



Strategic Plan

Bank of Papua New Guinea

2016 - 2020



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1. FOREWORD *from* LOI M BAKANI, CMG - GOVERNOR

This Strategic Plan (SP) for the Bank of Papua New Guinea outlines the key strategic initiatives and programs for the next five years, 2016 - 2020. The Plan applies a clear classification of activities, projects, initiatives and programs into three main categories:-

- Ongoing activities are internally identified as “Business As Usual” (BAU) outputs. These outputs are planned and managed by setting Key Performance Indicators (KPIs) – measures of output quality, quantity, timing and cost that managers are responsible for attaining. As operational work, BAU is described in this Plan only in general terms.
- New activities to enhance BAU are internally identified as “Business Improvement Projects” (BIPs). BIPs are planned and managed using project techniques, on an annual cycle. Typically each BIP affects only a particular Bank function or department group. BIPs are approved by the Bank’s Executive Committee and confirmed by the Board. Some specifically intended BIPs are described in this Plan, while other BIPs will be developed in later years to meet changing circumstances.
- Major new activities are identified as “Strategic Initiatives and Programs”. Strategic Initiatives (SIs) are new roles that need to be scoped, analysed and planned. Strategic Programs (SPs) are project-oriented, extend over several years and have Bank-wide implications. Each SI and SP is planned and managed separately according to its nature and is summarised in this Plan.



Classification of activities, initiatives and programs as BAU, BIP or SI/SP improves integration of strategic management and operational management. Top-down institutional planning and bottom-up operational activity can be clearly linked, creating a single framework with clear reporting and accountabilities to improve the Bank’s overall performance. In particular:

- Performance will be easier to track;
- Determining priorities will be strengthened; and
- Accountability for results will be easier to monitor and apply.

We believe that our strategic planning has achieved maturity. This is evident from the retention of the strategic plan format and our mission, vision and values from the previous strategic plan. BPNG’s Strategic Plan 2016 - 2020 also builds on strategic initiatives and programs that were implemented in the previous strategic plan. Most have been completed and become business-as-usual activities while a few have been continued as business improvement projects. The final result blends continuity with change. It updates our strategic thinking, expands our policy and business objectives and creates an integrated and supportive management system.

The 2016 - 2020 Strategic Plan has been developed to assist the Bank enhance the achievements and focus on quality outcomes of its mandated goals and objectives in line with its mission, vision and value statements. Its development has involved discussions at the Board level, followed by internal discussions amongst functional groups, a formal workshop facilitated by an external consultant and finally quality assurance by an independent external consultant. The final plan is therefore a product of thorough and transparent consultations over a period of time, which reflects teamwork and cooperation involving a wide range of the Bank’s managers and staff.

Finally, I hope and expect that this Strategic Plan 2016 - 2020 will improve the focus and quality of the Bank’s work and the services we deliver, for the benefit of all of the Bank’s stakeholders.



2. INSTITUTIONAL SETTING AND ENVIRONMENT

Background

A central bank for Papua New Guinea was first established in 1973 under the *Central Banking Act*, Chapter 138. That Act was repealed and replaced by the *Central Banking Act 2000* to ensure the central bank's independence and to recognise the evolving roles and responsibilities of central banks around the world. Since 2000 the Bank of Papua New Guinea has had a clear mandate to autonomously perform a range of central banking functions, as a unique national institution operating under specific statutory governance and funding arrangements.

During its formative years, the role of the Bank was to ensure that the evolving financial infrastructure was sound and conducive to economic development. As in many developing countries, there was extensive and prescriptive control of financial activity and financial institutions. The Bank's institutional focus was operational effectiveness. Characteristically for a central bank of that era, the Bank's governance processes reflected the administration of a bureaucratic organisation.

Over the years the domestic financial system evolved and developed into a diversified one, including banks, lease finance companies, microfinance institutions, insurance firms, a stock exchange and money market and securities dealers. The international environment also changed as the global financial system developed and expanded. Globalisation in trade activities increased, and new trends emerged in management, governance and transparency with importance placed on greater autonomy for central banks. In response to these developments, the government enacted legislation to update the laws and strengthen the role of the Bank in supervising the financial system. Laws enacted in 2000 to complement the Bank's own statute included the *Superannuation (General Provisions) Act 2000*, *Life Insurance Act 2000* and the *Banks and Financial Institutions Act 2000*. The administration and management of these laws was vested in the Bank. This entailed extended roles and responsibilities for the Bank to broaden and strengthen the regulation, supervision and effectiveness of the financial system.

The enactment of these laws created a new focus for the Bank. The Bank's institutional style became more managerial and businesslike. Its internal processes were modernised to include contemporary elements of good governance such as strategic planning, comprehensive budgeting, improved management information and stronger accountability for results. The Bank's external interactions emphasised transparency, communication to stakeholders and a stronger customer focus. Efficiency became an institutional focus. The key institutional support areas of human resources management and information technology developed rapidly.

The events leading up to and following on from the "Global Financial Crisis" of 2007-2008 (GFC) created many new challenges for central banks and financial regulators. The traditional emphasis on technical excellence is no longer enough. Institutional excellence is now essential to respond to – and ideally anticipate – a rapidly changing social, economic and financial environment. The Bank consequently has an additional development priority of exploration – to understand and help shape that changing environment, for the greater benefit of our stakeholders.

Our future institutional style of management must be one of leading and managing a knowledgeable and educated workforce. Leadership values must build on a foundation of management skills and systems, supported by a strong organisational culture. The Bank intends to meet those challenges, to remain a leading national institution with international credibility.

Mandate

The *Central Banking Act 2000* was enacted to

- (a) amend and consolidate the laws establishing the Bank as the central bank and to define its objectives and functions; and
- (b) confer upon the Bank certain functions and powers including formulation and implementation of monetary policy and regulation of the financial system; and
- (c) make provision for and regulate Papua New Guinea currency; and
- (d) make provisions in respect of foreign exchange and international reserves.

Part III of the *Central Banking Act 2000*, in particular Sections 7 and 8, establishes the objectives of the Bank of Papua New Guinea. The primary objectives of the Bank, for the greatest advantage of the people of Papua New Guinea, are to:

- (a) formulate and implement monetary policy with a view to achieving and maintaining price stability; and
- (b) formulate financial regulation and prudential standards to ensure stability of the financial system in Papua New Guinea; and
- (c) promote an efficient national and international payments system; and
- (d) promote macro-economic stability and economic growth in Papua New Guinea.

In pursuance of its objectives the Bank of Papua New Guinea is mandated to:

- (a) issue currency; and
- (b) act as banker and financial agent to the Government; and
- (c) regulate banking, credit and other financial services as empowered by law; and
- (d) manage the gold, foreign exchange and other international reserves of the country; and
- (e) perform any function conferred on it by or under any international agreement to which Papua New Guinea is a party; and
- (f) perform any other function conferred on it by or under any other law.

Further clauses of the *Central Banking Act 2000* define the powers and duties that the Bank has in pursuing its objectives and performing its functions. Those powers and duties include specific provisions that require regular publication of specific information, ongoing liaison with Government and direct advice to Government in certain specified circumstances.

The legislation enacted in 2000 was also forward looking to enable the Bank to regulate and supervise the financial system effectively to reflect new developments such as globalisation and the growing importance of micro-finance. Other areas of statutory change included enactment of the National Payments System legislation and new laws to meet Papua New Guinea's international obligations to combat money laundering and the financing of terrorism. Over the timeframe of the Plan we expect to see the creation of a Sovereign Wealth Fund (SWF). The Bank of Papua New Guinea will be required and empowered to play an important and evolving role across many fields of traditional and new activities.



Governance

Under the *Central Banking Act 2000*, the Governor is an appropriately experienced person who is appointed by the Head of State and vested with the responsibility to manage the Central Bank and direct its affairs. The Governor is also the Chairman of the Board and Registrar of Saving and Loans Societies. The Deputy Governor, who is appointed by the Governor in consultation with the Minister for Treasury, is a member of the Board and chairs the Board in the Governor's absence. The other members of the Board comprise five *ex officio* members from a range of prominent institutions and three members appointed by the Minister who must have relevant professional experience. All Board members are required by statute to meet good governance standards.

The Board is responsible for determining the policies of the Bank other than those related to monetary policy and financial system regulation, which are the direct responsibility of the Governor. The Board and the Governor have distinct roles and act collaboratively to ensure the Bank performs its mandated functions and objectives. To embed good governance practices in all its work the Board has developed and applied a Board Charter.

Sub-Committees of the Board comprised of non-executive members are established under their various charters and perform specific functions for and on behalf of the Board. The Board currently operates two sub-Committees:

- Audit & Governance Committee; and
- Remuneration & Succession Planning Committee.

The Governor has one Deputy Governor (but this may increase to two if deemed appropriate) and four Assistant Governors reporting directly to the Governor. Each Assistant-Governor is responsible for a functional group comprising related departments. In accordance with good governance practices, the Internal Audit Department and the Corporate Secretary report directly to the Governor. The Governor has also established various inter-departmental management committees to perform various functional and management responsibilities.

Modern management systems and processes operate to document, monitor and enforce appropriate delegation and reservation of the Governor's authority.

Sections 10 and 11 of this Strategic Plan present the BAU's governance and management diagrammatically.

Funding

The Bank of Papua New Guinea is by statute a self-funding institution, with its own capital and reserves. Specific provisions of the *Central Banking Act 2000* require:

- development and publication of information comprising a full range of financial statements;
- the appropriate application of generally accepted accounting practices;
- calculation of profits in accordance with those practices;
- management statements attesting that the financial statements present a true and fair view;
- specific disclosure of certain types of payments, including remuneration to Board members and senior staff;
- independent external audit of the financial statements by properly qualified persons;
- retention of reported profits to the extent that they
 - represent unrealised gains;
 - are required to maintain the solvency of the Bank;

- are required for the prudent financial management of the Bank.
- payment of other profits to the Consolidated Revenue Fund of the Government.

Like many other central banks, the Bank has in recent years experienced high volatility in its net income because of fluctuations in exchange rates and interest rates. Furthermore, the low interest rate environment that has prevailed worldwide since the Global Financial Crisis inevitably erodes the underlying profitability of routine central bank operations. The Bank of Papua New Guinea is mandated to attain specific policy goals and not to pursue or maximise profit. Consequently the Bank has faced substantial funding challenges and in particular has not generated sufficient profits to prudently make annual payments to Government.

To operate effectively and with demonstrable independence, both routinely and in crisis situations, a central bank needs a strong financial base. This strategic plan includes several initiatives to better understand and sustainably strengthen the Bank's funding.

3. MISSION, VISION AND VALUES

The Bank's Mission, Vision and Value Statements were adopted in 2005. During the development of this Strategic Plan, these statements were re-examined to ensure they remain relevant today and correctly describe how the Bank's roles and culture are perceived now and in future. The re-examination has reaffirmed the relevance and appropriateness of these statements.

Mission

The Bank's mission statement is derived from the *Central Banking Act 2000*.

"To serve the people of Papua New Guinea by conducting effective monetary policy, maintaining a sound financial system and promoting the development of a first class payments system. We will act at all times to promote macro-economic stability and help foster economic growth of our country."

Vision

The Bank's vision statement builds on our mission, to guide forward planning.

"A contemporary central bank and regulator excelling in performing its core functions and making a distinct and valuable contribution to the economic prosperity of Papua New Guinea."

Values

The Bank's values guide our actions and shape our attitudes. They define the Bank's culture, provide leadership and direction and indicate to stakeholders our commitment to the Bank's mission and vision. Adoption of these values, and their transfusion into the daily behavior of staff, is a critical element in the design and implementation of this Plan.



VALUE	
Integrity	With integrity we build good governance and credibility.
Transparency	With transparency our decisions stand scrutiny.
Accountability	Through accountability we take responsibility for our decisions and actions.
Efficiency	With efficiency we produce quality results, on time and on budget.
Teamwork	Through teamwork we benefit from sharing skills, knowledge and experience.
Professionalism	Through professionalism we strive for best practice.

These values guide the way staff:

- Carry out their work;
- Make decisions;
- Relate to others both internally and externally;
- Design structures and procedures; and
- Set priorities.

The strategic initiatives, strategic programs and business improvement projects outlined in this Plan will enable the Bank to enhance the achievement of its vision and its national and international reputation. In particular the Plan will:

- Bring all of our activities to contemporary standards in central banking and regulation;
- Achieve excellence in the ongoing performance of our core functions; and
- Enable us to make a distinct and valuable contribution in other areas of our work.

4. EXTERNAL ENVIRONMENT

The Strategic Plan 2016-2020 has been designed to take into account both domestic and global economic developments and challenges as well as future prospects. The Bank as a dynamic organisation must be flexible to adapt to this ever-changing economic environment to be able to meet its core functions and mandates of price stability, sound financial system and efficient payment system. Against this background, the Bank's Strategic Plan covers a period that is likely to be characterised by volatile external and domestic developments.

The impact of the GFC is abating. Global growth remains moderate and near-medium term economic growth looks stronger in the advanced economies but weaker in the emerging and developing economies. The main factors that will influence the medium-term and long-term growth outlook include:

- Receding legacies of the GFC;
- Return to fiscal neutrality resulting in output expansion and lower unemployment;
- Low productivity growth since the crisis and low investment;

- On-going adjustment in many emerging markets following the post-crisis credit and investment boom;
- A growth realignment in China; and
- A downturn in international commodity prices triggered by weaker demand.

These economic factors are also coupled with increased geo-political crisis and increased volatility in the financial markets creating more uncertainty in the global economy.

Developments in the global economy can have severe consequences on PNG's domestic economy. PNG is highly dependent on exporting commodities, and the continued lower commodity prices have already affected its export sector. The following factors will have an impact on the domestic economy and could threaten the Bank's core objectives:

- Lower foreign exchange inflows and higher import demand has adversely affected the supply of foreign currency in the domestic market, putting pressure on the Bank's international reserves. This implies that the kina may continue to depreciate in the near-term until commodity prices improve and LNG revenues start to be realised;
- Continued plans for high Government expenditure to fund the National General Elections in 2017 and host the Asia-Pacific Economic Cooperation (APEC) Summit in 2018 will put more pressure on domestic financial resources;
- Slower recovery from the El Nino weather phenomenon and exchange rate depreciation, could be a source of inflationary pressures over the near term;
- Loss in fiscal revenue associated with falling and/or depressed commodity prices has put significant pressure on Government's financing requirement;
- High liquidity in the banking system associated with increased economic activity and high Government expenditure has implications for monetary policy management, making monetary policy transmission ineffective; and
- PNG will host important international events, notably the African, Caribbean and Pacific (ACP) Group Summit in 2016 and the APEC Summit in 2018, during which the Bank is likely to lead discussions related to banking and finance.

Given the external environment, six key challenges are identified:

1. Enhanced Policy Dialogue between National Government and Central Bank

The need for enhanced policy dialogue and co-ordination between fiscal and monetary policies by the Bank of PNG and the Government must be pursued as a matter of priority. Now more than ever, there is an urgent need to enhance dialogue between the Bank and Treasury Department and also establish an on-going policy dialogue with the Government, especially the Economic Ministers and politicians. This will assist the Government at the political level to understand the economic issues and monetary policy challenges. The key challenge is to get the Economic Ministers and politicians to understand and appreciate the importance of how improved coordination of fiscal and monetary policies can ensure macro-economic stability to support growth.

2. Monetary Policy Management

Research undertaken by the Bank found that excess liquidity does not, at present, pose a significant threat to the objective of price stability. However, the excess liquidity has contributed to the limited transmission of the monetary policy signal, the Kina Facility Rate (KFR), to market interest rates. Based on this, the key challenge for monetary policy management is to develop new strategies and design new tools and/or improve existing tools to make monetary policy transmission work effectively under the high liquidity conditions.



3. Foreign Reserves Management

The decline in international commodity prices, especially oil and gas, combined with expectations of higher US interest rates and tightening global financial conditions, will put pressure on the Bank's international reserves and its ability to assist the domestic foreign exchange market. Furthermore, fiscal expansionary pressures via higher import demand could further increase downward pressure on the exchange rate. The key challenge for foreign reserve management is to find a balance between the desirable level of foreign reserves and support to the foreign exchange market. To partly address the scarcity of foreign exchange, the Bank will also continue to ensure that the licensed foreign exchange dealers comply with the requirements of the foreign exchange guidelines.

4. Payments System Completion

The National Payments System (NPS) has represented a significant milestone in the development of the financial system over the past six years. While the roll-out program has already connected most of the financial institutions and other stakeholders, some financial institutions and Government agencies have yet to be connected. The Bank will require their co-operation to assist making financial transactions more secure and efficient. The key challenge in the management of the NPS is for the Bank to introduce a national switch to provide interconnectivity and develop a regulatory framework that will give certainty to all stakeholders. The national switch will also enable interconnectivity among all financial services providers.

5. Development of the Financial System

Supervision of the domestic financial system has grown considerably due to the significant growth and entry of financial institutions in the last five to six years. Furthermore, with the development of the NPS, greater opportunities have opened up within the financial system for financial institutions to move into new ways of doing business and the introduction of innovative financial products. However, achievement of financial inclusiveness remains challenging. The Bank needs to generate support from financial institutions and Government to coordinate the National Financial Inclusion and Education Strategy within limited resources. The Bank also needs to develop the domestic banking system by encouraging new entrants to enhance competition, as well as work towards developing the secondary market.

6. Internal Capability

An ongoing challenge for the Bank is to recruit quality staff and upgrade the skills and knowledge of existing staff. The key capability challenge for the Bank going forward is to not only recruit but also to retain quality technical staff and build capability to respond effectively to the challenges above.

5. MONETARY POLICY

Formulate and Implement Monetary Policy to Achieve and Maintain Price Stability

As outlined in "External Environment", the Bank expects monetary policy over the period 2016 - 2020 to be challenged by a number of global and domestic factors. The Bank's response will be to blend the continued operation of our established monetary management framework with a forward-looking approach to enhance its relevance and effectiveness in maintaining price stability.

The Bank conducts monetary policy to achieve price stability by performing several functions:

- monetary policy formulation;
- monetary policy implementation;

- exchange rate management;
- foreign reserves management;
- Government budget financing.

Each of these functions has a number of continuing BAU activities. Those activities comprise both policy development and operational implementation. The Bank collects and analyses financial and economic data from different sources to manage monetary policy. It also manages Papua New Guinea's foreign reserves and acts as banker, agent and specialist financial adviser for the Government.

Over the period of this Plan the Bank aims to strengthen the relevance, effectiveness and efficiency of these BAU activities. This will be achieved through a number of specific business improvement projects that fall into several categories:

- improve data collection, storage, processing and reporting systems;
- develop a deeper, more flexible and more liquid financial market in PNG;
- enhance the transmission of monetary policy signals to the market;
- enhance the coordination of monetary and fiscal policies.

In addition, the Bank will undertake several broader strategic initiatives and programs, as follows:

1. Banking and financial data are collected from a variety of sources and processed by different areas in the Bank. Existing arrangements reflect historical approaches and, with capability constraints, are in some cases not optimal. The Bank will take the initiative to streamline the collection and compilation of banking and financial data to improve their timeliness, security and accuracy, as well as ease the burden on financial and other reporting institutions.
2. The Bank will look at making its monetary policy design and formulation more robust, incorporating techniques such as financial programming, as well as conducting detailed analysis and research into monetary and financial aggregates, relationships and trends.
3. PNG needs to develop a secondary market for Government securities. Comprehensive and automated dealing systems to register, transfer ownership and trade securities are an important requirement to develop a secondary market. In addition, enabling a wider participation by the population in the Government securities market, by reducing the cost of investing as well as easier access to the facilities, will help develop a savings culture and expand the investor base. BPNG will consider how such facilities can be optimally created and operated in our national environment, in conjunction with the progressive development of the national payments system.



6. FINANCIAL SYSTEM STABILITY

Operate Financial Regulations and Prudential Standards to Ensure Stability of the Financial System

As outlined in “External Environment”, ensuring financial system stability requires a careful balance between caution and innovation.

The Bank ensures financial system stability primarily through its direct activities as a financial system regulator and supervisor. Other functions of the Bank contribute indirectly to this core role. The target outcome we seek is a stable financial system with a diverse range of sound financial institutions that meet prudential standards and provide efficient financial services to our people.

Financial system regulation and supervision has a number of continuing activities. These activities are consistent with our risk-based supervision of licensed financial institutions. These institutions are monitored and supervised under a set of prudential standards that optimise the application of international requirements to our national environment. Supervisory activities include intensive off-site and on-site monitoring of individual financial institutions and regular liaison with regulators in other countries and with international institutions. Analytical processes identify possible problem situations at an early stage and BPNG has available a range of intervention mechanisms to resolve such problems.

Over the period of this Strategic Plan, the Bank aims to enhance the relevance, effectiveness and efficiency of these continuing activities. This will be achieved through a number of specific business improvement projects that fall into several categories:

- enhancement of our prudential standards and if necessary the underlying regulatory legislation;
- improved data collection and reporting;
- harmonisation and optimisation of our routine monitoring and supervisory processes;
- faster and more effective responses to requests received from the public and financial institutions;
- improved concentration of supervisory efforts on identifying and managing risks to individual financial institutions and to the overall financial system.

In addition the Bank will undertake several broader strategic initiatives and programs, as follows:

1. Savings and loan societies (credit unions) within PNG have experienced limited success. Many smaller societies and a number of larger ones have collapsed as a result of poor governance and mismanagement. Comprehensive regulatory reform, implemented under the new legislation, will enable BPNG to supervise this important sector effectively and thereby enhance the range of financial services they can provide to the public.
2. Learning from impact of the GFC, the Bank will increase its emphasis on macro prudential activities that focus on the stability of the entire financial system rather than just the soundness of individual institutions. This will include enhanced international cooperation that recognises the increasingly global nature of financial systems and institutions.
3. PNG has lagged behind other countries with global initiatives and standards to detect and combat potential money-laundering and terrorist financing. The reputation and rating of our national financial system may suffer severely if the country continues to be non-compliant to these international standards. Under the new set of legislation BPNG has established a Financial Analysis Supervision Unit (FASU) to develop and apply a robust framework, including independent consultation and liaison with national and international agencies.

4. To Supervise financial systems comprehensively requires attention not just to traditional financial institutions such as banks, but also to an increasing range of wider and less formal providers of financial services, such as moneylenders and financial advisers. New technology facilitates the delivery of traditional financial services in new ways, together with the development of new financial services. BPNG will consider how best to regulate evolving elements of the broader financial system, to develop effective monitoring systems, without discouraging competition and innovation.

7. PAYMENTS SYSTEM

Promote an Efficient National and International Payments System

As outlined in “External Environment”, payments system development has made impressive progress in recent years, but more remains to be done.

The Bank promotes an efficient payments system by performing several functions:

- National currency management, to ensure circulating currency is authentic, useful, in good condition, and readily available;
- monetary policy management, to ensure price stability;
- foreign exchange management, to achieve orderly functioning of the foreign exchange market;
- government banking and agency services, to deliver effective and efficient financial service for the Government;
- clearing house facility, to allow the commercial banks and BPNG to clear payments against each other;
- supervision of financial system, to ensure a sound and prudently managed financial system that facilitates financial intermediation and other financial transactions;
- payments system support, to facilitate modern, reliable and secure systems that meet national, institutional and individual needs.

Each of these functions has a number of continuing BAU activities. Currency notes and coins must be designed, purchased, circulated, recalled and destroyed, according to currency standards and under strict security. The legitimate financial needs of institutions and individuals must be met by efficient electronic systems that promptly settle all outstanding amounts, in kina and foreign currency. All of these systems need to be reliable, secure, robust and properly monitored.

Over the period of this Strategic Plan the Bank aims to enhance the relevance, effectiveness and efficiency of those continuing activities. This will be achieved through a number of specific business improvement projects that fall into several categories:

- improvement of the quality, processing and availability of our currency;
- simplification and automation of processes to authorise, conduct and monitor transactions;
- increasing the accessibility and usage of existing payments system;



In addition, the Bank will undertake several broader strategic initiatives and programs, as follows:

1. The Bank will look at improving the quality of our currency, undertaking a coin reform exercise as well as maintaining the security of the banknotes, keeping abreast of technological advancement in counterfeiting and banknote design. This will ensure the continued confidence in and acceptability of our currency by the public.
2. PNG is a geographically diverse country where financial services must overcome limited physical infrastructure and difficult logistical challenges. The Bank will develop a more comprehensive and longer term approach to the issuance and distribution of circulating currency, particularly outside of Port Moresby.
3. Our national payments systems have been extensively developed and extended in recent years. However that development and extension is not yet complete, and a program to implement specific technical projects will continue. Those projects will include a national card/mobile switch, improved facilities for remittances, stronger intraday liquidity arrangements and increased coverage to paying agencies.
4. In early stages of financial system development, central banks typically play a major operational role in leading change and development in payment systems. As a financial system matures, commercial institutions progressively take greater responsibility for system operation and innovation, and the role of a central bank becomes more on oversight of the system. The creation of a Payments Oversight Unit at BPNG and a National Payments Council will be important mechanisms through which financial system participants will work together to enhance our national payment system.

8. ECONOMIC GROWTH

Subject to the Three Core Objectives, Promote Macro-Economic Growth in Papua New Guinea

As outlined in earlier sections, the Bank expects macro-economic stability and economic growth to be influenced by global factors that have direct impact on PNG and on the Bank's work. Effective performance of the Bank's core functions will continue to have important contributions to the promotion of macro-economic stability and economic growth.

The Bank also performs additional functions that are necessary and directly promote macro-economic stability and economic growth including:

- economic advice to Government, to help optimise fiscal and economic policy;
- increasing economic knowledge, to aid policy analysis and deliver useful public information; and
- facilitating financial services development and inclusion, to help develop accessible financial services to a wider population.

Each of these functions requires a number of continuing BAU activities. These activities comprise activities outlined in earlier sections of this Plan and a number of more specific activities detailed above.

Over the period of this Strategic Plan, the Bank aims to strengthen the relevance, effectiveness and efficiency of these continuing activities. This will be achieved through a number of specific business improvement projects that fall into several categories:

- completion of projects related to our core functions, as identified in earlier sections of this Plan;
- systematisation and enhancement of our routine consultation and co-ordination processes with the Treasury & Finance Departments of the PNG Government;
- improvement of the technical relevance and efficacy of economic modeling and data collection;
- encouragement of national economic research activity and increasing its quality and relevance;
- identifying opportunities to enhance financial regulation and stimulate economic co-operation; and
- simplification and automation of processes to authorise, conduct and monitor transactions.

In addition, the Bank will undertake several broader strategic initiatives and programs, as follows:

1. The Government of PNG has decided to establish a Sovereign Wealth Fund (SWF), to ensure that the economic benefits obtained from our national mineral and petrochemical resources are utilized wisely to ensure macro-economic stability and invested for the benefit of the future generations. The Fund will be an independent entity with its own governance and management structure. The Bank will assist in setting up the Fund's Administrative Secretariat and appropriately apply our technical expertise in investment activities to help the Fund develop and meet its goals. This new role will need careful design to ensure the Bank and the Fund each maintain their own independence and focus.
2. Technology is developing at a rapid pace, making feasible more intensive and decentralised economic development and financial engagement of the population. PNG can take advantage of these trends. BPNG will play a leading and supporting role to implement the new National Strategy for Financial Inclusion and Financial Education which incorporates Micro Finance and consumer protection.
3. To ensure our official communication channels with the Government and the public through regular discussions and media releases. These should be implemented in ways to create awareness of our roles and economic matters that affect the economy and not compromise our independence.

9. INTERNAL EFFECTIVENESS AND EFFICIENCY

Ensure an Effective Institution with Motivated and Skilled Staff

Internal capability is crucial to our success. The Bank operates institutional support functions concerned with capability, organisation, management, review, change management and crisis management through:

- strong governance standards;
- strategic and operational management;
- financial management;
- human resources management;



- information and communication technology (ICT) services;
- communication services;
- infrastructure services.

These institutional support areas have a number of continuing BAU activities:

- governance, comprising the Board's role to oversee ethics, organisational performance, legal compliance, and internal and external audit. The Board discharges the Bank's accountability.
- strategic and operational management plans, measures and monitoring the Bank's work;
- financial management overseeing the Bank's funding and controls all monetary transactions;
- human resources management advising on staff capability and administering staff matters;
- ICT services developing, operating and supporting the computerised systems essential to our work;
- communication services overseeing the Bank's public information flows and external interactions;
- infrastructure services delivering buildings, transport and security to enable our work.

Over the period of this Strategic Plan, the Bank aims to strengthen the effectiveness and efficiency of these continuing activities. Specific business improvement projects will be applied in each internal function:

- strengthening our governance practices, particularly in internal audit and risk management;
- improving work process documentation and support services;
- standardising processes and controls for purchasing and payment;
- enhancing of human resource management and capability investments;
- enhancing technical capability in organisational design, recruitment and staff motivation;
- clarifying responsibilities for ICT services and security and better technical delivery;
- improving efficiency, reliability and security of infrastructure facilities and services.

In addition, the Bank will undertake several broader strategic initiatives and programs, as follows:

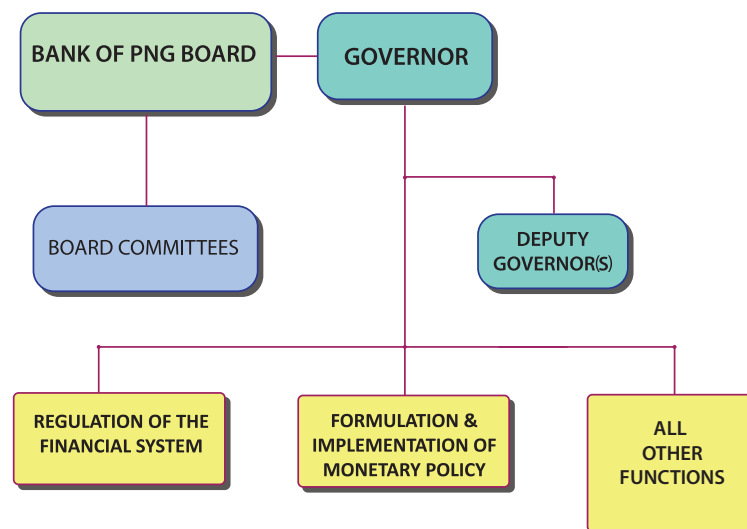
1. To deliver higher performance, BPNG will improve the usability of its planning, reporting and performance management systems so that they encompass and integrate all strategic initiatives, strategic programs, business improvement projects and operational outputs. This will be achieved through functionally-oriented planning, modernised delegations and reservations of authority, and simple reporting systems. These systems will be applied to measure and reward individual staff contributions and identify capacity building.
2. BPNG will comprehensively plan and manage its finances and balance sheet across all of its functions, through an interdepartmental "Funding Committee" that will continuously assess the implications of the policy and operational changes on the Bank's financial position.
3. BPNG will analyse its capitalisation needs across a range of future scenarios and promote an informed and ongoing dialogue with Government to ensure sustainable funding arrangements are put in place.



4. BPNG will continue to introducing electronic solutions for business processes and records and seek further opportunity to improve its internal effectiveness and efficiency through electronic workflow and records management. This will require a major strategic program to re-engineer our business processes progressively, introduce new technology and upskill our staff.
5. To take advantage of the rapid change in information and communication technology, in covering areas like cyber-security, “cloud computing”, mobile communications. The Bank will research and understand the implications of new trends and developments in ICT and determine how they can best be applied in our work.
6. Public communication and dissemination of information to explain policy goals and new initiatives are important to make our operations more transparent and shape future expectations. The communication landscape is changing rapidly as social media and communication become more prominent, especially in the business community, with the young generation and access in remote rural areas. To make its communication more effective and accessible, the Bank will comprehensively review and enhance its communication responsibilities, policies, facilities and processes, across all areas of the Bank’s work.
7. *The Central Banking Act 2000* gives the Bank the power to acquire, hold and dispose of property and other assets. The Bank owns a number of office and residential buildings and a diverse range of equipment, including many specialised assets. The Bank will review its intentions and goals in owning property, in relation to evolving operational needs and changing technology. This will involve analysing future investment requirements and evaluate efficient use of these assets, including leasing and outsourcing.



10. GOVERNANCE OF THE BANK OF PAPUA NEW GUINEA



FOOTNOTES

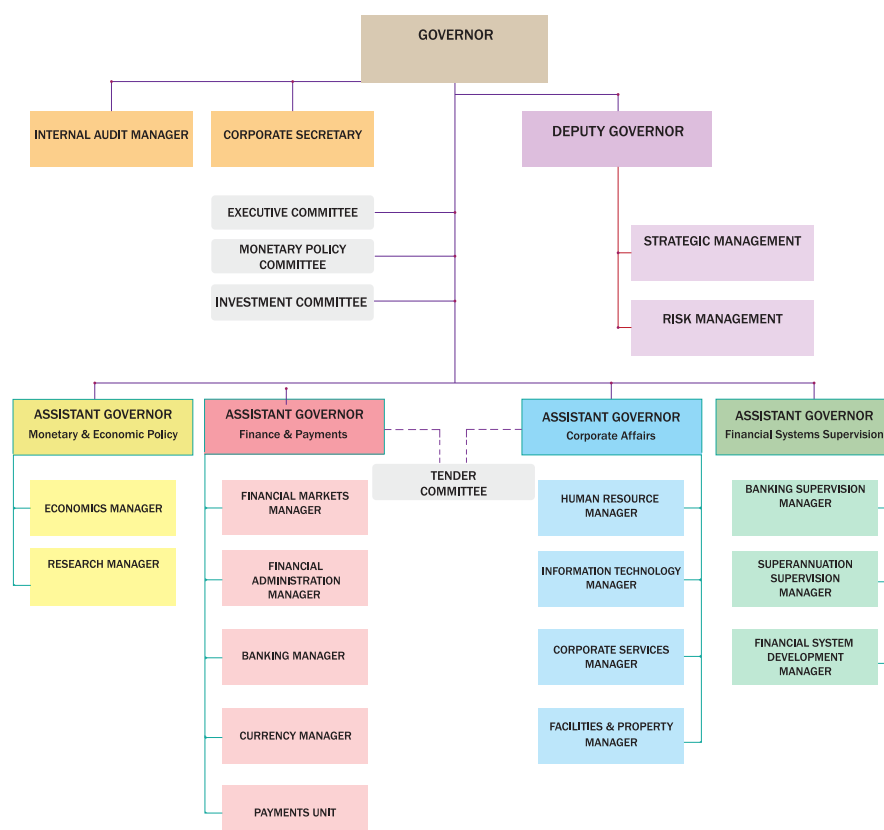
1. The Board of the Central Bank (CB) is responsible for determining policies of the CB, other than formulation & implementation of monetary policy & the regulation of the financial system which are the responsibility of the Governor.

2. Under the *Central Banking Act 2000* - one or two Deputy Governors may be appointed.

3. Other functions of the Central Bank include:

- * promote an efficient national and international payments system;
- * promote macro-economic stability & economic growth in PNG;
- * issue of currency;
- * act as banker & financial agent to Government;
- * regulate banking, credit & other financial services as empowered by the Act, or by any other law of the independent state of PNG;
- * manage the gold, foreign exchange and other international reserves of PNG;
- * perform any other function conferred on it under any other law of PNG;
- * institutional support functions for the CB.

11. MANAGEMENT OF THE BANK OF PAPUA NEW GUINEA *As at December 2015*



12. ACKNOWLEDGEMENTS

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