); Micro, Small and Medium Enterprises Working Group (MSMEWG); Consumer Empowerment Working Group (CEWG); and Inclusive Insurance Working Group (IIWG).

As Chairman of the National Financial inclusion Taskforce (NFIT), I was pleased with the successful implementation of the first national strategy, which saw the earlier than expected achievement of the numerical target of 70,000 new users of financial services. This is indeed a pleasing and surprising result! More surprisingly, the demand side survey result indicated that there are people, especially women, out there in the villages who need formal financial services. Therefore, the NFIS2 is formulated around the vision to have more financially competent and literate citizens so they can become financially secured.

Finally, from a regulatory perspective, we, at the Central Bank of Solomon Islands, will ensure that we provide an accommodative and an enabling environment for financial inclusion to expand and deepen further in our country. I firmly believe that regulations should protect and empower consumers of financial services, but at the same time, should not be onerous and burdensome on the providers of financial services and do not stifle innovation of financial products and services. If this can be done, it will enhance our financial inclusion journey in the country.

Denton Rarawa
Governor

Vision

Where all of Solomon Islands' men, women and youth throughout the country have the opportunity to be financially competent and have access to a full range of financial services that help them achieve greater financial security and financial opportunity.

Mission

By 2020:

- 300,000 adults (of which, 150,000 must be women) will be active users of formal or semi-formal financial accounts (including accounts at MFIs and savings clubs); and
- 90% of the population will have a financial service access point one hour of ordinary travel from their home.

Introduction

The goal of financial inclusion in Solomon Islands has existed since independence and during that period the nation has progressed through four phases: 1985-1991, government-led development banks; 1991-1998, donor-led credit unions; 1993-2003 *tensions* and instability/transition; 2003-present, the current era. In spite of great efforts in the past, little progress was made before 2003, especially among the rural majority of the population.

In 2005 there was a “National Conference on Revitalizing Rural Finance in Solomon Islands” which committed to an ambitious new agenda, including regulatory reform, encouraging an enabling private sector, supporting electronic delivery channels and enhancing national financial literacy. The Conference emphasized that in future “subsidies should be temporary, highly transparent and strictly limited.”¹

Conception and Inception of the First National Financial Inclusion Strategy (NFIS1)

In 2010 the Central Bank of Solomon Islands (CBSI) estimated that 85% of the population remained financially excluded. That year PFIP sponsored a national financial services sector assessment that stressed electronic financial innovations, especially in the three mostly densely populated areas of the country (Honiara, Auki-Malu’u, and Noro-Munda-Gizo) while adding that in more remote or rural areas other innovations would also be necessary, such as community-based models and new approaches to financial literacy. Implementation would require more active private-public collaboration.²

Later in November 2010 CBSI and PFIP hosted a National Conference on Financial Inclusion, attended by over 80 stakeholders. Based on commitments made, the Conference adopted an action plan for 2011-2015, which became the first National Financial Inclusion Strategy (NFIS1) with measurable timelines and performance indicators.³ Solomon Islands became the second Pacific member of the Alliance for Financial Inclusion (AFI) to prepare a National Financial Inclusion Strategy, for 2011-15 (NFIS1).⁴ Even more important, it became the first nation in the world to integrate targets for financial inclusion for women in its NFIS and Maya Declaration commitments.

Key lessons of NFIS1

The NFIS1 contained three focal themes: digital financial services, financial literacy, and ‘community-based financial models’. Backed by CBSI’s commitment to shape an ‘enabling legal environment’, the Plan would add 70,000 people

¹ Central Bank of Solomon Islands. *Report on the National Conference on Revitalizing Rural Finance in Solomon Islands*, Honiara, 2005, p. 6.

² McCaffrey, Mike. *In search of sustainability: the provision of rural financial services in Solomon Islands*, PFIP, Honiara, 2010, p. 6.

³ McCaffrey, Mike. *Formulating a national action plan for financial inclusion in Solomon Islands*. PFIP Focus Note No. 3, Nov. 2010, Pacific Financial Inclusion Programme, Suva, 2010.

⁴ Fernando, Nimal A. and Robin Newnham. *National financial inclusion strategies: current state of practice*, AFI, October 2015, p. 1. Solomon Islands adopted its first NFIS immediately following Fiji.

to the financial sector by 2015. This commitment was reaffirmed the following year with a Maya Declaration at the fourth Global Policy Forum of the AFI.⁵

The leadership of CBSI is pivotal to achieving meaningful financial inclusion in Solomon Islands. This is a new role for central banks, driven by a global recognition that “financial inclusion matters not only for financial stability, but also for the development of the real sector that generate tangible benefits for the population.”⁶ A 2011 reflection on lessons learnt by Pacific central banks (led by Solomon Islands and Fiji) remarked that “[t]here is typically no ‘financial inclusion department’ in central banks as the issue is cross cutting — but this can risk inefficiencies or ‘falling through the cracks’. Central banks must resource their leadership commitment by assigning staff, budget, and work plan deliverables or targets.”⁷

A key driver of the success of NFIS1 was the formation of a National Financial Inclusion Taskforce (NFIT), chaired by the Central Bank and included representatives from relevant key stakeholders in financial inclusion. It was tasked with organizing and coordinating financial inclusion efforts, and tracking progress against the goals in the Action Plan.⁸

Experience has shown that the NFIT has achieved meaningful coordination between players and across sectors – including commercial banks, government ministries, civil society organizations, NGOs and donors -- that might otherwise communicate rarely or unsystematically. In addition this coordination has proven valuable for achievement of financial inclusion goals.⁹

Other key lessons of NFIS1 include the following

Access, Usage and Financial Literacy: During NFIS1, building a larger and more widely distributed network of financial access points was the most urgent priority. While this will continue there is increasing concern about the wide gap between ‘access’ to financial services and actual ‘use’. Addressing this gap is complex. It requires deep knowledge of user segments, as well as close attention to behavioral factors and channel design, and seamless fusion of financial service delivery and financial literacy initiatives. This was emphasized by AFI in the 2013 Sasana Accord, which stated that financial inclusion refers “not only to access but also to usage of financial services and products, as well as the quality dimension of financial inclusion.”¹⁰

Balancing Supply- and Demand-Side Evidence: In keeping with a larger AFI commitment to build a strong supporting evidence-base, it has become clear that strategy cannot rely on supply-side data alone. CBSI

⁵ Central Bank of Solomon Islands. *Maya Declaration: Commitment made by the Central Bank of Solomon Islands*, Cape Town, South Africa, Sept 9, 2012. The Alliance for Financial Inclusion is ‘a network of central banks, supervisors and other financial regulatory authorities’.

⁶ Fernando and Newnham, p. 8.

⁷ Pacific Island Working Group, *Lessons learned for national financial inclusion strategy development*, AFI, Bangkok, April 2011.

⁸ Central Bank of Solomon Islands. *National Financial Inclusion Taskforce, Terms of Reference*, 17 Feb 2011.

⁹ Interview with Caroline Kanoko, Manager, Financial Inclusion Unit, CBSI.

¹⁰ Alliance for Financial Inclusion. *The Sasana Accord*, Sasana Kijang, Kuala Lumpur, Malaysia, Sept 2013.

and PFIP have supported two benchmark demand-side studies during NFIS1: one of financial competencies in 2012,¹¹ and second of the entire financial inclusion landscape in 2015.¹² ADB supported a third – the Isabel/Ulawa study -- in 2015.¹³ Several AFI Pacific nations, including Fiji and Samoa, have now preceded their new NFIS strategies with demand-side studies.

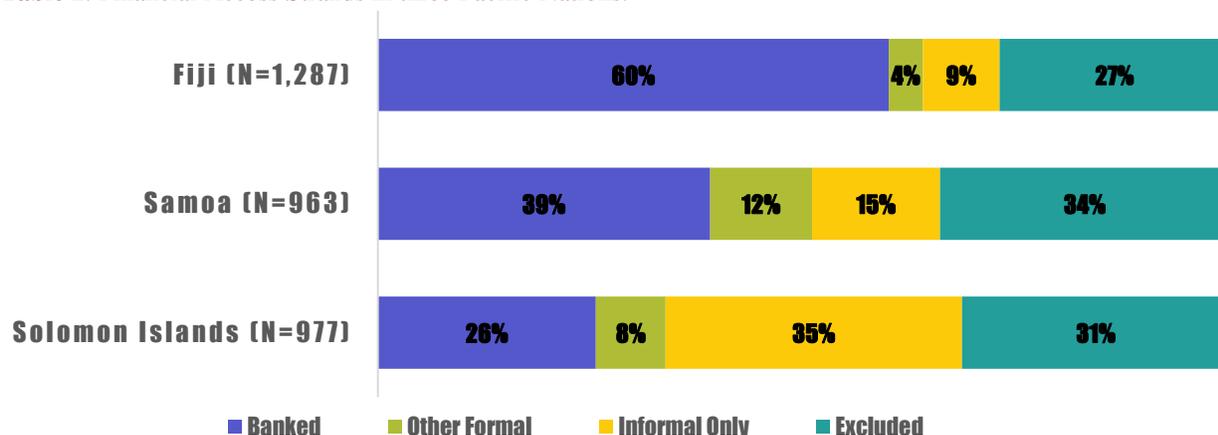
National Definition of Financial Inclusion

In the context of Solomon Islands, Financial Inclusion is defined as the process by which (i) appropriate and relevant financial products and services are sustainably provided by the formal and semi-formal financial intermediaries, (ii) governed by suitably tailored regulations and/or guidelines, (iii) at a fair, transparent and affordable cost, (iv) so that the disadvantaged, low-income segments of society, and the informal sector can have access to and repeatedly use these financial products and services to enhance their financial competency and security, thereby improving their livelihoods.

Current status of financial inclusion in Solomon Islands

In the Solomon Islands, 26% of adults aged 15 and over have a bank account (see **TABLE 1**), while another 8% have an account in another formal financial institution, such as the National Provident Fund, a credit union, an MFI or a regulated loan company.¹⁴ In addition, 35% of the population accessed services in the informal sector, such as shop credit, a moneylender or a savings club. Finally, 31% of the population were totally excluded from any type of financial service. This places Solomon Islands behind several of its neighbours in the Pacific, however it has made important progress. In the period from 2011-15 formal financial inclusion increased by approximately 78,000 individuals, exceeding the 70,000 target set at the outset of NFIS1.¹⁵

Table 1: Financial Access Strands in three Pacific Nations.



¹¹ Sibley, Jonathan. *The financial competence of low-income households in the Solomon Islands*. CBSI and PFIP, Honiara, 2012.

¹² Bankable Frontier Associates, *Financial Services Demand Side Survey, Solomon Islands*. CBSI, Honiara, 2015.

¹³ Good Return. *Isabel-Ulawa financial needs assessment survey*, (on-line draft) Asian Development Bank, April 2015.

¹⁴ Bankable Frontier Associates. *Financial Services Demand Side Survey: Solomon Islands*. Central Bank of Solomon Islands, Honiara, 2015. This survey was conducted in Feb-March, 2015.

¹⁵ Based on an estimated 15% formal financial inclusion in 2010 (CBSI).

Table 2: Data from Solomon Islands compared with Global FINDEX, 2014.

Indicator (2014 unless indicated)	Low Income Countries	Solomon Islands	Lower-Middle Income Countries
Account at a formal financial institution (bank or credit union)	22%	26%	42%
Saved at a financial institution in the past year (bank, credit union or MFI)	10%	17%	15%
Bank agent or merchant is main mode of deposit (% with account)	12%	17%	4%
Bank agent or merchant is main mode of withdrawal (% with account)	6%	16%	3%
Saved any money in the past year (loan in the past year, from any source)	47%	87%	46%
Loan in the past year, from any source)	53%	64%	47%
Loan from a financial institution in the past year	9%	3%	8%
Loan through store credit in the past year (2011 -- 2014 not available)	14%	52%	8%
Received domestic remittances last year	26%	36%	18%

Source: Demand-Side Survey, Solomon Islands 2015, CBSI.

Only 20% of women in Solomon Islands hold a bank account, compared to 32% of men. And 36% of women are totally excluded, compared to 26% of men. In addition 71% of those with formal sector accounts are salaried employees.¹⁶

The barriers to entering the formal financial sector include the scattered and remote geography and the high cost of reaching formal sector financial access points. But there are several other important barriers as well. Of the unbanked, 45% stated that they do not know how to use a bank account. There are strong correlations between income and financial inclusion on one hand, and schooling and financial inclusion on the other. Tens of thousands of dormant bank accounts indicate the scale of the practical and behavioral barriers to account usage.¹⁷

TABLE 2 compares data from the 2015 demand-side survey with data from the Global Findex 2014 on similar countries around the world. Informal savings practices are more widespread than in comparable economies, fueling the relative frequency of formal sector saving (much of it through the National Provident Fund). Informal borrowing is also common but access to formal sector credit remains very low: most credit involves borrowing from a shop. With the rapid recent roll-out of mobile banking, Solomon Islanders are also much more likely than populations elsewhere to use agents to access financial services.

One of the most tangible results of the 2011-15 NFIS has been a dramatic increase in the number of financial access points around Solomon Islands, as shown in **TABLE 3**. Growth in access points has been driven by rapid expansion of

¹⁶ Bankable Frontier Associates. *Financial Services Demand Side Survey: Solomon Islands*. CBSI, Honiara, 2015, pp. 4-5.

¹⁷ The estimate is based on the discrepancy between the number of active accounts reported in the demand-side survey, and the number of accounts opened according to supply-side data reported to the National Financial Inclusion Unit at CBSI.

an EFTPOS-enabled branchless banking network, and the roll-out of a phone-enabled mobile banking network beginning in 2013.

Table 3: Financial Access Points, 2011-15.

	Total Access Points	Bank branches	ATMs	EFTPOS	Bank agents	Mobile agents
	Total Number					
End of 2014	578	14	39	367	31	127
End of 2010	193	12	35	137	9	0

Source: Financial Inclusion Unit, Central Bank of Solomon Islands

TABLE 4 shows the penetration of financial access points by province, with comparable data for Fiji and Samoa below. The provinces are ordered by penetration of ‘cash-in/cash-out’ points, of which most are mobile banking agents. There is also a small and growing EFTPOS network in the provinces facilitating domestic electronic commerce. BSP uses EFTPOS to provide its customers access to their bank accounts, while ANZ uses a mobile phone system.

Electronic cash access points expanded rapidly in 2013 when ANZ launched Go Money. Like other nascent mobile money markets, Solomon Islands faces challenges with agent liquidity and quality. Many of the Government’s nearly 16,000 staff are scattered remotely. A recent study found that 25% travel more than 2 hours to access their salary, and 34% incur access costs exceeding \$SI 100.¹⁸ To cut the cost of agent supervision it recommends that branchless money suppliers share agent platforms, and to reduce liquidity gaps it recommends recruitment of ‘super-agents’, such as large urban retail stores, to clear liquidity for smaller agents nearby.

The formal network in Solomon Islands still faces large geographical and wireless coverage limitations. A 2015 strategic review of the state of DFS observed that provider platforms are not yet interoperable, agent management practices are not standardized, and consumer education and consumer protection standards and practices are undeveloped. Wireless network coverage in large parts of the country will remain a challenge for years. It concludes that “stakeholders should focus on strengthening the agent network management within DFS providers and building agent network capabilities.”¹⁹

¹⁸ pi Strategy Consulting, *G2P Study in the Solomon Islands*, PFIP and UNCDF, 2015, p. 1.

¹⁹ Enclude Consulting. *DFS Country Strategy for the Solomon Islands*, Pacific Financial Inclusion Programme, 2015, p. 2.

Table 4: Financial Access Points per 10,000 Inhabitants by Province.

	Cash-In/Cash-Out Points	Bank branches	ATMs	EFTPOS	Bank agents	Mobile agents
	Per 10,000 adults					
Solomon Islands	5.8	0.5	1.3	10.8	5.1	
Honiara	13.4	1.8	6.4	61.7	0.0	11.4
RenBel	11.0	0.0	0.0	0.0	0.0	11.0
Isabel	7.6	0.0	0.0	3.2	0.6	7.0
Western	7.4	0.9	1.7	8.9	0.2	6.3
Central Islands	5.2	0.0	0.0	5.2	0.0	5.2
Choiseul	4.6	0.0	0.0	2.0	0.7	3.9
Temotu	3.9	0.0	0.0	3.9	0.8	3.1
Malaita	3.2	0.3	0.3	2.4	0.3	2.7
Makira/Ulawa	3.1	0.0	0.0	3.9	0.4	2.6
Guadalcanal	2.6	0.0	0.2	1.1	0.4	2.6
<i>Fiji</i>	38.5	1.1	4.5	87.6	37.2	
<i>Samoa</i>	13.4	1.9	4.2	57.3	6.3	

Source: Financial Inclusion Unit, Central Bank of Solomon Islands

The current status of financial inclusion is much better known than in 2010, and this owes much to research conducted since then. In a 2012 sample of 412 low-income individuals in Honiara and Guadalcanal, Jonathan Sibley concluded that they “are not demonstrating competent financial behaviors.”²⁰

The principal differences in financial competence are related to functional English language ability and as a result, to age and gender. Younger, older and female respondents exhibit lower levels of financial competence.²¹ Functional English language ability was the best predictor of bank account ownership, initiation of domestic funds transfers, and use of electronic payments. Urban households showed significantly greater ability to manage cash flows, plan future expenses and keep records, suggesting higher MSME potential. Anticipating the results of the 2015 Demand Side Survey, the study found that overall competence was highest in savings, and that store credit was handled competently by households in both formal and informal sectors.²²

Sibley concluded that financial competencies trigger a risk of financial exclusion “due to a limited capability to engage with the formal financial system as a consequence of English language and access constraints. This risk would appear to be high and poses potential systemic issues if not addressed”²³

The dormant account challenge referenced above suggests the prescience of Sibley’s observation. A World Bank report the same year further contextualized this situation through a review of several studies that directly tested literacy skills in four provinces (Malaita, RenBel, Isabel and Honiara). Functional literacy rates ranged from 17-34 percent,

²⁰ Sibley, Jonathan. *The financial competence of low-income households in the Solomon Islands*. CBSI and PFIIP, 2012, p. 11. He defined financial competence as the behaviors required “to successfully use money and interact with the financial system.”

²¹ Sibley, p. 51.

²² Sibley, p. 56.

²³ Sibley, p. 17.

and “65–75 percent of primary school completers were not functionally literate.”²⁴ This finding deviates substantially from the self-reported literacy levels of the 2009 national census, raising questions about the sustainability of the NFIS1 financial literacy strategy. Banked adults now average 4.5 years more schooling than the unbanked: a factor that helps explain the widening gender divide.²⁵ Financial literacy in NFIS2 must address the needs of illiterate people, especially women, who may be unable to decode a 4- or 5-digit number or recognize their names in writing.²⁶

In search of effective solutions, another demand-side study was conducted in Isabel and Ulawa in 2015.²⁷ This study found respondents skeptical about mobile banking agents. While most of the unbanked had access to a mobile phone, many felt unable to send an SMS or negotiate the mobile top-up system, while expressing a strong willingness to learn.

Drawing on best practices in human-centered design, the Isabel-Ulawa study suggests a new approach to financial capabilities focused on two pillars. The first is tighter control over selection and supervision of branchless banking agents, and over agent support for previously unbanked clients. The second is narrow-casted capacity building tuned closely to changes in incentives. For example, branchless agent support should involve “a high touch approach over the first 7-10 transactions” which may involve a year or more.²⁸

Finally, NFIS1 called for testing of community-based models, especially for remote and less monetized areas. **TABLE 5** shows the most recent documented status for ‘Savings Clubs’, the highly elastic

TABLE 5: Savings Clubs in Solomon Islands, Dec 2013.

<i>Estimated ...</i>	No. of Clubs	No. of Members
1 SCs from IFAD and CUFA Projects	100-150	2,500-4,000
2 Currently formed SCs		
World Vision	61	1,294
Live and Learn	18	619
Rokotanikeni	18	1,200
3 SCs operating outside projects	20	500
TOTAL	~ 200 +	~ 6,000 +

Source: Narasimhan, Krishnan and Brett Matthews. *Enduring value: savings clubs in the Solomon Islands*. PFIP Focus Note, Dec 2014, p. 2.

rural savings group ‘model’ best known in Solomon Islands. As there is no systematic way to up-date this data, the current situation is not known. This study sampled 39 Savings Clubs in five provinces, and observed that most successful ones were either employee-based or time-limited. Many were failing or dormant, pressured by promoters and existing models to increase assets far in excess of the capacity of members to keep appropriate records and manage governance issues. But Savings Clubs were also performing a valuable financial literacy service, providing village platforms where unbanked individuals

²⁴ Close, Stephen. *Skills for Solomon Islands: Opening New Opportunities*, World Bank, Sydney, 2012, p. 4.

²⁵ Bankable Frontier Associates. *Financial Services Demand Side Survey: Solomon Islands*, CBSI, Honiara, 2015, p. 5.

²⁶ Matthews, Brett. *A multi-digit divide? Building basic financial numeracy*. CGAP Blog, Aug 14, 2015.

²⁷ Good Return. *Isabel-Ulawa financial needs assessment survey*, (on-line draft) Asian Development Bank, April 2015.

²⁸ Interview with James Le Compte, Good Return.

could acquire the habits and practices needed to plan in a cash economy and eventually, thrive in a formal financial system.

A follow-up Focus Note, comparing community-based models in Solomon Islands and Timor Leste, recommended that if they do not have at least 6-8 functionally literate members they should adopt an ‘action audit’ tool to ensure that all assets are returned to members at least annually.²⁹ A *Savings Club Practice Guide* was developed as guidance for promoters forming either permanent or temporary (self-replicating) Savings Clubs in future.³⁰

Key Principles

The following principles, adopted from the G20 Principles for Innovative Financial Inclusion, aim to help create an enabling policy and regulatory environment for innovative financial inclusion. The enabling environment can critically increase the speed at which the financial services access gap will close for an unbanked population. These principles for innovative financial inclusion are derived from the experiences and lessons learned from policymakers worldwide, especially those from developing countries. In the planning, implementation and results measurement of the National Strategy for Financial Inclusion, CBSI and key stakeholders will take into consideration the G20 Principles for Innovative Financial Inclusion. These are:

1. Leadership: Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty;
2. Diversity: Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance), as well as a diversity of service providers;
3. Innovation: Promote technological and institutional innovation as a means to expand financial system access and usage, including addressing infrastructure weaknesses;
4. Protection: Encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers, and consumers;
5. Empowerment: Develop financial literacy and financial capability;
6. Cooperation: Create an institutional environment with clear lines of accountability and coordination within government, and also encourage partnerships and direct consultation across government, business, and other stakeholders;
7. Knowledge: Utilize improved data to make evidence based policy, measure progress, and consider an incremental “test and learn” approach by both regulators and service providers;

²⁹ Matthews, Brett and Krishnan Narasimhan. *Balance or break? Charting a course for savings group sustainability*. PFIP Focus Note No. 1, Sept 2015, p. 3.

³⁰ Matthews, Brett. *Savings club practice guide: Solomon Islands*. Pacific Financial Inclusion Programme, Honiara, May 2014.

8. Proportionality: Build a policy and regulatory framework that is proportionate to the risks involved in such innovative products and services, and is based on an understanding of the gaps and barriers in existing regulation;
9. Frameworks: consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk based AML/CFT regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value and market based incentives to achieve the long term goal of broad interoperability and interconnection.

Key Priority Areas [KPAs]

Objective 1: Amplify the reach and quality of digital finance channels

- 1.1 Permit adequately regulated non-banks, including MNOs, to issue mobile wallets.
- 1.2 Test and roll-out institutional innovations, such as super-agents and shared-agent platforms, that reduce network costs, increase liquidity and assure minimum standards of agent quality.
- 1.3 Implement interoperability across mobile platforms for customers, including a fully interoperable payment system.
- 1.4 Promote digital payment channels in all Government transactions including by SOEs.
- 1.5 Promote digital payments among large private sector employers and associations reaching smaller employers, and in business-to-business payments.

Objective 2: Improving financial services delivery to the MSME sector

- 2.1 Continue testing approaches to strengthening links between demand and supply in MSME finance.
- 2.2 Create a common platform and ongoing coordination between all stakeholders committed to MSME financing and entrepreneurial skills.
- 2.3 Target MSMEs in strategic rural value chains for financial awareness and deeper integration into the financial system.
- 2.4 Build understanding of MSME needs and provide training to build entrepreneurial and financial management skills, especially of young adults and female entrepreneurs.

Objective 3: Include women, youth and rural adults as fully engaged participants in the national financial sector

- 3.1 Promote a national drive for rural savings, including financial literacy, savings clubs and mobile money, focused on women, youth and families.
- 3.2 Develop and promote a financial literacy package, combined with financial market participation, for rural market vendors.
- 3.3 Test digital solutions for savings clubs and market vendors, including digital book-keeping and financial literacy apps.

Objective 4: Build financial resilience in households and communities

- 4.1 Integrate basic financial education into the core school curriculum, from primary to tertiary levels, with particular attention on numeracy in primary school.
- 4.2 Greatly expand formal sector micro insurance inclusion through product and channel innovation.
- 4.3 Pilot voluntary savings products for informal workers through SINPF and introduce micro pension benefits to rural Solomon Islanders.

- 4.4 Consolidate and expand a national model of semi-formal 'savings clubs' as a behavioral bridge from the pre-cash economy towards formal finance.
- 4.5 Develop a rural financial literacy module focused on usability of mobile savings, and distribute it through value chain projects, Constituency Development Funds, savings clubs, community projects and mobile banking agents.

Objective 5: Build financial empowerment in ways that are relevant to daily life, motivating and actionable.

- 5.1 Agree on national principles of consumer protection in financial services, with special attention to rural financial services.
- 5.2 Develop and implement national standards for the selection, training, licensing and delicensing of mobile banking agents.
- 5.3 Develop and implement principles for protection of illiterate and semi-literate consumers recognizing the size of this segment, and its distinctive needs.
- 5.4 Develop a national, standardized hand-out for mobile agents that illustrates how to do a mobile money transaction, 'dos' and 'don'ts', and who to call for solutions and redress.

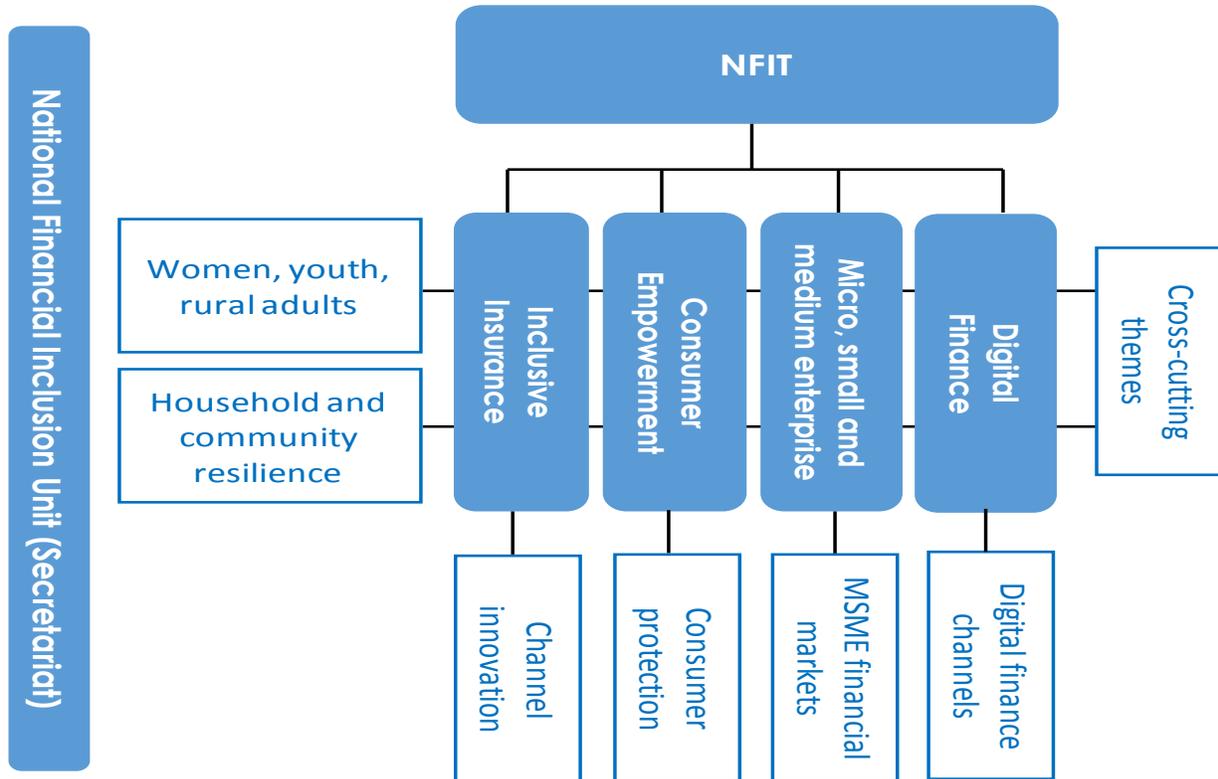
Objective 6: Execute NFIS 2 through effective stakeholder coordination, responsive data and sound evidence.

- 6.1 Sustain and enhance a common platform to coordinate all initiatives in financial inclusion.
- 6.2 Develop synergies and build public private partnership models to progress financial inclusion across Solomon Islands.
- 6.3 Develop and maintain a public on-line geo-spatial mapping of all financial access points in Solomon Islands, up-dated quarterly.
- 6.4 Continue to track demand side trends, particularly in access strands and uses of financial services, to support future initiatives and strategic evolution.
- 6.5 Continue to review the existing financial inclusion data measurement framework for alignment with international core indicators.

Implementation Management

The National Financial Inclusion Taskforce (NFIT) will provide the strategic direction and coordinate the implementation of the National Financial Inclusion Strategy 2016-2020. The NFIT will be comprised of representatives of key stakeholders and will be chaired by the Governor of CBSI. Four Working Groups will provide thematic expertise to the NFIT: Consumer Empowerment Working Group (CEWG), Digital Finance Working Group (DFWG), MSME Working Group (MWG) and Inclusive Insurance WG (IIWG).

Figure 1: The implementation management of financial inclusion



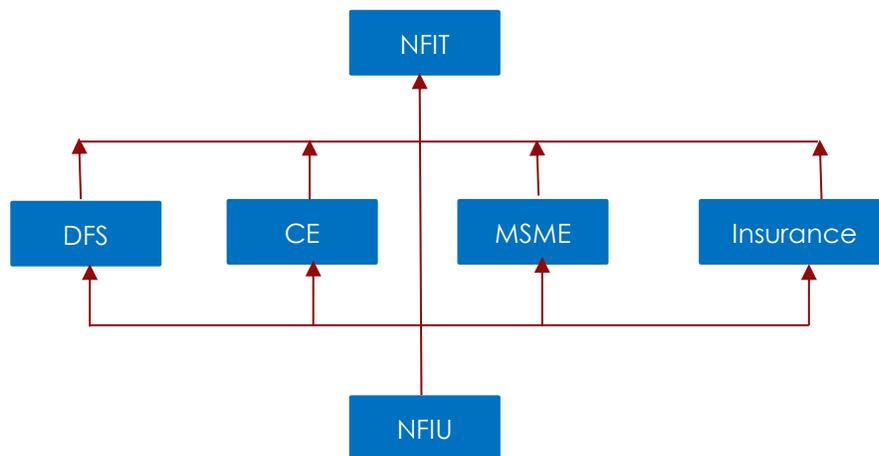
The Financial Inclusion Unit (NFIU) of the Central Bank of Solomon Islands will act as the Secretariat for NFIS2. NFIU will provide necessary information, drive activities, and provide coordination and technical support to Working Groups and the Task Force.

The Secretariat, NFIU, will manage the Financial Inclusion related data. It includes periodically gathering, analysing and reporting on the performance as well as providing necessary information to stakeholders, both national and international.

Coordination, Monitoring and Evaluation Framework

The Coordination, Monitoring and Evaluation (CME) framework provides NFIT with the updates on the implementation and progress of the NFIS2; and if need be redirect resources to ensure the targets are achieved. The framework offers two feedback mechanisms to NFIT: (i) constant monitoring of the overall progress of all the targeted objectives; and (ii) evaluation of the completed and on-going targeted objectives. Each working group oversees the implementation of their respective key indicators as stipulated in the key objectives, and the chair of each working group reports directly to NFIT. The NFIU, which is the secretariat to all the working groups coordinates implementation of the entire NFIS2 along with the working groups. It will collect, collate, and analyse data of the respective targets and report accordingly to the working groups and to NFIT. The coordination, reporting and feedback mechanism is illustrated in Figure 2. As in the implementation phase, NFIU monitors and evaluates the overall progress of the NFIS2.

Figure 2: The Coordination Framework for implementation



Monitoring

Monitoring of the NFIS2 will follow the traffic light colour rating system where the green colour illustrates completion of a targeted objective, amber colour represents a targeted objective in-progress or is on-going, and the red colour depicting a targeted objective that has not been achieved or incomplete at the given timeframe. This is illustrated in Figure 3 below.

Figure 3: Traffic Light colour rating system framework for Monitoring.

Colour	Comments
	Target completed
	Target on-going
	Target not completed

Evaluation

The evaluation framework will be benchmarked against AFI's core set of indicators namely, *access*, *usage*, and *quality* Indicators to measure the status of financial inclusion in the country. This will be complemented by other indicators such as those of the digital financial services indicators, quality indicators, and the PIRI Plus core indicators.

Core Indicators:

- Access – this indicator measures two components: (i) the number of new accounts opened, and (ii) reducing the ordinary travel distance from home to reach financial service access points to at least one hour.

- Usage – this indicator measures active users of formal and semi-formal financial services. Active users refers to account holders that transacts at least once in the last 90 days.
- Quality – this indicator measures how well barriers to *accessing* and *using* financial services are identified and addressed.
- Impact indicators – this indicator measures how well users of financial services have improved their wellbeing.

These core indicators will be evaluated against the target/indicator column of the objectives outlined in the Appendix.

Appendix: Action Plan

Key Indicators

Key Result Areas	Measurement Indicators	Current Status (Demand-side where available)	Target	Timeframe
1. Overall access	90% (670,000) of the total population will have a financial service access point within one hour of ordinary travel from their home	DSS 50% are within 45 minutes – 90% within 8 hours 80% within 4 hours	90% within 60 minutes	2020
2. Overall use	70% (300,000) adults 15 + will be active users (i.e. at least once in past year) of a formal or semi-formal financial account including at least half (150,000) women. Include savings clubs, MFIs and regulated mobile wallets. NFIU to publish annual estimates of progress on active financial accounts	DSS 33.8% account at bank or other formal institution – composite DSS indicator including bank account, bank credit, insurance company, MFI, savings club or credit union within past year.	70% have active formal or semi-formal sector financial account	2020
3. Formal credit	10% (43,000) adults will have active credit accounts with formal (includes CUs and credit companies) or financial institutions (including regulated MFIs, but not savings clubs).	DSS (2015): 3.8%	10% will have open formal or semi-formal credit accounts	2020
4. Financial literacy	Proxies: 4.1 Number attending financial literacy programs 4.2 Active formal savings and voluntary insurance users 4.3 Number of savings club members	4.1 NFIU data 4.2 Savings + voluntary insurance components of Indicator #2 4.3 Indicator #5		
5. Savings clubs	10% (43,000) adults will be active members of savings clubs within past year.	DSS (2015): 5.3%	10% of adults will be savings club members	2020

Strategic Objective 1: Amplify the reach and quality of digital finance channels

Key Result Areas	Action Plan	Target/Indicator	Lead Institution(s)	Timeframe
1. Permit adequately regulated non-banks, including MNOs, to issue mobile wallets	CBSI to issue an appropriate circular/regulation	At least 1-2 non-banks to enter the mobile wallet market	CBSI/NFIU, ADB, PFIP	2018
2. Test and roll-out institutional innovations, such as super-agents and shared-agent platforms, that reduce network costs, increase liquidity and assure minimum standards of agent quality	DF Working Group to set standards of measurement of agent liquidity and report on state of agent liquidity semi-annually. Feasibility based on international models, 2016, piloting and roll-out 2017.	Cash withdrawal and transfer levels. Number of shared agents & number of super-agents appointed	Commercial banks, ADB, PFIP	2017
3. Implement interoperability across mobile platforms for customers, including a fully interoperable payment system	Pass National Payment Act	Demand-side interoperability, fully interoperable payment platform across commercial banks	Commercial banks, CBSI, IFC	2018-19
4. Promote digital payment channels in all Government transactions including by SOEs	Pilot testing with 1-2 government departments. Facility to pay Government taxes, fees etc. in provincial centers (P2G) and receive Government payments like rural development, constituency development funds (G2P). Roll-out across the public sector.	Digital access to government salaries through remote agents (leading indicator) Financial account usage among affected populations	MoFT, MDPA, line ministries and SOEs, CDFs, commercial banks, CBSI, NFIU, PFIP	2016-18
5. Promote digital payments among large private sector employers and associations reaching smaller employers, and in business-to-business payments	DF WG to initiate discussions with large private sector employers. Conduct B2B and B2G study and support field trials with leading employers. Promote through Chamber of Commerce and other business associations.	No. of companies paying taxes, suppliers and payroll electronically.	Commercial banks, NFIU, PFIP	2016-18

Objective 2: Strengthen the MSME sector through more focused engagement and coordination

Key Result Areas	Action Plan	Target/Indicator	Lead Institution(s)	Timeframe
1. Continue testing approaches to strengthening links between demand and supply in MSME finance	Permit regulated non-banks to access guarantee fund and supplemental equity facility. CBSI/MoFT to hold consultations with commercial banks to identify critical ‘bottle-necks’ in poor uptake & facilitate remedies.	10% formal credit by 2020.	MoFT, ADB, World Bank, MCILI, CBSI, NFIU	2016-18
2. Create a common platform and ongoing coordination between all stakeholders committed to MSME financing and entrepreneurial skills	Strike an MSME WG under NFIT with needed stakeholder representation. MSME WG to lead initiatives in effective implementation of the National MSME policy	Effective MSME working group	MCILI, MSME training programs, regulated lenders, CBSI, NFIT	2016 ongoing
3. Target MSMEs in strategic rural value chains for financial awareness and deeper integration into the financial system	Facilitate links between regulated lenders and value-chain projects, especially where cash management services (payments, savings) are also available.	Financial inclusion in rural value chains.	Regulated lenders, MSME training programs, service providers, MCILI, ADB, PFIP	2016-18
4. Build understanding of MSME needs and provide training to build entrepreneurial and financial management skills, especially of young and female entrepreneurs	Conduct an MSME financial diary project (50 individuals with representation from urban, peri-urban and rural areas)	National financial literacy curriculum for MSMEs	MCILI, MWYCFA, SIWIBA, MSME training programs	2016 ongoing

Objective 3: Include women, youth and rural families as fully engaged participants in the national financial sector

Key Result Areas	Action Plan	Target/Indicator	Lead Institution(s)	Timeframe
1. Promote a national drive for rural savings, including financial literacy, savings clubs and mobile money, focused on women, youth and families.	MWYCFA Women’s Economic Empowerment Strategy implementation. Relevant WGs to drive product development, targeting women & youth & financial literacy initiatives	Project indicators Financial literacy manual and trainings New bank/digital products and services targeting these segments	MWYCFA, commercial banks, Min Fish, NFIU, UN Women	2016-18
2. Develop and promote a financial literacy package, combined with financial market participation, for rural market vendors.	Identify & develop a national curriculum for financial literacy for rural market vendors Set national certification standards, and work with NGOs and CBOs to train and certify trainers	National curriculum and certification standards Project indicators	MCILI, MWYCFA, NFIU, NFIU, NGOs/CBOs, training service providers, UN Women	2016-20
3. Test digital solutions for savings clubs and market vendors, including digital book-keeping and financial literacy apps.	Introduce digital book-keeping on pilot basis in few SCs (2016-17) before expanding to others Source and promote simple app for market vendors running on smart phone Introduce use of tablets for financial literacy/numeracy training among rural women	No of SCs and/or participants	NFIU, PFIP	2016-18

Objective 4: Build financial resilience in rural households

Key Result Areas	Action Plan	Target/Indicator	Lead Institution(s)	Timeframe
1. Integrate basic financial education into the core school curriculum, from primary to tertiary levels, with particular attention to numeracy at primary levels.	Based on demand-side capability gaps, finalize design of financial literacy component in curriculum.	Relevant and actionable financial literacy content at every level of national curriculum	MEHRD, MFAT (NZ), CBSI, PFIP	2016 ongoing
2. Greatly expand formal sector micro-insurance inclusion through product and channel innovation.	Pass national insurance act with regulations Research and pilot new approaches and scale up what works.	Product and channel innovations	NFIT, SINPF, insurance industry, CBSI, PFIP	2020
3. Pilot voluntary savings products for informal workers through SINPF and introduce micro pension benefits to rural Solomon Islanders.	Based on informal sector micro pension research now underway, develop product prototypes and do field testing. SINPF to collaborate with commercial banks, Sol Post & other FSPs for outreach & coverage	Product and delivery channels	SINFP, PFIP	2016-18
4. Consolidate and expand a national model of semi-formal ‘savings clubs’ as a behavioral bridge from the pre-cash economy towards formal finance.	Build consensus on national standards among SC promoters through NFIT/Consumer Empowerment Working Group. Pilot and then expand 1-3 sustainable savings club models.	DSS 10% use a savings club, presence in all provinces	SC promoters, NFIU, PFIP	2016-20
5. Develop a rural financial literacy module focused on usability of mobile savings, and distribute it through value chain projects, Constituency Development Funds, savings clubs, community projects and mobile banking agents.	Conduct a national financial diaries study of 50 representative rural household financial managers over 6 months to pinpoint motivations for using formal or semi-formal financial services, the appeal and drawbacks of traditional alternatives, and the financial literacy/numeracy capability gaps that should be targeted.	Increase formal and semi-formal savings and mobile services usage in rural areas	NFIU (data), NFIT, MRD, MWYCFA, MCILI, donors	2016-18

Objective 5: Build financial empowerment in ways that are relevant to daily life, motivating and actionable.

Key Result Areas	Action Plan	Target/Indicator	Lead Institution(s)	Timeframe
1. Agree on national principles of consumer protection in financial services, with special attention to rural mobile banking	NFIT to coordinate national consultation. Begin with CBSI regulations, coordinate with government on gradual formation of harmonized laws on consumer protection economy-wide.	Principles of consumer protection, including disclosure and recourse	NFIT, CBSI, MCILI, ADB	2016-17

<p>2. Develop and implement national standards for the selection, training, licensing and delicensing of mobile banking agents</p>	<p>Adapt bank agency guidelines and regulations for Solomon Islands</p> <p>Consult and build consensus among commercial banks for implementation</p>	<p>Competence standards agreed and enforced.</p>	<p>CBSI, commercial banks, ADB,</p>	<p>2016-18</p>
<p>3. Develop and implement principles for protection of illiterate and semi-literate consumers, recognizing the size of this segment, and its distinctive needs</p>	<p>Complete financial diaries study. Based on this, NFIT to coordinate national consultation.</p>	<p>Principles of protection for illiterate and semi-literate consumers</p>	<p>NFIT, CBSI, MCILI</p>	<p>2017-18</p>
<p>4. Develop a national, standardized hand-out for mobile customers that illustrates how to do mobile transactions, ‘dos’ and ‘don’ts’, and who to call for solutions and redress.</p>	<p>Conduct rapid study of usability barriers (cost, literacy and habits) to mobile money use. Develop simple 2-4 page hand-out that addresses barriers. Distribute through pilot agents and track whether usage increases. If successful, develop a 10-12 page one that illustrates use of mobile bank accounts and can be sold through shops (all proceeds to agents).</p>	<p>Successful pilot that increases mobile money use relative to non-pilot agents.</p> <p>Successful pilot that increases mobile bank account use relative to non-pilot agents.</p>	<p>NFIT, CBSI, commercial banks, donors</p>	<p>2017</p>

Objective 6: Execute NFIS 2 through effective stakeholder coordination, responsive data and sound evidence

Key Result Areas	Action Plan	Target/Indicator	Lead Institution(s)	Timeframe
1. Sustain and enhance a common platform to coordinate all initiatives in financial inclusion.	Review of NFIT mandate and Working Group structure re. NFIS 2 and implementation of revisions as needed. Clear regulatory backlog: NPF, National Payments, Financial Institutions and Credit Union acts.	NFIT Terms of reference, meeting attendance and representation	NFIT, CBSI, PFIP	ongoing
2. Develop synergies and build public private partnership models to progress financial inclusion across Solomon Islands.	Through ongoing engagement with public and private sector actors, catalyze partnerships that respond to strategic challenges	Public-private partnerships in effect	NFIT, CBSI, donors	ongoing
3. Develop and maintain a public on-line geo-spatial mapping of all financial access points in Solomon Islands, updated quarterly	Determine contents of map (access points, wireless coverage area, population density, monetization), collect data and post first map by mid-2016	Financial inclusion map posted and up-dated quarterly	CBSI/NFIU	ongoing
4. Continue to track demand side trends, particularly in access strands and uses of financial services, to support future initiatives and strategic evolution	At least one national demand-side survey during NFIS 2, building on the 2015 DSS as baseline. NFIU to develop proxy indicators for overall access and usage targets	DSS conducted in 2020. Proxy demand-side financial inclusion indicators tracked semi-annually	CBSI/NFIU	2020
5. Continue to review the existing financial inclusion data measurement framework for alignment with international core indicators	NFIT and NFIU to review the data framework in light of NFIS 2 and agree on revisions. Engage with FSPs for regular timely reporting	Data revisions implemented and reported semi-annually and/or quarterly	NFIT/NFIU	2016 ongoing

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