

CEFI ANNUAL REPORT 2015 - 2016



Creating Financial
Freedom

2015 - 2016

CEFI ANNUAL REPORT



Creating Financial
Freedom

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Our Stakeholders

Abbreviations

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
BPNG	Bank of Papua New Guinea
BTCA	Better than Cash Alliance
CEFI	Centre for Excellence in Financial Inclusion
CIMC	Consultative Implementation and Monitoring Council
CLIC	Capital Life Insurance Limited
CPWG	Consumer Protection Working Group
DFAT	Department of Foreign Affairs and Trade (Australian Government)
DFS	Digital Financial Services
DFSIG	Digital Financial Services Industry Group
DMMWG	Data Measurement and Monitoring Working Group
DOT	Department of Treasury
EBBBWG	Electronic Banking and Branchless Banking Working Group
FCP	Financial Consumer Protection
FL/FE WG	Financial Literacy/ Financial Education Working Group
FSP	Financial Service Provider
GCWG	Government Coordination Working Group
G2P	Government-to-Person

GoPNG	Government of Papua New Guinea
ICCC	Independent Consumer and Competition Commission
ICT	Information and Communications Technology
IIWG	Inclusive Insurance Working Group
MEP	Microfinance Expansion Project
MoU	Memorandum of Understanding
NEC	National Executive Council
NFIS	National Financial Inclusion Strategy
NGO	Non-governmental organizations
NICTA	National Information & Communications Technology Authority
NIEP	National Informal Economic Policy
NSFI & FL	National Strategy for Financial Inclusion and Financial Literacy
PFI	Partner Financial Institution
PFIP	Pacific Financial Inclusion Programme
PNG	Papua New Guinea
PNGDSP	Papua New Guinea Development Strategic Plan
PNGIC	PNG Insurance Commission
RSEWG	Resources Sector Engagement Working Group
RSF	Risk Share Facility
ROSCA	Rotating Savings and Credit Association
S&Ls	Saving and Loans Association
SME	Small and Medium-sized Enterprises
SMEWG	Small and Medium-sized Enterprises Working Group
TOT	Training of Trainers
WG	Working Group

Message from Governor and Chair of CEFI Board



“In line with these activities, great achievements has been made towards bringing financial and banking services closer to the people.”

Financial Inclusion is a broader term which basically means to make financial and banking services and products accessible to everyone so that they can 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. Difficult geographies, lack of physical and social infrastructure, limited technological skills and know-how has created major challenges in the supply and access of financial services. As a result a large part of the low-income population, in particular rural people, including women are financially ‘excluded’, as they lack access to financial services.

Within the framework of the PNG Vision 2050, the National Informal Economy Policy and

the Government’s policy focus on service delivery to the rural population sets out the policy framework and strategies that will bolster wealth creation, reduce poverty and promote economic development in PNG. In line with these policies, the first National Strategy for Financial Inclusion and Financial Literacy 2014 - 2015 (NSFI&FL) was developed and launched in 2013. This National Financial Inclusion and Financial Literacy strategy is the government’s blue-print document that sets out the strategic framework and action plans on how it intends to address financial inclusion in the country.

The Centre for Excellence in Financial Inclusion (CEFI) is endorsed by the government as the national entity to coordinate all financial inclusion activities in the country as such the implementation of the financial inclusion and financial literacy strategy.

The aim is to bring together initiatives from public sector, financial and non-financial institutions and other stakeholders such as donor partners to promote financial inclusion in PNG. In particular, the provision of financial products and services to reach one million unbanked and underserved low-income people across the country, 50% of whom will be women.

Financial Inclusion has gained significance nationally following the implementation of the national strategy. CEFI and Bank of PNG have been working with partner financial institutions towards strengthening their capacities to implement financial inclusion programs, rolling out financial literacy and business development services skills training to build the capacities of the clients and micro business, the establishment of industry standards, and establishment of the centre's information database on financial inclusion to enhance information exchange.

In line with these activities, great achievements has been made towards bring financial and banking services closer to the people through delivery of innovative financial products and services such as mobile banking and agency-based banking. As at June 2016, physical financial access points rose by 56 percent over the previous three years. In addition, over 120,000 people received financial education and financial literacy training provided by CEFI and partner financial institutions. 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, where 120,000 accounts have been opened so far. Moreover, the annual financial inclusion expo held in 2016 in Mount Hagen provided the forum for financial institutions and aspiring customers to facilitate delivery of financial information and services where more than 30,000 people attended the expo

The progress and lessons learnt from the implementation of the first national strategy provided the basis for the development of the second national financial inclusion strategy 2016-2020, which was launched in December 2016. The new national strategy establishes the key financial inclusion priorities areas for implementation over the next five years

I thank the many partners who have provided their support and commitment to the cause of financial inclusion. In particular, funding support given by DFAT, PFIP, DOT, ADB, I am certain that through our continued partnership and collaboration we will be able to reach the masses of the unbanked in PNG, enhancing access to financial services and usage through building financial capability among our people.

Loi M. Bakani, CMG

Foreword



The Centre for Excellence in Financial Inclusion was established under the Association Incorporation Act and officially launched on the 24th April 2014 by the Honourable Prime Minister, Mr. Peter O' Neill. The Centre for Excellence in Financial Inclusion (CEFI) is endorsed by the Government as the national entity to coordinate, advocate and monitor all financial inclusion activities in Papua New Guinea.

CEFI's Mission is to promote excellence in financial services, innovate delivery channels and facilitate financial education. CEFI has four main broad focus areas, financial inclusion, financial services delivery, information exchange and gender. In order to achieve the mission CEFI has worked with public sector, financial institutions, and non financial institutions and other stakeholders to expand and improve financial inclusion in PNG.

Within the framework of the PNG Vision 2050, the National Informal Economy Policy sets out the policy framework and strategies that will bolster wealth creation, reduce poverty and promote economic development in PNG. In line with this policy, the first National Strategy for Financial Inclusion and Financial Literacy 2014 - 2015 (NSFI&FL) was developed and launched in 2013.

Since the launch of PNG's First National Financial Inclusion and Financial Literacy Strategy, unprecedented progress in financial inclusion has been achieved. Between June 2013 and June 2016, more than 1.2 million new deposit accounts were opened at regulated financial institutions. In the same period, the percentage of adults with an account increased from 20% to almost 37%.

Since then, significant progress has been made during the two years of implementing the strategy, some of which are:

- * 1,187,024 new bank accounts opened of that 462,939 (35%) opened by women
- * 124,375 people reached (47% women) with financial education
- * 67 new branches, 73 ATMs, 4959 EFTPoS and 233 new agents added onto the financial service network, in total, 12,599 service outlets
- * 696,792 policy holders have out microinsurance products
- * 315,993 people now linked their deposit accounts with Mobile network (Mobile Phone banking)
- * Establishment of working groups to drive the Strategy that is: Electronic Banking and Branchless Banking, Inclusive Insurance, Data Measurement and Monitoring, Consumer Protection, Government Coordination, Financial Education and Financial Literacy.

Despite the achievements of the 1st strategy, a majority of the population especially the vulnerable that includes women continues to lack access to formal financial services, and financial exclusion affects these specific groups more than others. CEFI has worked with Bank of PNG and other partners to develop the second national financial inclusion strategy 2016-2020, which was launched in December 2016. The national strategy provides the key priority areas of focus for expanding and enhancing financial inclusion in PNG over the next five years.

CEFI is committed in implementing the action plans in the National Financial Inclusion Strategy to facilitate partnerships and coordinate actions that enable access to finance and allow the Papua New Guineans to improve their standard of living and improve economic development of this nation.

CEFI would like to thank Bank of PNG for their continued support and also to DFAT, ADB, PFIP for their funding and technical assistance.

Saliya. J. Ranasinghe,
CEFI Director



CEFI Board & Management

The CEFI team comprises a group of highly experienced and dedicated financial experts who are passionate about the growth of financial inclusion in Papua New Guinea.

CEFI also reports to a Board of Directors, which includes an elite field of key stakeholders representing government, industry and the Bank of Papua New Guinea.



**LOI MARTIN BAKANI CMG
CHAIRMAN & BOARD
MEMBER**

Loi Martin Bakani CMG has been Governor and Chairman of the Bank of Papua New Guinea Board since 2009. He is Registrar of the PNG Federation of Savings & Loan Society Ltd, Chairman of the PNG Institute of Banking & Business Management (IBBM) and holds senior governance roles with South East Asian Central Banks (SEACEN), IMF/World Bank Group, AML/CFT Coordination Committee and the Sovereign Wealth Fund (SWF) Committee. He also serves as member of the Appointments Committee of the NICTA and ICC. Loi holds a Bachelor of Economics from the University of Papua New Guinea and a Master of Commerce from the University of Wollongong, Australia.



**MICHAEL TUMBO KUMUNG
DEPUTY CHAIRMAN &
BOARD MEMBER**

Michael Tumbo Kumung has been in the Public Service for the past 17 years. He has worked with the PNG Internal Revenue Commission and Department of Finance and is currently the Assistant Secretary for Macro Planning Division with the Department of National Planning & Monitoring. Michael has a wealth of experience with development strategic planning, public policy formulation, economic modeling, and economic development analysis and reporting. Michael has represented the Department of National Planning as an alternate board member and director on both the PNG Gaming Control and National Research Institute (NRI) boards. He holds a Master of International Economics & Finance from the University of Queensland, Australia.



**SALIYA J RANASINGHE
EXECUTIVE DIRECTOR &
BOARD MEMBER**

Saliya J Ranasinghe has more than 25 years' experience in the microfinance industry, including roles as Finance Manager at Ceylon Oxygen and Chief Executive Officer of SEEDS Sri Lanka. Since 2002, he has been a consultant and Chief Technical Advisor for inclusive finance/microfinance projects with renowned organisations such as the Asian Development Bank, World Bank, IFC and UN Capital Development Fund in countries across Asia, Africa and the Pacific. Saliya has also conducted postgraduate studies with England's Canfield School of Technology and has an MBA from the University of Lincoln, England. He is a Fellow Member of the Institute of Chartered Management Accountants UK and Fellow Member of the Society of Cost Management Accounts Sri Lanka.



PAULUS LAVEIL, BOARD MEMBER

Paulus Laveil is currently Managing Director and Board Secretary of the PNG Federation of Savings and Loans Society Ltd. He has more than 15 years' experience with the PNG National Development Bank as an Executive Manager for Lending, Policy and Corporate Services. He is a member of the Microfinance Expansion Project Steering Committee and is on the CEFI Board representing the Savings and Loans Societies in PNG. He holds an MBA from the University of New England, Australia.

ANNA SOLOMON, BOARD MEMBER

Anna Solomon has more than 23 years' experience with the Public Service. Currently the Secretary for the Department for Community Development and Religion, Anna has and continues to support in addressing and advocating financial inclusion among all Papua New Guineans especially the marginalized and disadvantaged groupings from the Informal Economy that comprise bulk of the population through her department's Informal Economy Policy via Projects and Programs.

She is currently the chairperson of the Informal Economy Sectoral Committee under CIMC. Anna is a member to most professional women associations addressing financial and economic empowerment for women and persons with disabilities.



SWETA SUD, BOARD MEMBER



Sweta Sud has more than 20 years of innovation and management experience in the areas of education, enterprise resource planning, strategic project planning and stakeholder management. She is currently Executive Director of the PNG Institute of Banking and Business, and represents financial training institutions on the CEFI Board. Sweta has also been on the Board of the Small Business Development Corporation and has held positions at the Business Coalition for Women, the PNG India Business Council and the PNG Government's Small to Medium Enterprise Policy and Master Plan. She is also a Faculty for the MBA program at Torrens University, Australia. Sweta holds a Bachelor of Engineering and postgraduate degrees in Business Administration, Project Management and Information Systems.

RODDIE WADA, BOARD MEMBER

Roddie Wada has more than 15 years' experience in the public sector, mostly with the PNG Department of Treasury in the area of micro-economic policy. Currently the First Assistant Secretary of the Markets Policy Division, she deals with consumer and competition policy, private sector development and other micro/structural reform initiatives. Roddie is on the CEFI Board representing the Department of Treasury, and has also represented the Department on the Boards of CIC, Post PNG, Air Niugini and the Nationwide Microbank. She holds a Masters in Applied Commerce from Melbourne University, Australia.



TONY WESTAWAY, BOARD MEMBER



Tony Westaway has more than 20 years' experience in the Papua New Guinean banking industry and is the current Managing Director of Nationwide Microbank Limited. He is also the Chairman of Microfinance Pasifika Network, a Director and Honorary Fellow of the PNG Institute of Banking & Business Management, and a Fellow of the Financial Services Institute of Australasia. A strong advocate of financial inclusion, Tony initiated the first bank-led deployment of Mobile Money in the South Pacific with MiCash in 2011. He holds an MBA from Torrens University, South Australia.

About CEFI

Consistent with PNG Government's vision 2050:

CEFI's vision, mission and values focus on financial inclusion and literacy, poverty elimination and the promotion of vibrant financial institutional operation in Papua New Guinea.

VISION

Our vision is to reduce poverty in PNG by developing financial inclusion that allows all citizens access to affordable financial services.

MISSION

CEFI's mission is to promote the provision of quality financial services, develop innovative delivery channels and facilitate financial education. In this way, we will make financial services accessible to all people across Papua New Guinea.

VALUES

CEFI focuses on three core values to fulfill our mission: Quality, Transparency and Equity (QTE). Our members and team of dedicated professionals uphold these values, enabling us to continue developing healthy financial inclusion across PNG.

OBJECTIVES

- 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

FOCUS AREAS

Financial inclusion: CEFI's key role is to coordinate, advocate and monitor financial inclusion activities including coordinating stakeholder dialogue towards responsible financial service delivery and service quality, encourage innovation and strengthen financial sector industry development.

Financial Services Delivery: CEFI is working with partners and stakeholders to define industry standards promote client protection and provide financial institutions with technical assistance for training, market research and new product development.

Information Exchange: CEFI is working towards identifying and building the technology infrastructure to become PNG's financial inclusion knowledge hub, with access to financial data for informed policy making, healthy industry debate, market analysis and research.

Gender equity: CEFI promotes gender equity in the delivery of financial services and financial literacy to ensure equal participation of women in all facets of financial inclusion.

Development and Implementation of the National Financial inclusion and Financial Literacy Strategy: As the financial inclusion apex organization in PNG, CEFI has been coordinating, monitoring and reporting on the progress of the implementation of the National Strategy for Financial Inclusion and Financial Literacy 2014-2015.

CEFI in collaboration with Bank of PNG and stakeholders is coordinating the development of the new National Financial Inclusion and Financial Literacy Strategy for 2016-2020 and beyond. The challenges and experience of these working groups will form the basis for the development of the new strategy going forward.



Where did we start

2013

CEFI is established

CEFI was launched in April 2013, registered as an Association incorporated under PNG law and officially launched on 24th April, 2013 by the Prime Minister.

CEFI was endorsed by PNG's National Executive Council (NEC) as the industry apex organisation mandated to coordinate, advocate and monitor all financial inclusion activities in PNG

2014

First National Financial Inclusion Strategy

In 2013, the Government launched PNG's National Financial Inclusion & Financial Literacy Strategy 2014-2015 (NFIFLS). This was the nation's first plan to tackle the problem of poor access to financial services facing the majority of Papua New Guineans.

As the apex body, CEFI plays a pivotal role in coordinating the strategy's rollout.

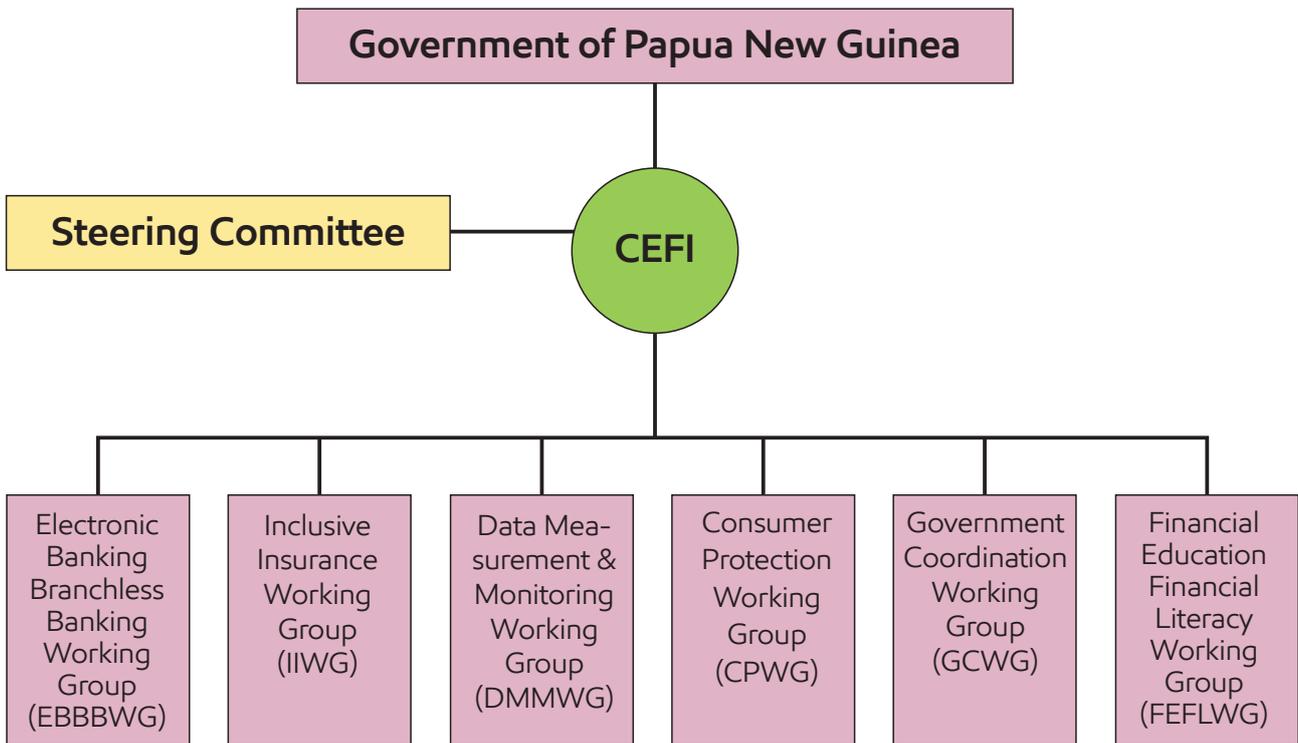
2015

Deepening Financial Inclusion

By December 2015, there were nearly 600,000 new adult bank accounts and 112,000 new youth bank accounts opened across Papua New Guinea.

PNG'S FIRST NATIONAL FINANCIAL INCLUSION STRATEGY

In 2013, the Government launched PNG's National Financial Inclusion & Financial Literacy Strategy 2014-2015 (NFIFLS). This was the nation's first plan to tackle the problem of poor access to financial services facing the majority of Papua New Guineans.



STRATEGY IMPLEMENTATION

As the peak industry body, CEFI plays a pivotal part in coordinating the strategy's rollout. We work closely with the Bank of Papua New Guinea and key stakeholders including government, financial service providers, development partners and the six industry working groups. Through collaborative planning, regular meetings and the technical support of each working group, CEFI is able to guide and monitor the strategy's progress to ensure it reaches its objectives.

THE WORKING GROUPS

Six working groups (WG) was established to coordinate all financial inclusion (FI) activities and ultimately achieve objectives outline in the 1st National Financial Inclusion Strategy (NFIS) of Papua New Guinea. The first NFIS was developed for 2014 and 2015 only and each WG faced varying levels of challenges and obstacles however the overall outcome of the strategy exceeded its targets. These WGs comprised of representatives from commercial banks, micro-banks, insurance companies, savings and loans societies, regulators, mobile network operators and various government departments. All the WGs have elected their respective chairmen who oversee their discussions and progress.

The CEFI set up 6 working groups to promote each of the above objectives through continuous interaction and liaison with banks and financial institutions and other stakeholders to promote the various activities. The working groups are:

1. Working Group on Consumer Protection

This working group served as a coordinating body for consumer protection and market conduct initiatives mainly to coordinate with other industry bodies such as Independent Consumer and Competition Commission (ICCC) and other regulators to work on globally accepted best practice consumer protection policies, standards/guidelines to protect vulnerable users of financial services for PNG financial consumers.

2. Working Group on Financial Education and

Financial Literacy

The formation of this working group was to oversee the implementation of the financial literacy activities via partnership and/ or coordination with the Department of Education specifically to facilitate actions to introduce financial education into the existing school curriculum as well as effectively promote standards/modules for the delivery of financial literacy and financial education trainings in PNG.

3. Working Group on Electronic Banking

This working group was established to focus on innovative ways to expand access and encourage markets using the mode of Information and Communication Technology (ICT). Also it was tasked to facilitate the development of reliable and user friendly payment systems platform to serve the low-income population sustainably in order to reduce the time and money that low income earning people spend to conduct financial transactions.

4. Working Group on Data and Measurement

The data measurement working group was established to encourage and promote the importance of collecting and sharing of pertinent data to measure progress in Financial Inclusion. The member of this group are to work closely with the National Statistics Office, Credit Data Bureau, CEFI and the Bank of PNG to help institutionalize a standard set of indicators that will be collected on quarterly basis. This working group is responsible for formulation of the Core Financial Inclusion Data Reporting Template for data collection, and ensure active involvement in sharing data and to highlight gaps in outreach and services through digital mapping and other effective mediums of data presentations.

5. Working Group on Inclusive Insurance

This working group was created to promote in the development of a conducive policy framework and regulatory environment for the growth of the inclusive insurance market. It was tasked to coordinate and form partnership between government and the private sector for offering relevant products to the poor; including the use of alternate channels for distribution.

6. Working Group on Government Coordination on Financial Inclusion

Establishment of this working group was to ensure that the various government departments activities related to financial inclusion are coordinated and complimentary, with the overall goal of decentralizing delivery of financial services, financial education, and financial awareness for low income consumers and MSMEs.

Major activities 2015-2016:

Launch of the National Financial Inclusion Strategy 2016-2020

Building on the success of the first national strategy implementation and the lessons learned in the process, CEFI and the Bank of PNG developed the second National Financial Inclusion Strategy 2016-2020. The new national strategy provides the strategic framework for coordinating, advocating and sustaining efforts in partnership with all stakeholders to achieve a common vision of creating an inclusive and sustainable Papua New Guinea. The Strategy has been developed in consultation with a diverse range of stakeholders, including representatives from various government departments to support the achievement of the financial inclusion aspirations articulated in the National Economic Policy 2011-2015. The strategy not only articulates action for provision of access but increase the use of the financial services to improve the standard of living in PNG.

The Prime Minister Hon. Peter O'Neill launched the strategy plan in December 2015 and expressed that he was encouraged by the progress in the implementation of the first strategy.

"I know it has been a difficult journey in trying to get the 75 percent of the rural areas engaged in an economy growing at a rapid pace and challenging itself."

The new strategy is designed to reach an additional 2 million new bank accounts, 50% of that to be women.

Workshop on Opportunities and Challenges for Digital Financial Services in PNG:

Held on 5th November 2015, Crown Plaza, Port Moresby, jointly sponsored by CEFI, BPNG and PFIP to create space for conversation, awareness raising, interaction and assessment of current perspective regarding DFS in the country. Good attendance with 58 participants from government officials, private sector organisations, MNOs telco and fintech related organisations, business community. International guest speakers included speakers from AFI, MicroSave of India, Coffey International, and IFC.

Smart Campaign Client Protection Principles Workshop:

This was held on 21 -23rd October 2015 and jointly sponsored by CEFI, ABD, BPNG and Smart Campaign. The workshop was attended by 25 representatives from microfinance institutions and Savings and Loans Societies. The purpose of this workshop was to provide organisations basic undertaking of client protection principles and to incorporate the principals into the respective organisation's policies and work practises and programmes.

Financial Diaries Survey

The Bank in collaboration with Pacific Financial Inclusion Program (PFIP) completed the study on Financial Diaries in EHP, WNB and NCD. This study was important to understand how people at the grassroots level raise and manage their income.

National Financial Capability Survey

The Bank in collaboration with World Bank and INA completed the NFCS in Morobe and Madang Provinces and about to complete the report, which focuses on understanding the cashflow management and behaviours of low income earners in select households in urban and rural communities.

Better Than Cash Alliance

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 project in this regard (G2P payment) is currently worked on to be piloted by World Bank/IFC with New Ireland Provincial Government.

Risk Share Facility

A risk share facility was introduced to give confidence to partner financial institutions under a Risk Share Agreement (RSA) to lend to SMME sector by covering 50% of the defaulted outstanding amount. As at March 2015 the RSA has extended 342 loans for a value of PGK 3.9 million.

Financial Inclusion Expositions

CEFI and the Bank of PNG hosted 2 minor financial inclusion expositions in Madang and Goroka in 2015. These expositions coincided with the Madang Festival and the Goroka show respectively.

A major financial inclusion expo was then held in Mt Hagen in 2016. This two day expo held at the Queen's Park Oval in Mt Hagen saw over 30 000 people in attendance.

All three expos had participation from partner financial institutions including telecommunication companies who assisted in providing information about their products and services and assisted in opening new bank accounts."

Hagen Expo:

The Financial Inclusion Exposition staged at Queens Park Oval, Mt Hagen, Western Highlands Province on 15-16 July 2016 was the most significant event in the Financial Inclusion Calendar for 2016. The Bank has been driving financial inclusion following the Government's Vision 2050 to empower its people to contribute meaningfully to economic development. The theme for 2016 Expos "Learn How to Save and Budget Your Money/ Kisim Save Long Rot Bilong Painim Na Lukautim Moni Bilong Yu" fits well with the efforts of the Bank to educate low income earners to save in a bank, have access to finance, become part of the formal financial system and make meaningful contribution to economic development.

Spearheaded by BPNG, the journey to promote financial inclusion was a coordinate effort of all the local participating institution and some donor institutions. The participation of these institutions has not only been limited to the Expo but reflects a change in the core values of these institutions to promote financial inclusion.

Microfinance Expansion Project

The Microfinance Expansion Project (MEP) is co-funded by the Asian Development Bank, Australian Department of Foreign Affairs and Trade (DFAT) and the Government of PNG designed to strengthen the growth of the Microfinance sector in PNG. The MEP was launched in April 2012 and has taken over from the previous project PNG Microfinance and Employment Project which operated from 2002 through to 2010. Financial Education Training is one of the biggest outputs with the aim of empowering and enabling clients and potential clients to understand and access, financial services for personal or business use.

It has a target to reach 130,000 people, of which 40% are women. MEP has partnered with 15 partners to deliver financial education training to the mass population and has achieved well over the target reaching 190,000 people.

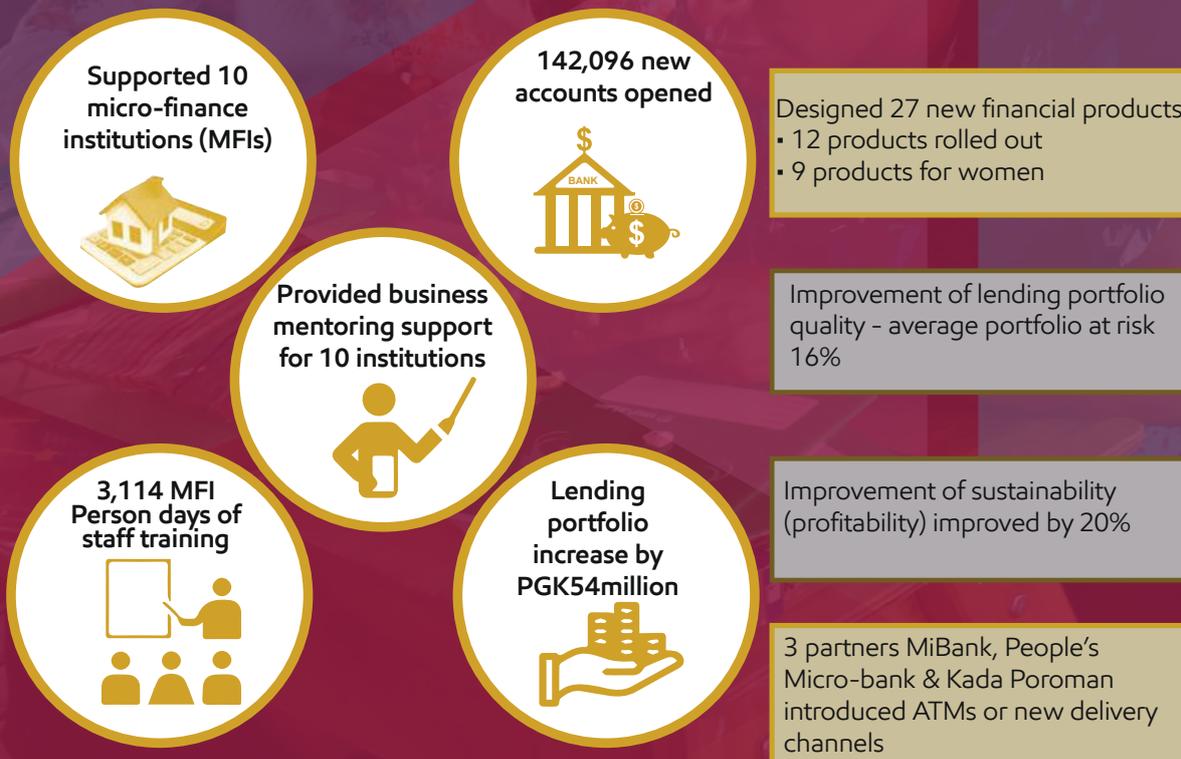
MEP Core activities are as follows:

1. Increased capacity of participating financial institutions (PFIs) to provide financial services

The project provides technical assistance to financial institutions which are committed to reaching out to the low income population with market-led, affordable and efficient financial products and services. It works more intensively with a few selected institutions (PFIs) in the four regions with the aim to set up models of microfinance delivery. The core areas of technical assistance are:

Diverse issues relating to MFI operations, through staff training, using internationally recognized trainings; Strategic business approach and systems, through onsite mentoring; Product innovations through market research; and Streamlining Management Information System (MIS) through implementation.

Increased Capacity for Partner Financial Institutions to provide Financial Services





2. Improved capacity of clients and potential clients to access financial services for personal or business use

To ensure that the people are able to make use of the opportunities that come with the growth of the microfinance sector, trainings are provided to the existing and potential clients of PFIs on financial education and business development and management skills. This is done by training local institutions using globally acclaimed training material, customized for unique needs of the people of PNG.

Improved increased Capacity for Clients to Access Financial Services



- Financial Education (FE) Module include: Savings, Budgeting, Bank Services, Mobile Money, Debt management and Negotiation Skills
- 8 Financial Education Training partners established with commercial banks, microbanks, Faithbased orgs and NGOs
- Financial Education Training Participants operate 52,784 bank accounts



- Retail training conducted for 120,778 people
- 48% trained are women
- Business Development Skills (BDS) Training commenced in October 2015



- BDS Training material developed by international training specialist
- 21 BDS trainers trained under TOT program
- 7 partnership agreement signed to reach over 12,000 people
- Retail Training conducted by partners reaching almost 900 people

3. Development of Microfinance Industry Standards

The project proposes to work with existing, active apex and networking institutions which represent the service providers of the microfinance sector. This is to help develop PNG specific industry benchmarks, financial and social, which aim towards delivery of effective financial services, protecting customer rights.

Development of Microfinance Industry Standards



4. Appropriate Regulation and Supervision of Microfinance Institutions and Savings and Loan Societies

The role of the regulator is to ensure a supporting environment by establishing a firm base on which the microfinance sector can expand. The regulation and supervision team works closely with Bank to bring more relevant regulations in existing and new areas like mobile banking and classify the institutions according to risk. In the process, the team ensures that the capacity of the team is strengthened and reliable data management systems are established in the Bank. This ensures that clients are not affected by the fraudulent operators

Achievements

- Prudential Standards for Savings & Loans Societies designed;
- Off-site and On-site Supervision Manual for Savings & Loans Societies and Micro banks developed;
- Data Management Toolkit for Savings & Loans Societies & Micro banks designed and implemented; and
- Regulation and Supervision Principles of Microfinance Institutions developed.

5. Increased Lending to Micro and Small Enterprises Initiatives are being undertaken to set up a Risk Share Facility (RSF)

to share some of the risk associated with lending. It will encourage qualifying institutions to expand their micro and small enterprise loan portfolio, improve the quality of their lending, and channel more of their collected deposits into lending rather than into bank deposits and government securities. This is expected to lead to improvement in the delivery of financial services.

Achievements

- RSF was established in September 2014 as a risk mitigation strategy for licensed financial institutions to lend to Micro and small business sector.
- Risk Share Agreements signed with Nationwide Micro bank (MiBank), PNG Microfinance limited and People's Micro Bank; and
- Loans amounting to PGK 2, 805,541 to 233 clients are covered by the RSF.

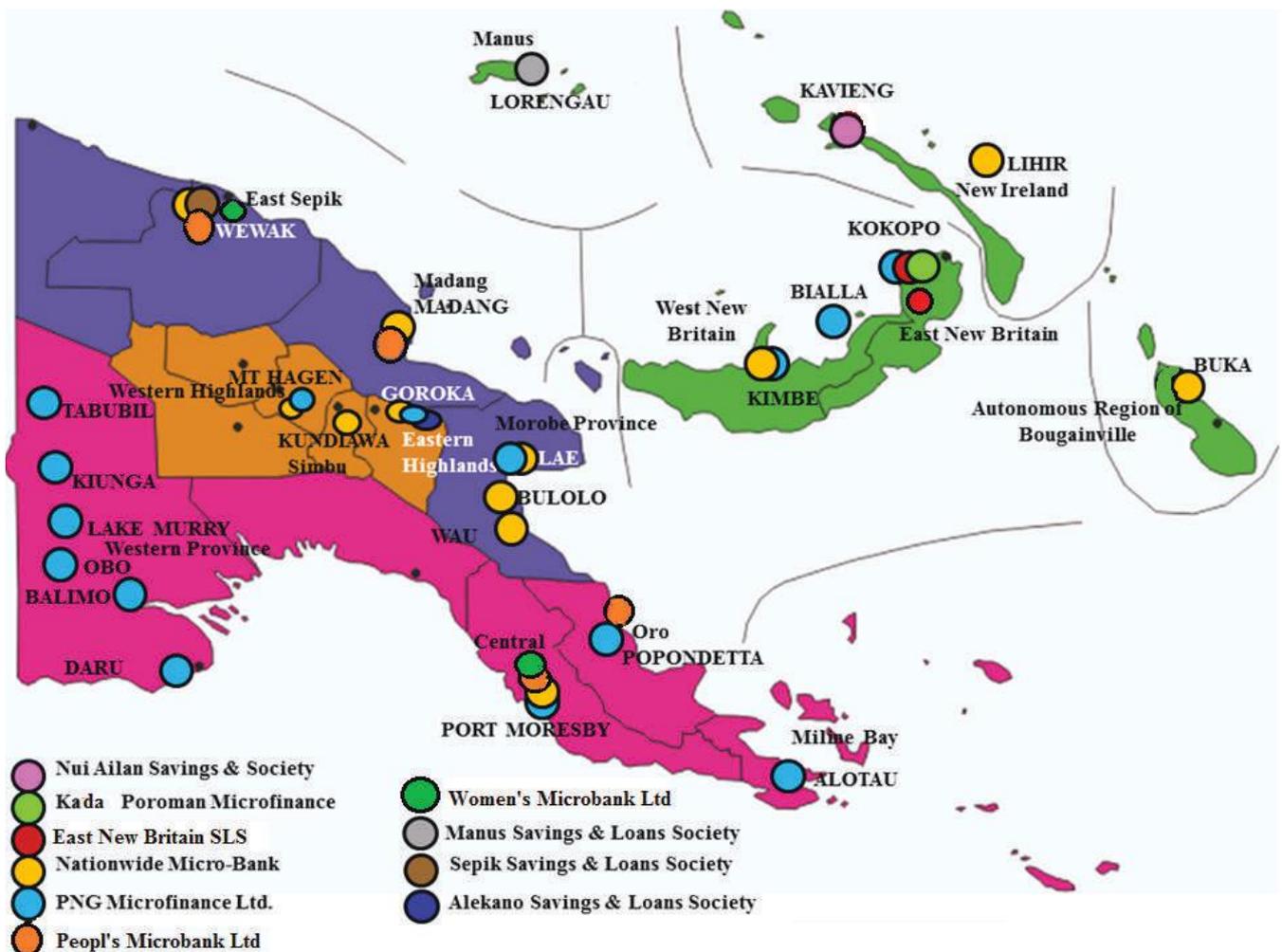


Where we work?

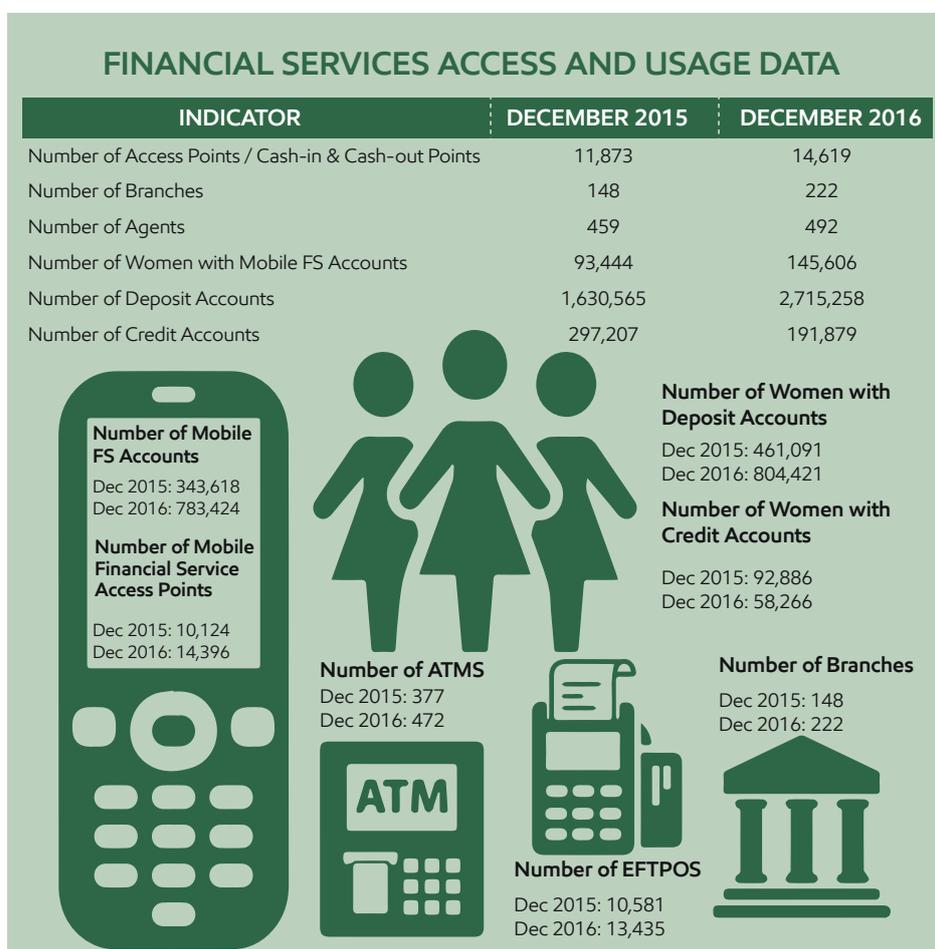
Our Partner Financial Institutions (PFIs)

CEFI's Partner Financial Institutes (PFIs) are mainly provincial based such as Savings & Loans Societies, microbanks however are found across various provinces and have agents in remote communities. CEFI has a direct involvement in the operations of its PFIs through technical assistance including training, product development and research. All PFIs also submit quarterly reports to CEFI and the Bank of Papua New Guinea. As per the above map, all PFIs are located in the 4 regions of the country and continue to expand operations. CEFI works closely with all of them through product development and training.

MiBank (Nationwide Microbank) is the only PFI which has a presence in almost all provinces of the country. MiBank has embraced the use of technology in expanding its operations particularly in rural communities through agent banking.



Achievements of First Financial Inclusion Strategy:

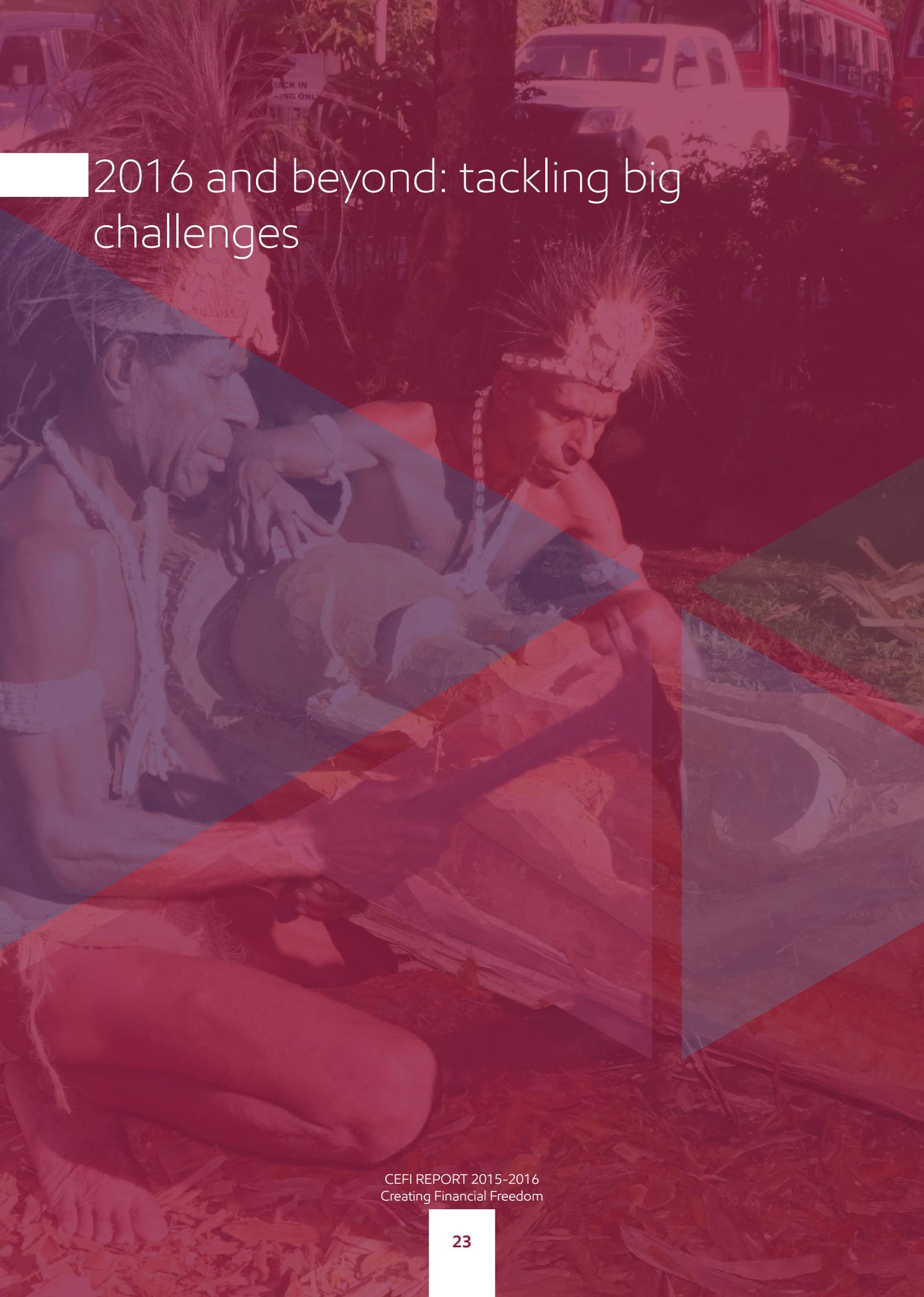


Since the launch of PNG's First National Financial Inclusion and Financial Literacy Strategy in 2013, unprecedented progress in financial inclusion has been achieved. Between June 2013 and June 2016, more than 1.2 million new deposit accounts were opened at regulated financial institutions. In the same period, the percentage of adults with an account increased from 20% to almost 37%. Financial access points in the country have grown by 56% in the last three years.

Achievement and milestones achieved in the 1st National Financial Inclusion Strategy (2013-2015):

- 1,187,024 new bank accounts opened – 462,939 ; 35% were women
- 124,375 people reached with financial education ; 47% were women
- 67 new branches, 73 ATMs, 4959 EFTPOS and 233 new agents added onto the financial service network on total 12,599 service outlets
- 696,792 policy holders have taken out micro-insurance products
- 315,993 people now linked their deposits account with Mobile Phone banking.

Over the years CEFI has seen the increase in financial inclusion activities with the assistance of Microfinance Expansion Project (MEP).



2016 and beyond: tackling big challenges



Equal access of financial services for women

Despite the achievements of the 1st strategy, a majority of the population especially the vulnerable that includes women continues to lack access to formal financial services, and financial exclusion affects these specific groups more than others.

It is more prevalent in rural communities, among women and microenterprises, especially those within the informal economy and in agriculture. Therefore, financial exclusion remains a fundamental challenge.

Nearly one of every three women in the world — or 1.1 billion — is excluded from the formal financial system. Globally, women are 7 percent less likely than men to have basic transactional accounts, and this disparity rises among the poor.

Women appear to have significantly lower levels of financial inclusion, even where financial services are available in urban communities. The scale of women's financial exclusion in PNG makes it the need to focus on women. But this is not an easy task. Expanding access to finance for women brings some unique challenges. Socio-cultural factors, limited financial and/or functional literacy, lower levels of formal employment and limited familiarity with formal financial institutions may be factors why women

are likely to have lower levels of financial inclusion and engagement in household financial decision making than men. Further research is required to develop an understanding of the causal factors which can then provide a basis for gender specific programs and products.

CEFI believes that providing low-income women worldwide with effective and affordable financial tools to save and borrow money, make and receive payments, and manage risk is critical to both women's empowerment and poverty reduction. However, the path to greater women's financial inclusion is dependent upon the creation of a more gender inclusive financial system that addresses the specific demand- and supply-side barriers faced by women, supported by an inclusive regulatory environment.



Women in Alotau participating in mobile registration in mobile money registration.

What's CEFI's strategy?



Design of a dedicated 2nd Strategy 2016-2020

CEFI will now focus its efforts with key stakeholders towards the drafting and implementation of the '2nd National Strategy on Financial Inclusion 2016-2020'. The aim of the strategy is to have a clear road map and bring together initiatives from public sector, financial and non-financial institutions and other stakeholders such as donors to expand financial inclusion in PNG. In particular, the national strategy articulates action for the provision of financial products and services to reach an additional 2 million unbanked and underserved people across the country, 50% of whom will be women, within the next four years. This is also in line with PNG's global commitment to the Maya Declaration and focus on addressing financial inclusion in a more coordinated and holistic manner.

The public-sector goal is for financial inclusion to enable individuals and businesses to achieve their economic potential, i.e. to support economic development, increase incomes and improve the standard of living (impact). For the private sector, the goal is to acquire new customers, access new market segments and ultimately increase profits. The 2nd strategy will look at improving the 4 key pillars detailed:

Enabling environment: that is, the policy, legal and regulatory framework. Important advance-

ment to translate policy goals into a fully enabling environment for innovative financial inclusion. There is: need to finalize long-term regulatory framework for digital financial services; Need for demand-driven roll-out of National Payment Switch; Need to strengthen financial consumer protection as industry matures; Need to introduce a comprehensive regulatory framework for micro-insurance; Need for development partner support to catalyze further innovation and address capacity building needs where relevant

Physical access points: Lack of financial access points, in particular in rural areas, continues to constitute a key barrier to financial inclusion in PNG.

There is: 1) Need to increase physical access points in rural areas and 2) Need to exploit the potential of digital financial services to expand the reach of the formal financial sector

Quality: Need to further enhance product tailoring, in particular for excluded individuals and Businesses; Need to reduce reliance on cash; Need to further promote competition in order to reduce prices

Usage: Access and quality are both preconditions for effective and large scale usage of financial services. Financial literacy, competency and consumer awareness must be strengthened to drive usage.

Impact Stories

Financial literacy, Women and Savings



Maino Trudi

Through the project financial literacy training, Maino Trudi learned how to do banking transactions using her mobile phone. Maino, a 67-year-old widow, has five children and eight grandchildren and earns a living in a small village in the capital of Port Moresby by selling fish and growing tomatoes and corn. Today, she does all her banking via mobile phone, something she says was “unthinkable” a few years ago because she had never used a phone before. Before she participated in the financial education training, Maino had no choice but to travel many hours into town to visit the nearest Mibank branch. She would do her banking twice a week and lose valuable work time.

Today, things have changed for the better. Maino can now access her bank account through her mobile phone and can make deposits and transfer money on the spot. She says she found mobile banking challenging at first, but now considers it “a real joy.” Says Maino, “It means I can do all my banking via my mobile phone without having to leave my vegetable garden.”

Rose Peter

Forty-three-year-old Rose Peter from Simbu Province is the mother of three schoolchildren. She started out selling lime and mustard (dakar) in the local market until she took a loan to grow her business with help from her husband. She now bakes and sells scones and runs a small general goods store in her village. “Before attending the financial education training, I never ever bothered to save money but, after the training, I opened three accounts: (1) an emergency fund, (2) a savings and loan account, and (3) a school fee account. Now I intend to use my money wisely.” Rose says she has settled all of her loans and her businesses are going well. She says the training encouraged her to cut down on unnecessary spending, and she has been careful in using her money for the benefit of her family ever since. “Now I have the knowledge to manage all my expenses and pay my children’s school fees.” She hopes to increase her financial education skills further so she can use the new technology to transfer money from her village to her son who is studying in Madang Province. Rose says she now understands the importance of saving money, and withdraws money from her emergency fund and savings account only as a last resort. Through financial literacy training, Rose Peter learned that setting aside money for different purposes, such as saving for children’s schools fees, is important. She went ahead and opened a specific account for that.



Building local capacity

Financial Education (FE) is an integral part of the Financial Inclusion drive in Papua New Guinea. The objective of the FE program is to address low levels of financial literacy and limited levels of business development and management skills. FE provides key strategy for empowering people with the skills, knowledge and behaviours to utilize financial opportunities and plan their future in an informed manner. The FE program focuses on developing the capacity of the local communities to understand and know how to access financial services for personal and business use.

Financial Education in Papua New Guinea:

Financial Education training is a priority agenda for the Microfinance Expansion Project (MEP). The MEP has provided the FE trainings in all regions of Papua New Guinea and continues to expand its reach. Since May 2012, almost over 120,000 people in the country have undergone Financial Education and Business Development Skills training programme. MEP also has a TOT arrangement which has proven effective as it brings financial literacy deep into rural areas. Under the TOT, participants who successfully complete the week long program will in turn run the training back in their communities with a minimum of 30 participants per session. The MEP also subcontracts the FE trainings to organizations that meet specific requirements.

At present, the FE trainings cover two modules only which are Savings and Budgeting from a total of five modules. Under these two topics a variety of comprehensive skills and practises are covered. Each session is merely an integrated subject that explores applicable and realistic practises that participants can adopt because of the simplicity of the lesson. All participants are issued work books and a variety of learning methods are employed so that learning is reinforced.

In conclusion the FE training are an essential component of FI in this country. The MEP and Centre for Excellence in Financial Inclusion (CEFI) have set a target of 20,000 people to train directly and through its subcontractors as part of its commitment to work toward its target. This will include coverage of more Districts all over the country particularly in rural communities. The FE TOT training will focus particularly on Simbu, Jiwaka, AROB and the Sepik area in 2016 with the view to enter other Provinces and Districts through partnership agreement with developmental partners, donor agencies and the PNG Government to continue the task of educating Papua New Guineans to be financially literate.

What did we learn?

Key lessons from 1st NFIS strategy



Key lessons

As is the case in most countries in the world, the financial sector landscape is changing in PNG due to the proliferation of information and communication technologies (ICT, most importantly mobile phones) as well as the increasing digitization of processes. This transformation presents opportunities for financial inclusion, as evidenced by growth in mobile/digital financial services deployments as well as access points in recent years.

Cutting edge technology provides new, alternative and cost effective ways of delivering financial services. There is a growing trend towards interoperability across the payment system with some providers having entered into bilateral agreements and the Central Bank initiating a National switch to support interoperability across all retail payment providers. CEFI has learnt that there are other important elements in financial inclusion, thus three working groups will be added to the existing working groups; that is tasked to implement the NFIS, that is SME Finance and Access to Finance for Informal and Agricultural Enterprise; Resources Sector Engagement working group. Realizing that the Resources Sector engagement working group has a very critical role in economic development in the country, this was added to the existing groups.

A results framework with specific indicators and quantifiable targets has been added for assessing progress towards the objectives of the NFIS.

Another key trend is the ongoing formalization of the Savings and Loans societies (S&Ls). The Central Bank is promoting further professionalization through a new Savings and Loans Societies Act, which promotes a level playing field between S&Ls and other licensed deposit-taking institutions, thereby promoting competition in the retail banking market.

Development partners have been critical in catalyzing change by providing financial and technical resources. The support provided by development partners has enabled the growth of the microfinance industry. More recently,

development partner support has enabled the launch of innovative digital financial services and micro-insurance products.

There were key takeaways from the implementation of the first strategy:

Enabling Environment:

- * Need to finalize the long-term regulatory framework for digital financial services
- * Need for demand driven roll out of National Payment Switch
- * Need to strengthen financial consumer protection as industry matures
- * Need to introduce a comprehensive regulatory framework for microinsurance
- * Need for development support to catalyze further innovation and address capacity building needs where relevant

Access:

- * Need to increase physical access points in rural areas
- * Need to exploit the potential of digital financial services to expand the reach of the formal financial sector

Quality:

- * Need to further enhance product tailoring, in particular for excluded individuals and businesses
- * Need to reduce reliance on cash
- * Need to further promote competition in order to reduce prices

Usage:

- * Access and quality are prerequisites for effective usage
- * Financial Literacy and consumer awareness must be strengthened to drive usage

The Second Strategy 2016-2020 will identify the priority areas and the strategic framework will respond to the barriers to financial inclusion based on the lessons of the First Strategy as well as the opportunities.

Looking Ahead

CEFI's key role is providing full support and effective coordination to the key stakeholders on financial inclusion in PNG through the working groups to ensure effective implementation and work towards achieving the vision of the 2nd National Financial Inclusion Strategy 2016-2020. Looking ahead, below are some key areas to focus on:

Financial capability

In PNG, there is a great need for more financial education as financial inclusion improves. As more people become part of the digital financial economy, users need to become financially literate and aware about the ecosystem. Furthermore, as the population accessing digital financial products rises, respect for privacy and ethical use of data needs to be institutionalised. These are issues that CEFI and the Bank of PNG are looking into as it implements the 2nd national financial inclusion strategy.

While there has been exponential growth in the number of digital transactions, the main challenge to bringing more people into the digital financial economy remains the behaviour. "Why would people change the way they make payments? In our society, often less cash is misconstrued as cashless. CEFI has seen that behaviour is very difficult to change and often a lot of hand holding is required. There is a lot of assisted digitisation happening. A lot of digital financial services providers are now looking to solve problems of communities and people who were previously not included in the formal financial economy.



Consumer Protection

Financial education, financial inclusion and financial consumer protection are important ingredients of financial empowerment of individuals. Financial education is necessary is critical. In addition, people also need to be responsible and self-aware while accessing financial products. People who will start accessing digital financial products for the first time need to be educated on how to use them prudently. All these are part of digital financial inclusion.

It is important that the digital financial products are safe, and government and regulators, along with private organisations must ensure that the platforms are secure, as one bad experience can turn off potential users. Innovations in the digital economy are changing at a very fast pace, and keeping privacy in mind is a need for a supportive environment for the fintech industry.



Harnessing Innovation for Financial Inclusion

Financial inclusion is about much more than just having a bank account. At its root level, it is a key element of social and economic inclusion. It is about helping people participate in today's connected economy. Reaching the unbanked and underbanked population is a win for all stakeholders involved - it can provide new customers for service providers, while connecting people to financial services that can help them manage their money, save and obtain access to a wider range of welfare benefits.

In country, our commercial banks, mobile network operators and other stakeholders continue to look at how we can address this

problem, alongside the central bank who creating an enabling environment with policies to support this. The challenge is to create meaningful opportunities to bring banking services to underserved communities.

If PNG is to better support financial inclusion through technology, we already have a clear national strategy where the government plays a pivotal role in encouraging financial inclusion.



Public Private Partnerships

Public-private partnerships are essential to ensure that new technologies reach underserved populations that need them. Government ministries and departments and technology providers need to work together to ensure that the latest technology is embraced and capable of reaching a wider audience.

More support is needed to extend the rollout of fast, reliable broadband technology, as this will underpin almost all of the technologies that are essential to financial inclusion. Without it, other technology solutions will not succeed.

Perhaps most importantly, we must take an omni-channel approach to financial inclusion. While tools such as digital banking are immensely powerful, not everyone will have access to every solution, or will want digital channels. Likewise, physical channels themselves are not always the answer.

To open more doors to financial inclusion, we must have policies and regulations that are flexible and technology-neutral to allow the best technologies that drive financial inclusion to flourish, and technology providers need to ensure they are embracing the latest technology innovations in their products to be able to reach an ever-larger banking population.

Our Stakeholders

CEFI maintains strategic partnerships with a range of national stakeholders, including industry, donor and training partners, and the Government of Papua New Guinea. With the support of our stakeholders, we strive to develop the growth of financial inclusion across the country.

Here are some of the many organisations partnering with CEFI advance financial inclusion in PNG.

Founding Members



BANK OF PAPUA NEW GUINEA



DEPARTMENT OF NATIONAL PLANNING & MONITORING

Members



DEPARTMENT OF FINANCE



DEPARTMENT OF TREASURY



PNG MICROFINANCE LTD



KADA POROMAN MICROFINANCE LTD



MIBANK (NATIONWIDE MICROBANK)

NIU AILAN SAVINGS & LOANS SOCIETY

The Niu Ailan Savings & Loans Society was established under the Savings & Loans Act of Papua New Guinea and serves its members from the New Ireland Province and throughout the country

SEPIK SAVINGS & LOANS SOCIETY

The Sepik Savings & Loans Society was established under the Savings & Loans Act of Papua New Guinea and serves its members from the Sepik Region and throughout the country.

Technical & Developmental Partners



ALLIANCE FOR FINANCIAL INCLUSION (AFI)



ASIA DEVELOPMENT BANK (ADB)



Government of Australia Department of Foreign Affairs and Trade (DFAT)



BETTER THAN CASH ALLIANCE



PACIFIC FINANCIAL INCLUSION PROGRAMME (PFIP)

Financials

CENTRE FOR EXCELLENCE IN FINANCIAL INCLUSION

BALANCE SHEET AS AT 31 DECEMBER 2016

	Notes	2016 PGK	2015 PGK
CURRENT ASSETS			
Cash and cash equivalents	2	477,322	822,537
Other	3	-	9,967
TOTAL CURRENT ASSETS		<u>477,322</u>	<u>832,504</u>
NON-CURRENT ASSETS			
Property, plant and equipment	4	20,924	52,822
TOTAL NON-CURRENT ASSETS		<u>20,924</u>	<u>52,822</u>
TOTAL ASSETS		<u>498,246</u>	<u>885,326</u>
CURRENT LIABILITIES			
Trade and other payables	5	<u>3,000</u>	<u>2,750</u>
TOTAL CURRENT LIABILITIES		<u>3,000</u>	<u>2,750</u>
TOTAL LIABILITIES		<u>3,000</u>	<u>2,750</u>
NET ASSETS		<u>495,246</u>	<u>882,576</u>
EQUITY			
Retained profits		<u>495,246</u>	<u>882,577</u>
TOTAL EQUITY		<u>495,246</u>	<u>882,577</u>

Audited by DFK Mayberry Chartered Accounts.

CEFI REPORT 2015-2016
Creating Financial Freedom

CENTRE FOR EXCELLENCE IN FINANCIAL INCLUSION

**DETAILED INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016 PGK	2015 PGK
INCOME		
Interest	870	32
Grant - Go PNG	-	750,000
Grant - Bank of Papua New Guinea	309,174	82,851
Grant - Microfinance Expansion Project	842,024	660,738
Grant - Pacific Financial Inclusion Program	276,082	18,000
TOTAL INCOME	1,428,150	1,511,621
LESS EXPENSES		
Advertising	65,840	7,468
Audit fees	3,000	2,750
Bank charges	1,050	400
Communication	19,180	5,056
Consultancy fees	142,945	42,933
Depreciation	31,899	31,700
Leave Fares	-	8,060
Motor vehicle expenses	14,920	12,214
Office expenses	56,392	3,606
Recruitment costs	89,725	-
Rent	81,927	121,282
Repairs and maintenance	900	-
Salaries and wages	1,182,936	599,889
Travelling & accomodation expenses	2,621	4,418
Workshop expenses	122,146	149,286
TOTAL EXPENSES	1,815,481	989,062
PROFIT/(LOSS)	(387,331)	522,559

Audited by DFK Mayberry Chartered Accounts.



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Financial Inclusion**
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