



Papua New Guinea's Financial Inclusion Journey

"This year's Global Financial Inclusion Week (Oct 30 – Nov 3), focused on "Getting Inclusion Right," enabling stakeholders around the world to explore questions and generate discussions surrounding the topic. In lieu of this, the Center for Excellence in Financial Inclusion (CEFI) in this article has highlighted PNG's financial inclusion journey and plans in place to advance financial inclusion in the country."

Financial Inclusion is a broader term which basically means to make financial and banking services and products accessible to everyone so that they can improve their standard of living and participate meaningfully to the development of the economy. Financial inclusion is important in the Papua New Guinea (PNG) context as 75% of the adult population do not have access to formal financial service and live in a largely non-monetized economy.

The Bank of Papua New Guinea joined as a member of the Alliance for Financial Inclusion (AFI) in 2009. As a member of AFI, BPNG signed the Maya Declaration (AFI), and recently renewed its commitment in Russia in September pledging to reaching an additional 2.0 million unbanked low income people in PNG, 50% of whom will be women. Additionally, 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 through financial inclusion.

Financial Inclusion in PNG has to take a multi-sectoral approach. In government's effort to prioritise financial inclusion, The Centre for Excellence in Financial Inclusion (CEFI) was established in 2013 to promote the financial inclusion agenda and coordinate and monitor all financial inclusion activities in the country.

Milestones achieved

Since 2013, unprecedented progress for financial inclusion has been achieved. CEFI and BPNG have been working with financial institutions in the country towards developing and promoting PNG's financial inclusion agenda – this is underpinned by the National Financial Inclusion Strategy. The strategy seeks to deliver on the mission and vision in the context of 8 priority areas, these are:

- 1) Digital Financial Services
- 2) Inclusive Insurance
- 3) Financial Literacy/Education
- 4) Financial Consumer Protection
- 5) Informal Economy & Agricultural Finance
- 6) SME Finance
- 7) Resources Sector Engagement
- 8) Government Engagement.

Public, Private Partnership is solicited in all these areas to for the Vision to be achieved.

The first Strategy (2014-15) focussed on 'access to financial services' and in 2016, a second Financial Inclusion Strategy was developed in consultation with relevant stakeholders; this set a roadmap to advance financial inclusion for the period 2016-2020.

In line with these activities, great achievements have been made towards advancing financial inclusion.

- PNG through the Central Bank and CEFI has rolled out its second national strategy on financial inclusion 'National Financial Inclusion Strategy 2016-2020'. The first strategy main indicator of 'access' was the opening of new bank accounts which the strategy set a numerical target of 1 million new bank accounts to be opened at the end of 2015. However, this figure was exceeded. At the end of 2015, the number of new bank accounts opened was 1.2 million.
- The second national strategy, which has a longer 4 year roll-out period is meant to build on the experiences of the first national strategy and its focus is on 'usage', while noting that 'access' and 'quality' are prerequisites for effective usage. The strategy also notes that 'financial literacy' and 'consumer awareness' must be strengthened to drive usage. The second strategy has a gender specific numerical target of 2 million additional accounts, of which 50% to be owned by women by the end of 2020 ensuring that more women are reached.
- Financial Education and Literacy: CEFI's Microfinance Expansion Project (MEP) provides financial education, literacy and business development skills training. Since May of 2012 to Sept 2018: 212,697 people across the country have been trained and of that 100,814 are women. The total number of trainers trained for financial education is 810 of which 310 were women trainers. Business Development Skills (BDS) training: 75 trainers were trained and 51 were women. A total of 11,453 have been trained with BDS.
- Furthermore, Bank of PNG and CEFI rolled out a children saving campaign, which entails providing financial education program for school-aged children to enhance saving culture and worked with financial institutions to develop a student accounts. The national campaign focuses on reaching 1.5 million school going children. Under the Young Minds Savings initiative targeting youths from birth to age 25, as of June, 2018, more than 300,000 accounts have been opened.



- Since 2014, financial inclusion expos (this involves all financial service providers setting up booths and providing awareness on products and services they offer) were held with more than 100,000 people attending the expos across the country participating in awareness and trainings delivered in these expos.
- A Risk Share Facility was introduced to give confidence and provide the Risk Mitigation strategy to partner financial institutions under a Risk Share Agreement (RSA) to lend to SMME sector covering 50% of the defaulted outstanding amount. As of July 2018, a cumulative value of PGK 23,643,138 has been covered by RSF, of that value, more than 7.4million Kina are loans covered for women.
- An additional Risk Share facility with the SME Access to Finance project, K115m has been disbursed to 1,800 MSMEs.

Advancing Financial Inclusion through Innovation

Overtime, however, we have noted that as much as digital financial services have helped scale access and usage of financial services by the unbanked, there are other focus areas that also complement and support digital financial services. Our second strategy 2016-2020 has expanded the financial inclusion frontiers.

A number priority areas have been highlighted that will enhance financial inclusion in PNG, spur the use of digital financial services and expand the range of financial service and products available to the underbanked.

Innovations That Transform People's Lives

The following are some significant developments and innovations that are currently being undertaken in PNG to advance financial inclusion and improve people's livelihoods.

- The Bank of PNG has implemented a world class Kina Automated Transfer System (KATS) for real time gross settlement payments in October 2013, to improve efficiency and reduce systemic risk. An automated clearing house provides the foundation for digital payments and clearing of transactions. Building on KATS is development of the Retail Electronic Payments System and a National Switch in PNG to ensure interoperability between all providers of Digital Financial Services and provide a platform for innovation including mobile solutions and QR payments.
- In March 2015, the Government of PNG joined the Better than Cash Alliance (BTCA) and committed to digitizing all government payments including salaries and social protection payments in PNG. A pilot G2P project in this regard is currently in progress by the World Bank/IFC for testing with the New Ireland Provincial government.
- The Bank of PNG is currently working on establishing a regulatory sandbox, a framework set to allow emerging technologies like blockchain and fintech startups to accommodate and spur fintech innovations focusing on financial inclusion. We have exciting projects in the pipeline including a national digitised ID system.
- As geography is a particular challenge in PNG for the delivery of services, BPNG is working with the Centre for Excellence in Financial Inclusion (CEFI) on mapping spatial dimension of financial access points across the country. With the aim of turning raw data into insight the BI tool provides policy makers, regulators, financial service providers and users an interactive interface for effective data analysis, to track results and inform policies.

- Grant making organizations and development partners also have a valuable role to play. They provide funds to catalyze innovation and fund pilot programs and encourage private sectors to cost share development projects. In PNG, there are a few ongoing Financial Innovation Pilot projects with the UNCDF's Pacific Financial Inclusion Programme. These include: Pay As You Go Payment platform for solar energy kits; Expanding mobile based health and life insurance into rural areas of PNG; Low cost DFS agency banking: this project is a first of its kind for a microbank to use a biometric system to facilitate basic banking.
- Other innovations are being driven by other financial service providers includes: agent network banking delivering innovative banking services to remote areas; mobile banking system that connects rural based suppliers of cocoa, copra, coffee and other cash crops with a banking system; a commercial bank has an innovation Hub targeted for the Highlands region to design, test and validate a commercially scalable model for providing financial services to low-income populations.

Looking Ahead:

The above are just some examples of great innovations happening, however amid the FinTech hype, we recognize the importance of basic infrastructure for enabling access to financial services. The K331million Coral Sea undersea cable project linking PNG, Solomon Islands and Australia to be up and running in 2019, is expected to boost the ICT infrastructure, increase efficiency and greatly reduce costs.

The Future of Financial Inclusion in PNG

We need to develop innovative mechanisms to ensure greater financial inclusion for our people. This means leveraging digital platforms and mobile technologies to enable opportunities to create and monetize non-traditional assets whilst ensuring consumer protection and the role of data.

Financial Education in Schools: To incorporate financial education into the school curriculum is the ultimate goal as the pervasive low levels of financial literacy and competency constitutes a key barrier to financial inclusion and expose people to greater financial risks.

Financial Services: There is still room for more range of financial services through fintech and also to increase the usage of bank accounts. Digital financial services should be suited to customers' needs, and delivered responsibly, at a cost both affordable to customers and sustainable for providers.

Consumer Protection: A diagnostic review and findings of the financial consumer protection laws, institutions and practices in PNG has been conducted by the IFC/World Bank. This is an interim step to informing the pre-implementation phased of the PNG Consumer Protection project with the World Bank. The project is expected at the macro level to strengthen the stability and integrity of the PNG financial sector.

Women's Economic Empowerment: Women are critical part of the informal economy and investing in women's economic empowerment sets a direct path towards gender equality, poverty eradication and inclusive economic growth. Through the Gender Equity Social Inclusion Policy (GESI) Implementation, BPNG launched the GESI Policy for Microfinance Institutions (MFIs) in 2017 to build institutional capacity, influence behavioural change, develop awareness. Seven institutions are currently engaged with the overall goal of increasing women's financial inclusion by enabling women to access, and effectively operate, useful and affordable financial products and services that meet their needs.

SME Financing: BPNG will continue to support the MSME, Informal and Agricultural sector and will be doing more in this space through regulatory reforms and co-funding schemes, and is currently working towards establishing a National Credit Guarantee Scheme to support these sectors. The 2nd NFIS has a specific SME priority.

Dedicated Strategy: With the vision of expanding financial service and reaching the remotest part of the country, a dedicated strategy has been adopted whereby CEFI will identify remote areas or communities, undertake baseline studies, map key stakeholders, establish the need for financial services, develop a strategy, pilot test and eventually roll out. This initiative is currently being undertaken in the following areas: Namatanai, Esala and Bougainville.

Collaboration and Partnership

Given the vast population and geographical challenges, providing access to the entire population with access to banking will require a collaborative effort!

The Bank of PNG and CEFI is confident that the commitment of all stakeholders and the commitment of partners to progress financial inclusion in the country will not wane but rather propel to meet our vision of advancing financial inclusion and reaching the unbanked and underbanked populations. Together we will work to fulfil our targets and goals!

This article has been submitted by the Centre for Excellence in Financial Inclusion (CEFI), an initiative set up by the central bank (BPNG) and government of PNG to promote the financial inclusion agenda in the country.

