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| Papua New Guinea:TA - Financial Services Sector Development Strategy[[1]](#footnote-1) **Financial Inclusion In Papua New Guinea:**  **Status Report[[2]](#footnote-2)** |
|  |
| **Confidential**  **October 2015** |

## Abbreviations and Acronyms

|  |  |
| --- | --- |
| ADB | Asian Development Bank |
| AFI | Alliance for Financial Inclusion |
| AFI-PIRI | Alliance for Financial Inclusion Pacific Islands Regional Initiative |
| BFIA | Banking and Financial Institutions Act |
| BPNG | Bank of Papua New Guinea |
| CEFI | Centre for Excellence in Financial Inclusion |
| CFI | Centre for Financial Inclusion |
| DFAT | Australian Department for Foreign Affairs and Trade |
| DSP | Development Strategic Plan 2010 - 2030 |
| FSAP | Financial Sector Assessment Program |
| FSDS | Financial Sector Development Strategy |
| FSSR | Financial Services Sector Review |
| GoPNG | PNG Government |
| G2P | Government to public payments |
| HIES | Household Income and Expenditure Survey |
| IFC | International Finance Corporation |
| ILO | International Labor Office |
| LFI | Licensed Financial Institution |
| MEP | Microfinance Expansion Project |
| MFI | Microfinance Institution |
| NIEP | National Informal Economic Policy |
| PFIP | Pacific Financial Inclusion Programme |
| PGK | Kina |
| PNG | Papua New Guinea |
| SLS | Savings and Loans Society |
| SME | Small and Medium Enterprise |
| SMK | Salim Moni Kwik (remittance) |
| Sunday-Sunday | ROSCA: Typically a small group which meets after the (fortnightly) payday to pool savings and make loans to group members |
| Treasury | Papua New Guinea Treasury |
| UNDP | United Nations Development Programme |
| UNCDF | United Nations Capital Development Fund |
| WB | The World Bank |

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## Executive Summary

This review is an input to the Financial Services Sector Review being undertaken by BPNG and PNG Treasury. The purpose of this review is to provide an input to the review and further development of the National Financial Inclusion and Financial Literacy Strategy 2014-2015. The review has sought to:

1. Provide a broad stocktake of the current status in respect to financial inclusion and financial literacy in PNG
2. Review progress in respect to the implementation of the National Financial Inclusion and Financial Literacy Strategy 2014-2015 (BPNG, 2013) and related actions.
3. Recommend possible enhancements to the National Financial Inclusion and Financial Literacy Strategy which may potentially strengthen capacity to achieve the Maya Declaration commitments and national development plan commitments in respect to the expansion of financial inclusion in PNG.

In addition to expanded economic development which is likely to flow from increasing levels of financial inclusion in PNG, there are a range of benefits to GoPNG which are likely to result from increased financial inclusion. These benefits are likely to include more efficient receipt of payments (for example taxation), and ability to make payments (for example the proposed old age and disability pensions), including greater ability to mobilise and target short term assistance (for example disaster relief). The potential scale and scope of these benefits, and the benefit to the economy generally, indicate an expanded involvement by GoPNG in increasing financial inclusion may be warranted.

**There has been significant progress in establishing an enabling environment for financial inclusion**

Since the 2011 FSSA, the PNG Government and BPNG have made significant progress in building broad based commitment to financial inclusion across the public and private sectors. The commitment to financial inclusion is incorporated in key national development plans. PNG has committed the Maya Declaration on Financial Inclusion. BPNG has supported the expansion of microfinance in PNG and has developed a financial inclusion strategy in conjunction with a broad group of key stakeholders. Most of the key action items in the financial inclusion strategy have been implemented, or are in the process of being implemented. BPNG has further extended the development of strategy through the establishment of CEFI and has established a regulatory framework to support the expansion of financial exclusion through a range of financial institutions and access channels.

In a broader context, each of the three commercial banks with retail banking businesses has developed a basic bank account targeted to financially excluded adults and a financial literacy programme. The development of microfinance is being supported through the MEP and there are five regulated micro-banks, one of which has national representation. The regulatory regime governing savings and loans is being revised to better support industry and organisational sustainability. Finance company lending to individuals and SME’s is being supported through the establishment of an improved chattel security regime. Interchange capability has been strengthened to enable a greater range of electronic payment modalities.

**Limited Knowledge of Financial Services Demand and Usage**

There has been progress in the provision of supply-side financial inclusion information. BPNG is collecting information from regulated financial services providers, with a particular focus on tracking G20 financial inclusion indicators.

There continues to be a pervasive lack of data in respect to the demand for financial services, and the usage of financial services (in particular savings and credit services) by individuals, households (in particular rural households) and participants in the informal sector generally. There is currently no national demand side data, and no time series data.

**Continuing High Levels of Financial Exclusion**

There is some evidence (albeit limited and indicative) that levels of financial inclusion in urban areas may have increased to levels similar to those in other developing countries. However, there continue to be very significant disparities in respect to levels of financial inclusion for:

**Women**: Women appear to have significantly lower levels of financial inclusion, even where financial services are available in urban communities. The level of financial exclusion experienced by women appears to be much higher than that found in comparable developing countries. Whilst BPNG has established the goal of increasing the level of financial inclusion for women at the same rate as that for men, it is considered current strategy and action plans are unlikely to address this disparity in the short – medium term. Research is required to develop an understanding of the reasons for this pervasive gender difference.

**Rural communities**: Whilst there has been some progress in extending financial services to rural communities, to date this has been undertaken primarily by one commercial bank and the major mobile phone provider. Effectively, levels of financial exclusion in rural areas continue to be very high – probably between 95% - 100% in many rural communities. It is considered current strategy and action plans are unlikely to significantly address levels of rural financial exclusion.

**Network density:** Access to financial services is a key driver of financial inclusion. The development of physical access points (both branch and ATM) in PNG does not appear to have progressed as strongly as in other Pacific island countries. The number of agent networks has increased, however the density of agents continues to be limited.

**Informal Economy Participants and SME’s:** The informal economy continues to be the dominant source of livelihood for most Papua New Guineans. Most informal economy participants (most of whom are rural) have no access to transaction or savings services. Effectively, nearly all informal economy participants and (smaller) SME’s must resort to the informal financial sector (family, friends or money lenders) for financing. It is considered current strategy and action plans are unlikely to significantly address levels of informal economy and SME participant financial exclusion in the short-medium term.

**Recommendations**

The Maya Declaration commitments form the basis for the expansion of financial inclusion and increasing financial literacy in PNG. This review does not recommend amendment to the commitments made by GoPNG in respect to national development plans and by BPNG in respect to the Maya Declaration.

1. To reach 1 million more unbanked low-income people in Papua New Guinea, 50% of whom will be women
2. To lead efforts to create a financially competent generation of Papua New Guineans through financial education and financial literacy
3. To actively support innovative use of technology for scaling-up access to financial services and financial literacy
4. To strengthen consumer protection by issuing prudential guidelines and creating a platform for various national regulators and industry networks to monitor consumer protection
5. To begin the process of integrating financial inclusion in local and national government, including getting the National Executive Council to endorse the National Financial Inclusion and Financial Literacy Strategy by quarter 4 of 2013
6. To promote regular collection and use of financial access data to inform policy making and help identify key dimensions of financial inclusion in Papua New Guinea
7. To optimize these results through knowledge sharing and effective coordination of stakeholders, including development partners, by the newly established Centre of Excellence for Financial Inclusion chaired by the Bank of Papua New Guinea.

Recommendation: GoPNG involvement in financial inclusion is strengthened. Financial inclusion can facilitate economic development. There are also a range of benefits to GoPNG which are likely to result from increased financial inclusion. These benefits are likely to include more efficient receipt of payments (for example taxation), and ability to make payments (for example the proposed old age and disability pensions), including greater ability to mobilise and target short term assistance (for example disaster relief). The potential scale and scope of these benefits, and the benefit to the economy generally, indicate an expanded involvement by GoPNG in increasing financial inclusion may be warranted.

Recommendation: Consideration is given to using the Financial Inclusion Strategies Reference Framework (World Bank, 2012)[[3]](#footnote-3) as the framework for the further development of the National Financial Inclusion and Financial Literacy Strategy.

***Commitment 1: To reach 1 million more unbanked low-income people in Papua New Guinea, 50% of whom will be women***

Recommendation: Develop a national action plan to increase the level of financial inclusion by women to equal that of men. It is recommended a comprehensive national action plan be developed to increase the level of participation in the formal financial sector by women, in particular women living in urban and peri-urban communities, with the goal of equal levels gender participation. Women living in urban and peri-urban communities currently have access to financial services, but it appears these women are significantly less likely to own a bank account than men. Current approaches to extending financial services to the unbanked in urban and peri-urban communities do not appear to be as successful at targeting women as they are at targeting men. The reasons for the gendered difference in the level of financial inclusion are not known. Research is required. Possible explanations include different employment patterns (in particular the greater likelihood of women working in informal employment), the lower literacy levels of women – and more limited ability to read documents printed in English, limited familiarity with regulated financial institutions (whether share-holder or member based) by women. A comprehensive approach to increasing the level of financial inclusion by women is required.

Recommendation: Develop a standardised low-cost/ no-cost savings/ transaction account for delivery by all financial services organisations. Development of a standardised low-cost/ no-cost account will enable consumers to access an affordable basic financial account, irrespective of their or their household’s financial situation.

Recommendation: Expand the National Financial Inclusion and Financial Literacy Strategy to encompass informal and formal sector SME’s. The National Financial Inclusion and Financial Literacy Strategy currently focusses on individuals. Available evidence indicates there are high levels of financial exclusion by SME’s, in particular in respect to informal sector businesses. The National Informal Economy Policy seeks to increase financial services to informal sector businesses. However, at present, with the exception of microfinance, there are few products and services available to informal sector businesses. Expanding the National Financial Inclusion and Financial Literacy Strategy to encompass SME’s will enable programs and products to be developed and deployed to increase SME financial inclusion. Within this context it is recommended the National Financial Inclusion and Financial Literacy Strategy be co-ordinated with Department of Commerce and Industry SME initiatives.

***Commitment 2: To lead efforts to create a financially competent generation of Papua New Guineans through financial education and financial literacy***

Recommendation: Integrate financial education into the primary and secondary school curricula. The development of financial literacy occurs over time and is often learned initially in the home. However, levels of adult financial exclusion in PNG suggest many children currently at school do not have the opportunity to learn financial skills from suitably skilled and experienced role models in the home. Schools provide an appropriate platform to introduce and develop financial literacy skills.

***Commitment 3: To actively support innovative use of technology for scaling-up access to financial services and financial literacy***

Recommendation: Develop a National Rural Financial Services Architecture and Implementation Plan. The scale of financial exclusion in rural communities suggests this is a national development issue. Unless financial services can be extended to rural areas, progress with economic and social development in these areas is likely to be constrained.

There are significant operational and financial challenges to extending financial services to rural communities. A range of challenges have been cited as the reason for the lack of willingness by financial services providers to expand rural financial services infrastructure, in particular the cost of developing financial infrastructural capacity, in particular in regions in which there is limited transport and communications infrastructure, the ongoing cost to service, and the cost of managing cash (in particular transport costs and security issues related to cash).

The expansion of financial services to rural communities cannot be branch based. The 2011 FSSA noted the greatest potential to expand the provision of financial services is through the use of the mobile phone. To this can be added EFT and ATM capability (probably using mobile networks as a carrier) and the concurrent development of agent networks. Evidence from Africa has shown that, to be effective, mobile phone banking must be accompanied by an agent network sufficiently dense to be readily accessible, in particular in rural communities.

To date the expansion of financial services in rural areas has been undertaken primarily by commercial financial institutions. However, commercial financial institutions, in particular BSP alone, cannot achieve adequate outreach in rural areas to enable sufficient network density to be developed to facilitate a significant and sustainable reduction in financial exclusion.

It is recommended GoPNG and BPNG, in conjunction with regulated financial services providers – in particular commercial banks, telecomm providers, civil society and donors develop a national rural financial services architecture and implementation plan for PNG.

Tentative Model:

It is recommended the national rural financial services architecture has the following objectives

* Progressively provide access to financial services for all adults living in rural communities
* Reduce current financial services user transaction costs for access and delivery
* Reduce dependence on, and use of cash as the only payment modality

It is also recommended the national rural financial services architecture incorporate the following parameters:

* Be mobile phone and card based
* Be supported by agent network of sufficient density to enable ready access by rural communities. Network density will be location specific
* Incorporate a low-cost/ no-cost basic savings/ transaction account
* Be interoperable
* Be developed by GoPNG and commercial organisations through a formal public/ private partnership
* Be developed in conjunction with the ongoing development of the payment systems strategy

Initial discussions with several banks suggest current platforms may be useable (with white labelling) at least in the short term.

Recommendation: Establish targets for the migration of cash/ paper based transactions to electronic Modalities. GoPNG is a member of the ‘Better than Cash’ Alliance and has a goal of migrating payments to electronic platforms. There are currently no commensurate goals for retail payments, which are currently primarily paper (cash) based. In order to guide the migration of retail payment transactions to electronic platforms, it is recommended targets be established for the progressive substitution of retail paper based payments for electronic payments.

***Commitment 4: To strengthen consumer protection by issuing prudential guidelines and creating a platform for various national regulators and industry networks to monitor consumer protection***

Recommendation: Continue to strengthen consumer financial protection. Available evidence indicates levels of adult financial literacy are low and therefore many adults may have limited skills to enable considered financial decision making. There is also likely to be significant vulnerability to financial scams. As financial inclusion expands in PNG there needs to be a concurrent strengthening of consumer protection.

***Commitment 6: To promote regular collection and use of financial access data to inform policy making and help identify key dimensions of financial inclusion in Papua New Guinea***

BPNG has strengthened supply-side data collection. BPNG will host the financial inclusion database and CEFI will provide data online[[4]](#footnote-4). There is a need to concurrently strengthen population based demand-side data collection.

Reliable national demand side data is difficult and expensive to collect in PNG. To date, BPNG has been the sponsor of several regional demand-side studies, with the support of donors. The beneficiaries of these studies span both the public and private sector. Without a significant improvement in the scope, depth and reliability of demand-side data, it is likely market development in PNG will continue to be constrained. It is noted that in Australia and New Zealand the private sector has several years either sponsored, or been a significant contributor to, national population studies of financial inclusion, the demand for financial services and financial literacy.

Recommendation: Develop a national program of longitudinal population based financial inclusion and financial services demand data collection. Contemporary mobile phone based technology enables a significant reduction in field work costs. This has been demonstrated by BPNG in recent financial capability studies. One off and ad hoc surveys cannot address knowledge gaps. It is recommended the financial capability baseline study is continued to enable a national financial inclusion and financial capability/ financial literacy baseline to be developed. Given logistical constraints it is likely implementation of the study will need to be phased. It is recommend the next region to participate in the study be the Highlands Region. It is also recommended a nationally representative demand study be implemented (potentially the AFI-PIRI demand survey.

Recommendation: Develop an understanding of the cost of financial services to consumers. The cost of accessing and using financial services by consumers in PNG is not known. It is recommended research be undertaken to develop a comprehensive understanding of the cost of accessing and using financial services by consumers across location, occupation and product groups.

Recommendation: Develop an understanding of the use of financial services by informal sector businesses. The provision of financial services to participants in the informal sector is to some extent subsumed within the development of a rural financial services architecture and related implementation plan, and the development of a national plan to increase the level of financial inclusion by women. However, there is a need to develop a better understanding of how best to provide financial services, including credit, to informal sector participants. To some extent the provision of credit through regulated financial institutions is contingent on the further development of the credit bureau and the capacity will also assist in the development of an environment more conducive to the provision of credit to informal sector participants. It is recommended, as an initial step, research be conducted to better understand, and quantify, the use of savings and credit services (both informal and formal) by informal sector participants.

Recommendation: Develop an understanding of the reasons why women have higher levels of financial exclusion and are less likely to be involved in household financial decision making. Evidence from Morobe and Madang suggests levels of financial exclusion by women appear to be higher than the global average. The reasons for this are not known. Research is required to develop an understanding of causal factors in order to develop appropriate programs, products and services to facilitate increasing financial inclusion by women.

***Commitment 7: To optimize these results through knowledge sharing and effective coordination of stakeholders, including development partners, by the newly established Centre of Excellence for Financial Inclusion chaired by the Bank of Papua New Guinea***

Recommendation: Strengthen CEFI. CEFI provides an appropriate focus for advocacy to promote the financial inclusion agenda, facilitate improvement of financial service delivery, promote gender equity in financial services and financial education and enhance information collection and dissemination among the key stakeholders, including policy makers (government departments on Community Development, SMEs development, trade promotion and line departments), and financial sector regulators, beneficiary groups, financial services providers, development partners and local and international research communities . At present CEFI appears to be under resourced. It is recommended CEFI resourcing be strengthened to better enable operationalisation of core activities, in particular to strengthen CEFI’s ability to coordinate (and in appropriate instances to lead) financial inclusion (both demand and supply side) information gathering and dissemination activity in PNG. Within this context CEFI may require technical support to facilitate organisation development and the development of research and data analysis capability.

# Introduction

## Why this Review?

1. **Continuing Development of the Papua New Guinea Retail Financial Services Sector**

Over the past ten years, PNG has experienced rapid economic growth. However, over four-fifths of the PNG population continue to live in the rural areas, and continue to be largely engaged in informal economic activities[[5]](#footnote-5). As the real economy grows, the retail financial services sector in PNG is also experiencing expansion and development. However, to date this growth appears to have been concentrated primarily in urban areas, targeted to middle-upper income segments and when extended to lower income earners and rural communities, focussed on a limited range of transaction and savings services.

There continue to be significant constraints to the extension of retail financial services in PNG. Constraints include, but are not limited to, limited infrastructure which can be used to develop a broad range of financial services across PNG, a diverse and often geographically remote population, limited participation in the formal economy by most Papuan New Guineans and, related to this, limited exposure to the formal financial sector and high levels of financial illiteracy.

1. **Continuing High Levels of Financial Exclusion**

Most Papua New Guineans do not have an account with a formal financial institution. Financial inclusion and financial literacy is a key development challenge globally (Demirguc-Kunt, et al., 2015). This is particularly the case for Papua New Guinea. Globally, 62 percent of adults report owning a bank account. In high-income OECD countries account ownership is almost universal. In developing countries slightly more than fifty percent of adults report owning a bank account. Whilst levels of financial exclusion in PNG are not known, it is estimated 85% of the population does not own a bank account. In rural areas, indications are financial exclusion may be as high as 98%. This suggests PNG has one of the highest levels of financial exclusion globally.

## Scope and Objective of the Review

The objective of the Financial Services Sector Review (FSSR) is to develop a strategy (the Financial Sector Development Strategy) which can guide the further development of the financial services sector in PNG in a way that supports broader economic and development objectives, and to establish a legal framework to support the strategy[[6]](#footnote-6).

The principal objective of this review is to support the further development of the strategy to enhance financial inclusion and financial literacy in PNG. The review has three objectives:

1. Provide a broad stocktake of the current status in respect to financial inclusion and financial literacy in PNG
2. Review progress in respect to the implementation of the National Financial Inclusion and Financial Literacy Strategy 2014-2015 (BPNG, 2013) and related actions.
3. Recommend possible enhancements to the National Financial Inclusion and Financial Literacy Strategy which may potentially support the achievement of the Maya Declaration commitments and the expansion of financial inclusion in PNG.

## Defining Financial Inclusion in the Context of Papua New Guinea

**Definitions of Financial Inclusion**

UK Treasury: access to appropriate financial services so that people can manage their money effectively, securely and confidently on a day-to-day basis; plan for the future and cope with financial distress to protect against short term variations in income and expenditure and take advantage of longer term opportunities and deal effectively with financial distress (HM Treasury, 2007, p. 25).

CGAP: A state in which all working age adults, including those currently excluded by the financial system, have effective access to the following financial services provided by formal institutions: credit, savings, payments, and insurance. (GPFI & CGAP, ND)

The Papua New Guinea National Financial Inclusion and Financial Literacy Strategy 2014-2015 (BPNG, 2013) does not include a formal definition of financial inclusion. It is outside the scope of this review to propose a definition of financial inclusion relevant for Papua New Guinea.

This review has used the CGAP definition. The following scope for financial inclusion has been adopted for this review: Access to and usage of financial services, primarily by adults, encompassing the core groups of financial services typically provided by regulated financial institutions: payments, savings and credit[[7]](#footnote-7).

## Limitations of the Review

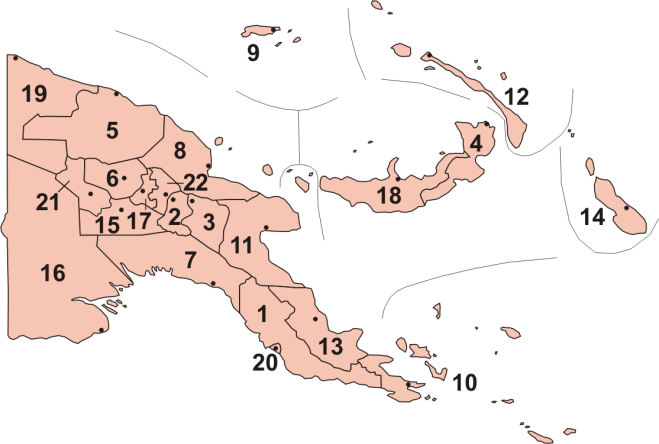
The report has been compiled using extant data sources, published and unpublished reports, and interviews with key informants. There is currently no national baseline of financial inclusion for Papua New Guinea. BPNG has sponsored several research projects in order to develop an understanding of financial capability in PNG. However, it has not been possible, to date, to undertake a nationally representative survey of financial inclusion.

# Background: The Country Context

**Population**

Papua New Guinea (PNG) is the largest and most populated of all the Pacific Island Countries (PICs) with a population of approximately 7.2 million people in 2012 speaking over 850 indigenous languages. 87.4% of the population lives in rural areas. Annual population growth is 2.17%.

Figure : PNG Population by Province[[8]](#footnote-8)



|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **# Map** | **Province** | **Capital** | **Area (km²)** | **Population (2011)** | **Density (pop/km²)** | **Region** |
| 1 | Central | Port Moresby | 29,998 | 269,756 | 6.21 | Papua Region |
| 2 | Simbu (Chimbu) | Kundiawa | 6,112 | 376,473 | 42.42 | Highlands Region |
| 3 | Eastern Highlands | Goroka | 11,157 | 579,825 | 38.35 | Highlands Region |
| 4 | East New Britain | Kokopo | 15,274 | 328,369 | 14.2 | Islands Region |
| 5 | East Sepik | Wewak | 43,426 | 450,530 | 7.98 | Momase Region |
| 6 | Enga | Wabag | 11,704 | 432,045 | 22.6 | Highlands Region |
| 7 | Gulf | Kerema | 34,472 | 158,194 | 3.04 | Papua Region |
| 8 | Madang | Madang | 28,886 | 493,906 | 12.49 | Momase Region |
| 9 | Manus | Lorengau | 2,000 | 50,231 | 20.76 | Islands Region |
| 10 | Milne Bay | Alotau | 14,345 | 276,512 | 14.93 | Papua Region |
| 11 | Morobe | Lae | 33,705 | 674,810 | 15.56 | Momase Region |
| 12 | New Ireland | Kavieng | 9,557 | 194,067 | 12.31 | Islands Region |
| 13 | Oro (Northern) | Popondetta | 22,735 | 186,309 | 5.82 | Papua Region |
| 14 | Bougainville (AR) | Arawa | 9,384 | 249,358 | 15.18 | Islands Region |
| 15 | Southern Highlands | Mendi | 15,089 | 510,245 | 23.86 | Highlands Region |
| 16 | Western (Fly) | Daru | 98,189 | 201,351 | 1.53 | Papua Region |
| 17 | Western Highlands | Mount Hagen | 4,299 | 362,850 | 59.12 | Highlands Region |
| 18 | West New Britain | Kimbe | 20,387 | 264,264 | 8.8 | Islands Region |
| 19 | Sandaun (West Sepik) | Vanimo | 35,820 | 248,411 | 5.12 | Momase Region |
| 20 | National Capital District | Port Moresby | 240 | 364,125 | 1051.95 | Papua Region |
| 21 | Hela | Tari | 10,498 | 249,449 | 17.71 | Highlands Region |
| 22 | Jiwaka | Minj | 4,798 | 343,987 | 38.68 | Highlands Region |

**Human Development**

About 40 percent of the population lives on less than $1 per day and 75 percent of households depend on subsistence agriculture. Forty-one percent of rural dwellers compared to 16 percent of urban dwellers live in poverty and are harder to reach with services.

Economic growth averaged around seven percent over the last five years, largely driven by the PNG Liquefied Natural Gas (LNG) Project - the single largest investment in the country’s history (US$15 billion). As a result of economic growth, the country has achieved ‘lower middle-income’ status, with a per capita income of US$2,386. Despite the country’s wealth, available data show that human development indicators remain worryingly low, with limited access to health and education services, as well as high inequality. The country is not on track to meet any of its Millennium Development Goal (MDG) targets and ranks at 156 out of 187 countries in the 2012 Human Development Index, with over 80 percent of the population without access to basic financial services. (<http://www.uncdf.org/en/Papua-New-Guinea>)

# Initiatives to Increase Financial Inclusion

## Government of Papua New Guinea Initiatives

The Government of Papua New Guinea has recognised the need to reduce levels of financial exclusion in Papua New Guinea.

1. **National Development Plans**

Expanding financial inclusion and enhancing financial literacy have been incorporated in key national plans.

#### The Development Strategic Plan 2010-2030

The *Development Strategic Plan 2010-2030* (Department of National Planning and Monitoring, 2010) (DSP) notes significant progress is required in extending the availability of low cost financial services to the general population. The Plan also notes small enterprises have difficulty securing funding from commercial banks, and the depth of financial services available in rural areas is very limited. The DSP states informal financial institutions, for example ‘informal microfinance societies’[[9]](#footnote-9) that operate savings, credit and other financial services will need to be relied upon to extend financial services to the grassroots economy and that a suitable regulatory framework will be required. The DSP also states increased competition will be key to the provision of improved financial service delivery. (Department of National Planning and Monitoring, 2010, pp. 33-34).

#### Vision 2050

The *Vision 2050* (National Strategic Plan Taskforce, 2011) also acknowledges the requirement to increase access to credit and to enhance financial literacy (refer Table 1). The linkages and mechanisms by which enhanced financial literacy will lead to expanded credit (in particular to the agriculture, forestry, fisheries, tourism and manufacturing sectors), is not specified in the Vision.

Table : Vision 2050 for Wealth Creation

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Objective | Priority  Activities | Key  Outcomes | Key Performance Indicators | Means of  Verification |
| Citizens to have accessibility to grants/credit/ funding | Roll out financial literacy programs | Increased monetization of the economy | Growth in credit for agriculture, forestry, fisheries, tourism and manufacturing sectors | Credit volume to these sectors, as reported by BPNG’s Quarterly Economic Bulletin |

Source: PNG Vision 2050: Table 3.2: Strategies for Strategic Focus Area Two: Wealth Creation

1. **National Informal Economy Policy (2011-2015)**

The *National Informal Economy Policy (2011-2015)* (NIEP) identified financial inclusion as a priority action area to facilitate the development of the informal economy in Papua New Guinea(DfCD & INA, 2011).

The NIEP notes that, even allowing for the relatively low population densities and rugged geography that can make the provision of any services difficult, PNG has performed very poorly in providing access to formal financial services. The Policy states increasing levels of financial inclusion should be a major economic policy objective.

In line with the DSP, lack of access to credit is identified as a potentially significant barrier to the enhancing the livelihoods of informal economy participants. The principal focus of Plan in respect to financial inclusion is, however, the need to expand access for informal sector participants (and poor and low income households generally) to convenient, liquid and safe savings services, including long-term savings. Improved access to safe and reasonably priced internal and international remittance services is also identified as a priority.

In line with the *Vision 2050*, the NIEP identified sustainable microfinance[[10]](#footnote-10) as a primary means of expanding financial inclusion and notes microfinance institutions are often able to extend into areas too remote for formal financial institutions and government agencies. The policy identified six ‘paths’ to expanding financial inclusion: Agent banking, mobile phone banking, diversifying financial service providers, reforming public banks, building financial identities and consumer protection. The paths are derived from work undertaken by the Alliance for Financial Inclusion[[11]](#footnote-11).

1. **Membership of the ‘Better than Cash Alliance’**

GoPNG has recognised payment modalities, in particular G2P payment modalities used by government, can play a significant role in increasing levels of financial inclusion. One of the most common emerging-market inefficiencies is the use of cash for payments, in particular the use of cash for small-value payments[[12]](#footnote-12). Poor financial infrastructure[[13]](#footnote-13) imposes a significant constraint on financial institutions and can constrain efforts to expand financial inclusion (World Bank, 2010). In order to facilitate the promotion of non-cash based payment modalities in PNG; GoPNG has joined the ‘Better than Cash Alliance’[[14]](#footnote-14). The objective of the Alliance is to accelerate migration from cash to electronic payments in order to improve the livelihoods of low-income people by advancing financial inclusion.

In a wider context, the Pacific Financial Inclusion Programme (PFIP) is advocating for financial inclusion to be integrated into GoPNG projects and budgets at a national and provincial level[[15]](#footnote-15).

1. **APEC Commitment to increasing financial inclusion and financial literacy**

GoPNG is a member of APEC. APEC has for several years committed to increasing levels of financial inclusion and financial literacy in member countries. In 2015, APEC Finance Ministers stated: “a well organised expansion of financial inclusion and literacy is crucial to poverty alleviation and greater economic opportunities with APEC”[[16]](#footnote-16). Finance Ministers re-iterated their commitment to further enhancing financial inclusion in building inclusive economies.

## Bank of Papua New Guinea Initiatives

The Bank of Papua New Guinea (BPNG) has taken the leading role in increasing financial inclusion and financial literacy in PNG. Financial inclusion is one of BPNG’s two strategic goals (BPNG, 2011). BPNG has initiated and supported a broad range of initiatives to enhance financial inclusion in PNG. These include committing to Pacific-wide financial inclusion goals, participation in global alliances to increase financial inclusion, development and publication of a strategy to increase financial inclusion in PNG, public awareness raising activities (for example the Financial Inclusion Expos – refer below), sponsorship and ongoing support for organisations dedicated to increasing financial inclusion and the expansion of microfinance in PNG, and improved retail financial services data collection.

1. **Money Pacific Goals**

PNG committed to the achievement of the ‘Money Pacific Goals’ for financial inclusion and financial literacy, at the 2009 Finance and Economic Forum Meeting of Pacific island nations. The following are to be achieved by 2020:

1. All children to receive financial education through core curricula
2. All adults to have access to financial education
3. Implementation of simple and transparent consumer protection
4. Double the number of Papua New Guineans who have access to basic financial services

The Money Pacific goals are government-wide. Implementation of the first goal – increased financial education for children - is the responsibility of the Department for Education. Implementation of the second goal has been undertaken primarily by non-profit organisations (in particular churches) and commercial banks with support from BPNG. BPNG has also been responsible for strengthening retail financial services consumer protection[[17]](#footnote-17) and implementing strategy and programmes to expand financial inclusion. Through the National Financial Inclusion and Financial Literacy Strategy (refer below), BPNG has established a goal of increasing the number of Papua New Guineans who have a bank account by one million: an approximate 150% increase in the number of people who have access to formal financial services.

1. **Membership of AFI and Commitment to the Maya Declaration**

*Maya Declaration*

BPNG is a member of the Alliance for Financial Inclusion (AFI). As a member of AFI, BPNG signed the Maya Declaration in 2013[[18]](#footnote-18). BPNG, committed to the following financial inclusion and financial literacy goals (AFI., 2013):

1. To reach 1 million more unbanked low-income people in Papua New Guinea, 50% of whom will be women
2. To lead efforts to create a financially competent generation of Papua New Guineans through financial education and financial literacy
3. To actively support innovative use of technology for scaling-up access to financial services and financial literacy
4. To strengthen consumer protection by issuing prudential guidelines and creating a platform for various national regulators and industry networks to monitor consumer protection
5. To begin the process of integrating financial inclusion in local and national government, including getting the National Executive Council to endorse the National Financial Inclusion and Financial Literacy Strategy by quarter 4 of 2013
6. To promote regular collection and use of financial access data to inform policy making and help identify key dimensions of financial inclusion in Papua New Guinea
7. To optimize these results through knowledge sharing and effective coordination of stakeholders, including development partners, by the newly established Centre of Excellence for Financial Inclusion chaired by the Bank of Papua New Guinea.

The commitments made by BPNG both deepen and extend the commitments made in respect to the Money Pacific Goals.

*Pacific Islands Regional Initiative[[19]](#footnote-19)*

BPNG is a member of the AFI Pacific Islands Regional Initiative (AFI-PIRI) which seeks to ‘create conditions that lead to the empowerment of Pacific Islanders in the short to medium term’. AFI-PIRI has the following objectives[[20]](#footnote-20):

* Remove policy barriers to improve access to financial services

**AFI-PIRI** was created in 2014 and builds on the earlier AFI Pacific Islands Financial Inclusion Working Group established in 2009 by the central banks of Fiji, Samoa, Solomon Islands, Vanuatu, Papua New Guinea and Timor Leste. The National Reserve Bank of Tonga subsequently joined in 2012.

* Utilise technology for financial service provision
* Empower and protect (*financial services consumers*) through financial literacy and education
* Collaborate with stakeholders to advance financial inclusion in the region
* Utilise data for smart policymaking and monitoring.

1. **Microfinance Expansion Project**

In order to support the development of microfinance in PNG, BPNG has supported, in conjunction with ADB and DFAT (AusAid), the establishment and management of the Microfinance Expansion Project (MEP).

The MEP is seeking to both strengthen the supply of microfinance services and increase the demand for microfinance services[[21]](#footnote-21).

In order to strengthen the supply of microfinance services, MEP is supporting capacity building training for microfinance staff (across all staff levels). To date nearly 400 people have participated in training programmes. In addition MEP is providing market research training and business mentoring for microfinance organisations. MEP is introducing industry standards covering: operational ratios, client protection, transparency and credit assessment through the use of the credit bureau, and through the introduction of a risk-sharing facility for microfinance institutions. The facility has yet to commence and will pilot for 3-4 years. MEP is also assisting BPNG to develop capacity to supervise small institutions.

MEP is seeking to increase demand for financial services by providing financial education for both consumer and business customers. MEP estimates 30,000 people have participated in the training programme to date. The target is 100,000 people. MEP estimates 25% of participants in the training programme have opened microfinance account post-training. This suggests the initiative will result in an additional 25,000 customers for microfinance institutions (and potentially other institutions). The objective of the business training is to ‘upgrade micro-small business to the next level’[[22]](#footnote-22). Business training has yet to commence.

1. **Development of the Financial Inclusion Strategy 2014-2015**

In 2013 BPNG brought together a broad cross-section of stakeholders for the National Strategy Workshop for Financial Inclusion and Financial Literacy. The workshop sought to identify the regulatory and market conditions necessary to encourage innovation and scale in financial inclusion and financial literacy[[23]](#footnote-23).

The workshop provided a key input to the development of the National Financial Inclusion and Financial Literacy Strategy 2014-2015. The strategy has been developed to serve as PNG’s guide to the achievement of greater access to financial services, while also improving the financial capability of PNG’s citizens.

The current national development policy framework for the Strategy is the Financial Inclusion Policy contained in National Informal Economy Policy 2011-2015. The objective of the Strategy is to implement PNG’s seven commitments in the Maya Declaration on Financial Inclusion. (BPNG & PNG Treasury, 2015). The strategy comprises thirty-two action items, grouped under the seven Maya Declaration Commitments (Refer Appendix Two for the National Financial Inclusion and Financial Literacy Strategy 2014-2015 Strategies and Action Items).

The dominant themes in the action items are the establishment of stakeholder working groups to coordinate activity in respect to each of the key strategic objectives, implementation of data collection to measure progress, review of relevant regulations, standards and guidelines and the commencement of interventions (for example SME and Micro Enterprise Risk Share Facility, technical assistance to scale mobile/ branchless banking, micro-insurance.

Implementation of most of the action items have been commenced, several items (for example the working groups) are now operational. The implementation of the financial inclusion strategy is coordinated by the office of the Assistant Governor Financial System.

1. **Establishment of the Centre of Excellence in Financial Inclusion**

BPNG has sponsored and led the establishment of the Centre for Excellence in Financial Inclusion (CEFI). CEFI was established following a series of workshops in several locations across PNG and is an output from the MEP to establish inclusive financial industry standards. CEFI is a registered Association (the Board is chaired by the BPNG Governor), with BPNG and the Department of National Planning and Monitoring the founding members.

The primary objective of CEFI is to coordinate all financial inclusion initiatives in PNG. It is intended CEFI has the primary role in coordinating and monitoring the implementation of the National Financial Inclusion and Financial Literacy Strategy. BPNG Governor Loi Bakani has stated CEFI is ‘a national entity designed to coordinate the financial inclusion initiatives in Papua New Guinea. It envisages creation of a robust financial sector which will reach people across the country and enhance access to high-quality financial products and services with the combined efforts of all stakeholders.’ (CEFI, 2015).

CEFI’s overarching objectives are to:

* Promote PNG's financial inclusion agenda;
* Facilitate improvement of financial service delivery;
* Establish mechanisms for enhanced information exchange;
* Promote Gender Equity in financial services and financial education.

CEFI is the National Executive Council approved financial inclusion industry peak body, mandated to coordinate, advocate and monitor financial inclusion activities in PNG. (NEC Decision No 226/2013). NEC endorsement of CEFI is summarised below:

* CEFI was approved as the apex organization and coordinating entity for all financial inclusion activities in PNG;
* CEFI was approved as the coordinating entity for the implementation of PNG’s National Financial Inclusion & Financial Literacy Strategy 2014-2015;
* Line ministries of PNG’s National Government were directed to coordinate any financial inclusion activities with CEFI;
* PNG’s Ministry of Education was directed to include financial education subjects in primary and secondary education curriculum;
* It was approved that Provincial Governments should promote CEFI and provide support to CEFI by implementing government projects through CEFI’s planned regional offices.

Six industry working groups have been formed to implement the National Financial Inclusion and Financial Literacy Strategy. The working groups are structured on the themes of government coordination, consumer protection, financial literacy and financial education, inclusive insurance, data measurement and monitoring, and electronic/branchless banking. Implementation of the Strategy is coordinated by CEFI, in close consultation with BPNG and the working groups.

CEFI also collaborates with the CIMC Financial Inclusion Sub-Committee, the Microfinance Expansion Projection, the Pacific Financial Inclusion Project, IFC, AusAid, ADB and other stakeholders that are working to achieve financial inclusion in PNG.

In early 2014, the Board recruited and selected its first Executive Director, Mr. Cristian Shoemaker. CEFI’s Executive Director is supported by an Administration Manager, Mr. Tony Torea. CEFI does not appear to be currently adequately funded and resourced to be able to monitor and coordinate all financial inclusion initiative in PNG. CEFI is the appropriate locus for financial inclusion research. However there is currently inadequate resource and funding to be able to develop a research programme and commission research.

1. **Financial Inclusion Expo’s**

BPNG has held three financial inclusion expos: 2013, 2013 and 2014. The objective of the expos is to bring stakeholders together to promote financial inclusion and financial services, and to increase awareness of financial products and services and delivery channels. Participation in the 2012 and 2013 expos is summarised in Table 2.

Table : Financial Inclusion Expos

|  |  |  |
| --- | --- | --- |
|  | 2012 | 2013 |
| Lae | Port Moresby |
| Number of participating institutions | 32 | 30 |
| Total number of people attending | 8,000 | 15,700 |
| Attendance at financial literacy training | 700 | 300 |
| New accounts opened | 445 | 542 |
| Mobile banking subscription | 279 | 167 |

1. **Financial Inclusion Data Collection**

BPNG has committed to increasing financial inclusion data collection in order to measure progress with the expansion of financial inclusion. BPNG (with the support of PFIP[[24]](#footnote-24)) is currently strengthening supply-side data collection. BPNG has adopted the following sets of indicators:

*G20 Indicators*

The principal set of indicators for which data is being collected is the G20 Financial Inclusion Indicators. The indicators span:

* Accounts held for personal (including gender) and SME customers (including gender)
* Overall transaction activity
* Payments, savings and credit activity
* Physical access point density and activity
* Mobile/ electronic access point density and activity
* Interoperability
* Financial literacy

Refer Appendix One for G20 Indicators.

*AFI Indicators*

AFI has developed a set of basic indicators of financial inclusion. In 2013, led by the Central Bank of Samoa (CBS) and the Reserve Bank of Fiji (RBF), AFI-PIRI developed the ‘Core-Plus Set’ of financial inclusion measures to enable consistent measurement of financial inclusion by Pacific Island countries. The AFI ‘Core Plus’ indicators extend the G20 indicators to include;

* Access barriers
* Governance (including credit bureaus)
* Regulatory environment

Refer Appendix One for the AFI and AFI – Core Plus indicators.

*Microscope*

CEFI[[25]](#footnote-25) has suggested that annual assessment be conducted with respect to the enabling environment for financial inclusion and has Economic Intelligence Unit (EIU) Microscope may provide an appropriate set of indicators. The scope of the Microscope indicators includes:

* Government support for financial inclusion
* Regulatory and supervisory capacity
* Prudential regulation
* Regulation and supervision of credit (including reporting systems) and deposit-taking (and insurance)
* Regulation and supervision of distribution networks
* Requirements for non-regulated lenders
* Regulation of payments
* Market conduct rules
* Grievance and dispute resolution processes

Refer Appendix One for the CFI Microscope Indicators.

# Supply of Retail Financial Services

## Formal Financial Sector

BPNG supervises a broad spectrum of organisations that provide retail financial products and services in Papua New Guinea.

It is difficult to estimate the number of customers who have accounts at multiple financial institutions. Whilst overall multiple account holding is likely to be low and concentrated in larger retail customers, it is possible a significant number of Savings and Loan customers may also hold accounts at commercial banks and may have finance loans from finance companies.

1. **Commercial Banks**

There are four commercial banks in Papua New Guinea. Three of the four commercial banks provide retail services. The distribution networks and service offerings are summarised in Table 4.

Table : Commercial Bank Retail Banking Services

|  |  |  |  |
| --- | --- | --- | --- |
|  | **ANZ Bank** | **Bank South Pacific (BSP)** | **Westpac Bank** |
| **Network** | **12 branches and 42 ATM’s**[[26]](#footnote-26) | 39 branches and 301 ATM’s[[27]](#footnote-27) | 17 branches and 37 ATMs[[28]](#footnote-28). |
| **Agents** | **72 GoMoney merchants** | **242 agents across PNG**[[29]](#footnote-29) | 100 in-store merchants |
| **Mobile banking** | Yes | Yes | Yes |
| **Rural banking** | Primarily metropolitan | BSP Rural established to provide basic banking services to the unbanked rural population. Currently 41 dedicated BSP Rural locations[[30]](#footnote-30). BSP Rural can open accounts and provide Debit Cards in the field. Longer term profitability of the rural banking service is not certain. The previous BSP CEO (Ian Clyne) noted: ‘Rural branches will unlikely ever be profitable in PNG. It is a social service BSP is providing as part of our ‘Financial Inclusion’ initiatives’[[31]](#footnote-31) | Strategy is to focus on locations within two hours of an urban area[[32]](#footnote-32) |
| **Basic bank account** | **ANZ Go Money: an electronic only mobile banking service. Go Money customers can transact using the mobile phone but cannot access ATM’s or branches. ANZ is focussing on larger merchants (for example supermarkets) rather than trade stores which, in ANZ’s experience do not have adequate liquidity. GoMoney has transaction and savings capability. There is no credit capability**[[33]](#footnote-33)**.** | Kundu Account. Account has transaction and savings capability, but not credit capability. | Choice Basic Account. Account has transaction and savings capability, but not credit capability |
| **Financial literacy** | **Yes** | **Yes** | **Yes** |

The three commercial banks with retail arms operating in PNG, have demonstrated a commitment to extending deposit and transaction based financial services to lower income customers, only one bank (BSP) has developed a branch and agent network of sufficient reach to achieve broad based geographic penetration. Each of the commercial banks is engaged in savings mobilisation. However, no commercial bank has developed a basic credit product targeted to financially excluded individuals, households and informal sector participants. Whilst the commercial banks have played, and continue to play, a key role in increasing financial inclusion in PNG, this role may be principally through the development of financial infrastructure developed to support, in the first instance, commercial and middle/upper market retail customers. Financial inclusion, as a core component of retail banking strategy, does not appear to be a primary activity for any commercial bank in PNG.

A key challenge for expanding financial inclusion is to determine how to leverage commercial bank capability to support the expansion of financial inclusion in a way that does not compromise commercial bank viability (One approach, adopted for example in India, is to insist commercial banks wanting to expand infrastructure in an urban location (for example ATMs), must accept social responsibility and deploy comparable/ related infrastructure in a rural location). Relative to other regulated financial institutions in PNG, commercial banks have significant capacity which spans all aspects of financial services operations and management: spanning governance, operational management, balance sheet and risk management, financial products and services and financial infrastructure. Leveraging this capacity will be key to reducing financial exclusion (spanning payments, savings and credit) in PNG.

1. **Savings and Loans Societies**

Savings and Loan Societies (credit unions) are the earliest established retail financial institutions in PNG and have been active in PNG since 1962[[34]](#footnote-34). S&Ls are mutual societies which, under current legislation must be established by people ‘sharing a common bond of membership’ (for example common location or industry).

The World Council of Credit Unions has identified four key challenges facing credit unions:

1. Increased regulatory burden
2. Difficulty in participating in payments innovation
3. Aging membership bases due to a lack of young adult membership growth
4. Unsustainability of small credit unions

The objectives of S&Ls are to:

1. Receive savings
2. Make loans to their members (total loans not to exceed 60% of deposits)
3. Promote thrift amongst their members
4. Educate their members in financial responsibility[[35]](#footnote-35).

The issues faced by credit unions globally are also faced by S&Ls in PNG[[36]](#footnote-36). There has been a steady reduction in the share of retail financial services in held by S&Ls[[37]](#footnote-37). Concurrent with this the number of S&Ls has been steadily reducing. In the 1970’s there were over 120 S&Ls in PNG. There are currently 21 S&Ls, with several S&Ls experiencing ongoing issues with the viability[[38]](#footnote-38).

BPNG is seeking to strengthen and support S&Ls to ensure longer term (Bakani, 2014). BPNG has reviewed the Savings & Loans Society Act. Draft legislation has been submitted to Parliament.

The current Act is considered to be a constraint to the operation and growth of S&Ls[[39]](#footnote-39). The new Act will separate the registration and supervision of S&Ls. Registration will be the responsibility of the Investment Promotion Authority. BPNG will continue to be responsible for supervision. The new Act will allow for the merger of S&Ls. S&Ls will be able to borrow (this is currently not permitted). The legislation will also establish a minimum initial capital requirement of PGK 100,000[[40]](#footnote-40). S&Ls will be able to access the payments system and will therefore be able to offer debit and credit cards to members. S&L membership will also be broadened, the current ‘common bond’ requirement will be abolished and membership will be opened to anyone.

Globally the credit union movement is facing significant challenges to sustainability. This situation is also evident in PNG. The proposed changes to legislation appear to be designed to stabilise the current situation and to enable a smaller number of stronger sustainable S&Ls to develop. The issues facing S&Ls in PNG indicate it is unlikely they will, at least in the short-medium term, be able to play a significant role in expanding financial inclusion across PNG.

1. **Microfinance**

Regulated microfinance is still developing PNG having, effectively, commenced in 2004with the establishment of Wau Microbank (the antecedent of Nationwide Microbank)[[41]](#footnote-41). There are currently five regulated microfinance institutions in PNG. One microfinance institution, MiBank (Nationwide Microbank) has nationwide representation. PNG Microfinance has also developed broad distribution across a number of Provinces. Whilst the development of national representation is a significant achievement, MiBank currently has only 12 branches. Microfinance banks (micro banks) are licensed under the Banking and Financial Institutions Act. The minimum capital requirement for regulated microfinance institutions is PGK1.5m.

Microfinance has been one of the global success stories in expanding financial inclusion in a range of developing countries, in particular in Africa and the Sub-Continent. Microfinance has not experienced comparable success in Pacific island countries, including PNG.

The development of microfinance capacity is expensive and time-consuming. There is no donor funded trust fund to support the development of microfinance lending in PNG. BPNG has noted that the regulation and supervision of microfinance has taken a disproportionate amount of supervision resources. The time and resources spent on the supervision of microfinance is similar to the time and resources spent on banks and other licensed financial institutions (BPNG & PNG Treasury, 2015). From a microfinance provider perspective, PNG Microfinance has noted that the lack of a core banking system, high transaction costs, difficulties in moving cash – in particular in rural locations, and an attrition rate of 30% for trained staff contribute to ongoing operational issues[[42]](#footnote-42).

The resources required to supervise a small number of relatively small microfinance institutions is an indication of the significant capacity limitations currently faced by microfinance institutions in PNG.

As shown in Figure 2, Microfinance outreach is highly concentrated in a small number of Provinces.

Figure : Microfinance Outreach

Source: BPNG (2015)

It is likely, as the microfinance industry matures and develops, that microfinance will have an increasingly important role in expanding financial inclusion in PNG. Given the lack of financial services capacity in many Highlands locations, microfinance may be one of the few options available to develop local financial capability in remote locations[[43]](#footnote-43). However, the development of microfinance in PNG is a long term initiative. It is unlikely micro-finance can significantly reduce levels of financial exclusion in the short term.

1. **Finance companies**

There are currently 8 regulated finance companies in PNG. The number and scale of finance companies in PNG is increasing as the formal economy expands. Commercial asset financing experienced significant growth during the construction of the LNG pipeline. However with the completion of the LLG pipeline asset financing has slowed and debt recovery action, repossessions and levels of loan delinquency have increased[[44]](#footnote-44)

Finance companies provide asset-based finance to individuals and businesses. Several finance companies in PNG also provide specific-purpose non-chattel based personal loans (for example loans for school fees) and (apparently) potentially expanding to compete with microfinance institutions to provide finance to SMEs[[45]](#footnote-45). Opportunities to expand finance company lending into the personal and SME sectors are likely to be constrained by difficulties in securing charges over movable assets (for example plant and equipment, stock, crops). The Personal Property Security Act was passed into law December 2011. However, the Act will only become effective following the implementation of the Personal Property Securities Online Registry which will reduce transaction costs, increase transparency of security interests and increase creditor’s capacity to enforce rights in the event of default (ADB, 2015). Implementation of the registry is scheduled for 2015.

It is considered unlikely finance companies can play a significant role in increasing finance inclusion in PNG in the short term. Whilst finance companies play a role in enabling individuals and businesses to establish a credit history, individuals borrowing through finance companies typically require steady cash-flow, usually from stable employment.

1. **Money Remittance and Money Changers**

There are 7 licensed money changers in PNG (BPNG & PNG Treasury, 2015). The largest provider of domestic remittance services is Post PNG which has 40 postal outlets across PNG and handles 400-500,000 SMK remittance transactions per annum[[46]](#footnote-46). Post PNG estimates only 40% of the population of PNG can currently access the postal service. Post PNG would like to expand the range of services provided through postal outlets to include a broad range of financial services (including banking services). However, Post PNG has no experience with the provision of financial services or current capacity to provide financial services, other than remittance services. Post PNG management acknowledge the development of financial services capability would be a major undertaking. The principal reason for wanting to expand the range of financial services is to compensate for falling postal volumes.

1. **Credit Bureau**

PNG has had a credit bureau since 2008[[47]](#footnote-47). Ratings held by the bureau are primarily commercial. The bureau has records for 160,000 Papua New Guineans (Anderson, et al., 2013)

## Physical Access Points

PNG continues to have one of the lowest levels of physical access point density globally. The inability of many Papua New Guineans to access a financial services outlet is almost certainly one of the principal constraints to expanding financial inclusion. Even in an environment in which an increasing number of transactions are electronic, or are undertaken online or by mobile phone, access to a financial services outlet is required for many financial services functions, for example the withdraw or deposit cash, opening a bank account, applying for credit, seeking advice usually require the customer (or potential customer) to be able to access a branch, agent or ATM.

1. **Branch density**

Globally financial services branch density continues to increase, having risen from 9.14 branches per 100,000 adults in 2004 to 12.16 in 2013[[48]](#footnote-48)

There are, however, wide variations in branch density. For example, the average number of branches per 100,000 adults in Australia and New Zealand is 30.8 (2004 = 32.8). The average branch density in Pacific island countries (excluding PNG) is 18.9 branches per 100,000 adults (2004 = 15.7). The average branch density in lower-middle income countries is 7.8 per 100,000 adults (2004 = 5.06)[[49]](#footnote-49).

By contrast, as shown in Figure 3, the average branch density in PNG is 1.9 branches per 100,000 adults. Importantly branch density has remained constant between 2004 and 2013, whilst over the same period the average number of branches in other Pacific island countries grew by 20% and globally by 33%.

Figure : Branch Density per 100,000 Adults

Source: World Bank

Whilst national branch density has been stable over the past decade, it appears the distribution of branches may have progressively shifted, with an overall reduction in points of access in rural areas and an increasing concentration of outlets in urban areas: ‘…licensed banks and savings and loan societies have been reducing their coverage in regional and rural areas over a period of decades.’ (Conroy, 2000). It is considered likely the reduction in access to branches in rural areas will have exacerbated issues in respect to financial exclusion.

It appears the development of branch networks in PNG has lagged most other counties in the world. Of the 164 countries for which data is available for 2004, PNG ranked 138th. By contrast, of the 179 countries for which data is available for 2014, PNG ranked 169th.

1. **Agent Density**

Agents have long been used to provide physical access points by financial services providers in locations in which it is not economic to open a branch. In an increasing number of developing countries, agents are the front line of a branchless banking service. There are currently over 140 branchless banking operations are operational worldwide; nearly all rely on agents as the main way to sign up and service customers.

There are no published figures for agent density globally. As an example of emergent agent density however, [Bradesco](http://www.bradesco.com.br/) (a Brazilian bank) operates an agent network with 24,500 locations nationwide (16.4 per 100,000 adults). In Kenya, a network of almost 70,000 agents[[50]](#footnote-50) services ten banks in addition to Safaricom M-PESA (268 per 100,000 adults). Tanzania has nearly 17,000 mobile money agents[[51]](#footnote-51) (57 per 100,000 adults). There are currently 26,000 agents (across multiple financial services providers) in Peru[[52]](#footnote-52) (118 per 100,000 adults) .

It is likely agent networks will be a key means of increasing the density of physical access points in PNG, in particular in rural areas. High capital and operating costs in rural locations, and topological constraints indicate it is unlikely financial services providers will be willing to commit to increasing branch density to comparable levels for other lower-middle income countries, or other Pacific island countries. A combination of branch based and branchless solutions will be required.

The development of agent networks is in its infancy in PNG and density is low. There are currently approximately 771 agents in PNG (Anderson, et al., 2013) providing services on behalf of regulated financial institutions. Agent density is modest (16.5 per 100,000 adults)[[53]](#footnote-53).

If branches and agents are taken together, access points are disproportionally distributed (Anderson, et al., 2013). In the Southern and Islands regions, each branch/ agent serves an average of 3004-3,350 adults. However in the Highlands region (42% of the population) each branch/agent serves 8,427 adults. In several Provinces (Hela, Enga, Northern, Gulf, Jiwaka, Autonomous Region of Bougainville) there are fewer than 20 branches/ agents providing financial services to the entire Province.

BPNG (Anderson, et al., 2013) identified three challenges to agent recruitment:

* Liquidity: Issues can arise because agents do not have adequate cash on-hand or in a nominated e-money account to facilitate transactions, due either to low turnover or security concerns
* Cost of devices: The cost of devices required to perform agent banking transactions can be too expensive for smaller store owners
* Lack of trust in staff: Issues can arise when store owners do not trust staff to undertake agent banking transactions. Within this context, the risk of staff fraud can be an issue

Of the issues identified above, security issues appear to be common constraint to the expansion of both branch and agents networks.

1. **ATM Density**

As card based savings and transaction products have largely replaced passbook based products, ATM density has become an important indicator of access to financial services. Globally, ATM density has been grown significantly over the past ten years. Global average ATM density (2013) has now reached 34 ATMs per 100,000 adults[[54]](#footnote-54). The compound annual growth rate over the past ten years has been 6.4%

ATM density has been growing at a considerably faster rate in lower-middle income countries. ATM density (2013) has now reached 16.4 ATMs per 100,000 adults. The compound annual growth rate over the period 2004 – 2013 has been 19.8%.

Similarly, ATM density has been growing quickly in Pacific island countries, having grown from 7.4 ATM’s per 100,000 adults in 2004 to 22.0 ATMs per 100,000 adults in 2013. This represents a compound annual growth rate of 11.6%

The increase in ATM density in PNG has been slower than that of other Pacific island countries and considerably slower than for lower-middle income countries (refer Figure 4). There are 398 ATMs deployed in PNG (BPNG, 2015). The compound annual growth rate is 8.0%.ATM density in PNG is 8.4 ATMs per 100,000 adults (2013). In 2006 (the first year for which data is available) the density was 3.8 ATMs per 100,000 adults. Of the 180 countries for which data is available for 2004, PNG ranked 135th. By contrast, of the 200 countries for which data is available for 2014, PNG ranked 156th. ATM deployment is concentrated in urban locations

Figure : ATM Density per 100,000 Adults

Source: World Bank

1. **EFTPOS Density**

Globally there continues to be strong growth in the number EFTPOS terminals[[55]](#footnote-55). In developed countries EFTPOS terminals tend to be used primarily for purchases (and for ‘cash back’). In developing countries EFTOS terminals are used for purchases, for the provision of ‘cash-back’ and also as the basis for agent banking.

There are currently 61 million terminals in 40 million outlets globally. This indicates an average of 1,150 terminals per 100,000 adults. The distribution of EFTPOS terminals varies significantly across regions. North America and Western Europe, not surprisingly, continue to be the regions with the highest density of terminals, at 6,000 and 2,900 per 100,000 people respectively

There is no publically available country level data to enable a comparison of the density of EFTPOS terminals in PNG against other countries.

There are approximately 13,500 EFTPOS terminals deployed in PNG (BPNG, 2015).

## Electronic Access Points

There are currently five branchless banking service providers (Anderson, et al., 2013):

* Digicel – Cellmoni
* Nationwide Microfinance (MIBank) – MiCash
* BSP – Kundu Cards and Wantok Moni
* ANZ – GoMoney
* Post PNG – Mobile SMK (not licensed by BPNG)

1. **Mobile Phone Banking**

The expansion of banking services using a mobile phone platform (in conjunction with EFTPOS and agent services) appears to have significant potential to increase financial inclusion in PNG.

**M-PESA:** Only 19% of the adult population in Kenya has access to a formal bank account, and banking services in Kenya are largely restricted to urban populations. Safaricom, the Kenyan telecoms provider and mobile banking pioneer, has 19m subscribers, 15m of whom use M-PESA (the mobile banking service) for a broad range of financial transactions - from paying electricity bills to school fees. Safaricom earns revenue through transaction fees when customers withdraw or transfer cash at a network of more than 40,000 M-PESA agents throughout the country. Safaricom added a bank account to M-PESA (the M-Shwari operated jointly with Commercial Bank of Africa). The account requires no minimum balance and offers a small overdraft (by application). In the first four months of operation 2.3m subscribers opened an account, 900,000 of which are active accounts. Safaricom and Barclays Bank of Kenya entered into a partnership that allows Barclays account holders to deposit and withdraw to and from their M-Pesa accounts. The M-Pesa agents who bank with Barclays Bank will also be able to purchase an e-float for their daily operations. There are now eight banks partnering with Safaricom to offer mobile phone banking services.

The combination of high mobile phone penetration, comprehensive mobile phone banking capability based on partnerships with financial institutions, and an extensive agent network appear to be key drivers of the success of mobile phone banking in Africa[[56]](#footnote-56). The conditions which have led to the rapid development of mobile phone/ agent banking in sub-Saharan Africa are also present in PNG.

BPNG has responded positively to the mobile banking opportunity.Mobile Network Operators have been given exemptions under Section 8 of the Banks and Financial Institutions Act 2000 to conduct mobile phone banking in the absence of a regulation on Mobile Phone Banking. The intent was to enable licensing under Section 10 of the BFIA once the regulation that was drafted is passed by Parliament. At the moment there is one mobile network operator (BPNG & PNG Treasury, 2015).

At present mobile banking penetration levels are low[[57]](#footnote-57). The 2009-2010 HIES found that, overall, 49.1% of households in PNG owned a mobile phone. A slightly lower percentage of households in rural communities reported owning a mobile phone (42.5%). By contrast 89.2% of households in urban communities reported owning a mobile phone. Data from the financial capability study in Morobe and Madang found that, overall, mobile phone ownership is similar to ownership in PNG generally. Eighty-nine percent (89%) of urban households reported owning a mobile phone. However, as shown in Table 4, mobile phone ownership and the ability to use mobile phone functionality reduces significantly in rural locations[[58]](#footnote-58). Mobile phone ownership in rural locations in Morobe and Madang 35.1%. However, women appear to be less likely to own a mobile phone than men, irrespective of location.

Table : Mobile Phone Ownership and Usage Morobe and Madang

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Urban | | Township | | Rural |  |
| Male | Female | Male | Female | Male | Female |
| Own/ access a Mobile Phone | 94.40% | 83.60% | 96.60% | 76.10% | 48.40% | 21.80% |
| Make calls and texts | 85.90% | 87.90% | 80.50% | 36.10% | 61.20% | 44.90% |
| Capacity for mobile phone banking | 81.20% | 73.50% | 77.8% | 27.5% | 29.60% | 9.80% |

Lower levels of mobile phone ownership may influence lower levels of electronic and phone banking usage by women. ANZ Bank and MiBank, for example, report approximately 66% of electronic/ mobile users nationally are male.

A recent study by the University of Queensland and the International Mining for Development Centre (Grice, 2015) which examined financial inclusion, mobile money and the resources sector in PNG found universal agreement by study participants that there is potential for mobile money to improve the distribution of benefits from resources projects and suggests structured financial inclusion programmes for each of PNG’s major resource projects would strengthen the ability of resource projects to support development and commercial outcomes.

1. **E- Money**

The use of computer networks and/or digital stored value systems to store and transmit money is increasingly used in PNG and will continue to increase as commercial banks encourage cashless banking and more and more of the population are educated on the convenience and ease of using e-money (BPNG & PNG Treasury, 2015). Given the current situation in respect to the development and usage of e-money in PNG, it is unlikely e-money can play a significant role in reducing financial exclusion in the short-medium term.

## Cost of Financial Services

Anecdotally the cost of financial services is frequently cited as one of the principal reasons many poor and low income households do not own a bank account, even if financial services are available in the location. It is not uncommon, for example, when conducting focus groups, to be advised that a member of the focus group either has opened a bank account, or knows someone who has opened a bank account and deposited a sum of money, and then checked the balance sometime later to find the account had been closed as fees had extinguished the balance. The veracity of these statements has never been tested.

The poverty line in PNG varies between NCD (Port Moresby) and the rest of PNG. The poverty line in NCD is estimated to be apx. PGK3500pa. The poverty line for the rest of PNG is estimated to be apx. PGK1700pa (World Bank, 2012).

Typical financial account transaction patterns for poor households in PNG are not known. In an effort to gain an understanding of the likelihood of account affordability, two transaction scenarios were modelled against the poverty line. It was assumed a household living on the poverty line has a basic bank account and undertakes the following transactions (two scenarios have been modelled)[[59]](#footnote-59):

|  |  |  |
| --- | --- | --- |
|  | Scenario 1 | Scenario 2 |
| Teller Deposit | 1 per week | 1 per fortnight |
| ATM withdrawal | 2 per week | 1 per week |
| Bill payment (electronic or mobile) | 3 per month | NA |

Scenario 1: Regular receipt of funds, savings and payments

Scenario 2: Savings only

The annual cost of financial services (the sum of account keeping and transaction fees) was modelled for the highest cost basic bank account and lowest cost basic bank account[[60]](#footnote-60) currently available in PNG. Annual account costs are shown in Table 11.

Table : Estimate of Bank Account Costs as % Income for a Household on the Poverty Line

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Scenario 1 | | Scenario 2 | |
| Low | High | Low | High |
| Account cost $PGK | Per year | $288 | $688 | $117 | $374 |
| Per week | $ 6 | $ 13 | $ 2 | $ 7 |
| Account cost as % of Hhold income at the poverty line | NCD | 8% | 20% | 3% | 11% |
| Rest of PNG | 17% | 40% | 7% | 22% |

Account keeping costs could range between 3% and 22% of poverty line household income if an account is used for savings only and 8% and 40% of poverty line household income if an account is used for regular receipt of funds, savings and bill payments. As a comparison a packet of cigarettes (Marlboro) is reported as $18.00[[61]](#footnote-61).

The model suggests is it likely a significant number of poor households would be able to afford a basic bank account for savings – assuming the household has access to the lowest cost service provider.

**It is important to note that the actual cost of accessing formal financial services by individuals and households in PNG is not currently known.** It is considered likely a large number of Papua New Guineans may be unable to afford formal financial services due a range of potential factors including high transport costs to access financial services access points, limited access to a low cost product range which restricts product options to high cost products (particularly in rural areas), and limited understanding of product usage costs resulting to high ongoing costs. There is a need to better understand the cost of financial services to households.

Even allowing for limitations in current knowledge, there may be a case for requiring all financial services providers to offer a standardised low-cost or no-cost basic account to ensure that, irrespective of location, individuals and households can open a low cost transaction/ savings account.

## Informal Financial Sector

There is limited information about informal financial services in PNG. The withdrawal of formal banking services from wide areas of the country suggests informal mechanisms must be operating to intermediate flows of financial resources in such areas. (Conroy, 2000, p. 230). Participants in the informal economy appear to be largely unbanked.

The structure and scale of the informal financial sector in PNG is not known. The ILO (2002) estimated that in developing countries employment in the non-agricultural sector to be between 48% and 72% globally[[62]](#footnote-62). Schneider (2002) in an assessment of the informal sector in 110 countries found the average size of the informal economy (as % GDP) to be 41% in developing countries. Lal and Raj (2006) estimated the informal economy in Fiji contributed 22.79% to GDP[[63]](#footnote-63). The 2009-2010 HIES estimated 23.2% of the PNG population is employed in the informal sector (cited in: (Anderson, et al., 2013)).

There have been no studies to develop an understating of informal financial intermediation in PNG – despite this being the only form of financial intermediation available to the majority of Papua New Guineans, in particular participants in the informal economy. Even in locations in which deposit and transaction services are available, many formal financial institutions do not provide credit services to lower income households, who must borrow from informal sources.

To date there has been no national study of financial behaviour in PNG. The financial capability study in Morobe and Madang found significant differences in the pattern of borrowing between urban and rural households. Urban households are significantly more likely to report use credit (with the exception of store credit), both formal and informal, than the reported use of credit by rural households. The use of store credit appears to be higher in rural areas. It is likely levels of store credit have been understated (possibly due to the common lack of understanding that deferred payment for goods is a form of credit). The 2013 financial competence study in Port Moresby settlements, Mekeo and Galley Reach found levels of reported store credit to be between 39% (urban) and 49% (rural). This is similar to levels of store credit reported in studies in other Pacific island countries (average: urban – 32.1%, rural – 35.6%).

Table : Reported Borrowing by Households Morobe and Madang

|  |  |  |
| --- | --- | --- |
|  | Urban | Rural |
| Commercial/Development Loan | 16.9% | 2.0% |
| Secured personal loan (formal) | 13.8% | 1.6% |
| Unsecured personal loan (formal) | 7.9% | 0.9% |
| Informal loan (money lender) [[64]](#footnote-64) | 11.4% | 4.6% |
| Store Credit | 10.2% | 17.1% |
| Loan from family/friends (must be repaid) | 15.5% | 9.0% |

Global evidence indicates adults in developing countries are likely to borrow from family and friends. Demirguc-Kunt and Klapper (2013), reviewing Global Findex data found borrowing from family and friends to be the most common source of finance for people in all countries other than high income countries. In low income countries 20 percent of adults reported borrowing from family and friends, as their only source of credit.

It would seem there has been little change in rural PNG households’ borrowing behaviour since the early 1990’s. Fernando, in a review of informal finance in PNG (Fernando, 1992)[[65]](#footnote-65), noted that in rural areas the major sources of credit appeared to be members of borrowers’ extended families and clans, and trade-store owners who extend credit for consumption purposes.

**Informal Financial Sector Participants**

*Money Lenders*

Recourse to money lenders for short-term borrowing appears to be common. As noted above, reported borrowing from money lenders appears to be higher in urban areas than rural areas. The term money lender tends to carry pejorative connotations. BPNG has noted ‘there are a large number of money lenders (loan sharks, credit institutions) that form part of the financial sector but are not properly regulated. Interest rates set by these credit institutions are very high. However, due to the absence of effective regulation including requirements for fitness and propriety etc., the industry has grown and is continuing to grow; borrowers are subject to usury rates of interest and intimidatory loan recovery processes and is giving competition to the authorised deposit-taking institutions’ (BPNG & PNG Treasury, 2015).

The characteristics of money lending in PNG are not, however, well understood. Information is anecdotal. It appears, at least in rural areas, money lending may be a means of augmenting household income as much as it is a source of funding. Within this context, it is not clear whether those who engage in informal money lending (‘selim moni’) are also using money lenders themselves, participating in informal ROSCA’s (‘Sunday-Sunday) and/ or participating in informal microfinance.

Money from family and friends and informal money lending are effectively the forms of credit available to informal business in PNG. Information on the use of informal credit by informal sector participants is limited and largely anecdotal. Nevertheless it appears that may not be uncommon for informal market vendors to borrow money in the morning, use this money to fund wholesale purchasers and to then repay the loan at the close of the market from proceeds earned during the day.

Money lending appears to be an important, accessible and reliable source of finance for low income households. The scope and structure of money lending in PNG needs to be better understood. The claim that informal money lending is loan-sharking needs to be tested by research. Until research is undertaken to establish the scope and scale of informal lending in PNG, the opportunity to convert informal lending to formal sector lending will not be understood.

*Store Credit*

Store credit is an important form of short term finance, in particular for rural households. The prevalence of store credit is not well understood. Anecdotal evidence indicates store credit is typically interest free and the duration is typically days or weeks. The characteristics of stores which provide store credit – or do not provide store credit - and importantly, the impact of store credit on the viability of trade-stores is not well understood. Research is required to better understand store credit and potential opportunities to formalise store credit.

*Informal Savings*

For many rural Papua New Guineans, informal savings is the only accessible form of safe custody. Anecdotal evidence suggests informal savings - ROSCA (‘Sunday-Sunday’) or informal microfinance, continues to be prevalent in PNG. Again, research is required to better understand opportunities for savings mobilisation in rural areas.

# Demand and Use of Retail Financial Services

## National Perspective

There is no national data on current levels of financial inclusion in PNG.Lack of market knowledge is likely to be a constraint to financial services institutions extending services to new and potentially challenging markets, in particular markets which are perceived to be likely to provide a lower return and to be more difficult to access, to have a greater risk of security issues and to be likely to be more expensive to service than current markets.

Globally, in 2014 22% of adults in developing economies reported having saved formally, at a bank or another type of financial institution. 29 percent of adults reported borrowing from family or friends. Only 9 percent reported borrowing from a financial institution. In several regions more people reported borrowing from a store than reported borrowing from a financial institution. Less than 5 percent of adults around the world reported borrowing from a private informal lender. (Demirguc-Kunt, Klapper, Singer, & Van Oudheusden, 2015).

The Asian Development Bank (ADB) estimated in 2008 that 15% of the PNG population had access to formal financial institutions (primarily a bank). The 2011 FSSA estimated that between 500,000 and 800,000 people were included in the formal financial system (IMF & World Bank, 2011)[[66]](#footnote-66). BPNG (Anderson, et al., 2013) estimated the number of account holders in regulated financial institutions to be 435,316. BPNG also estimated that 22% of the PGK900m ($417m) thought to be in rural circulation was held by commercial banks[[67]](#footnote-67).

It is estimated that, between 7% and 15%[[68]](#footnote-68) of adults have an account with a regulated financial institution. As noted in the 2011 FSSA, there is likely to be overlap in bank account and, in particular bank and S&L account ownership. There is no data on multiple account ownership. The estimate of the number of people who currently have an account was been developed using the following assumptions: 2-5% of bank account customers will have accounts at multiple banks and 50-80% of S&L customers will also have an account with a bank.

BPNG (Anderson, et al., 2013), using HIES data, estimates approximately 7% of the adult population in PNG has at least one loan with a regulated financial institution.

As there have been no nationally representative studies of the use of financial services in PNG, it is, therefore not possible to discuss with a high degree of accuracy the unmet demand for retail financial services. BPNG (2015) estimates the unmet demand for deposit services from the economically active adult population to be approximately 5.38m people (Anderson, et al., 2013). When extrapolated across Regions, this suggests levels of unmet demand from economically active adults to be between 83% in Momase Region and 92% in the Highlands Region. BPNG also estimated the unmet demand for credit. The unmet demand by economically adult population was estimated to be between 95% in Southern Region and 98% in the Highlands Region.

## Rural Communities

The principal constraint to financial inclusion in PNG continues to be lack of access, in particular by rural communities, to financial services access points.Whilst national data is not available, data from Morobe and Madang is illustrative of the scale of the access issues which are likely to be faced by rural communities (refer Figure 6).

Figure : Kilometres to Nearest Financial Services Access Point

The resultant difference in account ownership between urban and rural communities is stark. In locations in which people can access a bank, the percentage of people who have a bank account (41.1%) is at the global average of 41%[[69]](#footnote-69) for developing countries. In rural locations in which people cannot access a bank account the level of account ownership is less than 10% (refer Figure 7).

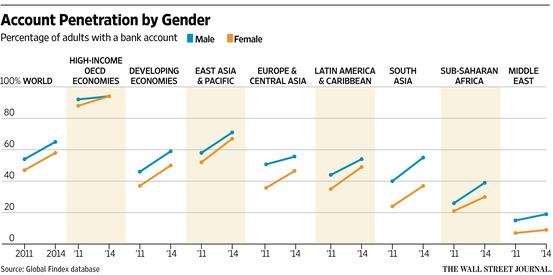
Figure : Relationship between account ownership and access

The situation in respect to access does not appear to have improved in recent years. In 2008 ADB (ADB, 2008) noted that in rural areas access to finance was extremely low and discouraged economic activity.

## Women

Globally there is a persistent gap between the portion of men and women who have bank accounts (refer Figure 8). Globally in 2014 58% of women reported owning a bank account, compared with 65% of men – a 7 percentage point difference.

Figure : Global Comparison of Account Penetration by Gender



Source: The Wall Street Journal[[70]](#footnote-70)

There is a pervasive gender gap in PNG which spans most aspects of women’s wellbeing and participation in the economy (DfCD, 2012). The ADB private sector assessment (ADB, 2015, p. 38) noted women are severely disadvantaged in PNG’s private sector economy, as social and cultural practices militate against them. Women in PNG appear to be significantly more likely to be financially excluded than men. The gender gap in respect to the ownership of financial services appears to be significantly larger in PNG than the rest of the world. As shown in Figure 9, in urban locations in Momase and Madang, 55.2% of men reported owning a savings/ cheque account, compared to 27.8% of women – a 27.4 percentage point difference. In urban communities in which bank accounts are accessible, a man is twice as likely to report account ownership as a woman.

Figure : Momase and Madang: Savings/ Cheque Account Ownership by Gender

## Informal Economy Businesses and SME’s

Globally, 18% of SME’s in developing countries have access to formal financial services (Aguera, 2015). The 2014 PNG SME baseline study (Tebbutt Research, 2014) found nearly all SME’s surveyed reported bank account ownership (98%), whilst 19% reported current formal borrowings. However, the average number of staff employed by SME’s sampled for the study was 15.4. Eighty-six (86%) percent of businesses were IPA registered. Sixty percent (60%) of businesses sampled had a tax file number. It is therefore likely that the PNG baseline study may not be directly comparable with the SME’s in the World Bank Enterprise studies (referred to by Aguera).

## Summary of Financial Inclusion Indicators

Table 14 shows the current G20 Financial Inclusion Indicators for which data is available.

Table : G20 Financial Inclusion Indicators

|  |  |  |  |
| --- | --- | --- | --- |
| Category | Indicator | | |
| Formally banked adults | % of Adults with an account at a formal financial institution | National | 14.63% |
| Southern | 21.05% |
| Highlands | 8.33% |
| Momase | 17.82% |
| Islands | 20.75% |
| NCD |  |
| Number of deposit accounts per 1,000 adults | National | 439 |
| Southern | 632 |
| Highlands | 250 |
| Momase | 535 |
| Islands | 623 |
| NCD |  |
| Adults with credit at regulated institutions | % of adults with at least one loan outstanding from a regulated financial institution | National | 6.98% |
| Number of borrowers per 1,000 adults | National | 70 |
| Point of Service and e-Money accounts | Number of branches per 100,000 adults | National | 3 |
| Southern | 6 |
| Highlands | 2 |
| Momase | 4 |
| Islands | 5 |
| NCD |  |
| Number of ATM’s per 200,000 adults | National | 10 |
| Number of POS terminals per 100,000 inhabitants | National | 330 |
| Number of e-Money accounts for mobile payments | National | 386,000 |

Source: BPNG (Anderson, et al., 2013) and (BPNG, 2015)

# Financial Literacy

There are a range of financial literacy training programmes offered in PNG. Each of the retail banks provides financial literacy training programmes, the MEP provides a financial literacy training programme, and several churches provide programmes. There are also a range of smaller-scale programmes offered by community organisations and NGO’s. An informal review of several programmes indicates a common focus on household cash-flow management, in particular saving and budgeting. However, there is no standard framework for determining curriculum content and assessing learning outcomes. The National Strategy Workshop for Financial Inclusion and Financial Literacy recommended use of the ‘Minimum Adult Financial Competency Framework for Low Income Households in Pacific Island Countries’ (Sibley & Liew, 2011) for the development of curriculum and the measurement of learning outcomes. This does not appear to have been implemented.

# Summary

## Significant Progress in Establishing an Enabling Environment

The government and BPNG have made significant progress in building *commitment* to financial inclusion. A commitment to financial inclusion is incorporated in key national development plans. PNG is a member of the ‘Better than Cash Alliance’ and the Alliance for Financial Inclusion. PNG has committed to the Money Pacific Goals and the Maya Declaration.

BPNG has extended the commitment to financial inclusion to strategy and has incorporated financial inclusion into BPNG strategy in addition to developing the national financial inclusion and financial literacy strategy, in conjunction with a broad group of key stakeholders.

BPNG has further extended the development of strategy through the establishment of CEFI. These initiatives have enabled the ongoing involvement of both government and private sector stakeholders in the development of financial inclusion and financial literacy programmes. Most of the key action items in the financial inclusion strategy have been implemented, or are in the process of being implemented. BPNG has also established a regulatory framework which can support the expansion of financial exclusion through a range of financial institutions; both shareholder and member based, and access channels, both physical channels and electronic channels.

In a broader context, each of the commercial banks with retail banking businesses has developed a basic bank account targeted to financially excluded adults. It appears that, at least a subset, of the basic accounts is affordable for households at the poverty-line. Each of the commercial banks has deployed a financial literacy programme. The development of microfinance is being supported through the MEP and there are now five regulated micro-banks, one of which has national representation. The savings and loan industry is being supported to ensure industry and organisational sustainability. Finance companies are being supported through the establishment of an improved chattel security regime. Interchange capability has been strengthened which will enable a greater range of electronic payments and financial services institutions which can participate in electronic interchange and settlement.

The development of a supportive enabling environment to expand financial inclusion and increase financial literacy is a significant achievement.

## Limited Knowledge of Financial Services Demand and Usage

There has been progress in providing supply-side information. BPNG is collecting information from regulated financial services providers, with a particular focus on tracking G20 financial inclusion indicators.

There continues to be a pervasive lack of data in respect to the demand for financial services, and the usage of financial services (in particular savings and credit services) by individuals, households (in particular rural households) and participants in the informal sector generally. There is currently no national demand side data, and no time series data. This can lead to assumptions which are difficult to quantify, but nevertheless have a significant impact on financial services institution behaviour – for example assumptions in respect to the likelihood of poor portfolio credit risk for people currently excluded from the formal financial sector.

It is probable the pervasive lack of data is acting as a constraint to financial services institutions expanding to new areas and new target markets.

## Continuing High Levels of Financial Exclusion

Even though there is a lack of data, there is some evidence (albeit limited and indicative) that levels of financial inclusion in urban areas may have increased to levels similar to those in other developing countries. However, there continue to be very significant disparities in respect to levels of financial inclusion:

**Women**: Women appear to have significantly lower levels of financial inclusion, even where financial services are available in urban communities. The level of financial exclusion experienced by women appears to be much higher than that found in comparable developing countries. Whilst BPNG has established the goal of increasing the level of financial inclusion for women at the same rate as that for men, it is considered current strategy and action plans are unlikely to address this disparity in the short – medium term. At present it is not known why women appear likely to have lower levels of financial inclusion and engagement in household financial decision making than men. Social-cultural factors, limited financial and/or functional literacy, lower levels of formal employment and limited familiarity with formal financial Insitutions may all be factors. Further research is required to develop an understanding of causal factors which can then provide a basis for gender specific programs and products.

**Rural communities**: Whilst there has been some progress in extending financial services to rural communities, to date this has been undertaken primarily by one commercial bank and the major mobile phone provider. Effectively, levels of financial exclusion in rural areas continue to be very high – probably between 90% - 100% in many rural communities. It is likely this level of financial exclusion is a constraint to economic development in rural communities. It is considered current strategy and action plans are unlikely to significantly address levels of rural financial exclusion.

**Network density:** Access to financial services is a key driver of financial inclusion. The development of physical access points (both branch and ATM) in PNG does not appear to have progressed as strongly as it has in other Pacific island countries. The number of agent networks has increased, however the density of agents continues to be limited relative to other developing countries.

**Informal Economy Participants and SME’s:** The informal economy continues to be the dominant source of livelihood for most Papua New Guineans. Informal economy participants in urban communities can potentially access basic bank accounts. A small number of informal economy participants can access savings and credit services through micro-banks. However most informal economy participants (most of whom are rural) have no access to transaction or savings services. Effectively, nearly all most informal economy participants and (smaller) SME’s must resort to the informal financial sector (whether family, friends or money lenders) for financing. It is considered current strategy and action plans are unlikely to significantly address levels of informal economy and SME participant financial exclusion in the short-medium term.

# Recommendations

Financial inclusion can facilitate economic development. There are also a range of benefits to GoPNG which are likely to result from increased financial inclusion. These benefits are likely to include more efficient receipt of payments (for example taxation), and ability to make payments (for example the proposed old age and disability pensions), including greater ability to mobilise and target short term assistance (for example disaster relief). The potential scale and scope of these benefits, and the benefit to the economy generally, indicate an expanded involvement by GoPNG in increasing financial inclusion may be warranted.

This review does not recommend amendment to the commitments made by GoPNG in respect to national development plans and by BPNG in respect to the Maya Declaration. The Maya Declaration commitments, in particular, form the basis for the expansion of financial inclusion and increasing financial literacy in PNG:

1. To reach 1 million more unbanked low-income people in Papua New Guinea, 50% of whom will be women
2. To lead efforts to create a financially competent generation of Papua New Guineans through financial education and financial literacy
3. To actively support innovative use of technology for scaling-up access to financial services and financial literacy
4. To strengthen consumer protection by issuing prudential guidelines and creating a platform for various national regulators and industry networks to monitor consumer protection
5. To begin the process of integrating financial inclusion in local and national government, including getting the National Executive Council to endorse the National Financial Inclusion and Financial Literacy Strategy by quarter 4 of 2013
6. To promote regular collection and use of financial access data to inform policy making and help identify key dimensions of financial inclusion in Papua New Guinea
7. To optimize these results through knowledge sharing and effective coordination of stakeholders, including development partners, by the newly established Centre of Excellence for Financial Inclusion chaired by the Bank of Papua New Guinea.

GoPNG and BPNG have implemented, or are currently, implementing actions to address each of the Maya Declaration commitments. Within this context, it is possible CEFI funding and resourcing may need to be strengthened as implementation progresses in order that implementation is appropriately co-ordinated and monitored.

Recommendation: It is recommended the strategies and actions relating to several Maya Declaration Commitments are further strengthened. It is likely this will require the participation of GoPNG, BPNG, regulated financial services providers – in particular commercial banks, civil society and donors.

Recommendation: It is recommended consideration be given to using the Financial Inclusion Strategies Reference Framework (World Bank, 2012)[[71]](#footnote-71) as the framework for the further development of the National Financial Inclusion and Financial Literacy Strategy.

***Commitment 1: To reach 1 million more unbanked low-income people in Papua New Guinea, 50% of whom will be women***

Recommendation: Develop a national action plan to increase the level of financial inclusion by women to equal that of men. It is recommended a comprehensive national action plan be developed to increase the level of participation in the formal financial sector by women, in particular women living in urban and peri-urban communities, with the goal of equal levels gender participation. Women living in urban and peri-urban communities currently have access to financial services, but it appears these women are significantly less likely to own a bank account than men. Current approaches to extending financial services to the unbanked in urban and peri-urban communities do not appear to be as successful at targeting women as they are at targeting men. The reasons for the gendered difference in the level of financial inclusion are not known. Research is required. Possible explanations include different employment patterns (in particular the greater likelihood of women working in informal employment), the lower literacy levels of women – and more limited ability to read documents printed in English, limited familiarity with regulated financial institutions (whether share-holder or member based) by women. A comprehensive approach to increasing the level of financial inclusion by women is required.

Recommendation: Develop a standardised low-cost/ no-cost savings/ transaction account for delivery by all financial services organisations. Development of a standardised low-cost/ no-cost account will enable consumers to access an affordable basic financial account, irrespective of their or their household’s financial situation.

Recommendation: Expand the National Financial Inclusion and Financial Literacy Strategy to encompass informal and formal sector SME’s. The National Financial Inclusion and Financial Literacy Strategy currently focusses on individuals. Available evidence indicates there are high levels of financial exclusion by SME’s, in particular in respect to informal sector businesses. The National Informal Economy Policy seeks to increase financial services to informal sector businesses. However, at present, with the exception of microfinance, there are few products and services available to informal sector businesses. Expanding the National Financial Inclusion and Financial Literacy Strategy to encompass SME’s will enable programs and products to be developed and deployed to increase SME financial inclusion. Within this context it is recommended the National Financial Inclusion and Financial Literacy Strategy be co-ordinated with Department of Commerce and Industry SME initiatives.

***Commitment 2: To lead efforts to create a financially competent generation of Papua New Guineans through financial education and financial literacy***

Recommendation: Integrate financial education into the primary and secondary school curricula. The development of financial literacy occurs over time and is often learned initially in the home. However, levels of adult financial exclusion in PNG suggest many children currently at school do not have the opportunity to learn financial skills from suitably skilled and experienced role models in the home. Schools provide an appropriate platform to introduce and develop financial literacy skills.

***Commitment 3: To actively support innovative use of technology for scaling-up access to financial services and financial literacy***

Recommendation: Develop a National Rural Financial Services Architecture and Implementation Plan. The scale of financial exclusion in rural communities suggests this is a national development issue. Unless financial services can be extended to rural areas, progress with economic and social development in these areas is likely to be constrained.

There are significant operational and financial challenges to extending financial services to rural communities. A range of challenges have been cited as the reason for the lack of willingness by financial services providers to expand rural financial services infrastructure, in particular the cost of developing financial infrastructural capacity, in particular in regions in which there is limited transport and communications infrastructure, the ongoing cost to service, and the cost of managing cash (in particular transport costs and security issues related to cash).

The expansion of financial services to rural communities cannot be branch based. The 2011 FSSA noted the greatest potential to expand the provision of financial services is through the use of the mobile phone. To this can be added EFT and ATM capability (probably using mobile networks as a carrier) and the concurrent development of agent networks. Evidence from Africa has shown that, to be effective, mobile phone banking must be accompanied by an agent network sufficiently dense to be readily accessible, in particular in rural communities.

To date the expansion of financial services in rural areas has been undertaken primarily by commercial financial institutions. However, commercial financial institutions, in particular BSP alone, cannot achieve adequate outreach in rural areas to enable sufficient network density to be developed to facilitate a significant and sustainable reduction in financial exclusion.

It is recommended GoPNG and BPNG, in conjunction with regulated financial services providers – in particular commercial banks, telecomm providers, civil society and donors develop a national rural financial services architecture and implementation plan for PNG.

Tentative Model:

It is recommended the national rural financial services architecture has the following objectives

* Progressively provide access to financial services for all adults living in rural communities
* Reduce current financial services user transaction costs for access and delivery
* Reduce dependence on, and use of cash as the only payment modality

It is also recommended the national rural financial services architecture incorporate the following parameters:

* Be mobile phone and card based
* Be supported by agent network of sufficient density to enable ready access by rural communities. Network density will be location specific
* Incorporate a low-cost/ no-cost basic savings/ transaction account
* Be interoperable
* Be developed by GoPNG and commercial organisations through a formal public/ private partnership
* Be developed in conjunction with the ongoing development of the payment systems strategy

Initial discussions with several banks suggest current platforms may be useable (with white labelling), at least in the short term.

Recommendation: Establish targets for the migration of cash/ paper based transactions to electronic transactions. GoPNG is a member of the ‘Better than Cash’ Alliance and has a goal of migrating payments to electronic platforms. There are currently no commensurate goals for retail payments, which are currently primarily paper (cash) based. In order to guide the migration of retail payment transactions to electronic platforms, it is recommended targets be established for the progressive substitution of retail paper based payments for electronic payments.

***Commitment 4: To strengthen consumer protection by issuing prudential guidelines and creating a platform for various national regulators and industry networks to monitor consumer protection***

Recommendation: Continue to strengthen consumer financial protection in PNG. Available evidence indicates levels of adult financial literacy are low and therefore many adults may have limited skills to enable considered financial decision making. There is also likely to be significant vulnerability to financial scams. As financial inclusion expands in PNG there needs to be a concurrent strengthening of consumer protection.

***Commitment 6: To promote regular collection and use of financial access data to inform policy making and help identify key dimensions of financial inclusion in Papua New Guinea***

BPNG has strengthened supply-side data collection. BPNG will host the financial inclusion database and CEFI will provide data online[[72]](#footnote-72). There is a need to concurrently strengthen population based demand-side data collection.

Reliable national demand side data is difficult and expensive to collect in PNG. To date, BPNG has been the sponsor of several regional demand-side studies, with the support of donors. The beneficiaries of these studies span both the public and private sector. Without a significant improvement in the scope, depth and reliability of demand-side data, it is likely market development in PNG will continue to be constrained. It is noted that in Australia and New Zealand the private sector has several years either sponsored, or been a significant contributor to, national population studies of financial inclusion, the demand for financial services and financial literacy.

Recommendation: Develop a national program of longitudinal population based financial inclusion and financial services demand data collection. Contemporary mobile phone based technology enables a significant reduction in field work costs. This has been demonstrated by BPNG in recent financial capability studies. One off and ad hoc surveys cannot address knowledge gaps. It is recommended the financial capability baseline study is continued to enable a national financial inclusion and financial capability/ financial literacy baseline to be developed. Given logistical constraints it is likely implementation of the study will need to be phased. It is recommend the next region to participate in the study be the Highlands Region. It is also recommended a nationally representative demand study be implemented (potentially the AFI-PIRI demand survey.

Recommendation: Develop an understanding of the cost of financial services to consumers. The cost of accessing and using financial services by consumers in PNG is not known. It is recommended research be undertaken to develop a comprehensive understanding of the cost of accessing and using financial services by consumers across location, occupation and product groups.

Recommendation: Develop an understanding of the use of financial services by informal sector businesses. The provision of financial services to participants in the informal sector is to some extent subsumed within the development of a rural financial services architecture and related implementation plan, and the development of a national plan to increase the level of financial inclusion by women. However, there is a need to develop a better understanding of how best to provide financial services, including credit, to informal sector participants. To some extent the provision of credit through regulated financial institutions is contingent on the further development of the credit bureau and the capacity will also assist in the development of an environment more conducive to the provision of credit to informal sector participants. It is recommended, as an initial step, research be conducted to better understand, and quantify, the use of savings and credit services (both informal and formal) by informal sector participants.

Recommendation: Develop an understanding of the reasons why women have higher levels of financial exclusion and are less likely to be involved in household financial decision making. Evidence from Morobe and Madang suggests levels of financial exclusion by women appear to be higher than the global average. The reasons for this are not known. Research is required to develop an understanding of causal factors in order to develop appropriate programs, products and services to facilitate increasing financial inclusion by women.

***Commitment 7: To optimize these results through knowledge sharing and effective coordination of stakeholders, including development partners, by the newly established Centre of Excellence for Financial Inclusion chaired by the Bank of Papua New Guinea***

Recommendation: Strengthen CEFI. CEFI provides an appropriate focus for advocacy to promote the financial inclusion agenda, facilitate improvement of financial service delivery, promote gender equity in financial services and financial education and enhance information collection and dissemination. At present CEFI appears to be under resourced. It is recommended CEFI resourcing be strengthened to better enable operationalisation of core activities, in particular to strengthen CEFI’s ability to coordinate (and in appropriate instances to lead) financial inclusion (both demand and supply side) information gathering and dissemination activity in PNG. Within this context CEFI may require technical support to facilitate organisation development and the development of research and data analysis capability.

# Information Sources

Information used to compile this review was sourced from:

**Key Informant Interviews:** Key Informant Interviews were held with executives and senior staff from the following organisations:

* ANZ Bank
* Bank of Papua New Guinea (BPNG)
* Bank of South Pacific
* Centre for Excellence in Financial Inclusion (CEFI)
* Institute for National Affairs (INA)
* Microfinance Expansion Project (MEP)
* Nationwide Microbank
* Pacific Financial Inclusion Programme (PFIP)
* PNG Microfinance
* PNG Treasury
* Post PNG
* Westpac Bank
* World Bank

**Documents:** Refer Bibliography

**Primary Data** provided by BPNG

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# Appendix One: Financial Inclusion Indicators

**G2O Indicators of Financial Inclusion**

|  |
| --- |
| 3+ withdrawals in a typical month (% with an account, age 15+) |
| Account at a formal financial institution (% age 15+) |
| Account at a formal financial institution, female (% age 15+) |
| Account at a formal financial institution, income, bottom 40% (% age 15+) |
| Account at a formal financial institution, income, top 60% (% age 15+) |
| Account at a formal financial institution, male (% age 15+) |
| Account at a formal financial institution, older adults (% age 25+) |
| Account at a formal financial institution, rural (% age 15+) |
| Account at a formal financial institution, urban (% age 15+) |
| Account at a formal financial institution, young adults (% ages 15-24) |
| Automated teller machines (ATMs) (per 1,000 sq. km) |
| Automated teller machines (ATMs) (per 100,000 adults) |
| Average total cost of sending USD 200 (%) |
| Commercial bank branches (per 100,000 adults) |
| Commercial bank branches (per 1,000 sq. km) |
| Direct credits (per adult) |
| Direct debits (per adult) |
| Disclosure index combining existence of a variety of disclosure requirements. |
| Financial knowledge score |
| Financial knowledge: Division |
| Financial knowledge: Inflation |
| Financial knowledge: Interest rate |
| Getting credit: Distance to frontier |
| Index reflecting the existence of formal internal and external dispute resolution mechanisms. |
| Insurance policy holders (per 1,000 adults) |
| Interoperability of Automated teller machines (ATMs) |
| Interoperability of Point of Sale (POS) terminals |
| Life Insurance policy holders (per 1,000 adults) |
| Loan accounts with commercial banks (per 1,000 adults) |
| Loan from a financial institution in the past year (% age 15+) |
| Loan from a financial institution in the past year, female (% age 15+) |
| Loan from a financial institution in the past year, income, bottom 40% (% age 15+) |
| Loan from a financial institution in the past year, income, top 60% (% age 15+) |
| Loan from a financial institution in the past year, male (% age 15+) |
| Loan from a financial institution in the past year, older adults (% age 25+) |
| Loan from a financial institution in the past year, rural (% age 15+) |
| Loan from a financial institution in the past year, urban (% age 15+) |
| Loan from a financial institution in the past year, young adults (% ages 15-24) |
| Mobile phone used to pay bills (% age 15+) |
| Non-life Insurance policy holders (per 1,000 adults) |
| Number of borrowers from commercial banks per 1,000 adults |
| Deposit accounts with commercial banks (per 1,000 adults) |
| Number of depositors with commercial banks per 1,000 adults |
| Payments by cheque (per adult) |
| Payments by credit card (per adult) |
| Payments by debit card (per adult) |
| Percent of SMEs where the top manager is female with an account at a formal financial institution (5-99 employees) |
| Percent of SMEs where the top manager is female with an outstanding loan or line of credit (5-99 employees) |
| Percent of SMEs where the top manager is male with an account at a formal financial institution (5-99 employees) |
| Percent of SMEs where the top manager is male with an outstanding loan or line of credit (5-99 employees) |
| Percent of SMEs with an account at a formal financial institution (5-99 employees) |
| Percent of SMEs with at least one female owner with an account at a formal financial institution (5-99 employees) |
| Percent of SMEs with at least one female owner with an outstanding loan or line of credit (5-99 employees) |
| Percent of large enterprises with an account at a formal financial institution (100+ employees) |
| Percent of large enterprises with an outstanding loan or line of credit (100+ employees) |
| Percent of male-owned SMEs with an account at a formal financial institution (5-99 employees) |
| Percent of male-owned SMEs with an outstanding loan or line of credit (5-99 employees) |
| Percent of medium enterprises with an account at a formal financial institution (20-99 employees) |
| Percent of medium enterprises with an outstanding loan or line of credit (20-99 employees) |
| Percent of small enterprises with an account at a formal financial institution (5-19 employees) |
| Percent of small enterprises with an outstanding loan or line of credit (5-19 employees) |
| Point of sale (POS) terminals (per 100,000 adults) |
| Proportion of SME loans requiring collateral (%) |
| Received remittances in the past year (% age 15+) |
| SME borrowers from commercial banks (% of non-financial corporation borrowers from commercial banks) |
| SME deposit accounts with commercial banks (% of deposit accounts by non-financial corporations with commercial banks) |
| SME depositors with commercial banks (% of non-financial corporation depositors with commercial banks) |
| SME loan accounts with commercial banks (% of loan accounts by non-financial corporations with commercial banks) |
| Saved at a financial institution in the past year (% age 15+) |
| Saved at a financial institution in the past year, female (% age 15+) |
| Saved at a financial institution in the past year, income, bottom 40% (% age 15+) |
| Saved at a financial institution in the past year, income, top 60% (% age 15+) |
| Saved at a financial institution in the past year, male (% age 15+) |
| Saved at a financial institution in the past year, older adults (% age 25+) |
| Saved at a financial institution in the past year, rural (% age 15+) |
| Saved at a financial institution in the past year, urban (% age 15+) |
| Saved at a financial institution in the past year, young adults (% ages 15-24) |

Source: World Bank (http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=g20-basic-set-of-financial-inclusion-indicators)

AFI-PIRI Core-Plus Financial Inclusion Indicators

|  |  |  |
| --- | --- | --- |
| **Dimension/ theme** | **Name/ description** | **Indicator** |
| Access | Cash-in and cash-out access points | Number of cash-in and cash-out access points per 10,000 adults at the national level. |
| Access points by channel | Number of branches per 10,000 adults nationally Number of ATMs per 10,000 adults nationally Number of EFTPOS per 10,000 adults nationally Number of Agents per 10,000 adults nationally  Number of MFI access points per 10,000 adults nationally |
| Access points by channel and second-level administrative unit | Number of branches per 10,000 adults in each second-level administrative unit  Number of ATMs per 10,000 adults in each second-level administrative unit  Number of EFTPOS per 10,000 adults in each second-level administrative unit  Number of agents per 10,000 adults in each second-level administrative unit  Number of MFI access points per 10,000 adults in each second-level administrative unit |
| Coverage of administrative units (second-level) | Percentage of second-level administrative units with at least one access point. |
| Coverage of population | Percentage of total population living in second-level administrative units with at least one access point. |
| Coverage by channel | Coverage of access points per 1,000 km²  Number of Branches per 1,000 km²  Number of ATMs per 1,000 km²  Number of EFTPOS per 1,000 km²  Number of agents per 1,000 km² |
| Access- Mobile financial services | Access to MFS access points | Number of mobile financial services access points per 10,000 adults |
| Access by second-level administrative unit | Number of mobile financial services access points per 10,000 adults in each second-level administrative unit |
| Access by population | Number of mobile financial services accounts/mobile wallet accounts per 10,000 adults |
| Mobile phone penetration | Ratio of mobile cellular subscriptions to adult population |
| Existence of mobile banking | Percentage of banks offering mobile banking, such as checking one’s balance from a mobile phone |
| Existence of MFS through banks | Percentage of banks offering mobile financial services, including transfer of e-money |
| Existence of MFS, MNO-led | Percentage of MNOs offering mobile financial services |
| Access- Barriers to access | Cost to open basic account | Average minimum balance for clients to open a basic deposit account at a bank, converted to USD |
| Distance | Percentage of adults within 5 kilometres of an access point |
| Cost of travel to access point | Average cost of travelling to the nearest access point (public transit fee or gas costs), converted to USD |
| Time to travel to access point | Average time of travelling to the nearest access point in minutes |
| Time to open an account | Average time waiting to be served when opening a deposit account in minutes |
| Documents | Average number of identification documents required to open a basic bank account |
| Documents | Percentage of adults reporting that they do not have all identification documents required to open a basic account |
| Access- Financial education | Financial education | Financial education is integrated into the national school curriculum |
| Financial education | Percentage of primary and secondary school students receiving financial education in school annually |
| Usage | Overall account usage- deposits | Number of regulated deposit accounts per 10,000 adults |
| Overall account usage- credit | Number of regulated credit accounts per 10,000 adults |
| Population usage- deposits | Percentage of adults with at least one type of regulated deposit account |
| Population usage- credit | Percentage of adults with at least one type of regulated credit account |
| Population usage overall | Percentage of adults with at least one regulated financial product |
| Active accounts | Percentage of adults with an active deposit account– have had any deposit or withdrawal in the last 90 days |
| Percentage of poor with an account | Percentage of adults below the national poverty line who have a deposit account |
| Usage- mobile financial services | Population usage | Number of active mobile financial service/ mobile wallet accounts per 10,000 adults OR Percentage of adults with at least one active mobile financial services product |
| MFS use for sending money | Percentage of adults who have sent money through mobile financial services in the last 12 months for person to  person transfers and bill pay |
| MFS use for receiving money | Percentage of adults who have received money through mobile money in the last 12 months |
| Usage gender | Deposit accounts by gender | Percentage of adult women with an active deposit account OR percentage of deposit accounts held by women |
| Credit and protection | Credit bureau | Existence of a credit bureau |
| Bank use of credit bureau | If yes to 8.1, percentage of banks in the country reporting to the credit bureau |
| Records at credit bureau | If yes to 8.1, percentage of adults with a record at the credit bureau |
| Consumer protection guideline | Existence of a central bank regulatory framework (policy or guideline) on consumer protection |
| Governance | Financial inclusion taskforce or similar body | Existence of a national financial inclusion strategy and/or financial inclusion taskforce |
| Regulatory environment and private sector sentiment | Regulatory environment | Percentage of regulated entities saying the regulatory environment for financial inclusion has improved |
| Private sector sentiment | Percentage of regulated entities reporting that they have implemented a financial inclusion product or strategy in the  last 12 months |
| Private sector sentiment | Percentage of regulated entities that have not yet implemented a financial inclusion strategy or product reporting that they plan to implement a financial inclusion strategy or product or in the next 12 months |
| Private sector sentiment | Percentage of regulated entities reporting that the business case for financial inclusion is favourable or highly favourable |

Source: Central Bank of Solomon Islands Annual Report (CBSI, 2013)

The ‘Core-Plus Set’ of financial inclusion indicators are significantly more comprehensive than the core set of financial inclusion indicators developed by AFI. Both the AFI and AFI-PIRI indicators focus on personal customers and do not seek to measure changes in financial inclusion for informal sector participants or SME’s.

AFI Core Set of Financial Inclusion Indicators[[73]](#footnote-73)

|  |  |  |  |
| --- | --- | --- | --- |
| Dimension | Definition of Dimension | Core Indicator | Proxy Indicator |
| Access | Ability to use formal financial services (i.e. minimal barriers to opening an account)   * Physical proximity * Affordability | 1. Number of access points per 10,000 adults at a national level and segmented by type and relevant administrative units  2.1. % of administrative units with at least one access point  2.2. % of total population living in administrative units with at least one access point |  |
| Usage | Actual usage of financial services/ products   * Regularity * Frequency * Length of time used | 3.1 % of adults with at least one type of regulated deposit account  3.2. % of adults with at least one type of regulated credit account | 3.a Number of deposit accounts per 10,000 adults  3.b Number of loan accounts per 10,000 adults |

Source: AFI (AFI., 2011)

**CFI Microscope Indicators of the Enabling Environment for Financial Inclusion**

|  |
| --- |
| **1) GOVERNMENT SUPPORT FOR FINANCIAL INCLUSION** |
| 1.1) Financial inclusion strategy |
| 1.2) Collection of data |
| **2) REGULATORY AND SUPERVISORY CAPACITY FOR FINANCIAL INCLUSION** |
| 2.1) Technical capacity to supervise |
| 2.1.1) Capacity of the regulatory agency |
| 2.1.2) Political independence of the financial regulator |
| 2.2) Regulator's openness to innovation for financial inclusion |
| **3) PRUDENTIAL REGULATION** |
| 3.1) Appropriate entry and licensing requirements |
| 3.1.1) Minimum capital requirements |
| 3.1.2) Impediments to foreign funding and ownership restrictions |
| 3.2) Ease of operation |
| 3.2.1) Operational requirements |
| 3.2.2) Reporting requirements |
| **4) REGULATION AND SUPERVISION OF CREDIT PORTFOLIOS** |
| 4.1) Interest rates |
| 4.2) Risk management of credit portfolios |
| 4.2.1) Supervision of over-indebtedness |
| 4.2.2) Risk management framework for consumer credit portfolios |
| 4.3) Risk management framework for microcredit portfolios |
| **5) REGULATION AND SUPERVISION OF DEPOSIT-TAKING ACTIVITIES** |
| 5.1) Ease of savings products offerings |
| 5.1.1) Account opening requirements |
| 5.1.2) Interest rate restrictions |
| 5.2) In-depth deposit insurance coverage |
| **6) REGULATION OF INSURANCE FOR LOW-INCOME POPULATIONS** |
| 6.1) Existence of regulation for microinsurance |
| **7) REGULATION AND SUPERVISION OF BRANCHES AND AGENTS** |
| 7.1) Ease of setting up a branch |
| 7.2) Ease of agent operation |
| 7.2.1) Types of agents allowed |
| 7.2.2) Breadth of agent's activities |
| 7.2.3) Agent exclusivity / platform interoperability |
| 7.2.4) Responsibility for agents' actions |
| **8) REQUIREMENTS FOR NON-REGULATED LENDERS** |
| 8.1) Information reporting and operational guidelines |
| 8.1.1) Reporting requirements |
| 8.1.2) Accounting transparency standards |
| **9) REGULATION OF ELECTRONIC PAYMENTS** |
| 9.1) Available infrastructure for financial inclusion |
| 9.1.1) Access to retail payment systems |
| 9.1.2) Mobile and alternative payments means |
| 9.2) E-Money |
| **10) CREDIT REPORTING SYSTEMS** |
| 10.1) Comprehensiveness of information |
| 10.2) Privacy protection for both borrowers and lenders |
| 10.2.1) Privacy rights |
| 10.2.2) Access to records |
| **11) MARKET CONDUCT RULES** |
| 11.1) Framework and capacity to protect the financial consumer |
| 11.2) Content of disclosure rules |
| 11.2.1) Pricing information |
| 11.2.2) Disclosure of product terms |
| 11.3) Fair treatment rules |
| 11.3.1) Non-discrimination in financial service provision |
| 11.3.2) Aggressive sales and unreasonable collection practices |
| **12) GRIEVANCE REDRESS AND OPERATION OF DISPUTE RESOLUTION MECHANISMS** |
| 12.1) Internal complaint mechanisms |
| 12.2) Third party redress entity |
| **A) ADJUSTMENT FACTOR (STABILITY AND POLICIES)** |
| A1) General political stability |
| A2) Shocks and policies affecting financial inclusion |

# Appendix Two: National Financial Inclusion and Financial Literacy Strategy Actions

|  |  |  |
| --- | --- | --- |
| **1** | **STRATEGIC OBJECTIVE 1: TO REACH ONE MILLION MORE UNBANKED LOW-INCOME PEOPLE IN PAPUA NEW GUINEA AND MICRO AND SMALL ENTERPRISES, WITH A DIVERSE RANGE OF FINANCIAL SERVICES. FIFTY PERCENT OF PEOPLE REACHED WILL BE WOMEN** | |
| **1.1** | ***Measure quarterly progress of banking one million more unbanked (linked to 6.1.2)*** | |
| **1.2** | ***Measure quarterly progress of ensuring that 50% of the 1 million more unbanked are women (linked to 6.1.2)*** | |
| **1.3** | ***Develop SME Risk Share Facility to enable access to formal , small and medium enterprises (SME)*** | |
| **1.4** | ***Develop Micro Enterprise Risk Share Facility to enable access to loans for informal sector micro enterprises, including women-owned micro enterprises*** | |
| **1.5** | ***Implement secured transactions framework with online registry to support the Personal Property Security Act*** | |
| **1.6** | ***Provide financial and technical assistance to scale- up access to mobile money (MM) and branchless banking (linked to 3.1.4)*** | |
| **1.7** | ***Provide financial and technical assistance to create viable inclusive insurance products for the low- income population*** | |
| 2 | STRATEGIC OBJECTIVE 2: TO LEAD EFFORTS TO CREATE A FINANCIALLY COMPETENT GENERATION OF PAPUA NEW GUINEANS THROUGH FINANCIAL EDUCATION AND YOUTH-FOCUSED FINANCIAL PRODUCTS AND FINANCIAL LITERACY | |
| ***2.1*** | ***Strengthen and Enhance the Coordination of and Development of Effective Financial Literacy Programs for Low-Income Population*** | |
| 2.1.1 | Establish Working Group on Financial Education and financial literacy and hold quarterly meetings | |
| 2.1.2 | Compile and update consolidated list of financial literacy providers - their location, content and target group of training | |
| 2.1.3 | Identify minimum key learning outcomes that financial literacy providers should measure, disseminate to providers and monitor effectiveness | |
| 2.2 | ***Increase Focus on Financial Education for Youth*** | |
| 2.2.1 | Sign MOU with Department of Education to introduce financial education in school curriculum | |
| 2.2 | Financial education programmes customized to suit students at schools and other learning institutions | |
| 2.2.3 | Begin implementation of financial education in schools (primary, secondary) and/or vocational and technical institution from 2015 | |
| 2.3 | ***Increase Understanding of Low-Income Customers*** | |
| 2.3.1 | Increasing understanding of the behavior of low- income customers |
| 2.3.2 | National Financial Capability Survey |
| **3** | **STRATEGIC OBJECTIVE 3: TO ACTIVELY SUPPORT INNOVATIVE USE OF TECHNOLOGY FOR SCALING-UP ACCESS TO FINANCIAL SERVICES AND FINANCIAL LITERACY** | |
| 3.1 | ***To Strengthen Coordination and Collaboration Between Stakeholders for Building the Ecosystem to Support Cost- Effective Electronic and Mobile Banking*** | |
| 3.1.1 | Establish Working Group on Electronic Banking, and hold quarterly meetings | |
| 3.1.2 | Review of the draft NICTA Regulation on SIM Card Registrations and the Universal ID proposal | |
| 3.1.3 | Advocacy and regulatory guidance for payment systems interoperability including lowering barriers of entry for other financial institutions such as Micro Banks | |
| 3.1.4 | Provide financial and technical assistance to scale-up access to mobile and branchless banking (linked to 1.6) | |
| 3.2 | | ***Transition cash to electronic payments to drive up transaction volume, lower costs and build interconnected ecosystem supporting electronic banking*** | |
| 3.2.1 | | Scoping study to map and quantify G2P payments (social transfers, royalties, wages, and pension payments) in PNG | |
| 3.3 | | ***Financial literacy over mobile phones and other ITC*** | |
| 3.3.1 | | Pilot mobile phone financial literacy programmes (linked to 4.1.4) | |
| **4** | | **STRATEGIC OBJECTIVE 4: TO STRENGTHEN CONSUMER PROTECTION BY ISSUING PRUDENTIAL GUIDELINES AND CREATING A PLATFORM FOR VARIOUS NATIONAL REGULATORS AND INDUSTRY NETWORKS TO MONITOR CONSUMER PROTECTION** | |
| 4.1 | | ***To Strengthen Coordination and Collaboration Between Stakeholders for Protecting Consumers and Guiding Market Conduct*** | |
| 4.1.1 | | Establish Working Group on Consumer Protection, and hold quarterly meetings | |
| 4.1.2 | | ICCC strengthen synergies between financial inclusion and their own mandate to provide standards/code of conduct based on international best practices on consumer protection in consensus with regulator | |
| 4.1.3 | | Preparation of prudential guidelines to licensed financial institutions on consumer protection | |
| 4.1.4 | | Pilot consumer awareness notices via mobile phones (linked with 3.3.1) | |
| **5** | **STRATEGIC OBJECTIVE 5: TO BEGIN THE PROCESS OF INTEGRATING FINANCIAL INCLUSION IN LOCAL AND NATIONAL GOVERNMENT** | |
| 5.1 | ***Integrating financial inclusion in local and national government through facilitating efficient and effective coordination to support various on-going financial inclusion efforts; monitor progress over time; and ensure continuity on financial inclusion in national and sub-national planning*** | |
| 5.1.1 | Establish Working Group on Government Coordination for Financial Inclusion and hold quarterly meetings | |
| 5.1.2 | DSIP Annual Budget makes provision for financial literacy and financial education for rural-based informal workers across at least 50% of all districts | |
| 5.2 | ***Standardizing definition of Micro, Small and Medium Enterprises*** | |
| 5.2.1 | Assist Department of Trade, Commerce and Industry to establish national definition of MSME | |
| **6** | **STRATEGIC OBJECTIVE 6: TO PROMOTE REGULAR COLLECTION AND USE OF FINANCIAL ACCESS DATA TO INFORM POLICY MAKING AND HELP IDENTIFY KEY DIMENSIONS OF FINANCIAL INCLUSION IN PAPUA NEW GUINEA** | |
| 6.1 | ***Harmonizing definitions and approaches for data collection using global guidelines such as from G20/AFI-PIWG dataset, and expanding the scope of collection to include all dimensions of inclusion*** | |
| 6.1.1 | Establish Working Group on Data & Measurement, and hold quarterly meetings. | |
| 6.1.2 | Quarterly reporting on the PNG Financial Inclusion Indicators plus the specific indicators related to specific activities in the National Financial Inclusion and Financial Literacy Strategy | |
| 6.1.3 | Maintain registry of products available in the market and their performance against consumer protection standards | |
| **7** | **STRATEGIC OBJECTIVE 7: TO OPTIMIZE THESE RESULTS THROUGH KNOWLEDGE SHARING AND EFFECTIVE COORDINATION OF STAKEHOLDERS, INCLUDING DEVELOPMENT PARTNERS, BY THE NEWLY ESTABLISHED CENTRE OF EXCELLENCE FOR FINANCIAL INCLUSION CHAIRED BY THE BANK OF PAPUA NEW GUINEA.** | |
| 7.1 | ***Advocate for knowledge sharing, including impact assessments, lessons learnt etc. through creating a central knowledge platform where information can be accessed and disseminated*** | |

# Appendix Three: Financial Inclusion Information not included in the Status Report

The following information was sought from BPNG. BPNG advise the information is available. However the figures were not available as at the date of the finalisation of this report. It is suggested regular collation and publication of the following information, in particular at the provincial or regional level will assist in the development of a better understanding of supply-side capability across PNG and will enable a more nuanced understanding of levels of financial inclusion in PNG, nationally, regionally and provincially. (Items marked NA indicate the data was not available).

**Supervised Retail Financial Services Institutions[[74]](#footnote-74)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | # | **Total Assets** | **Retail Deposits (Term and savings)** | **# Retail Deposit Customers** | **Retail Loans** | **# Retail Loan Customers** |
| Commercial Banks | 4 | NA | NA | 262,500 | NA | NA |
| Savings and Loans Societies[[75]](#footnote-75) | 22 | $978m | $482m | 250,000 | $264m | NA |
| Microfinance Institutions | 5 | NA | $149m | 160,000 | $73m | NA |
| Finance Companies | 8 | NA | NA | NA | NA | NA |

Source for available data: BPNG (Anderson, Kunjil, Ngodup, & Tongia, 2013)

**Credit Bureau Participation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Banks | Finance Companies | S&Ls | Microfinance |
| Members | | 3 | NA | 3 | 3 |
| Credit ratings | Commercial | NA | NA | NA | NA |
| Employed | NA | NA | NA | NA |
| Self-employed/ informal | NA | NA | NA | NA |

**Regional Branches per 100,000 Adults**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Commercial Banks** | **Savings and Loans** | **Microfinance Institutions** | **Adult Population per branch** |
| NCD | NA | NA | NA | NA |
| Southern Region (excl. NCD) | NA | NA | NA | NA |
| Momase Region | NA | NA | NA | NA |
| Highlands Region | NA | NA | NA | NA |
| Islands Region | NA | NA | NA | NA |
| Total[[76]](#footnote-76) | 111 | 82 | 29 | NA |

**Non-Branch based network density (per 100,000 Adults)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Agents** | **EFTPOS Terminals** | ATMs |
| NCD | NA | NA | NA |
| Papua Region (excl. NCD) | NA | NA | NA |
| Momase Region | NA | NA | NA |
| Highlands Region | NA | NA | NA |
| Islands Region | NA | NA | NA |

**Mobile Banking Penetration per 100,000 Adults**

|  |  |  |
| --- | --- | --- |
|  | **Mobile Phone Ownership** | **Mobile Banking Usage** |
| NCD | NA | NA |
| Papua Region (excl. NCD) | NA | NA |
| Momase Region | NA | NA |
| Highlands Region | NA | NA |
| Islands Region | NA | NA |

1. The Report is part of the Technical Assistance provided by the World Bank to the Bank of Papua New Guinea and Papua New Guinea Treasury to support the development of the Financial Services Sector Development Strategy. Funding for the Technical Assistance has been provided by FIRST Initiative.

   [↑](#footnote-ref-1)
2. The report was drafted by Dr Jonathan Sibley, Sr Financial Sector consultant, World Bank. The author thank the support provided by Bank of Papua New Guinea, PNG Department of Treasury, PNG-OIC, CEFI and the financial institutions visited during the diagnostic missions. The assessment and recommendations are that of the authors and do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent. The Word Bank does not guarantee the accuracy of the data included in this work. [↑](#footnote-ref-2)
3. www.worldbank.org/financialinclusion [↑](#footnote-ref-3)
4. Key Informant Interview Mr Cristian Shoemaker, Centre for Excellence in Financial Inclusion. [↑](#footnote-ref-4)
5. Refer Financial Sector Review Terms of Reference (BPNG & PNG Treasury, 2015) [↑](#footnote-ref-5)
6. Refer Financial Sector Review Terms of Reference (BPNG & PNG Treasury, 2015) [↑](#footnote-ref-6)
7. Insurance and superannuation is reviewed in a separate technical report and is not examined by this review [↑](#footnote-ref-7)
8. <http://commons.wikimedia.org/wiki/File:Papua_new_guinea_provinces_(numbers)_2012.png#/media/File:Papua_new_guinea_provinces_(numbers)_2012.png>. Licensed under CC BY-SA 3.0 via Wikimedia Commons [↑](#footnote-ref-8)
9. Not defined by the DSP [↑](#footnote-ref-9)
10. The Informal Economy Policy defines microfinance more broadly than the *Vision 2050*, noting that a wide range of financial institutions can provide microfinance products and services [↑](#footnote-ref-10)
11. Refer *Promoting Financial Inclusion Through Innovative Policies* (Conroy, Parreñas, & Manupipatpong, 2009) for a detailed discussion of the six paths [↑](#footnote-ref-11)
12. http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,contentMDK:23252983~pagePK:210058~piPK:210062~theSitePK:282885,00.html [↑](#footnote-ref-12)
13. The financial institutions, information, technologies, rules and standards that enable financial intermediation [↑](#footnote-ref-13)
14. http://betterthancash.org [↑](#footnote-ref-14)
15. Key informant interview with Mr Jeff Liew Pacific Financial Inclusion Programme [↑](#footnote-ref-15)
16. 2015 APEC Finance Ministers’ Statement: http://mddb.apec.org/Documents/2015/MM/FMM/15\_fmm\_jms.pdf [↑](#footnote-ref-16)
17. BPNG and PNG Treasury have agreed the review of financial inclusion will not include a review of financial services consumer protection [↑](#footnote-ref-17)
18. http://www.afi-global.org/sites/default/files/publications/maya\_declaration\_bank\_of\_papua\_new\_guinea.pdf [↑](#footnote-ref-18)
19. http://www.afi-global.org/pacific-islands-regional-initiative-piri [↑](#footnote-ref-19)
20. http://www.afi-global.org/pacific-islands-regional-initiative-piri [↑](#footnote-ref-20)
21. Key informant interview with Mr Saliya Ranasinghe, Microfinance Expansion Project Team Leader [↑](#footnote-ref-21)
22. Key informant interview with Mr Saliya Ranasinghe, Microfinance Expansion Project Team Leader [↑](#footnote-ref-22)
23. http://www.afi-global.org/news/2013/8/28/bank-png-reveals-basis-its-upcoming-maya-declaration-commitment [↑](#footnote-ref-23)
24. Key Informant Interview Mr Jeff Liew, Pacific Financial Inclusion Programme [↑](#footnote-ref-24)
25. Key Informant Interview and subsequent email communication with Mr Cristian Shoemaker, CEFI [↑](#footnote-ref-25)
26. https://www.anz.com/papuanewguinea/en/about-us/anz-papua-new-guinea/ [↑](#footnote-ref-26)
27. http://www.bsp.com.pg/Personal/Retail-Banking/ [↑](#footnote-ref-27)
28. http://www.westpac.com.pg/pacific/find-branch-atm/ [↑](#footnote-ref-28)
29. Refer ‘Financial Products and Services Handbook for Informal Economy Participants’ (CIMC, 2013)for a complete listing of BSP rural agencies [↑](#footnote-ref-29)
30. http://www.bsp.com.pg/Personal/BSP-Rural/BSP-Rural.aspx [↑](#footnote-ref-30)
31. http://www.oxfordbusinessgroup.com/news/papua-new-guinea-banks-eye-rural-areas-growth [↑](#footnote-ref-31)
32. Key informant interview Mr Adam Downie Westpac Head of Retail Banking 11 February 2015 [↑](#footnote-ref-32)
33. Key informant interview with Ms Barbara Stegman ANZ Head of Digital PNG [↑](#footnote-ref-33)
34. http://www.tsl.org.pg/about.html [↑](#footnote-ref-34)
35. https://www.bankpng.gov.pg/financial-system-topmenu-130/savings-a-loans-topmenu-101 [↑](#footnote-ref-35)
36. Speech by Mr Loi M Bakani, Governor of the Bank of Papua New Guinea, at the Pacific Credit Union Technical Congress 2014, Port Moresby, 6 November 2014 [↑](#footnote-ref-36)
37. Key informant interview with Mr George Awap, BPNG Manager Banking Supervision Department [↑](#footnote-ref-37)
38. Key informant interview with Mr George Awap, BPNG Manager Banking Supervision Department [↑](#footnote-ref-38)
39. Key informant interview with Mr George Awap, BPNG Manager Banking Supervision Department [↑](#footnote-ref-39)
40. http://www.woccu.org/policyadvocacy/gru/regupdate16 [↑](#footnote-ref-40)
41. Informal microfinance has a longer history. Central and Provincial governments, with the assistance of regional and international agencies, began trialling small microfinance initiatives for women in the 1980s. Refer for example Lik Lik Dinau/Abitore Trust: http://www.grameen.com/dialogue/dialogue33/lld.html [↑](#footnote-ref-41)
42. Key informant interview with Mr George Matthew, PML Chief Executive Officer and Mr Sankar Chitteti, PML Chief Operating Officer [↑](#footnote-ref-42)
43. Key informant interview with Mr Saliya Ranasinghe, Microfinance Expansion Project Team Leader [↑](#footnote-ref-43)
44. http://www.businessadvantagepng.com/papua-new-guineas-oldest-finance-company-remains-optimistic/ [↑](#footnote-ref-44)
45. http://www.businessadvantagepng.com/papua-new-guineas-oldest-finance-company-remains-optimistic/ [↑](#footnote-ref-45)
46. Key informant interview with Mr Andrew Maino Post PNG Operations Manager and Mr Asah Pake Post PNG Financial Services Manager [↑](#footnote-ref-46)
47. http://www.cdb.com.pg/ [↑](#footnote-ref-47)
48. http://data.worldbank.org/indicator/FB.CBK.BRCH.P5 [↑](#footnote-ref-48)
49. http://data.worldbank.org/indicator/FB.CBK.BRCH.P5 [↑](#footnote-ref-49)
50. http://www.afdb.org/en/news-and-events/article/fostering-financial-inclusion-with-mobile-banking-12125/ [↑](#footnote-ref-50)
51. http://www.cgap.org/blog/geography-cash-points-tanzania [↑](#footnote-ref-51)
52. <http://www.asbaweb.org/E-News/enews-40/fin/03fin.pdf> (CGAP, 2015) [↑](#footnote-ref-52)
53. % Adult population derived from: http://www.indexmundi.com/papua\_new\_guinea/demographics\_profile.html [↑](#footnote-ref-53)
54. http://data.worldbank.org/indicator/FB.CBK.BRCH.P5 [↑](#footnote-ref-54)
55. http://www.thepaypers.com/cards/asia-pacific-gets-ahead-of-north-america-in-eftpos-terminals/757391-23 [↑](#footnote-ref-55)
56. http://www.economist.com/news/finance-and-economics/21574520-safaricom-widens-its-banking-services-payments-savings-and-loans-it [↑](#footnote-ref-56)
57. For example, MiBank reports approximately 35,000 mobile wallets, with capacity for 300-400,000 mobile wallets. [↑](#footnote-ref-57)
58. Rural includes very remote locations in Momase and Madang [↑](#footnote-ref-58)
59. It is stressed the model does not reflect actual account usage patterns. [↑](#footnote-ref-59)
60. Only basic accounts from commercial banks were modelled [↑](#footnote-ref-60)
61. http://www.numbeo.com/cost-of-living/city\_result.jsp?country=Papua+New+Guinea&city=Port+Moresby&displayCurrency=PGK [↑](#footnote-ref-61)
62. Pacific island countries were not included in the estimate [↑](#footnote-ref-62)
63. 2002 census, includes owner occupied dwelling (apx 5%) [↑](#footnote-ref-63)
64. Focus groups conducted during the development of the survey instrument used for the Morobe/ Madang study suggest most money lending is part-time and is undertaken by members of the borrower’s community, rather than by professional money lenders. Fernando ((1992) also found most rural money lending is not undertaken by professional money lenders [↑](#footnote-ref-64)
65. Cited in Conroy (Conroy, 2000, p. 230) [↑](#footnote-ref-65)
66. Estimates based on aggregating bank, S&L and microfinance account ownership and allowing for multiple account ownership It should be noted the FSSA considered the estimate to be somewhat arbitrary [↑](#footnote-ref-66)
67. http://www.oxfordbusinessgroup.com/news/papua-new-guinea-banks-eye-rural-areas-growth [↑](#footnote-ref-67)
68. Refer Financial Inclusion and Financial Capability in Morobe and Madang Provinces Papua New Guinea (in press) [↑](#footnote-ref-68)
69. Refer Findex 2015 (Demirguc-Kunt, et al., 2015) [↑](#footnote-ref-69)
70. http://www.wsj.com/articles/financial-inclusion-gender-gap-persists-for-bank-account-holders-1429128001 [↑](#footnote-ref-70)
71. www.worldbank.org/financialinclusion [↑](#footnote-ref-71)
72. Key Informant Interview Mr Cristian Shoemaker, Centre for Excellence in Financial Inclusion. [↑](#footnote-ref-72)
73. AFI notes data for Core Indicators 3.1 and 3.2 would likely be collected through nationally representative demand-side surveys. The proxy indicators 3.a and 3.b would be obtained through supply-side data. [↑](#footnote-ref-73)
74. Refer ‘Financial Products and Services Handbook for Informal Economy Participants’ (CIMC, 2013)for a complete listing of formal financial services providers and outlets (branches and agencies) in Papua New Guinea [↑](#footnote-ref-74)
75. December 2014, 19 Societies [↑](#footnote-ref-75)
76. Refer BPNG (2015) [↑](#footnote-ref-76)