



Papua New Guinea

(Second)
National Financial Inclusion Strategy
2016-2020

*****To be submitted to the National Executive Council*****



Bank of Papua New Guinea

To be completed by CEFI/BPNG (potentially similar to or replacing the "Introduction" section)

Loi M. Bakani
GOVERNOR, Bank of PNG
Chairman, Centre for Excellence in Financial Inclusion

Executive Summary

Since the launch of Papua New Guinea’s (PNG) first National Financial Inclusion and Financial Literacy Strategy, unprecedented progress has been achieved in financial inclusion. While **in June 2013 only 20% of adults had an account at a formal financial institution, in June 2016 it was 37%**, i.e. the figure almost doubled.

However, about two thirds of the population continues to lack access to any form of formal financial service. In addition, financial exclusion affects specific groups more than others: it is more prevalent in rural communities, among women and micro, small and medium enterprises (MSMEs) – especially those working within the informal economy and in agriculture. At the same time, vast opportunities exist in PNG to rapidly and sustainably expand financial inclusion, including through innovative technology and business models.

These opportunities will most likely be met through a coordinated effort including all key stakeholders. This Second National Financial Inclusion Strategy (NFIS) seeks to provide a coordinated and effective framework for such an effort, and to promote financial inclusion through shared public and private sector goals. It aligns with a number of important government policy objectives and provides a clear definition and conceptual framework for financial inclusion. The Strategy is divided into two parts:

Part I (THE CONTEXT) provides the analytical foundation: a definition of financial inclusion for PNG; the importance of financial inclusion for the realization of government policy; international initiatives and commitments, and the current status of financial inclusion in PNG.

Part II (THE STRATEGIC FRAMEWORK) describes the strategic framework for achieving the Vision and delivering the Mission:

<p>➤ Key Guiding Policy Frameworks</p>	<ul style="list-style-type: none"> ✓ <i>Vision 2050</i> ✓ <i>Development Strategic Plan 2010-2030</i> ✓ <i>National Informal Economy Policy</i>
<p>➤ Vision</p>	<p><i>All Papua New Guineans are financially competent and have access to a wide range of financial services that address their needs and are provided in a responsible and sustainable manner.</i></p>
<p>➤ Mission</p>	<p><i>To provide a coordinated framework for advancing financial inclusion in PNG by addressing prevalent barriers and exploiting key opportunities.</i></p>
<p>➤ Timeframe</p>	<p><i>December 2016 – December 2020</i></p>

The Strategy seeks to deliver on its Mission and to achieve its Vision in the context of nine Priority Areas. For each Priority Area, key Strategic Objectives as well as Sub-Objectives have been identified.

Priority Areas	Strategic Objective
1. Digital Financial Services	<i>To continue to actively support innovative use of technology for scaling up financial access and promotion of expansion of digital finance services to reach remote parts of the country.</i>
2. Inclusive Insurance	<i>To expand micro insurance to reach 1.5m people.</i>
3. Financial Literacy and Financial Education	<i>To build on gains in financial education and extend it to educational institutions such as technical colleges, secondary and primary schools.</i>
4. Financial Consumer Protection	<i>To introduce and implement a consumer protection framework for regulated financial institutions.</i>
5. Informal Economy and Agricultural Finance	<i>To enhance access to and usage of finance for enterprises in the informal economy including agriculture.</i>
6. SME Finance	<i>To enhance access to and usage of finance for Small and Medium Enterprises (SMEs).</i>
7. Resources Sector Engagement	<i>To leverage opportunities within the resources sector to advance financial inclusion.</i>
8. Data Collection and Dissemination	<i>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 Papua New Guinea.</i>
9. Government Engagement	<i>To promote the integration of financial inclusion in Local and National Government planning and implementation processes.</i>

All Strategic Objectives are further broken down into Sub-Objectives in order to guide concrete action. The Strategy furthermore outlines implementation mechanisms for overall coordination as well as specifically for each Priority Area – acknowledging that different Strategic Objectives require different types of implementation mechanisms.

The Strategy also outlines a Monitoring and Evaluation (M&E) framework with national impact indicators, which provides a structure for assessing progress towards the objectives of this strategy using well-defined and quantifiable indicators and targets.

Finally, the Strategy includes an Action Plan setting out key actions to achieve the Sub-Objectives, Strategic Objectives, Mission and Vision.

Contents

Executive Summary.....	3
Contents.....	5
Abbreviations.....	7
PART I – THE CONTEXT.....	9
1 INTRODUCTION.....	10
1.1 Definition and Concept of Financial Inclusion	10
1.2 PNG Government Commitment to Financial Inclusion.....	12
1.3 International Initiatives and Specific Commitments.....	14
1.4 High-level Commitments and Principles.....	14
2 CURRENT STATE OF FINANCIAL INCLUSION IN PNG	16
2.1 Financial Sector Landscape	16
2.2 Progress achieved since the Launch of the First Strategy	17
2.3 Key Financial Inclusion Trends	18
2.4 Enabling Environment.....	18
2.5 Access.....	20
2.6 Quality.....	22
2.7 Usage.....	24
2.8 Disparities regarding Financial Inclusion	24
PART II – THE STRATEGIC FRAMEWORK	27
3 VISION, MISSION & CONCEPTUAL FRAMEWORK.....	28
3.1 Vision & Mission.....	28
3.2 Conceptual Framework.....	28
4 PRIORITY AREAS	29
5 STRATEGIC OBJECTIVES.....	34
6 COORDINATION AND IMPLEMENTATION MECHANISMS.....	37
6.1 Key Stakeholder Roles.....	37
6.2 High-Level Implementation Management.....	39



6.3	Implementation Management in Priority Areas	41
7	MONITORING AND EVALUATION.....	44
7.1	Results Framework.....	44
8	ANNEX – ACTION PLAN	47

Abbreviations

AGFIN	Agricultural Finance
APEC	Asia-Pacific Economic Cooperation
ATM	Automated Teller Machine
BPNG	Bank of Papua New Guinea
BTCA	Better than Cash Alliance
CDD	Customer Due Diligence
CEFI	Centre for Excellence in Financial Inclusion
CIMC	Consultative Implementation and Monitoring Council
DFS	Digital Financial Services
DFSIG	Digital Financial Services Industry Group
DP	Development Partner
EFTPOS	Electronic Funds Transfer Point of Sale
FCP	Financial Consumer Protection
FL/FE WG	Financial Literacy/ Financial Education Working Group
FSP	Financial Service Provider
G2P	Government-to-Person
GovPNG	Government of Papua New Guinea
ICCC	Independent Consumer and Competition Commission
ICT	Information and Communications Technology
IEAFWG	Informal Economy and Agricultural Finance
IIIG	Inclusive Insurance Industry Group
IMF	International Monetary Fund
KYC	Know-Your-Customer



M&E	Monitoring and Evaluation
MEP	Microfinance Expansion Project
MoU	Memorandum of Understanding
MSMEs	Micro Small and Medium Enterprises
NEC	National Executive Council
NFIS	National Financial Inclusion Strategy
NGO	Non-governmental organizations
NICTA	National Information & Communications Technology Authority
NIEP	National Informal Economic Policy
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
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
WG	Working Group



PART I – THE CONTEXT

1 INTRODUCTION

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%.**

Financial access points in the country have grown by 56% in the last three years. **Papua New Guineans can now access the formal financial sector at 12,599 physical access points**, as well as often via their mobile phones. However, the majority of the population continues to lack access to formal financial services, and financial exclusion affects 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.

The implementation of the First Strategy ended in 2015. To provide a strategic framework for financial inclusion going forward, a new National Financial Inclusion Strategy (subsequently referred to as "Second Strategy") has been developed. The Second Strategy has been developed in a consultative and participatory process with inputs from all key stakeholders, acknowledging lessons learnt from the First Strategy, and considering international best practices.

The Priority Areas and Strategic Objectives for the future follow a detailed analysis of the barriers to and opportunities for financial inclusion in PNG. The Second Strategy seeks to provide a coordinated framework for all financial inclusion activities in PNG and to align all stakeholders to the common Vision that:

All Papua New Guineans are financially competent and have access to a wide range of financial services that address their needs and are provided in a responsible and sustainable manner.

This Second Strategy provides continuity as it pursues the routes embarked upon in the First Strategy that have proven effective, thus maintaining the momentum created by the First Strategy. Furthermore, it provides an update by identifying new Priority Areas, Strategic-Objectives, and fine-tuning implementation mechanisms. It sets the national strategic framework for financial inclusion until 2020.

1.1 Definition and Concept of Financial Inclusion

This Strategy puts forward the following definition of financial inclusion:

*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**¹.*

¹ See World Bank definition at <http://www.worldbank.org/en/topic/financialinclusion/overview>

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. Financial inclusion is a multi-faceted agenda which rests on four key pillars:

- **ENABLING ENVIRONMENT:** The policy and regulatory context which underpins financial inclusion. Financial inclusion will be best achieved if it is backed by government policy, efficient and accessible financial infrastructure and a regulatory framework that facilitates private sector growth, innovation and competition while safeguarding consumers and financial stability.
- **ACCESS:** Access is the first driver of financial inclusion; in order to *use* financial services, individuals and businesses must be able to *access* them conveniently. Access to financial transactions can be either through physical access points (branches, ATMs, agents, EFTPOS) or remotely through information and communication technologies (ICT) such as mobile phones. Physical access points are required for many financial services functions, including: withdrawing or depositing cash, opening a bank account, applying for credit and seeking advice.
- **QUALITY:** In order for people to *effectively* use financial services (i.e. to achieve their economic potential), these services must correspond to their financial needs. In addition, they must be provided in a responsible manner (transparency, fair practices). In an environment where access has been achieved but quality remains low, people may not use the financial services they have access to, i.e. financial inclusion may remain low.
- **USAGE:** Since only effective *usage* of financial services (not access alone) will lead to economic impact and private sector profits, *usage* is the ultimate driver of financial inclusion. *Usage* will most likely occur when the enabling environment, access and quality are conducive. However, even in a situation where all of these pillars are conducive, limited financial capability and customer awareness may constrain usage (demand side).

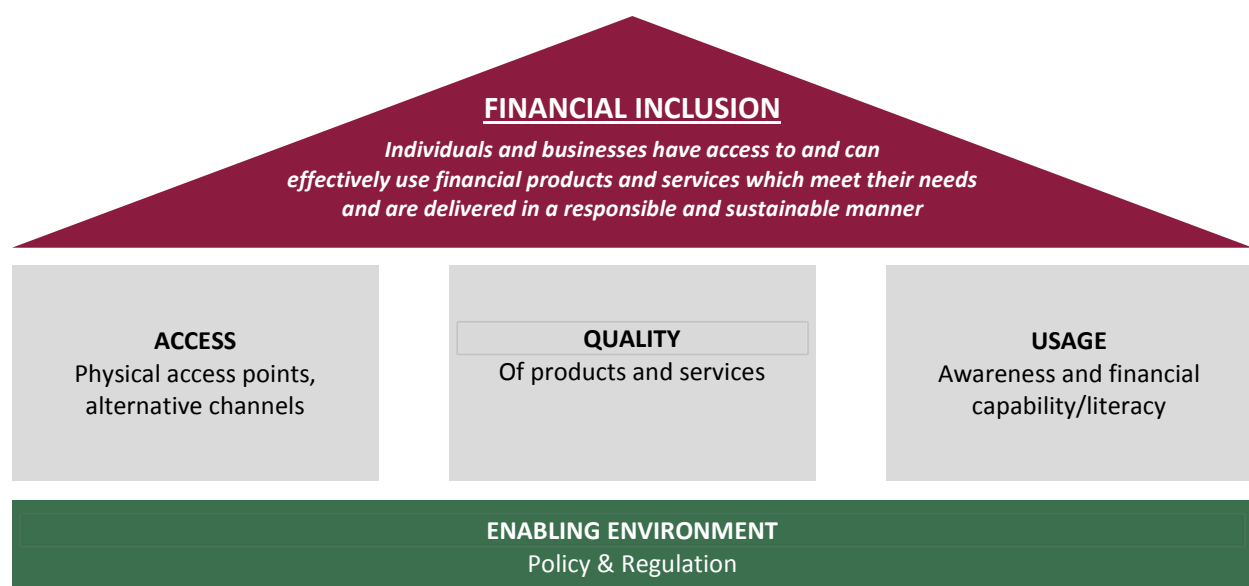


Figure 1: Key Pillars of Financial Inclusion

1.2 PNG Government Commitment to Financial Inclusion

The Government of PNG (GovPNG) has made clear policy statements regarding the importance of financial inclusion. The government’s commitment to financial inclusion is well documented in key policy documents, including:

Vision 2050

Vision 2050 for Wealth Creation (National Strategic Plan Taskforce, 2011) acknowledges the requirement to enhance financial literacy in order to increasingly monetize the economy. It points to a growth in credit for agriculture, forestry, fisheries, tourism, and manufacturing sectors as key performance indicators of progress towards the vision of wealth creation.

The Development Strategic Plan 2010-2030

The *Development Strategic Plan 2010-2030* (Department of National Planning and Monitoring, 2010) (PNGDSP) lists “strengthen financial and banking services in PNG” as a key policy goal. It acknowledges that significant progress is required to extend the availability of low cost financial services to the general population.

The plan furthermore identifies key barriers to development caused by financial exclusion, e.g. “small enterprises and newcomers have difficulty securing investment funds” and “the depth of services remains thin and underdeveloped in rural areas where the financial sector has failed to reach the majority of the population”.

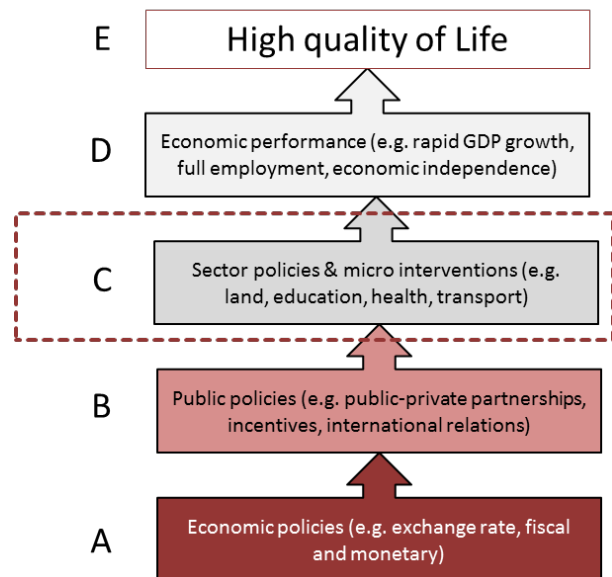


Figure 2: Conceptual Framework of PNGDSP

In Section 1.4, the PNGDSP outlines the *Conceptual Framework* (see figure 2.) for implementing the policy objectives, noting that “the third stage (C) is the most important stage and highlights the areas of key interventions by the Government through the different sectors.”²

This Strategy is located at the third stage (C), constituting the Sector Strategy for financial inclusion. It seeks to provide a coordinated and comprehensive framework for delivering the policy goals relating to financial inclusion mentioned in the PNGDSP. It also seeks to identify areas that qualify for public sector support due to market failures, while clearly demarcating the domain of the private sector.

² Department of National Planning and Monitoring (2010). Papua New Guinea Development Strategic Plan 2010-2030. Papua New Guinea.

Medium Term Development Plan2 (2016-2017)

In the context of “Financial Sector Reforms”, the *Medium Development Plan 2016-2017* lists the development of the financial sector as “a key enabler for government”. It mentions “providing low income citizens, micro and small businesses access to a diverse range of financial products and services” as a “key area of focus for financial sector development”. Key strategies include the following:

- “Developing new financial products that meet the demands of small enterprises and start-up companies that struggle to secure investment funds from commercial banks;
- Encouraging innovation from the banking sector to reduce transaction and overhead costs; and
- Continuing support for the development of financial services to private individuals through micro finance and other facilities.”

National Informal Economy Policy

The majority of individuals and businesses generate income through informal economic activity. Therefore, the government of PNG acknowledges the role of the informal economy for the development of the country in the *National Informal Economy Policy (2011-2015)* (NIEP).

The NIEP nominates two 'arms' for action to achieve the goal of developing the informal economy, the first being financial inclusion (the second is “the provision of public goods and services”). The Policy identifies six 'roads to financial inclusion' for PNG: Agent banking, mobile phone banking, diversifying providers, reforming public banks, financial identification, and consumer protection. It is noted that most of these rely on private sector investment in the financial and telecommunications systems.

This Strategy is consistent with the NIEP and seeks to provide a coordinated implementation framework for the policy goals expressed in the NIEP.

SME Policy 2016 / SME Master Plan 2016-2030

The objective of the *SME Policy 2016* is to support and grow the SME sector in order to create new employment opportunities, achieve sustainable economic growth outside the resources sector, and achieve a fair and equitable distribution of wealth through majority citizen ownership of business activity.

The Policy sets concrete goals to be achieved by 2030: Grow SMEs from 49,500 to 500,000; Grow formal employment from 290,000 to 2 million; Reduce unemployment from 84% to 49%; Increase citizen control over the formal economy from 10% to 70%; Increase SME contribution to GDP from 10% to 50%; Increase per capita income from US\$2,000 to US\$9,600.

The *SME Policy 2016* and the *SME Master Plan 2016-2030* acknowledge that access to finance for micro, small and medium enterprises is a key requirement for achieving those goals, and outline a number of key initiatives to enhance access to finance for enterprises in PNG. Where relevant, this Strategy seeks to align with and complement the initiatives implemented under the *SME Policy 2016*.

1.3 International Initiatives and Specific Commitments

PNG forms part of a number of international initiatives aimed at strengthening financial inclusion and has made specific commitments in the context of these initiatives. This Strategy provides a framework for the implementation of these commitments.

Membership of AFI and Commitment to the Maya Declaration

BPNG is a member of the Alliance for Financial Inclusion (AFI). As a member of AFI, BPNG signed the Maya Declaration in 2013³, committing to a number of financial inclusion and financial literacy goals⁴. These goals were addressed during the implementation of the First Strategy. BPNG is also a member of the AFI Pacific Islands Regional Initiative (AFI-PIRI)⁵, which seeks to 'create conditions that lead to the empowerment of Pacific Islanders in the short to medium term'.

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

Membership of the 'Better than Cash Alliance'

GovPNG has recognized that payment modalities, in particular G2P payment modalities used by government, can play a significant role in increasing levels of financial inclusion. In order to facilitate the promotion of non-cash based payment modalities in PNG, GoPNG has joined the 'Better than Cash Alliance'⁶. 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. The Government has committed to making all government payments through electronic channels, including all government salaries and social protection payments⁷.

1.4 High-level Commitments and Principles

This Strategy furthermore aligns to high-level commitments made by GovPNG as well as agreed principles for innovative financial inclusion.

³ http://www.afi-global.org/sites/default/files/publications/maya_declaration_bank_of_papua_new_guinea.pdf

⁴ http://www.afi-global.org/sites/default/files/publications/maya_declaration_bank_of_papua_new_guinea.pdf

⁵ <http://www.afi-global.org/pacific-islands-regional-initiative-piri>

⁶ <http://betterthancash.org>

⁷ <https://www.betterthancash.org/news/media-releases/papua-new-guinea-commits-to-digitizing-all-government-payments>

APEC Commitment to increasing Financial Inclusion

GovPNG is a member of the Asia-Pacific Economic Cooperation (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-organized expansion of financial inclusion and literacy is crucial to poverty alleviation and greater economic opportunities with APEC”⁸. Finance Ministers re-iterated their commitment to further enhancing financial inclusion in building inclusive economies.

G20 Principles for Innovative Financial Inclusion

The *G20 Principles for Innovative Financial Inclusion* derive from the experiences and lessons learned by policymakers worldwide, especially those from developing countries. They aim to help create an enabling policy and regulatory environment for innovative financial inclusion. The G20 Principles were taken into consideration during the development and implementation of the First Strategy, as well as the development of this Second Strategy. They will also guide the implementation of this Second Strategy and are included therefore below:

1. **Leadership:** Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty and drive inclusive economic growth,
2. **Diversity:** Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers,
3. **Innovation:** Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses,
4. **Protection:** Encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers and consumers,
5. **Empowerment:** Develop financial literacy and financial capability,
6. **Cooperation:** Create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders,
7. **Knowledge:** Utilize improved data to make evidence based policy, measure progress, and consider an incremental “test and learn” approach acceptable to both regulator and service provider,
8. **Proportionality:** Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation; and,
9. **Framework:** Consider the following in the regulatory framework, international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime reflecting for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and

⁸ 2015 APEC Finance Ministers’ Statement: http://mddb.apec.org/Documents/2015/MM/FMM/15_fmm_jms.pdf

2 CURRENT STATE OF FINANCIAL INCLUSION IN PNG

2.1 Financial Sector Landscape

The financial services market in PNG is diverse, with different types of private formal institutions: commercial banks, finance companies, micro-banks, savings and loans societies (S&Ls), mobile network operator(s)⁹, superannuation funds, superannuation fund investment managers, superannuation fund administrators, life insurance companies, general insurance companies and one development bank. In addition to private financial institutions, the National Development Bank provides rural lending, and a number of non-governmental organizations (NGOs) offer microfinance services in rural areas. Those most relevant to increasing formal financial inclusion are commercial banks, mobile network operators, micro-banks, savings and loans societies and insurance providers.

Type of Institution	#
Commercial banks	4
Finance companies	9
Micro-banks	5
Savings and loans societies	22
Mobile network operator	1¹⁰
Superannuation funds	4
Superannuation fund investment managers	3
Superannuation fund administrators	3
Insurance companies - Life	5
Life insurance brokers	4
Insurance companies – Non-life	14
Development banks	1
Foreign exchange dealers	2

Table 1: Financial Service Providers

Papua New Guineans also make extensive use of informal financial mechanisms including Rotating Savings and Credit Associations (ROSCA) – locally referred to as *Sande* groups – moneylenders as well as *wantoks* and community finance schemes, which play a major role in meeting financial needs in particular in rural environments¹¹. The International Monetary Fund (IMF) found that 70% of people borrow money; the most common sources are relatives and *wantoks* (41%) followed by moneylenders

⁹ With regards to the provision of financial services, “mobile network operators” are considered “non-bank providers” and must apply for approval to provide “mobile payment services”

¹⁰ This refers to one “mobile network operator” so far providing financial services (there are more mobile network operators in the communications market)

¹¹ Banthia, Anjali et al. *Deepening Financial Inclusion for Women in the Pacific Islands*. Women’s World Banking. April 2013.

(24%). Formal institutions (banks, financial SLS) accounted for less than 5% of loans¹². The cost of informal moneylenders is very high at approximately 40-50% per fortnight. While addressing a prevalent need, informal mechanisms are generally risky and expensive.

2.2 Progress achieved since the Launch of the First Strategy

Since the launch of the First Strategy in 2013, significant progress has been achieved for financial inclusion in PNG. The number of deposit accounts held by commercial Banks, micro-banks and S&Ls has increased from **1,112,227 in June 2013 to 2,299,251 in June 2016 – an increase of 107%**.

Deposit Accounts	Jun-13	Jun-16
Number	1,114,525	2,299,251
Increase (%)	-	106%

Table 2: Increase in deposit accounts

In June 2016, **36.96% of adults had an account at a regulated financial institution, as compared to only 20.42% in June 2013**. There has also been an increase of financial access points (branches, ATMs, EFTPOS, agents). As of June 2013, there were 12,599 physical access points in PNG, marking an increase of 56% over the last three years (in June 2013, there were 7,960). Agents (75%) and EFTPOS (58%) have seen the strongest growth. The G20 Financial Inclusion Indicators demonstrate the progress achieved (see table below).

Category	Indicator	Baseline	Jun-16
Formally banked adults	% of adults with an account at a formal financial institution	Jun-13 20.42%	36.96%
	% of total population with an account at a formal financial institution	Jun-13 14.63%	25.71%
	Number of deposit accounts per 1,000 adults	Jun-13 237	460
Adults with credit at regulated financial institutions	% of adults with at least one loan outstanding from a regulated financial institution	Jun-14 3.15%	2.40%
	Number of borrowers per 1,000 adults	Jun-14 31.54	24
Points of service	Number of branches per 100,000 adults	Jun-13 2.76	3.68
	Number of ATMs per 100,000 adults	Jun-13 6.68	7.75

¹² Banthia, Anjali et al. *Deepening Financial Inclusion for Women in the Pacific Islands*. Women's World Banking. April 2013.

	Number of POS terminals per 100,000 inhabitants	<i>Jun-13</i>	144.40	228.14
	Agents per 100,000 adults	<i>Jun-13</i>	5.26	9.19

Table 3: Progress in G20 Financial Inclusion Indicators

Furthermore, the range of financial products available to Papua New Guineans has improved, including to low-income populations. For example, mobile *micro-insurance* policies have increased from zero to 660,000 in less than three years.

2.3 Key Financial Inclusion Trends

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.

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.

Another key trend is the ongoing formalization of the 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.

2.4 Enabling Environment

Policy Environment

GovPNG has made clear policy statements emphasizing the importance of financial inclusion in a number of key policy documents (see 1.2 above). Therefore, the policy environment is enabling for financial inclusion.

Regulatory Environment

The legal and regulatory framework establishes the rules within which all the financial institutions, instruments, and markets operate in a given country. In PNG, important advancements have been achieved to translate policy goals into a fully enabling environment for innovative financial inclusion.

For example, banks as well as non-banks (e.g. MNOs) have been granted approval to provide mobile banking and mobile payment services under the *Mobile Banking and Mobile Payment Services Prudential Standard, 1/2011*. The account opening requirements under this Standard are proportionate and risk-based, allowing for maximum financial inclusion. At the same time, the Standard puts in place

measures to mitigate risk and protect consumers. As a result, more than 320,000 Papua New Guineans are registered for a mobile financial services account.

BPNG has also allowed for financial inclusion innovation in the insurance space. Innovative providers have also been granted approval to offer innovative ICT based insurance products targeted at low income customers (*micro-insurance*), enabling hundreds of thousands of individuals to access insurance for the first time ever.

BPNG has furthermore identified a number of regulatory gaps impacting on financial inclusion and is in the process of addressing them. To further enhance the regulatory framework, provide long-term regulatory clarity and facilitate innovation while safeguarding customers, the following reform initiatives are ongoing:

- New Act for Savings & Loan Societies
- Draft Regulations on Oversight in Payment Services
- Draft Guidelines on Retail Payment Instruments
- Draft Regulation for the Use of Agents
- Prudential Guidelines on Consumer Protection
- Dispute-resolution mechanisms

To further facilitate growth and competition within the insurance sector, it is necessary to introduce a clear regulatory framework for micro-insurance.

Financial Infrastructure¹³

This legal and regulatory framework is complemented by a sound financial infrastructure, which improves the efficiency and effectiveness of financial intermediation. PNG has made progress in recent years both with regards to the credit information framework and the payments system – two essential elements of a financial infrastructure.

With regards to the credit information framework, the World Bank *Doing Business 2017* report ranks PNG at 32 in the ranking of 190 economies on the “ease of getting credit”¹⁴ (PNG’s overall rank is 119). The ranking in the category “ease of getting credit” results from an assessment of sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions.

With regards to the payments system, BPNG houses and operates the Kina Automated Transfer System (KATS). This is an integrated electronic inter-bank system which carries out the following main functions:

- Real time gross settlement of high value and high priority payments;
- Clearing of retail-level direct credit transfers;

¹³ Financial infrastructure as defined here includes *credit reporting systems (credit registries and bureaus), collateral and insolvency regimes, and payments and settlement system.*

¹⁴ World Bank. 2017. *Doing Business 2017: Equal Opportunity for All*. Washington, DC: World Bank.

- Clearing of electronically truncated cheques;
- Clearing of direct debit transfer instructions (this function is not yet in operation).

The RTGS element of KATS has been operational since October 2013. KATS provides complete interoperability of payments between commercial banks and BPNG. BPNG plans gradually to extend participation to other financial institutions (including “non-bank” financial institutions). Work is also ongoing to move all Government payments (disbursements) and revenue receipts to electronic payment transactions processed through KATS.

Furthermore, BPNG is envisaging the implementation of a National Switch for retail payments with the following main objectives:

- To ensure interoperability of all electronic payment services in PNG including both card and mobile phone-based services;
- To enable smaller payment service providers to enter the market at a reasonable cost, thus promoting competition and consumer choice and lowering the cost of payments to end-users;
- To promote the widest possible geographical coverage of innovative electronic payment services in PNG, particularly using mobile devices.

Development Partners

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.

KEY TAKEAWAYS REGARDING THE ENABLING ENVIRONMENT:

- ⇒ **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**

2.5 Access

Registered Accounts

The total number of deposit accounts held by Commercial Banks, Micro-banks and Savings & Loans Societies was **2,299,251 in June 2016**. The lion share (1.6 million) is held by commercial banks. There are 320,282 mobile financial services accounts held with financial institutions. Given the potential of digital financial services as evidenced in many markets across the world, this number seems to indicate that the potential in PNG has not fully been exploited yet.

Physical Access Points

Physical access points are a key driver of financial inclusion (see 1.1). There has been significant growth in physical access points in PNG in recent years. **As of June 2016, there are 12,599 access points¹⁵** in PNG, representing an increase of 56% over the last three years (in June 2013, there were 7,960). Agents (75%) and EFTPOS (58%) have seen the strongest growth, see table 3.

	Jun-13	Jun-16	% Increase
Branches	138	184	33%
ATMs	334	388	16%
EFTPOS	7,225	11,415	58%
Agents	263	460	75%

Table 4: Recent Growth in Access Points

There are currently 184 bank branches in PNG (33% increase in the last 3 years). The average branch density in PNG is 3.68 per 100,000 adults. 388 ATMs are deployed in PNG, resulting in a density of 7.75 ATMs per 100,000 adults. Despite the progress made in recent years, branch and ATM density are lower than in other Pacific countries (see table below).

	Branches	ATMs
Fiji	11.4	46.4
Samoa	19.2	35.1
Solomon Island	4.6	12.7
PNG	3.7	7.7

Table 5: Branches/ATMs per 100,000 Adults in the Pacific Region

There are approximately 11,415 EFTPOS terminals deployed in PNG. EFTPOS terminals are used for purchases, for the provision of ‘cash-back’ and also as the basis for agent banking and digital financial services. There are currently approximately 460 agents in PNG providing services on behalf of regulated financial institutions and mobile financial service providers. Despite growth in the last three years in the number of agents (75% increase), agent density remains modest (9.5per 100,000 adults) as compared to other countries at similar stages of economic development.

Lack of financial access points, in particular in rural areas, continues to constitute a key barrier to financial inclusion in PNG. Importantly, even financial service offerings which make extensive use of innovative technologies (e.g. digital financial services) will rely on physical access points until a critical proportion of transactions can be conducted electronically.

The reasons for the lack of access points revolve around the high cost of serving remote areas and low-income customers (costs of developing financial infrastructural capacity, ongoing costs to service, and

¹⁵ These include branches, ATMs, EFTPOS and agents.

costs of managing cash). Broadening access requires increasing the number of service points, which necessitates improvements in communications, middle management, and cash management.¹⁶

KEY TAKEAWAYS REGARDING 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

2.6 Quality

Limited Product Tailoring

Studies show that there is demand for the secure movement of money, secure savings services among low-income households, as well as loans for specific lifecycle needs¹⁷. However, despite some promising innovations such as digital financial services (including *mobile banking*) and micro-insurance, the range of formal products available to low income individuals and informal businesses remains limited. In particular, women, rural communities and MSMEs – including agricultural – suffer from the lack of products tailored to their needs, including access to credit.

Primary field research by *Women's World Banking* found that “the banks are not particularly client-centric in terms of meeting the needs of low income people and offer services that mainly serve middle and upper classes and corporate partners”; and that “it is clear that existing service providers are not meeting client needs.”¹⁸

Continued Reliance on Cash

Despite the increasing proliferation of mobile phones, payment cards and EFTPOS, the vast majority of retail transactions in PNG remain cash-based. This is particularly the case for lower value transactions. A recent World Bank study found that “payments for day-to-day purchases were made using cash, irrespective of whether or not the respondent had a bank account with debit card access.”¹⁹ Similarly, a *Women's World Banking* study found that “the most common way that people use their account is to get their payment and then go to the ATM and fully withdraw it each time.”²⁰

¹⁶ Bruett T. and Firpo J. (n.a.). *Building a mobile money distribution network in Papua New Guinea*. Financial Inclusion Programme (PFIP), International Finance Corporation (IFC).

¹⁷ Bruett T. and Firpo J. (n.a.). *Building a mobile money distribution network in Papua New Guinea*. Financial Inclusion Programme (PFIP), International Finance Corporation (IFC).

¹⁸ Banthia, Anjali et al. *Deepening Financial Inclusion for Women in the Pacific Islands*. Women's World Banking. April 2013.

¹⁹ Sibley, Jonathan. *Financial Inclusion in Papua New Guinea Status Report*. The World Bank. 2015.

²⁰ Banthia, Anjali et al. *Deepening Financial Inclusion for Women in the Pacific Islands*. Women's World Banking. April 2013.

As a consequence, banked customers heavily rely on physical access points to deposit and withdraw cash and currently unbanked customers are not attracted to the formal financial system, as the cash economy remains more convenient for many purposes. A heavily cash-based economy furthermore constrains digital innovation for financial inclusion, as digital transactions generate data on customers which in turn enables innovative product development (e.g. data driven credit, insurance).

Cost of Financial Services

Formal banking in PNG is costly. The costs include account maintenance fees, withdrawal fees, interest rates and the opportunity cost to clients such as travel time, wait time and transport fares. There are also complex and often prohibitive account opening and loan requirements. Together, these are particularly onerous for low-income people, especially women who tend to earn less than men, which leads to significant negative attitudes and frustration about bank fees ('banks eat up my money').²¹

However, the expansion of the micro-banking sector has had a positive effect by offering basic financial services at lower costs and thereby enhancing competition in this area.

Increasing Need for Financial Consumer Protection as Market Matures

Levels of adult financial literacy are low, and therefore many adults lack the skills to make informed financial decisions. This makes them vulnerable, in particular in an environment where prices and product terms are not disclosed transparently. Evidence suggests that financial services providers do not always disclose prices and product terms transparently. Levels of financial knowledge, in particular knowledge of the cost of financial services, suggest a continuing commitment is required to further strengthen consumer protection.²²

As financial inclusion expands in PNG, there needs to be a concurrent strengthening of consumer protection to ensure that individuals and businesses receive the information and treatment necessary to use financial services to their best advantage. Consumer protection also instils trust in the financial sector, mitigates the risk of over-indebtedness and thereby helps financial service providers to access more and better customers, i.e. to expand financial inclusion.

KEY TAKEAWAYS REGARDING 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**

²¹ Banthia, Anjali et al. *Deepening Financial Inclusion for Women in the Pacific Islands*. Women's World Banking. April 2013.

²² Sibley, Jonathan, et al. *Financial Inclusion and Financial Capability in Morobe and Madang Provinces Papua New Guinea*. Institute of National Affairs; BPNG; The World Bank. 2015.

2.7 Usage

Access and quality are both preconditions for effective and large scale usage of financial services. Data on registered accounts (see 2.3) provides an indication, but no conclusive evidence on usage. This is because a proportion of people and businesses with an account may not be actively using the account. Studies assessing the demand-side indicate that prevalent low levels of financial capability constrain the effective usage of financial services.

The findings from the study *The Financial Competence of Low Income Households in Papua New Guinea* (Sibley, 2013) indicate that low income households are not able to effectively engage in the financial activities required for successful participation in the money economy and the formal financial systems.²³ The study notes that “as households become increasingly involved with the money economy, a failure to understand the cost of money and the associated risks of using financial institutions and financial instruments carries significant risks for low income households, in particular, with respect to poor financial choices and vulnerability to predatory practices”.

Due to the pervasive low levels of financial competence, customers may not be able to use financial services to their best advantage, even when access and quality are given. Therefore, customers risk financial exclusion as well as exploitation by financial predators.

KEY TAKEAWAYS REGARDING USAGE:

- ⇒ Access and quality (see above) are prerequisites for effective usage
- ⇒ Financial literacy and consumer awareness must be strengthened to drive usage

2.8 Disparities regarding Financial Inclusion

In PNG there are significant disparities between population groups (rural vs. urban, men vs. women), regions and economic sectors (formal vs. informal). These are evident in terms of access, quality and usage of financial services.

Rural - Urban Disparity

There is a significant urban-rural divide. Available data suggests that nationwide, about 37% of adults have a savings account. The number in rural areas is much lower. In Morobe and Madang for example, 21% percent of rural men and 9% of rural women own a savings account²⁴. A *World Bank* report suggests that “effectively, levels of financial exclusion in rural areas continue to be very high – probably between 90% and 100% in many rural communities²⁵”. Importantly, access points are concentrated in

²³ Sibley, Jonathan. (2013). *The Financial Competence of Low Income Households in Papua New Guinea*. Pacific Financial Inclusion Programme

²⁴ Sibley, Jonathan, et al. *Financial Inclusion and Financial Capability in Morobe and Madang Provinces Papua New Guinea*. Institute of National Affairs; BPNG; The World Bank. 2015.

²⁵ Sibley, Jonathan (2015). *Financial Inclusion in Papua New Guinea Status Report*. The World Bank

urban areas, leaving many rural communities underserved or entirely excluded. Data from Morobe and Madang is illustrative of the scale of the access issues which are likely to be faced by rural communities.²⁶ Figure 5 shows the difference in distances to the next financial services access point.

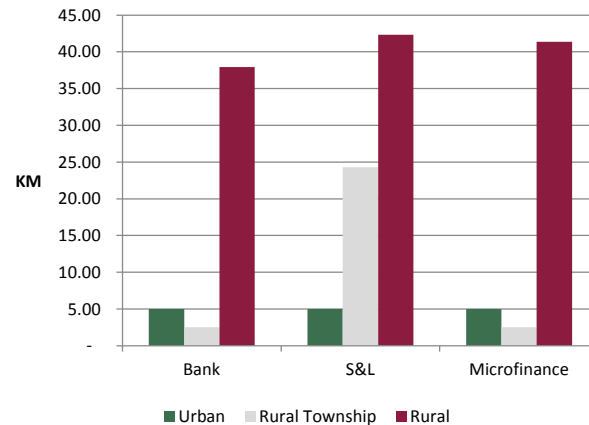


Table 6: Kilometres to Nearest Financial Services Access Point

In addition, 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 areas²⁷. 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% for developing countries. In rural locations in which people cannot access a bank account, the level of account ownership is less than 10%. In addition, rural households are less financially competent than urban households.²⁸

Regional Disparities

Financial access points are disproportionately distributed. 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.²⁹

Women

Women appear to have significantly lower levels of financial inclusion, even where financial services are available in urban communities. In addition, the level of financial exclusion experienced by women

²⁶ Sibley, Jonathan, et al. *Financial Inclusion and Financial Capability in Morobe and Madang Provinces Papua New Guinea*. Institute of National Affairs; BPNG; The World Bank. 2015.

²⁷ Sibley, Jonathan. *Financial Inclusion in Papua New Guinea Status Report*. The World Bank. 2015.

²⁸ Sibley, Jonathan. *The Financial Competence of Low Income Households in Papua New Guinea*. Pacific Financial Inclusion Programme. 2013.

²⁹ Sibley, Jonathan. *Financial Inclusion in Papua New Guinea Status Report*. The World Bank. 2015.

appears to be much higher than that found in comparable developing countries. At present, it is not known why women are likely to have lower levels of financial inclusion and engagement in household financial decision making than men. Socio-cultural factors, limited financial and/or functional literacy, lower levels of formal employment and limited familiarity with formal financial institutions may be relevant factors. Further research is required to develop an understanding of the causal factors which can then provide a basis for gender specific programs and products.

According to a *Women's World Banking Study*, "circumstantial barriers facing women within the financial services sector include low levels of financial literacy and low awareness of banking choices where women often demonstrated limited capacity, experience or access to information to independently make a savings plan or carefully consider and plan how they would use a loan and limited understanding of interest rates."³⁰

The findings from the study *The Financial Competence of Low Income Households in Papua New Guinea* notes that women in low income households are significantly less financially empowered than men. Similarly, a *Women's World Banking study* concludes that "women have low awareness of banking choices and do not actively evaluate and compare choices. Furthermore, due to their low financial literacy, even where they seek out comparison, they have limited ability to make informed choices."³¹

Informal Economy Participants

The informal economy continues to be the dominant source of livelihood for most Papua New Guineans. Less than 250,000 persons in PNG are formally employed, only about 1 in 25 persons³². However, most participants in the informal economy (most of whom are rural) are disproportionately affected by financial exclusion, and must resort to the informal financial sector (family, friends or money lenders) for financing. Only 25% of up to 20,000 small and medium enterprises have access to financial services³³.

Agricultural Sector

Agriculture employs 80% of the active population and accounts for 27% of GDP. Most of the farming sector is held by about 4.3 million smallholders, or village farmers, who operate close to subsistence level. Diversified farming systems are dominated by food crops (tubers, banana, sago), which provide most of the food consumed in the country, with pigs, poultry and cash crops (mainly coffee, cocoa and copra) supplementing income. The vast majority of agricultural stakeholders lack access to finance. As a result, they are unable to invest in modern inputs and technologies and irrigation. Financing is scarce due to high perceived as well as real risks.

³⁰ Banthia, Anjali et al. *Deepening Financial Inclusion for Women in the Pacific Islands*. Women's World Banking. April 2013

³¹ Banthia, Anjali et al. *Deepening Financial Inclusion for Women in the Pacific Islands*. Women's World Banking. April 2013

³² Bruett T. and Firpo J. (n.a.). Building a mobile money distribution network in Papua New Guinea. Financial Inclusion Programme (PFIP), International Finance Corporation (IFC).

³³ IFC (n.a.). *Small and Medium Enterprise Risk Share Facility*. Papua New Guinea.



PART II – THE STRATEGIC FRAMEWORK

3 VISION, MISSION & CONCEPTUAL FRAMEWORK

3.1 Vision & Mission

➤ Vision	<i>All Papua New Guineans are financially competent and have access to a wide range of financial services that address their needs and are provided in a responsible and sustainable manner.</i>
➤ Mission	<i>To provide a coordinated framework for advancing financial inclusion in PNG by addressing prevalent barriers and exploiting key opportunities.</i>

3.2 Conceptual Framework

In order to progress towards the Vision and deliver the Mission, this Strategy follows a clear conceptual framework. The Mission will be delivered in the context of nine Priority Areas (see Section 4 below). For each Priority Area, a number of Strategic Objectives as well as Sub-objectives (Section 5) have been identified. In order to achieve those objectives, a number of key Action Items and Outputs have been outlined in the Action Plan (Section 8). In order to ensure effective implementation, key implementation and coordination mechanisms are outlined in Section 6. The progress will be assessed through a Monitoring & Evaluation Framework (Section 7).

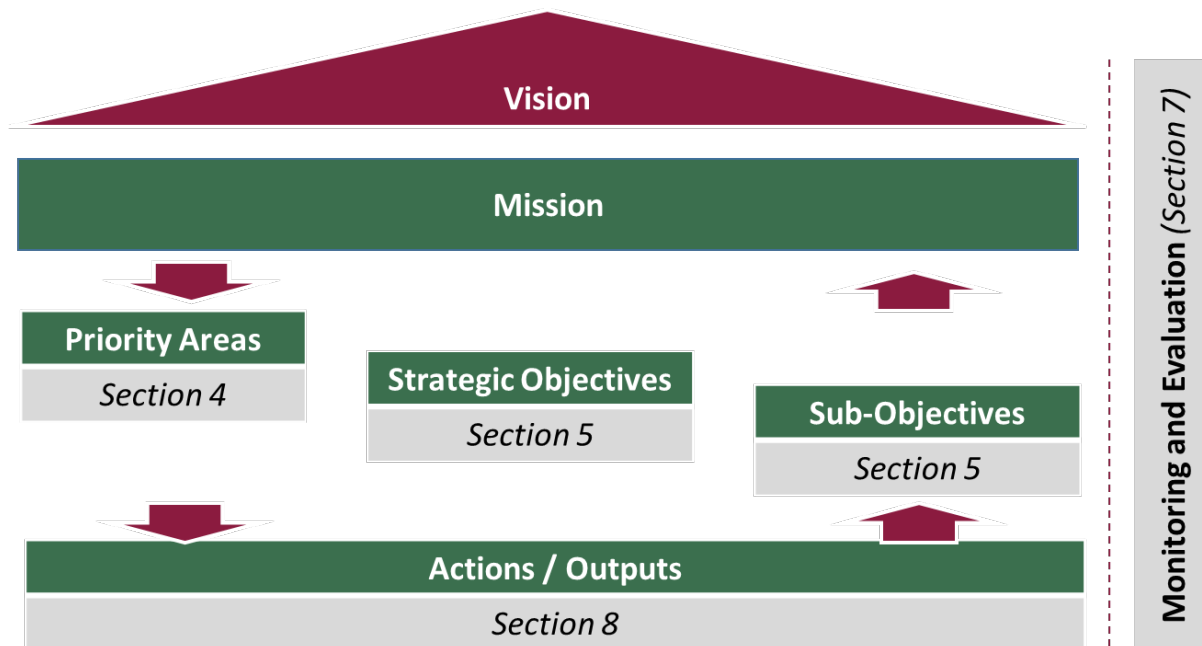


Figure 3: Conceptual Framework

4 PRIORITY AREAS

The Vision and Mission will be addressed in the context of nine priority areas. These Priority Areas respond to the identified barriers to financial inclusion as well as the key opportunities in PNG. The Priority Areas include both (i) Priority areas which existed under the First Strategy and (ii) new Priority Areas which have been introduced to this Second Strategy.

PRIORITY AREA	DETAIL/ JUSTIFICATION/ KEY OPPORTUNITIES
<p>1. Digital Financial Services (DFS)</p>	<p>DFS present significant opportunities to overcome the barriers of financial inclusion in PNG. This has been confirmed by a number of studies³⁴ and is supported by the expansion of DFS in other comparable countries. The key barrier DFS can help to overcome is the cost of delivering financial services, which currently prevents financial inclusion of remote communities. In addition, digital/mobile phone based services can help overcome socio-economic barriers including privacy, which is particularly important for women trying to preserve their savings and avoid violence³⁵. In PNG especially, women value this service because it enables them to avoid traveling long distances to reach bank branches, which can be risky and expensive. It also helps them avoid long and time-consuming wait times at bank branches.³⁶</p> <p>DFS were addressed during the implementation of the First Strategy by the “Working Group on Electronic Banking”. There are now 320,282 mobile financial services accounts. Given the potential of DFS, this number seems to indicate that the potential in PNG has not fully been exploited yet. Therefore, DFS remains a key Priority Area of this Second Strategy.</p>
<p>2. Inclusive Insurance</p>	<p>The vast majority of people in PNG does not have any formal insurance. At the same time, people and businesses (including informal businesses and agricultural stakeholders) are subjected to high risk. Innovative insurance business models (e.g. underpinned by information and communication technologies) have demonstrated their ability to extend risk protection to the general population including low-income individuals.</p> <p>Inclusive Insurance was addressed by the “Working Group on Inclusive Insurance” during the First Strategy. There are now more than 660,000</p>

³⁴ Bruett T. and Firpo J. (n.a.). *Building a mobile money distribution network in Papua New Guinea*. PFI/ IFC. Papua New Guinea, as well as Garg, Nitin (2015). *Digital Financial Services(DFS) Sector Assessment*. Papua New Guinea.

³⁵ Banthia, Anjali et al. *Deepening Financial Inclusion for Women in the Pacific Islands*. Women’s World Banking. April 2013.

³⁶ Banthia, Anjali et al. *Deepening Financial Inclusion for Women in the Pacific Islands*. Women’s World Banking. April 2013.

PRIORITY AREA	DETAIL/ JUSTIFICATION/ KEY OPPORTUNITIES
	<p>micro-insurance policies in PNG – illustrating the vast potential.</p> <p>However, in terms of product depth the market is still in its infancy. Therefore, Inclusive Insurance therefore remains a Priority Area in order to further unleash the financial inclusion potential of innovative insurance models.</p>
<p>3. Financial Literacy and Financial Education</p>	<p>Research shows that financial literacy and competence of the population is low.³⁷ The pervasive low levels of financial literacy and competence constitute a key barrier to financial inclusion and expose Papua New Guineans (in particular low income households) to the risks of exploitation by financial predators, and the ineffective use of household cash flows. There is therefore a need to continue to focus on increasing levels of financial literacy in order to ensure that people will use financial services to their best advantage. This particularly applies to low-income and rural customers.</p> <p>These issues were addressed during the implementation of the First Strategy by the “Working Group on Financial Education and Financial Literacy”. 124,240 people were trained in total. While there was significant participation by financial institutions in delivering financial education, there was limited participation of non-financial sector players such as schools, churches, NGOs and businesses.</p> <p>It was therefore decided to maintain this Priority Area to build in the achieved gains and to further expand participation by both financial sector players and non-financial sector players.</p>
<p>4. Financial Consumer Protection (FCP)</p>	<p>The objective of FCP is to level the playing field between the suppliers and consumers of financial products and services. Effective financial consumer protection refers to an environment that facilitates informed decision-making through transparency, fair practices and effective complaints handling mechanisms. FCP thereby tackles common threats to financial inclusion such as the lack of trust in the formal financial sector, limited competition due to low transparency and unfair practices and over-indebtedness.</p> <p>The Study “Financial competency of low income households in Papua New</p>

³⁷ Sibley, Jonathan. *The Financial Competence of Low Income Households in Papua New Guinea*. Pacific Financial Inclusion Programme (PFIP). 2013.

PRIORITY AREA	DETAIL/ JUSTIFICATION/ KEY OPPORTUNITIES
	<p>Guinea” identified a key need to strengthen consumer protection in the financial sector, e.g. regarding the cost of money. As households become increasingly involved with the money economy, a failure to understand the cost of money and the associated risks of using financial institutions and financial instruments carries significant risks for low income households, in particular, with respect to poor financial choices and their vulnerability to predatory practices. Transparent and fair practices are therefore key to fostering trust in the formal financial sector and therefore for promoting financial inclusion.</p> <p>During the First Strategy, progress has been achieved to prepare the upcoming FCP framework. FCP forms part of this Second Strategy to provide an effective structure for the roll-out and implementation of the upcoming FCP framework.</p>
<p>5. Access to Finance for Informal and Agricultural Enterprises</p>	<p>The majority of the population earns its livelihood in the informal economy, a large proportion of which is agriculture. Smallholder farmers produce food crops (mainly women) and export crops such as coconut, coffee and cocoa (mainly men). Informal micro, small and medium enterprises including in agriculture and tourism often lack access to appropriate financial services. This prevents vast segments of the society from unlocking their economic potential. At a macro level, it prevents further formalization of the economy. The informal economy presents a large untapped market opportunity for formal financial institutions.</p> <p>Due to the importance of the informal economy and agriculture, it was decided to include this new Priority Areas to address the specific constrains and opportunities within these sectors.</p>
<p>6. SME Finance</p>	<p>Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. They often employ a larger proportion of the population than larger enterprises and are therefore vital for inclusive economic growth. In PNG, SMEs already make a major contribution to national output, accounting for 200,000 jobs and an estimated 10% of GDP (though these figures are likely much higher if the informal sector is taken into account). Longer term, the government aims to increase the sector’s share of GDP to 50%.</p> <p>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</p>

PRIORITY AREA	DETAIL/ JUSTIFICATION/ KEY OPPORTUNITIES
	<p>from direct government assistance.</p> <p>Due to the importance of SMEs for inclusive growth in PNG, it was decided to include this new Priority area.</p>
<p>7. Resources Sector Engagement</p>	<p>PNG has substantial oil, gas, copper and gold deposits, as well as a significant number of existing resource projects. Resource companies are present in remote rural communities, engage with the local community and make payments to local communities. Large-scale natural resource development projects and the associated “enclave developments” are characteristic of PNG’s rural economy. These projects are an important part of the economy in PNG and employ significant numbers of low-income men and women as manual workers.</p> <p>A 2015 study³⁸ found significant potential for leveraging the resources sector to advance financial inclusion. Equitable and transparent distribution of payments from resource projects, as well as financial literacy programs would benefit both the resource companies and the rural communities. Resource projects therefore present opportunities to (i) catalyze the uptake of formal (including digital) financial services in remote areas and (ii) to deliver financial education in remote areas.</p> <p>This new Priority Area was included to exploit the specific opportunities the resources sector presents for financial inclusion in PNG.</p>
<p>8. Data Collection & Dissemination</p>	<p>Financial inclusion data is important to guide public sector as well as commercial financial inclusion initiatives. For example, information on (potential) customers is important for financial service providers that seek to address new markets. Data must both be gathered and disseminated in an effective manner to support financial inclusion initiatives. The availability of relevant financial inclusion data is critical for informing the selection, prioritization, and sequencing of elements.</p> <p>During the implementation of the First Strategy, the “Working Group on Data and Measurement” made significant progress in standardizing and collecting data on financial inclusion from regulated financial institutions. There is now comprehensive data on bank accounts and access points. In addition to data on <i>access</i> (e.g. accounts opened, number of access</p>

³⁸ Grice, T. A. Mobile Transparency. *Financial inclusion, mobile money and Papua New Guinea’s resources sector*. The University of Queensland (CSRM) and the International Mining for Development Centre (IM4DC). 2015.

PRIORITY AREA	DETAIL/ JUSTIFICATION/ KEY OPPORTUNITIES
	<p>points), it is important to gather data on <i>usage</i>. This Priority Area will therefore build on the existing progress, and continue to enhance the collection and dissemination of financial inclusion data.</p>
<p>9. Government Engagement</p>	<p>As described in Section 1, GovPNG has identified financial inclusion as a key policy objective or as supporting key policy objectives in a number of documents and for a number of sectors. In addition to its primary role as a rule-maker (through regulation and supervision), the public sector can be critical to address market failures and incomplete markets that inhibit the progression of financial inclusion. Public interventions should be carefully focused, aiming at making markets work efficiently and at providing incentives for the private sector to assume an active role in financial inclusion. Thus, government support to financial inclusion will be encouraged only where justified.³⁹. Structured processes (diagnostics, consultations) are necessary to assess challenges, to identify policy responses, and to determine lead roles, targets, prioritization, and sequencing.</p> <p>This Priority Area seeks to identify key financial inclusion initiatives for which government support is justified (e.g. due to market failures) and is likely to generate positive long-term outcomes.</p>
<p>Cross-cutting</p>	<p>Gender and youth will be cross-cutting topics across all priority areas.</p>

³⁹ Analysis of the tools and options available, and the potential impact and cost-effectiveness of each, should be conducted before selecting and implementing policy reforms and interventions

5 STRATEGIC OBJECTIVES

The Strategic Objectives are determined following the analysis of barriers to financial inclusion as well as opportunities for overcoming those barriers. All Strategic Objectives address the **overarching commitment**:

To reach 2 million more unbanked low-income people in Papua New Guinea, 50% of whom will be women with a wide range of financial services that includes savings, loans, remittance services and insurance.

The strategic objectives are structured according to priority areas and include sub-objectives:

PRIORITY AREA	STRATEGIC OBJECTIVE / SUB-OBJECTIVES
1. Digital Financial Services	<i>To continue to actively support innovative use of technology for scaling up financial access and promotion of expansion of digital finance services to reach remote parts of the country.</i>
	<ul style="list-style-type: none"> 1.1. Establish holistic and fully enabling long-term regulatory framework 1.2. Promote innovative use of identification data for financial inclusion 1.3. Increase financial access points in rural areas 1.4. Achieve broad interoperability across the payment system 1.5. Reduce reliance on cash 1.6. Digitize Government payments
2. Inclusive Insurance	<i>To expand the micro-insurance to reach 1.5m people.</i>
	<ul style="list-style-type: none"> 2.1. Enhance knowledge and data on insurance services 2.2. Introduce a comprehensive and enabling regulatory framework for micro-insurance 2.3. Promote the development of inclusive insurance products 2.4. Enhance awareness of insurance among the population

<p>3. Financial Literacy and Financial Education</p>	<p><i>To build on gains in financial education and extend it to educational institutions such as technical colleges, secondary and primary schools.</i></p>
	<ul style="list-style-type: none"> 3.1. Establish a broad stakeholder forum and consensus to sustainably drive financial education in PNG 3.2. Tailor activities, channels and content to specific target groups (low income households, farmers, informal sector workers) 3.3. Ensure coordination and consistency of financial education content
<p>4. Financial Consumer Protection</p>	<p><i>To introduce and implement a consumer protection framework for regulated financial institutions.</i></p>
	<ul style="list-style-type: none"> 4.1. Introduce and implement a regulatory framework for financial consumer protection 4.2. Strengthen complaints handling mechanisms 4.3. Create public awareness on consumers’ rights under the financial consumer protection framework
<p>5. Access to Finance for informal and agricultural Enterprises</p>	<p><i>To enhance access to finance and usage of finance for enterprises in the informal economy including agriculture.</i></p>
	<ul style="list-style-type: none"> 5.1. Enhance knowledge and data on financial inclusion among informal economy participants including in agriculture 5.2. Promote network and association development in the informal economy and agriculture 5.3. Ensure that financial infrastructure is enabling for financing in the informal economy and agriculture 5.4. Promote the development of innovative products for financing informal economy participants including in agriculture

<p>6. SME Finance</p>	<p><i>To enhance access to and usage of finance SMEs.</i></p>
	<ul style="list-style-type: none"> 6.1. Enhance knowledge and data on financial inclusion among SMEs 6.2. Review regulatory and supervisory frameworks to ensure they are fully enabling for SME Finance 6.3. Promote innovation and competition in SME Finance 6.4. Facilitate dialogue on existing public sector interventions and support schemes 6.5. Strengthen capacity of SMEs and financial institutions
<p>7. Resources Sector Engagement</p>	<p><i>To leverage opportunities within the resources sector to advance financial inclusion.</i></p>
	<ul style="list-style-type: none"> 7.1. Engage resource sector players to transmit funds (make payments) electronically 7.2. Engage resource sector players to support financial education
<p>8. Data Collection and Dissemination</p>	<p><i>To continue regular collection of financial inclusion data and publish it using visualization tools (financial inclusion mapping) for policy makers and commercial service providers to identify key dimensions and opportunities in Papua New Guinea.</i></p>
	<ul style="list-style-type: none"> 8.1. Ensure that data collection is demand driven 8.2. Collect data on usage 8.3. Disseminate financial inclusion data relevant to private sector, government and donors
<p>9. Government Engagement</p>	<p><i>To promote the integration of financial inclusion in Local and National Government planning and implementation processes.</i></p>
	<ul style="list-style-type: none"> 9.1. Identify key priority activities which qualify for government support 9.2. Engage the government to support key identified activities (e.g. where market failures exist)

6 COORDINATION AND IMPLEMENTATION MECHANISMS

This section sets out key implementation mechanisms in order to establish a clear operational structure.

6.1 Key Stakeholder Roles

In order to achieve the Vision of this Strategy, action is required from a wide range of stakeholders. Key factors for effective implementation will be efficient coordination and clarity on the roles of the different stakeholders. This section describes the key stakeholders of financial inclusion in PNG as well as their roles:

- **Government:** The role of the government in financial inclusion is to set policy goals, set the rules (through regulation) and address market failures where justified. The Government Departments which have a stake in financial inclusion are the Department of National Planning and Monitoring, the Department of Community Development, Religion & Sport, the Department of Treasury and the Department of Agriculture and Livestock. Financial inclusion is part of and contributes to policy objectives within their respective domains. There is a need to coordinate activities within their domains and, where justified, to provide resources to address market failures which constrain financial inclusion.
- **Regulators:** The primary role of regulators is to ensure the efficient regulation and supervision that is essential to a well-functioning economy and that underpins economic, social, and environmental objectives⁴⁰. Regulation that is properly designed and implemented helps the financial system to function as intended. The role of regulators is to put in place an enabling regulatory environment which facilitates innovation and private sector growth while safeguarding the interests of the public. The lead regulator is the Central Bank, which will take the lead on regulatory issues. Another important regulator is the National Information & Communications Technology Authority (NICTA), which regulates telecommunications, thus playing an important role with regards to a facilitative environment for digital financial services. Coordination is also required with the Independent Consumer and Competition Commission (ICCC) in order to develop a clear regulatory framework for financial consumer protection.
- **Industry Bodies:** The role of industry bodies is to provide services which are available to the entire market to address existing weaknesses. The key industry body for financial inclusion is the Centre for Excellence for Financial Inclusion (CEFI), which will coordinate the implementation of the Strategy (CEFI's role is described in more detail below). Other important industry bodies include the Institute of Banking and Business Management (IBBM), which promotes the professionalization of the banking sector, as well as the Microfinance Expansion Project (MEP).
- **Development Partners:** Development partners have been pivotal in driving financial inclusion in PNG in the past. This Strategy suggests that their role is to fill gaps which the private sector and the Government of PNG are unable to address. This includes “de-risking”, supporting innovation by providing support (financial, technical) for pilots of innovative products and approaches, and

⁴⁰ International Finance Corporation. *SME Finance Policy Guide*. 2011.

addressing other market failures (e.g. financial education activities for which there is no private sector business case). CEFI will endeavor to support development partners in identifying resource effective projects which align to their goals.

- **Financial Infrastructures:** The role of financial infrastructures is to provide public infrastructure that addresses market failures (e.g. lack of interoperability, information asymmetry). The key financial infrastructures impacting on financial inclusion are the National Payment System (National Switch, KATS) and the credit reference bureau. The National Switch seeks to ensure broad interoperability across retail payments and thereby to reduce the costs for individual financial service providers.
- **Financial Service Providers:** In any market-based economy, private financial service providers play the lead role in financial inclusion. They deliver products and services and lead innovation. International experience shows that it is vital for financial inclusion that private financial service providers identify a clear business case in serving hitherto underserved customer segments.
- **Consumers:** Consumers must have the capacity to make informed decisions about financial products and adhere to terms and conditions set out by financial services providers.

Figure 4 provides an overview of the key actors in financial inclusion in PNG.



Figure 4: Key Financial Inclusion Actors in PNG



6.2 High-Level Implementation Management

CEFI

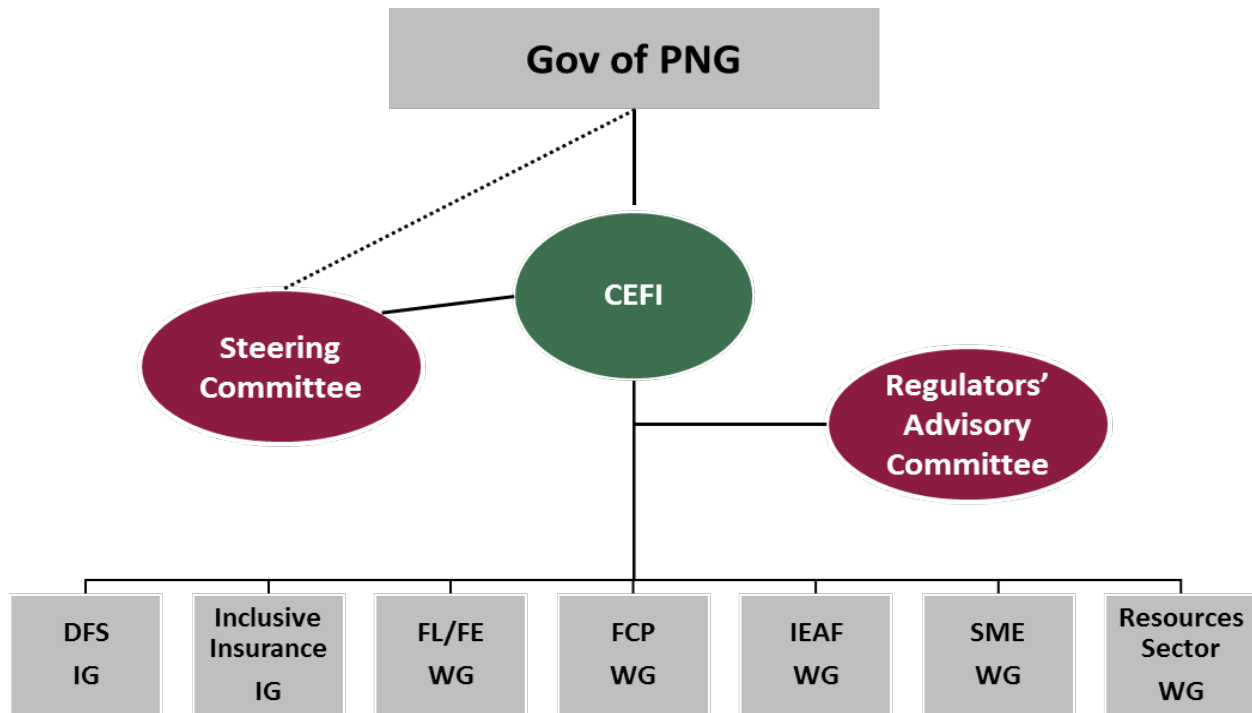
Objective: The Centre for Excellence in Financial Inclusion (CEFI) was established under the Association Incorporation Act and officially launched on the 24th of April 2013 by the Prime Minister of PNG. CEFI is endorsed by PNG's National Executive Council (NEC), as the industry apex body for coordinating, advocating and monitoring all financial inclusion activities in PNG.⁴¹

Institutional set-up: CEFI is an independent entity, founded by the BPNG through its work with the Microfinance Expansion Project (MEP). CEFI established its Governing Board, with the Governor of BPNG being the ex-officio Chairman. While the founding members of CEFI are the BPNG and the Department of National Planning and Monitoring, the Board also includes representatives from government departments, industry associations, training organizations and financial service institutions.

Activities and Scope of Work: CEFI will coordinate and monitor the implementation of the Strategy, specifically:

- Coordinating and monitoring implementation
- Secretarial support (e.g. calling meetings, writing minutes, sending follow-up) to working groups, committees and any other governance body
- Advocacy for financial inclusion (e.g. towards government)
- Reporting to and liaising with relevant government departments and bodies, e.g. Department of National Planning & Monitoring, Department of Treasury, Department of Community Development, the Consultative Implementation and Monitoring Council (CIMC), Department of Education
- Coordination of development partner programs and initiatives
- Coordinating and publishing sectoral studies and other knowledge products
- Supporting and coordinating training
- Potentially supporting pilots of selected innovative approaches and products (e.g. in DFS)
- Support to meso-level (e.g. setting up a microfinance organization)
- Transitioning key relevant activities and work streams from MEP into the framework of this Strategy
- Monitoring & Evaluation

⁴¹ (NEC Decision No. 226/2013).



CEFI will work alongside two additional high-level bodies: the NFIS Steering Committee and the Regulators' Advisory Committee (RAC).

NFIS Steering Committee

Purpose: The NFIS Steering committee will provide a high-level forum for steering and coordination of the implementation of the Strategy.

Composition: The Steering Committee is chaired by BPNG and consists of key industry leaders including the Chairpersons of the Industry Groups and Working Groups, regulators, private sector, development partners and government. It was set up in the context of the implementation of the First Financial Inclusion and Financial Literacy Strategy.

Activities and Scope of Work: The Steering committee will provide high-level steering, advice to CEFI and work with CEFI in advocacy towards the Government of PNG where relevant (Priority Area 8).

Regulators' Advisory Committee (RAC)

Purpose: The purpose of the Regulators' Advisory Committee (RAC) is to ensure that all regulatory interventions impacting on financial inclusion are well coordinated.

Composition: It will consist of all regulators whose domains impact on financial inclusion: BPNG, Insurance Regulatory Authority, ICCA and NICTA. It will meet on a needs basis, i.e. as and when required.

Activities and Scope of Work: Discuss and coordinate regulatory initiatives relevant to financial inclusion which span the domain of more than one regulator (e.g. financial consumer protection).

6.3 Implementation Management in Priority Areas

Implementation of the Strategic Objectives in the different priority areas will require varying degrees of public and private sector action as well as varying degrees of cooperation. The implementation structures therefore correspond to the specific requirements of each priority area.

1. Digital Financial Services

This Strategy acknowledges that DFS are primarily private sector driven. Therefore, the activities under the Strategy are *facilitative*, e.g.:

- Facilitate industry dialogue and knowledge sharing (e.g. to identify opportunities for cooperation between private sector players);
- Facilitate regulatory dialogue between regulators and private sector to ensure that the regulatory framework facilitates innovation while safeguarding customers;
- Facilitate dialogue on the roll-out of the National Switch;
- Engage the public sector to use digital payments.

Implementation will be coordinated by the Digital Financial Services Industry Group (DFSIG), which was set up in the context of the First Strategy as “Electronic Banking Working Group” and was subsequently renamed. Additional organizations will be welcomed if they show commitment and the ability to contribute to the strategic objectives under this priority area. Interested organizations will be considered after having expressed their interest, commitment and ability to contribute to the strategic objectives in writing to CEFI. The DFSIG will be called on a needs basis, i.e. as and when need arises.

2. Inclusive Insurance

In inclusive insurance initiatives, as in DFS, the lead in terms of service delivery and innovation is with the private sector. However, there may be certain types of insurance for which public intervention may be justified, at least in the initial stages (e.g. agricultural insurance).

Activities under the strategic framework are *facilitative*. Implementation will be coordinated by the Inclusive Insurance Industry Group (IIIG), which was set up in the context of the First Strategy. Additional organizations will be welcomed if they show commitment and ability to contribute to the strategic objectives under this priority area. Interested organizations will be considered after having expressed their interest, commitment and ability to contribute to the strategic objectives in writing to CEFI.

3. Financial Literacy and Financial Education

Strengthening financial literacy of the population through financial education programs requires a concerted effort and engagement of a broad range of stakeholders. Stakeholders with a stake in financial literacy include financial service providers (who benefit from a more financially literate population) as well as stakeholders from real economy sectors (e.g. agribusiness, resource companies). Activities must be prioritized to achieve maximum impact. Messages must be concise and consistent. The implementation of financial education initiatives should follow the following guiding principles:

- working in partnership;
- using a broad range of methods and channels;
- targeting specific audiences;
- prioritizing;
- taking advantage of teachable moments;
- consumer testing of proposed initiatives and materials;
- monitoring and evaluation;
- learning from experience, including from other countries, other sectors and other disciplines;
- communicating effectively; and
- cost-effectiveness.

Implementation will be *coordinated* by the Financial Education and Financial Literacy Working Group (FEFLWG), which was set up in the context of the First Strategy and relaunched during a stakeholder workshop in August 2016. However, any organization seeking to deliver financial education activities is encouraged to align these activities with this strategic framework and will be supported in doing so.

4. Financial Consumer Protection (FCP)

Effective financial consumer protection requires effort on three levels: regulatory, financial institutions and consumers.

- **Regulatory:** The regulator(s) must put in place a regulatory framework that sets the standards for financial consumer protection (e.g. regarding transparency, fairness) as well as processes to check compliance (e.g. supervision tools). Regulators must also coordinate to ensure a consistent approach.
- **Financial Service Providers:** Financial services providers need to have the capacity to conduct business consistent with financial consumer protection principles (transparency, fairness, complaints handling and data protection).
- **Consumers:** Consumers need be aware of their rights.

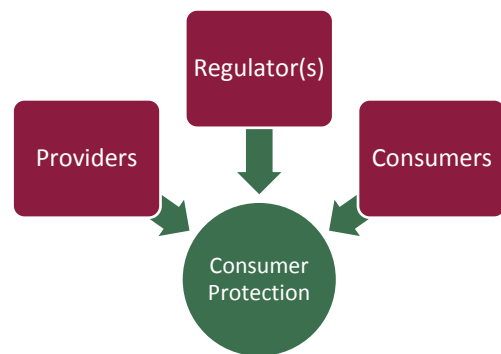


Figure 5: Levels of effort for fostering Consumer Protection

BPNG will be in the lead in developing a regulatory framework for financial consumer protection. Coordination with regards to all regulatory issues will be achieved through the Regulators Advisory Committee (RAC, see above).

5. Access to Finance for Informal and Agricultural Enterprises

A new Working Group will be established to implement this Priority Area. The Working Group will coordinate among the key stakeholders, in particular among with the Department of Community Development, Religion & Sport and the Department of Agriculture and Livestock.

Given that this is a new Priority Area, the Working Group will meet at regular intervals in order to define the best approach for achieving the Strategic Objective.

6. SME Finance

A new Working Group will be established to implement this Priority Area. The Working Group will coordinate among the key stakeholders, in particular among with the Department of Community Development, Religion & Sport and the SME Corporation.

Given that this is a new Priority Area, the Working Group will meet at regular intervals in order to define the best approach for achieving the Strategic Objective.

7. Resources Sector Engagement

A new Working Group will be established to implement this Priority Area. The Working Group will coordinate the key stakeholders, including: resources companies; the Mineral Resource Authority (MRA); the Chamber of Mines as the industry body to work with financial inclusion; and digital financial services providers.

8. Data Collection and Dissemination

CEFI and BPNG will coordinate and monitor data collection and dissemination.

9. Government Engagement

This Priority Area will be implemented by CEFI with the support of the NFIS Steering Committee. GovPNG will be engaged at different levels including Provincial, District, Local Level Government (LLG) and wards. In order to reach the grassroots level, financial inclusion will be promoted through the District Development Authority (DDA). In addition, Districts and Authorities which have signaled interest to pilot activities and achieve quick results will be specifically engaged.

7 MONITORING AND EVALUATION

The Monitoring and Evaluation (M&E) framework provides a structure for assessing progress towards the objectives of this strategy using well-defined and quantifiable indicators and targets.

7.1 Results Framework

The results framework below presents the national impact indicators. CEFI will coordinate the data collection but rely on the support of all stakeholders for effective reporting.

NATIONAL / IMPACT INDICATORS							
Priority Area	#	Impact Indicator	Baseline 2016	Target 2020	Data Source / Collection	Reporting Frequency	Reporting Breakdown
Overall	1	# of additional accounts	n/a	2 million (60% active 50% women 10% youth)	BPNG, CEFI	Quarterly	Type: savings, loans, payments, life insurance. Active/ inactive, Male/ female, Adult/ youth
	2	% of adults with a deposit /transaction account	36.96%	75%	BPNG, CEFI	Quarterly	Deposit accounts, mobile wallets, male/female
	3	# of people utilizing voluntary retirement savings through superannuation funds	tbd	25,000	BPNG, CEFI	Quarterly	male/female
DFS	4	# of alternative financial access points per 100,000 adults	249	500	BPNG, CEFI	Quarterly	ATMs, EFTPOS, Agents
	5	# of alternative financial access points per 100,000 adults outside of National Capital District (NCD)	159	320	BPNG, CEFI	Quarterly	ATMs, EFTPOS, Agents

NATIONAL / IMPACT INDICATORS							
Priority Area	#	Impact Indicator	Baseline 2016	Target 2020	Data Source / Collection	Reporting Frequency	Reporting Breakdown
	6	% of G2P transactions made electronically into an account	<i>New data collection</i>	20% increase	BPNG, CEFI, Treasury, BTCA	Yearly	Deposit accounts, mobile wallets, male/female
	7	# of accounts accessible by a mobile phone	320,282	1 million			Mobile banking accounts, mobile wallet Male, female
Inclusive Insurance	8	People/businesses who have an active insurance policy	660,000	1.5 million	BPNG, CEFI	Quarterly	<i>Tbd (e.g. life, health), mobile / non-mobile, % male female</i>
FL&FE	9	# of people trained	124,240 ⁴²	500,000	CEFI	Quarterly	Male, female
	10	# of educational institutions adding financial education modules	0	10	CEFI	Quarterly	<i>tbd</i>
FCP	11	# of FIs that comply with Disclosure Requirements	na	All	BPNG, CEFI		
	12	% of complaints which were resolved	30%	75%	BPNG, CEFI	Quarterly	According to product

⁴² Baseline derived from MEP records

NATIONAL / IMPACT INDICATORS							
Priority Area	#	Impact Indicator	Baseline 2016	Target 2020	Data Source / Collection	Reporting Frequency	Reporting Breakdown
SME & AgFin	13	Number of SMEs that receive loans from banks	<i>tbd</i> <i>(new data collection)</i>	<i>tbd</i> <i>(new data collection)</i>	BPNG, CEFI	Quarterly	Size of SME / micro-enterprise?
	14	Total volume of private sector credit to agriculture	<i>tbd</i> <i>(new data collection)</i>	<i>tbd</i> <i>(new data collection)</i>			
Resources Sector Engagement	15	% of all compensation payments are made through digital channels	<i>tbd</i> <i>(new data collection)</i>	25%	CEFI, MRA	Bi-annually	Bank payments, mobile money payments
	16	# people who receive FL training in the context of resource projects	0	100,000			Male/female
	17	# companies making resources available for financial inclusion activities	0	10			
Gov. Engagement	18	Number of District/ Provincial Gov. actively supporting financial inclusion	Few (no consistent reporting in past)	30	CEFI, Local Government	Yearly	Provinces Districts, Type of support

8 ANNEX – ACTION PLAN

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
1) Digital Financial Services	STRATEGIC OBJECTIVE: To continue to actively support innovative use of technology for scaling up financial access and promotion of expansion of digital finance services to reach remote parts of the country.						
	1.0)	Agree composition and course of action	Agree membership for DFS Industry Group (DFSIG), agree action plan by reviewing action items (amending where necessary), agree on timeframe for action items, agree on meeting schedule (e.g. ad hoc or regular meetings)	CEFI	CEFI	BPNG, FSPs, NICTA, GovPNG,	January 2017
	1.1)	Establish holistic and fully enabling long-term regulatory framework	Review current as well as upcoming regulation (e.g. regulations under National Payments Act) to determine whether fully conducive to unleashing the full potential of DFS to contribute to financial inclusion	DFSIG, BPNG	DFSIG, BPNG	FSPs	
			Sector consultation with all relevant stakeholders on upcoming regulatory framework (e.g. regulations under National Payments Act)	DFSIG, BPNG	DFSIG, BPNG	FSPs	
			Review of SIM Registration Act	DFSIG, NICTA	DFSIG, NICTA	NICTA, FSPs	
Review market as well as all relevant regulations (financial, communications) to ensure fair and equitable competition in the DFS space			DFSIG, BPNG	DFSIG, BPNG, ICC	FSPs, NICTA		

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
1) Digital Financial Services	1.2)	Promote innovative use of identification data for financial inclusion	Identify and promote innovative approaches (e.g. leveraging SIM registration) to verify customer identity to facilitate easy and cost efficient account opening	DFSIG	DFSIG	NICTA, CEFI	
	1.3)	Increase financial access points in rural areas	Initiate dialogue on rural access points including shared infrastructure	DFSIG	FSPs, BPNG	DPs ⁴³	
			Deliver training for rural agents/rural agent networks	DFSIG, CEFI	CEFI, Experts	DPs	
	1.4)	Achieve broad interoperability	Facilitate dialogue on interoperability including on the roll-out of the National Switch	BPNG (National Switch TC), CEFI	FSPs	DFSWG	
			Provide technical support to financial service providers (FSPs) where necessary	CEFI, DFSIG	CEFI, DPs, Experts	DPs	
	1.5)	Reduce reliance on cash	Implement pilot of holistic digital payment ecosystem in selected districts	CEFI, DFSIG	FSP(s)	District Authorities	
			Implement pilots with resources sector	CEFI, DFSIG	FSP(s), Resource Companies	Civil Society	
			Scale-Up any successful initiatives	CEFI, DFSIG	FSP(s), Resource Companies	Civil Society	

⁴³ “DPs” = “Development Partners”, i.e. donors and donor funded institutions and programmes

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
1) Digital Financial Services	1.6)	Digitize Government payments	Engage and support relevant Government bodies in delivering PNG’s commitment to the Better than Cash Alliance (BTCA) of digitizing government salaries	CEFI, Steering Committee	FSPs, GovPNG	BTCA ⁴⁴	
			Engage and support relevant Government Bodies in delivering PNG’s commitment to the Better than Cash Alliance (BTCA) of digitizing government to people (G2P) payments	CEFI, Steering Committee	FSPs, GovPNG	BTCA	

⁴⁴ BTCA = “Better than Cash Alliance”, which Papua New Guinea is a signatory of.

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
2) Inclusive Insurance	STRATEGIC OBJECTIVE: To expand micro-insurance to reach 1.5m people						
	2.0)	Agree composition and course of action	Agree membership for the Inclusive Insurance Industry Group (IIIG), agree action plan by reviewing action items below (amending where necessary), agree on timeframe for action items, agree on meeting schedule (e.g. ad hoc or regular meetings)	CEFI	CEFI	BPNG, PNGIC, Insurance Providers	January 2017
	2.1)	Enhance knowledge and data on insurance services	Facilitate preparation of an industry status report	IIIG	CEFI	BPNG, PNGIC	
			Document innovative approaches from other countries	IIIG	CEFI	BPNG, DPs	

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
2) Inclusive Insurance	2.2)	Introduce a comprehensive and enabling regulatory framework for micro-insurance	Conduct a regulatory diagnostic on micro-insurance	IIIG	BPNG	CEFI, DPs	
			Develop a draft regulatory framework for micro-insurance	BPNG	BPNG	IIIG, RAC ⁴⁵	
			Obtain stakeholder feedback	IIIG	Insurance providers	BPNG	
			Introduce a regulatory framework	BPNG	n/a	n/a	
	2.3)	Promote the development of inclusive insurance products	Explore the possibilities of implementing agricultural insurance	IIIG, CEFI	Dep of Agriculture, BPNG	World Bank, Dep. of Agriculture, DPs	
			Support insurance providers in piloting innovative products	IIIG, CEFI	CEFI, DPs	Insurance Providers	
			Assess the possibility of incorporating life and health insurance as compulsory for Superannuation beneficiaries	IIIG, CEFI	IIIG, CEFI	Superannuation Funds, GovPNG	
	2.4)	Enhance awareness of insurance among the population	Facilitate design and roll out of insurance education module under Financial Education	IIIG, CEFI	CEFI, FLFEWG	Insurance providers, FLFE stakeholders	

⁴⁵ Regulators Advisory Committee

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
3) Financial Literacy and Financial Education	STRATEGIC OBJECTIVE: To build on gains in financial education and extend it to educational institutions such as technical colleges, secondary and primary schools.						
	3.0)	Agree composition and course of action	Agree membership for Financial Literacy and Financial Education Working Group (FLFEWG), agree action plan by reviewing action items (amending where necessary), agree on timeframe for action items, and agree on meeting schedule.	CEFI	CEFI	BPNG, MEP, FLFE Stakeholders	January 2017
	3.1)	Establish a broad stakeholder forum to sustainably drive financial education	Conduct mapping of all stakeholders with a stake in financial education, including non-financial sector stakeholders (including churches, private sector, civil society, NGOs)	FLFEWG, CEFI	CEFI	FLFE Stakeholders	
	3.2)	Ensure consistency of financial education content and reduce cost for implementers	Develop and disseminate shared financial education resources including Training-of-Trainers (ToT) curricula, core messages, and media content.	FLFEWG, CEFI	CEFI	FLFE Stakeholders	
			Identify and assist to implement innovative cost efficient channels for financial education & literacy	FLFEWG, CEFI	CEFI	FLFE Stakeholders	

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
3) Financial Literacy and Financial Education	3.3)	Leverage existing education / training approaches and structures	Identify organizations that are willing to integrate financial education in their activities and support them in delivering activities	FLFEWG	CEFI, FLFEWG	FLFE Stakeholders	
	3.4)	Support integration of financial education in school teaching	Specifically target church schools	CEFI	Protestant Church, Catholic Church	FLFEWG	
			Resume dialogue to integrate financial education in national curricula	CEFI	CEFI	Ministry of Education	
	3.5)	Tailor activities, channels and content to specific target groups (low income households, farmers, informal sector workers)	Identify key target groups (e.g. women, SMEs, farmers) and tailor content and channels to those target groups				

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
4) Financial Consumer Protection	STRATEGIC ONECTIVE: To introduce and implement a consumer protection framework for regulated financial institutions.						
	4.0)	Agree composition and course of action	Agree membership for the FCP Working Group (FFCPWG), agree action plan by reviewing action items (amending where necessary), agree on timeframe for action items, and agree on meeting schedule.	BPNG, CEFI	BPNG, CEFI	ICCC	January 2017
	4.1)	Assess consumer perception on financial consumer protection issues	Conduct a simple survey on consumers' perceptions of the formal financial sector (covering key issues including transparency, fairness, complaints handling)	FCPWG	CEFI, BPNG	ICCC, Consumer Representatives	
			Gather feedback from the general population during financial inclusion workshops across the country	CEFI/BPNG	ICCC, Consumer Representatives	FCPWG	
	Enhance transparency on fees	Conduct a comprehensive review of all financial service provider fees and publish an overview	FCPWG	BPNG, CEFI	FSPs		

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
4) Financial Consumer Protection	4.2)	Introduce and implement a regulatory framework	Conduct a diagnostic assessment of financial consumer protection considering consumer protection requirements in the traditional banking sector as well as in digital financial services	CEFI/BPNG	ICCC, Consumer Representatives	FCPWG	
			Develop draft prudential guidelines on FCP	BPNG	ICCC	FCPWG, ICC	
			Obtain stakeholder feedback	BPNG, CEFI	BPNG, CEFI	FCPWG, ICC	
			Issue prudential guidelines	BPNG	BPNG	FCPWG, ICC	
			Develop supervision tools and procedures to ensure implementation	BPNG	BPNG	FCPWG, ICC	
	4.3)	Strengthen complaints handling mechanisms	Develop and communicate standards on complaints handling to FSPs	BPNG, ICC	BPNG	FCPWG, ICC	
			Develop and implement complaints handling procedures to deal with complaints that have been escalated to BPNG	BPNG, ICC	BPNG	FCPWG, ICC	
	4.4)	Strengthen public awareness on consumers' rights	Develop and implement a public awareness campaign for financial consumer protection	BPNG, FCPWG	BPNG, CEFI	ICCC	

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
5) Access to Finance for informal and agricultural Enterprises	STRATEGIC OBJECTIVE: To enhance access to and usage of finance for enterprises in the informal economy including agriculture.						
	5.0)	Establish Informal Economy and Agricultural Finance Working Group (IEAFWG)	Establish Working Group with representation of all key stakeholders	CEFI	CEFI	Dep CDRS ⁴⁶ , Dep Agric.	January 2017
			Agree on the specific scope of the Working Group including the type of enterprises to be addressed	CEFI, IEAFWG	CEFI	Dep CDRS, Dep Agric.	
			Agree action plan by reviewing action items below (amending where necessary), agree on timeframe for action items, and agree on meeting schedule	CEFI, IEAFWG	CEFI	Dep CDRS, Dep Agric.	
			Define indicators to measure lending to informal enterprises and to agricultural stakeholders (see results framework)	CEFI, IEAFWG	CEFI	Dep CDRS, Dep Agric.	
	5.1)	Enhance knowledge and data on financial inclusion among informal economy participants including in agriculture	Diagnostic study on constraints and opportunities for access to finance in the informal economy and agriculture (using available information); Review of range of financial services available to agricultural enterprises (factoring, leasing, insurance, guarantees)	IEAFWG	CEFI, IEAFWG	Dep CDRS, Dep Agric., World Bank, FAO	

⁴⁶ Department of Community Development, Religion & Sports

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
5) Access to Finance for informal and agricultural Enterprises			Collect data on lending to informal enterprises and on lending to agricultural enterprises, including to underpin index based insurance	IEAFWG	CEFI, BPNG	FSPs	
			Identify existing knowledge gaps	IEAFWG	CEFI	FSPs	
			Document innovations in agricultural finance	IEAFWG	CEFI	FSPs, DPs	
	5.2)	Promote network and association development in the informal economy and agriculture	Support CIMC initiative as well as any other relevant initiative	IEAFWG	CEFI	CIMC	
	5.3)	Ensure that financial infrastructure is enabling for financing in the informal economy and agriculture	Promote the inclusion of all relevant finance providers in the credit bureau	IEAFWG	CEFI, Credit Bureau	BPNG	
			Host learning event (e.g. conference) on international best practice regarding the use of credit information for agricultural lending	CEFI	CEFI	DPs	
			Coordinate policies intersecting both the financial and agriculture sectors, which is critical to facilitate access to finance for farmers and agricultural SMEs	CEFI	BPNG, Dep of Agriculture	SME Corp	

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
5) Access to Finance for informal and agricultural Enterprises	5.4)	Promote the development of innovative products for financing informal economy participants including in agriculture	Promote basic transaction accounts	IEAFWG, CEFI	FSPs	DPs	
			Expand the role of micro-banks in financing the informal and agricultural enterprises	IEAFWG, CEFI	CEFI	Micro-banks	
			Promote awareness of existing Risk Sharing Facilities	IEAFWG, CEFI	CEFI	RSF, PPA	
			Encourage value chain financing linkages, involving: Bank/finance Company, Large scale enterprises, and Small/Micro enterprises. The initiative should come from large enterprises (buyers) who wish to secure supplies from small/micro suppliers (producers)	IEAFWG, CEFI	CEFI	FSPs	

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
6) SME Finance	STRATEGIC OBJECTIVE: To enhance access to and usage of finance for SMEs.						
	6.0)	Establish Working Group on SME Finance (SMEWG)	Establish Working Group with representation of all key stakeholders	CEFI	CEFI	SME Corp	January 2017
			Agree on the specific scope of the Working Group including the type of enterprises to be addressed	SMEWG	SMEWG	CEFI, SME Corp	
			Agree action plan by reviewing action items below (amending where necessary), agree on timeframe for action items, agree on meeting schedule	SMEWG	SMEWG	CEFI, SME Corp	
			Define indicators to measure lending to formal SMEs	SMEWG, CEFI	SMEWG		
	6.1)	Enhance knowledge and data on financial inclusion among SMEs	Review of range of financial services available to SMEs (factoring, leasing, insurance)	SMEWG	CEFI	BPNG	
			Collect data on SME lending	SMEWG	CEFI	BPNG, NDB	
	6.2)	Review regulatory and supervisory frameworks to ensure they are fully enabling for SME Finance	Assess whether legal and regulatory framework promotes SME lending by banks lending as well as the development of alternative lending technologies such as leasing and factoring, the development of securities markets and institutional investors	SMEWG	CEFI	BPNG	
			Consider the effect on access to finance for SMEs of implementing Basel II/III	SMEWG	CEFI	BPNG	

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
6) SME Finance	6.3)	Promote innovation and competition in SME Finance	Promote technology, digitalization and the entry of new players (e.g. FinTechs)	SMEWG	CEFI	BPNG	
			Promote alternative financing tools e.g. capital markets, securitizations, asset backed financing	SMEWG	CEFI	BPNG	
	6.4)	Facilitate dialogue on existing public sector interventions and support schemes	Facilitate discussion between government and private sector on the effectiveness of existing schemes (e.g. NDB)	SMEWG	CEFI	BPNG	
			Review other existing mechanisms (e.g. Risk Sharing Facilities)	SMEWG	CEFI	BPNG, RSF	
			Facilitate discussion on competitive environment for SME finance	SMEWG	CEFI	BPNG	
	6.5)	Strengthen capacity of SMEs and financial institutions	Enhance awareness of (online) moveable asset registry and Personal Property Security Act	SMEWG	CEFI, FLFEWG	BPNG	
			Enhance awareness among financial institutions of risk sharing facilities	CEFI	CEFI	BPNG, FSPs	
			Support capacity building – which is necessary to enhance the capabilities of staff in financial institutions to serve agricultural clients – and the financial literacy and management skills of agricultural SMEs and farmers.	CEFI	CEFI	BPNG, FSPs	

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
7) Resources Sector Engagement	STRATEGIC OBJECTIVE: To leverage opportunities which the resources sector presents to advance financial inclusion in PNG's resource regions.						
	7.0)	Establish Resources Sector Engagement Working Group (RSEWG)	Establish Working Group including all key stakeholders (including resource companies, MRA, Chamber of Mines & Petroleum, NGOs, churches, community representatives)	CEFI	CEFI	MRA ⁴⁷ , Chamber of Mines & Petroleum	January 2017
			Agree action plan by reviewing action items (amending where necessary), agree on timeframe for action items, and agree on meeting schedule.	CEFI, RSEWG	CEFI	MRA, Chamber of Mines & Petroleum	
	7.1)	Engage resource sector players to transmit funds (make payments) electronically	Conduct assessment of payments streams	CEFI, RSEWG	DPs	Research Bodies	
			Identify resource companies with an interest to digitize payments	CEFI, RSEWG	CEFI	DFSIG	
			Identify financial service provider(s) with an interest to provide a payment solution	CEFI, RSEWG	CEFI	FSPs	
	7.2)	Engage resource sector players to support financial education	Identify resource companies with an interest in delivering financial education programs/integrating financial education into their community engagement work	CEFI, RSEWG	CEFI	FLFEWG	
			Work with relevant Government agencies to ensure financial inclusion is included in future resource company agreements with Government	CEFI, RSEWG	CEFI	MRA	

⁴⁷ Mineral Resources Authority

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
8) Data Collection and Dissemination	STRATEGIC OBJECTIVE: To continue regular collection of financial inclusion data and publish it using visualization tools (financial inclusion mapping) for policy makers and commercial service providers to identify key dimensions and opportunities in Papua New Guinea.						
	8.1)	Collect Data that is demand driven	Conduct a quick survey among key stakeholders on what data is needed to inform service delivery and policy making	BNPG, CEFI	CEFI	FSPs	
	8.2)	Collect data on usage	Agree on definitions for activities in different product segments	BNPG, CEFI, FSPs	CEFI	FSPs	
	8.3)	Ensure that key stakeholders receive relevant financial inclusion data	Disseminate data updates on a quarterly basis	CEFI	CEFI	FSPs, Government	
			Publish visualization tools including financial inclusion mapping	BNPG, CEFI	CEFI	FSPs, Government	
Deliver additional knowledge products such as data on/profiling of specific market segments (e.g. informal SMEs, agricultural sector) or regions			CEFI	CEFI	(Potential) customers		

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
9) Government Engagement	STRATEGIC OBJECTIVE: To promote the integration of financial inclusion in Local and National Government planning and implementation processes.						
	9.1)	Engage government entities with a stake in financial inclusion to address gaps where public support is justified	Obtain funding for CEFI to coordinate the implementation of this Strategy and thereby enhance the efficiency and coherence of financial inclusion initiatives	CEFI	Treasury	BPNG	
			Identify concrete activities (from any of the above priority areas) that require government support and align them with the policy objectives of specific government entities	CEFI, Steering Committee	CEFI, Steering Committee	IGs, WGs,	
			Promote concrete activities to relevant Government entities	CEFI, Steering Committee	CEFI, Steering Committee	CIMC, Relevant Gov Bodies	
	9.2)	Specifically engage local government	Develop an engagement plan for local government including coordination of financial inclusion activities	CEFI, Steering Committee	CEFI	DDA	
			Participate in key government fora to raise awareness (e.g. local government leadership forum)	CEFI, Steering Committee	CEFI	Relevant Gov Dep.	
			Develop an action plan for respective Province, District, LLG and ward levels	CEFI, Steering Committee	CEFI	Local Gov	
			Conduct piloted activities with selected motivated District Authorities	CEFI	District Authority	FSPs	
			Broadly publicize results of pilot	CEFI	CEFI	DDA	

ACTION PLAN							
Priority Area	#	Objectives	Action	Implementation			
				Coordination	Delivery	Secondary Entities	Timeframe
9) Government Engagement	9.3)	General Advocacy	Promote a market enabling approach for all government interventions so that government resources have the largest long term impact	CEFI, Steering Committee	CEFI	Relevant Gov Dep.	
			Work towards dedicated Policy for Financial Inclusion	CEFI, Steering Committee	CEFI	Relevant Gov Dep.	