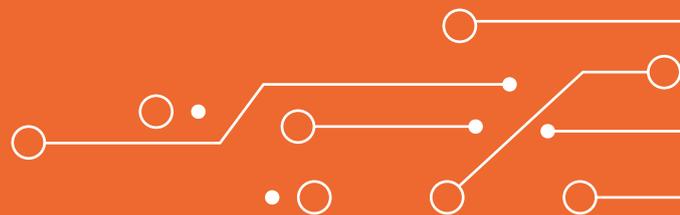




FROM FINANCIAL INCLUSION TO INCLUSIVE DIGITAL ECONOMIES: THE CASE FOR THE PACIFIC ISLANDS

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Small Island Development States (SIDS) are considered to be the most vulnerable countries in the world and the COVID-19 pandemic has seriously disrupted their economies and livelihoods. SIDS are recognized as a distinct group as they tend to share similar sustainable development challenges (UN-OHRLLS). They are dispersed around the globe, but are mainly located in three geographic regions: the Caribbean, the Pacific, and the Atlantic, Indian Ocean, Mediterranean and South China Sea. Many of these island states depend heavily on tourism to drive their development, and while individually distinct, they share a set of common geographical, socio-economic and environmental characteristics. These include poverty, remoteness, dispersed communities and the threat of natural disasters, such as cyclones, drought and volcanic eruptions. Given the requirements of minimizing personal contact imposed by the COVID-19 virus, the absence of good quality, low-cost digital communication leaves many people living on these islands in a particularly difficult position, in terms of facing the pandemic and its ripple effects on socio-economic welfare. Significant numbers of people whose homes are on the Pacific islands are at risk of being excluded from the rapidly developing digital economy that has already reached their shores and the opportunities this brings when linked to the 'real' economy.



Riding the waves of the digitization trend, Pacific mobile penetration currently stands at around 38 percent⁴⁹ and is seeing modest growth in the mobile subscriber base. Among the Least Developed Countries, the average is 44 percent, while in Pacific Island countries the figure ranges from 84 percent (for larger island nations such as Fiji) to 11 percent (for smaller islands such as Marshall Islands) (see Table 1 below). However, mobile subscription across the Pacific Islands is poised to undergo a rapid rise to 60 percent, due to a fall in smartphone prices and the emergence of new vendors.

According to a global study conducted by the Global System for Mobile Communications Association (GSMA), the cost of sending international remittances through mobile money is, on average, more than 50 percent lower than using global money transfer operators (MTOs). In addition, where people are able to send remittances from a mobile money account, the average cost of sending US\$200 is 2.7 percent, compared with 6 percent when using global MTOs.⁵⁰ Ensuring a reduction in transaction costs of international remittances from 9 percent to 3 percent to Pacific corridors will lead to additional savings of more than US\$15 million for end users. It was for this reason that the Pacific Islands Forum Secretariat (PIFS) joined the global call to action to keep remittances flowing during the COVID-19 crisis⁵¹ and that the Pacific Financial Inclusion Programme (PFIP) supported Vodafone Fiji in offering fee-free remittances via its M-PAiSA mobile money solution. This initiative led to a drastic change in the sending behaviour of family and friends supporting their loved ones back in Fiji. International money transfers to the M-PAiSA platform saw growth from FJ\$2 million (US\$943,000) per month pre-COVID-19 to FJ\$10.5 million (US\$4.9 million)⁵² in October 2020, representing an increase of 425 percent in a matter of a few months.⁵³

This trend demonstrates that digital solutions are already showing transformative impact in the Pacific financial sector, enabling parents in Solomon Islands to pay for their children's school fees through their ANZ GoMoney account, transforming payments in public transport in Fiji using the latest NFC contactless technologies, and converting paper-based savings accounts to digital accounts with the National Bank in Vanuatu.

New technological innovations can play a pivotal role in the digital transformation of the Pacific Islands and provide a pathway for recovery from the impact of COVID-19, enabling access to life-enhancing services in areas such as health and education, while proving a catalyst for innovation and economic growth, with the promise of new jobs and increased tax revenues. Initiatives such as Pacific Trade and Invest are already showing the way in that respect, for instance by encouraging Pacific tourism operators to acquire new digital skills in preparation for the reopening of borders.⁵⁴

The potential for digital services to impact many more lives in the Pacific is strong; significant investments have been made in core digital infrastructure, including various undersea fibre optic cables, and national governments are giving priority to leveraging these investments for their economy. In line with the aspirations of the Framework for Pacific Regionalism and the Samoa Pathway, by 2019, a majority of Pacific Island countries will have completed their ambitious submarine cable projects and improved connectivity in the capital cities.

Solomon Islands is one such country in the region. In December 2019, this island state was finally connected via undersea cable to the global Internet backbone. The completion of this project has included international connectivity between Honiara, Sydney and Port Moresby, managed by the Coral Sea Cable Company, as well as crucial domestic connectivity between Western Province (Taro), Malaita Province (Auki) and Choiseul Province (Taro). To deliver the maximum benefit of this potentially transformational infrastructure and to further enhance the economic impact for its citizens, in early 2020 the Solomon Islands Government, with technical support from UNCDF, decided to kick-start the process of developing its first National Digital Economy Strategy (NDES).

As a prerequisite for Solomon Islands to develop its NDES, the Government decided to use a new policy tool, becoming one of four countries – together with Burkina Faso, Nepal and Uganda – involved in piloting the Inclusive Digital Economy Scorecard (IDES). This new tool has been developed by UNCDF with support from the United Nations Development Programme (UNDP), the United Nations Department of Economic and Social Affairs, GSMA, the United Nations Conference on Trade and Development (UNCTAD) and the European Union to help governments set priorities for their country's digital transformation. It identifies the key market constraints hindering the development

⁴⁹ Global System for Mobile Communications Association (GSMA), *The Mobile Economy - Pacific Islands* (London, 2019).

⁵⁰ Global System for Mobile Communications Association (GSMA), *GSMA research shows mobile money is significantly reducing the cost of sending international remittances* (London, 2 November 2016).

⁵¹ See www.uncdf.org/article/5787/the-pacific-island-forum-secretariat-joins-global-call-to-action-to-keep-remittances-flowing-during-the-COVID-19-crisis.

⁵² Conversion rate: US\$1=FJ\$2.12. Source: <https://treasury.un.org/operationalrates/OperationalRates.php> (accessed October 2020).

⁵³ See www.fijitimes.com/10-5m-international-remittances-in-october/.

⁵⁴ See <https://pacifictradeinvest.com/explore-our-work/insights/tourism-operators-acquire-new-digital-skills-to-prepare-for-borders-reopening>.

of an inclusive digital economy and helps, together with public and private stakeholders, to pinpoint the right priorities for fostering a digital economy that leaves no one behind. For the Government of Solomon Islands, the IDES has proved to be a valuable policy tool, enabling it to take stock of the current state of digitization in the nation. Through interactive and collaborative workshops with principal stakeholders, the IDES has helped to survey existing policies and initiatives, while highlighting market constraints to be prioritized and addressed within the NDES.

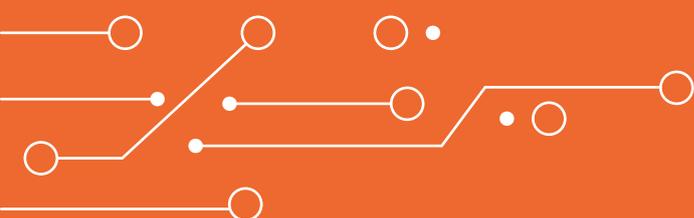
Efforts to achieve digital financial inclusion made by UNCDF and UNDP, through the Pacific Financial Inclusion Programme, are directly contributing to the emergence of digital economies in the region, and vice versa. Digital technologies are connecting financial services to 'real-economy'-related services and solutions that can transform the lives of Pacific Islanders. The wider

application of digital solutions to solve the daily constraints and needs of vulnerable islanders strengthens use cases for the adoption of digital financial services. One such example is SolaPayGo, a small fintech start-up company from Papua New Guinea that is paving the way for the adoption of pay-as-you-go solar energy for households in the country's rural highlands, and is now looking to expand its services to Solomon Islands.⁵⁵ Another example is the approach taken by the Solomon Islands National Provident Fund, which has worked together with the Central Bank, the tax authorities and the country's two competing mobile network operators to develop the use of mobile airtime top-ups as a currency, thereby tapping into the large network of more than 8,000 airtime resellers. This innovative approach and collaboration of committed public and private sector partners has enabled the Fund to scale up its highly successful micropension services for the informal sector, in a country that has no mobile money service providers.⁵⁶

TABLE 1.
Mobile subscriber numbers and penetration in the Pacific Islands

2018	Population (000)	Unique subscribers (000)	Connections (000)	Subscriber penetration
American Samoa	56	30	40	55%
Cocos (Keeling) Islands	0.6	0.2	0.3	38%
Cook Islands	17	5.6	6	32%
Fiji	915	770	1,192	84%
French Polynesia	287	163	294	56%
Guam	166	109	179	65%
Kiribati	119	22	56	19%
Marshall Islands	53	6	6	11%
Micronesia (Federated States)	107	18	24	17%
Nauru	11	7	11	61%
New Caledonia	282	186	276	66%
Niue	1.6	1	1.5	58%
Norfolk Island	2	1	1.6	47%
Northern Mariana Islands	55	23	35	41%
Palau	22	15	26	67%
Papua New Guinea	8,502	2,525	2,734	30%
Samoa	198	93	142	47%
Solomon Islands	629	310	459	49%
Tokelau	1.3	1	1	52%
Tonga	109	68	110	62%
Tuvalu	11	3	4	24%
Vanuatu	285	163	330	57%
Wallis and Futuna Islands	11	6	8	50%

Source: GSMA, The Mobile Economy - Pacific Islands (2019).



⁵⁵ See www.uncdf.org/article/5809/how-solar-pay-as-you-go-energy-is-helping-papua-new-guineans-access-financial-services.

⁵⁶ Ibid.

Today, digital financial services and the ubiquitous use of mobile phones have opened up a range of solutions for low-income households, ranging from energy access to education, health care and agricultural services. Improved Internet connections and the rapid uptake of smartphones in the region will allow UNCDF and UNDP to leverage the opportunities that these new technologies and digital platforms present for low-income consumers, while building on a decade of in-depth experience working with key stakeholders within the Pacific financial inclusion and digital ecosystem. As a result, the need for a new initiative focusing on building inclusive digital economies in the Pacific could not be more critical, since the starting point is now vastly different from that in 2008, when the first phase of PFIP was launched.

UNCDF and UNDP recognize that digital technology will be at the forefront of development efforts, especially in the Pacific region where the challenges of remoteness and territorial dispersion call for innovative digital solutions. Research demonstrates that through the adoption of digital services by individuals, businesses and governments, the digital economy has emerged in recent years as a global key economic driver.⁵⁷ The Digital Pacific Conference held in Samoa in June 2018 highlighted the importance of advancing the use of digital technologies in the Pacific. It noted the critical role of governments in creating a conducive regulatory

environment for digital innovations and promoting digital technology in the public sector as a stepping stone to the creation of a more inclusive digital economy. It was also recognized that investments in upgrading education and workers' skills will be crucial if the potential benefits of digital technology are to be reaped for sustainable development. This will require a commitment to supporting training in information and communications technology, as well as education in science, technology, engineering and mathematics, fostering stronger partnerships between the public and private sector and regional leadership on policy initiatives that promote mutual learning, knowledge and data exchange.⁵⁸

It is against this background that UNCDF and UNDP have sought collaboration with UNCTAD and PIFS, two important organizations that in recent years have been instrumental in driving the agenda for e-commerce and the digital economy at large in the Pacific region. Together, these partners have joined hands to launch a new regional initiative, the Pacific Digital Economy Programme, to support the development of inclusive digital economies in the Pacific. The vision is that these economies will enable rural communities, women and micro, small, and medium-sized enterprises, as well as seasonal workers, to enhance market participation, resulting in poverty reduction, improved livelihoods, and inclusive economic growth in the Pacific.

⁵⁷ Strategy&, Digitization for economic growth and job creation: regional and industry perspectives (PwC, 2013).

⁵⁸ United Nations Development Programme, Digital Pacific Conference Report (2018), p.7-9.