



**Asia-Pacific
Economic Cooperation**

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National Financial Inclusion Strategy 2016 - 2020

Submitted by: Centre for Excellence in Financial Inclusion



**Policy Dialogue on Micro, Small and
Medium Enterprises Internationalization
Port Moresby, Papua New Guinea
10-11 September 2018**



National Financial Inclusion Strategy (NFIS) 2016 - 2020

POLICY DIALOGUE ON MICRO SMALL AND MEDIUM ENTERPRISES (MSMES) INTERNATIONALIZATION

10-11 September

ICCC, PORT MORESBY

Situation in Papua New Guinea

PNG's geographical terrains makes government service delivery in most parts of the country a real challenge;

High illiteracy rate;

Low technological innovation and penetration;

It is estimated that about 75% of the total population is excluded from the formal financial sector;

Financial Inclusion is a means to liberating this segment of the population by providing access to financial services;

Financial inclusion means that individuals and businesses have **access to** and can **effectively use financial products and services that meet their needs** – payments, savings, credit and insurance – which are delivered in a **responsible and sustainable way**. (NFIS 2016-2020)

Background

The **NFIS 2016 – 2020** is PNG's second national strategy on Financial Inclusion;

The **NFIS 2016 – 2020** incorporates global standards and initiatives of Alliance for Financial Inclusion (AFI), Money Pacific Goals, Better Than Cash Alliance, and G20 Principles;

Overarching Government Vision and Policies:

1. Vision 2050
2. Development Strategic Plan 2010-2030
3. National Informal Economy Policy
4. National Financial Inclusion Policy (for NEC approval)
5. Financial Sector Development Strategy

The NFIS focuses on Creating an **enabling environment, Access, Quality and Usage** – recognising **financial literacy** and **consumer protection** as prerequisites of meaningful access to financial services of PNG's unbanked population;

CEFI : established under the Association Incorporation Act on 24th April, 2013, its an independent entity founded by BPNG and GoPNG, endorsed by National Executive Council as the apex body for coordinating, advocating and monitoring all financial inclusion activities in PNG. (NEC Decision No. 226/2013)

NFIS 2016 – 2020 Target

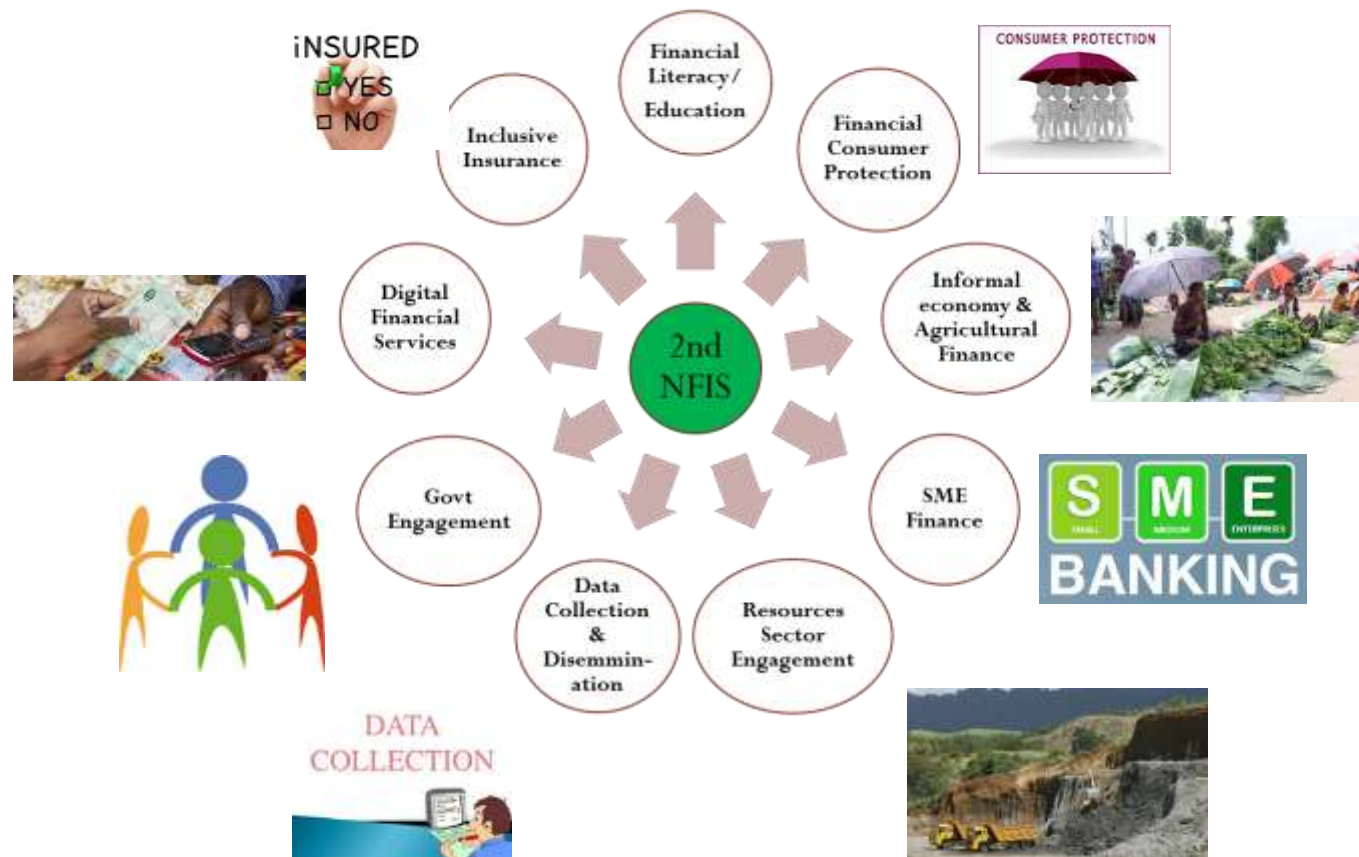
**2 Million Additional Accounts
-50% women**

Increase in Access

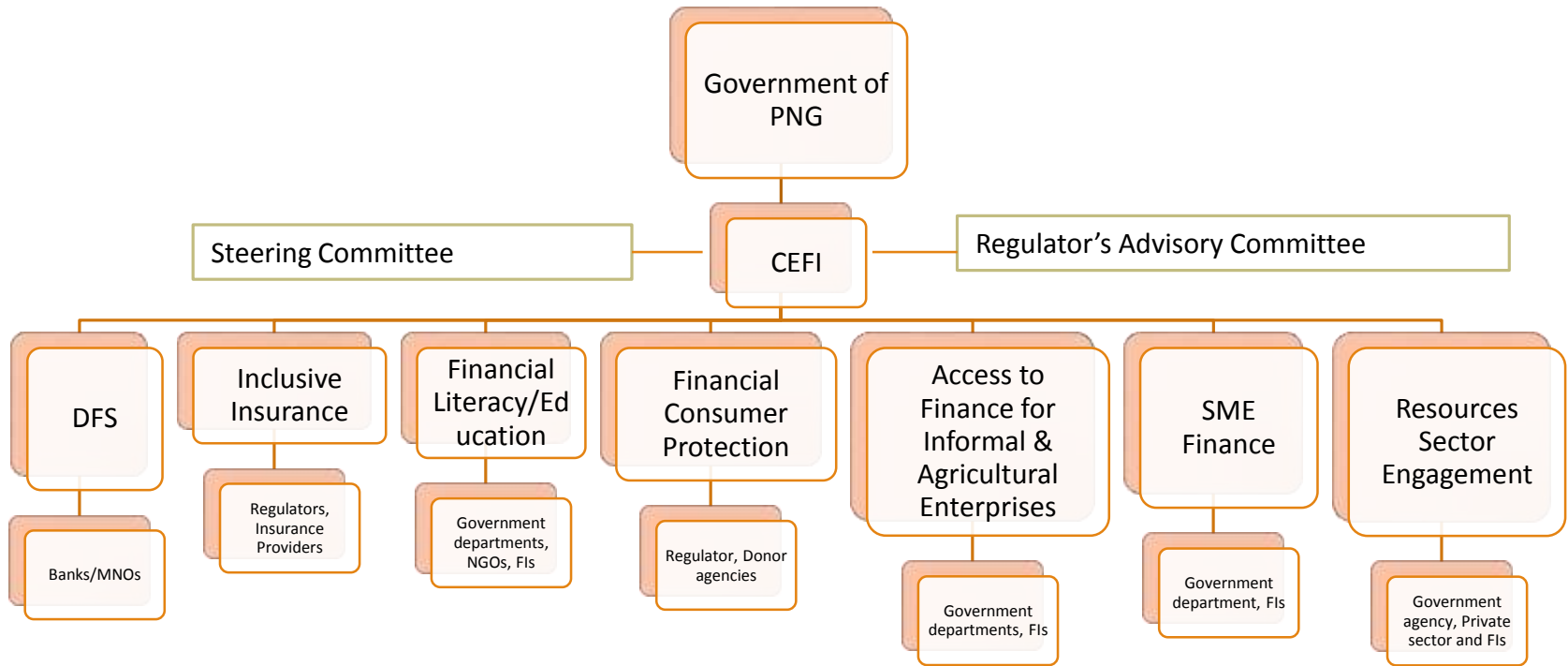
Increase in Usage



NFIS 2016 – 2020: Key Priority Areas and Strategic Objectives



NFIS 2016 – 2020: Coordination and Implementation



NFIS 2016 – 2020: Key Priority Areas and Strategic Objectives

Key Priority Areas	Strategic Objectives
1. Digital Financial Services	To continue to actively support innovative use of technology for scaling up financial access/usage and promote expansion of digital financial services to reach remote parts of the country.
2. Inclusive Insurance	To expand micro insurance to an additional 1.5 million people
3. Financial Literacy and Financial Education	To build on gains in financial education and extend it to educational institutions such as technical colleges, secondary and primary schools.
4. Financial Consumer Protection	To introduce and implement a consumer protection framework for regulated financial institutions.
5. Informal Economy and Agricultural Finance	To enhance access to and usage of finance for enterprises in the informal economy including agriculture.
6. SME Finance	To enhance access to and usage of finance for SMEs. (widening access to financing for small businesses)
7. Resources Sector Engagement	To leverage opportunities within the resources sector to advance financial inclusion.
8. Data Collection and Dissemination	To continue regular collection of financial inclusion data and publish it for policy makers and commercial service providers to identify key dimensions and opportunities in PNG.
9. Government Engagement	To promote the integration of financial inclusion in national and local level government planning and implementation processes.

SME Finance

Context:

In PNG, SMEs already make a major contribution to national output, accounting for 200,000 jobs and an estimated 10% of GDP (these figures will likely be much higher if the informal sector is taken into account);

At present, SMEs face obstacles to financing and are often perceived as high risk by commercial lenders;

According to local media reports, 94.4% of SMEs in PNG have never received a loan and just 2.5% had benefitted from direct government assistance;

Due to the importance of SMEs for inclusive growth in PNG, it was decided to include this new priority area. (after 1st NFIS 2014-2015)

SME Finance

STRATEGIC OBJECTIVES

Enhance knowledge and data on financial inclusion among SMEs

Review regulatory and supervisory frameworks to ensure they are fully enabling for SME Finance

Promote innovation and competition in SME Finance

Facilitate dialogue on existing public sector interventions and support schemes

Strengthen capacity of SMEs and financial institutions

Support Measures in Place

PNG has a diverse banking sector

- Commercial banks: 4
- Microbanks: 5
- Savings and Loans Societies: 21

NFIS 2016- 2020:SME Finance is a priority area with strategic objectives and M&E Framework, LFIs have financial inclusion focus

Survey of SME/Agri lending products: to be consolidated and published by CEFI

Financial Literacy and Business Development Skills training via MEP – 150,000 + TOT trained so far

GESI : With the support of MEP partners and microfinance institutions, the Bank of PNG launched the Gender Equity and Social Inclusion (GESI) Policy for Microfinance Institutions (MFIs) in 2017. CEFI/MEP will be working with 13 women organisations to implement the GESI policy and complete the project by June 2019. 7 organisations are engaged already. The overall goal is to increase women’s financial inclusion in Papua New Guinea by enabling women to access, and effectively operate, useful and affordable financial products and services that meet their needs.

Risk Share Facility : Output 5 of the Microfinance Expansion project “Support increased MSE lending through a creation of RSF”

- RSF is established as a Trust governed by a board of 3 institutional trustees:
 - Bank of PNG(BPNG), Department of Treasury (DOT), Asian Development Bank (ADB)
 - The RSF proposes to share partially loan losses with the loan writer
 - Technically, this risk share mechanism is a insurance product (covering partially final loan losses) rather than a simple loan guarantee
 - So BPNG acts as DOTs agent in issuing the RSF undertakings
 - Initial capital backing of 12.5 million

About the RSF

Objectives:

Increase access to debt finance by MSEs

Help mitigate and diversify default risks

Encourage banks and FIs to grow their MSE loan portfolios

Catalyse and leverage lending by banks to segments 'perceived as risky'

Help MSEs mobilise resources to grow their businesses

General Business Policy:

Only LFIs are eligible to apply to RSF: commercial banks, Finance companies, microbanks, savings and loans societies

No specific criteria defining what is an MSE e.g. turnover, # of employees, etc is applied

All legal type of enterprises and economic activities are eligible (formal, semi-formal or informal)

The MSE can be an existing or a newly created one

About the RSF

General Business Policy:

The loan should be used for an income generating activity in the very broad sense

Loans disbursed by LFIs must be used for purchasing fixed assets or used as working capital

Loans disbursed must not exceed K300,000 (initially K50,000)

The term must be equal to or lower than 36 months

General Business Policy:

There is no disclosure to the borrower that RSF is covering the loan

RSF does not conduct a credit appraisal but endorses automatically the lender's credit decision

In exchange the RSF will request full information on loans disbursed and to be covered

RSF Report as of July 2018

Project to date:

4 risk sharing agreements signed

1,808 cumulated number of MSEs loans financed by LFIs

K22,322,959 : cumulated value of loans covered by RSF

1,119 cumulated number of MSEs loans financed by LFIs for women

K6,913,211 cumulated value of loans covered by RSF for women

NFIS 2016-2020: Implementation Update

Key Priority Area	Update
1. Digital Financial Services	Work on establishment of National Switch in progress to conduct financial transaction in a timely and efficient way.
2. Inclusive Insurance	Working towards the production of an Annual Insurance Industry Report that provides basic data on the level of micro insurance penetration in the country .
3. Financial Literacy and Financial Education	Standardize all adult financial literacy training materials, trainers certification process and systems of monitoring and evaluation of financial education programs. Dialogue with DOE to incorporate Financial Education into the National Education Curriculum.
4. Financial Consumer Protection	Working towards the establishment of PNG financial consumer protection regulatory framework .
5. Informal Economy and Agricultural Finance	Establishment of dialogue with financial service providers to enhance products and services tailored towards Informal Agriculture sector .
6. SME Finance	Working towards establishing National Credit Guarantee Scheme to support SME sector.
7. Resources Sector Engagement	Roll-out financial inclusion activities in resource sector project community areas.
8. Data Collection and Dissemination	Establishment of central database for financial inclusion completed.
9. Government Engagement	Roll out financial inclusion to sub-national and local levels of government

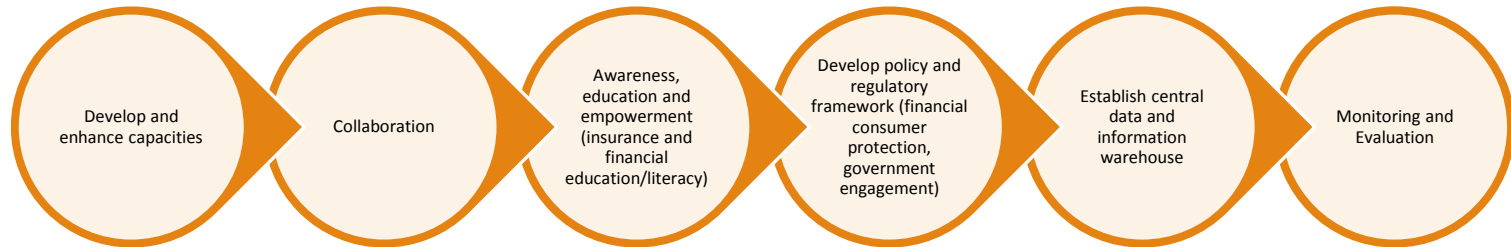
Progress of 2nd Strategy

Dimensions	Indicators	March 2016	March 2017	Mar 2018	Increase in Usage & Access	Increase in %
U S A G E	# of deposit accounts	1,786,171	2,916,504	3,098,418	1,312,247	73.47% (31.28% of new accounts were opened by women)
	# of women with deposit accounts	468,647	877,688	879,141	410,494	87.59%
A C C E S S	# of access points	12,579	13,419	14,531	1,952	15.52%
	# of branches	184	207	216	32	17.39%
	ATMs	376	426	465	89	23.67%
	EFTPOS	11,409	13,271	13,442	2033	17.82%
	# of agents	436	431	408	-28	-6.42%
	# of mobile FS accounts	335,297	512,844	520,006	184,709	55.09%
	# of women with mobile FS accounts	95,558	151,754	155,522	59,964	62.75%
# of microinsurance accounts				700,000		

NFIS 2016 – 2020: Implementation Challenges

Key Priority Area	Implementation Challenges
1. Digital Financial Services	Capacity of Telecommunication network to enhance connectivity, new entrants to increase competition, lowering the cost of internet services.
2. Inclusive Insurance	Improving general population's understanding of the rational for insurance coverage
3. Financial Literacy and Financial Education	High illiteracy rate amongst the adult population
4. Financial Consumer Protection	Lack of coordinated and consistent approach to financial Consumer protection by financial institutions
5. Informal Economy and Agriculture Finance	Provision of agriculture finance not key priority within the financial sector
6. SME Finance	Provision of access to alternative and sustainable credit for SMEs
7. Resources Sector Engagement	Financial Inclusion not seen as a platform for enhancing commercial activities and development in rural areas
8. Data Collection and Dissemination	Absence of national data warehouse for receiving and dissemination of financial inclusion data
9. Government Engagement	Collaboration amongst government agencies to holistically address financial inclusion

NFIS 2016 – 2020: Addressing Challenges



Way forward for SME Finance

New technologies could become a game changer for MSMEs.

- New solutions can be customized, effective and profitable at lower scale

Banks have a critical role to play in this digital future – they know the financial products, possess the required scale, capital and consumer trust and have the key competitive advantage of risk management.

Technology firms bring innovation, new customer segments and new distribution channels

Government and regulations have been supporting of financing needs for this sector and are doing more through regulatory reforms and co-funding schemes.

The linkages between growth, financial stability and innovation are clear. Policymakers, banks and technology companies together can solve the industry's one size fits all problem for small business needs and create commercially viable, technology driven business models for MSMEs, thereby supporting the financial inclusion agenda at a time when it is needed more than ever.

Thank You

