

## **L Wilson Kamit: Microfinancing in Papua New Guinea**

Speech by Mr L Wilson Kamit, CBE, Governor of the Bank of Papua New Guinea, at the presentation of Banking Licence to Nationwide Microbank Limited and opening of its new Boroko branch, Boroko, 17 June 2008.

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### **Acknowledgement**

Hon. Powes Parkop, MP – Governor for National Capital District  
Chairman of Wau Microbank – Mr Ray Clark  
Deputy Governor – Mr Popoitai  
Deputy Governor – Mr Bakani  
Mr Lionel Somaratna, CEO, Wau Microbank  
Distinguished guests, ladies and gentlemen

### **1.0 Introduction**

I wish to thank the Board of Wau Microbank for the invitation to officiate in today's event.

In particular, there are a few important reasons for being here today partly to witness the results of the hard work of the Board, Management and Staff of Wau Microbank, culminating in the opening of the new microbank's branch in the National Capital District but also to present a new banking licence to the entity that will continue the work of the "Wau Microbank".

### **2.0 Historical developments**

The development of microfinance in PNG dates as far back as the 1960s with the establishments of savings clubs and savings and loan societies in many parts of the country under the guidance and involvement of the Reserve Bank of Australia through its branch based in Port Moresby and later by the Bank of Papua New Guinea through the Registrar of Savings and Loan Societies.

Over the years, numerous attempts to establish microfinance institutions and/or provide microfinance products were also undertaken by various non-government organizations and other government-funded donor agencies. The Development Bank in its various forms over the years has been known to have provided some microfinancing. Many of these initiatives were very much subsidized.

Typically, many of these initiatives faced lots of challenges which included sustainability. It is one aspect to open up branches and other points of representation and yet another to sustain, maintain and grow the business without resorting to any form of subsidies. Dependence on subsidized funds is fraught with problems as we have experienced in Papua New Guinea. CEO Lionel Somaratna mentioned and emphasized sustainability in his remarks.

However, despite these challenges and sad experiences many of us are keen to foster the growth of microfinance alongside the expansion and growth of other financial service providers such as banks, superannuation funds and the insurance industry. There is research and documentation that suggests a link between financial development (or accessibility to finance) and reduction of poverty and indeed financial access does facilitate growth.

### **3.0 Providers of financial services**

Financial accessibility and access to financial products in Papua New Guinea is provided through 4 commercial banks, 11 Finance Companies, 7 Superannuation Funds, 6 Life Insurance Companies, 2 Licensed Microfinance Institutions and 20 Savings and Loan Societies. Each of these entities complement each other in the different services and target specific market segments. Of interest to the Bank is the growth of these financial service providers side by side yet find enough competitive opportunities to service a virtually large unbanked population of PNG. For example, in a number of centres, banks, finance companies, savings and loan societies and microfinance institutions are operating quite successfully next to each other. In Kokopo and Kimbe this is most obvious.

### **4.0 Legislation**

There is no separate legislation for the microfinance industry and only two deposit taking microfinance institutions are licensed by the Bank of Papua New Guinea under the Banks and Financial Institutions Act 2000 in the same fashion as commercial banks and financial companies. Savings and Loan Societies are administered under the Savings and Loan Societies Act which is in its financial stages of a review to “modernize” the legislation.

2 licenced micro-banks in Papua New Guinea are:

- (i) PNG Microbank Limited is owned by the PNG Sustainable Development Ltd (49%), Bank of South Pacific Limited (32%) and International Finance Corporation (19%).
- (ii) Wau Microbank Limited was licenced as a pilot project. (More on this later)

### **5.0 Challenges for the microfinance industry**

A major challenge for the microfinance industry and particularly for the two (2) licensed microbanks is to ensure that in their quest to expand the branch network (outreach) to rural and other areas where banking services are not available, they must ensure sustainability. I have already mentioned the pitfalls of reliance on subsidies and other market distortions.

Financial literacy. I believe it is also our duty to educate the public in financial matters to enable them to make informed decisions about their finances.

Dangers of Fast Money Schemes. The public/your stakeholders should be continuously advised to place their money with licensed financial institutions and beware of fast money schemes or scams that often make false promises of paying high returns in a very short time. To educate the public on the dangers of investing in fast money schemes or scams, the Central Bank puts out public notices in the media to educate and warn the public. You can assist us by relaying these messages to your stakeholders.

Challenges continuously faced by the financial sector are the tendency for the Board and management to become complacent in the management of the institutions, to ignore good governance and accountability standards and allowing non-commercial pressures to derail good commercial practice.

### **6.0 Wau Microbank Limited**

In 1998, the Government and the Asian Development Bank (ADB) agreed on the PNG-ADB Microfinance and Employment Project (Project). The purpose of settling up the microbank was to use as a “laboratory” to test different microfinance products, services and delivery methodologies.

One of the components of the Project was the establishment of Wau Microbank which was a pilot project established under the PNG-ADB Microfinance and Employment Project. It was

granted a conditional licence by the Bank of Papua New Guinea in 2004. This in essence exempted the financial institution from some requirements of the BFIA to accept deposits and provide microfinance services.

The operations of Wau Microbank under the conditional licence has been satisfactory. Over the past 2 years ended March 2008:

- Total assets of the WMB increased from K 4.3m to K 22.2m
- Total deposits increased from K 2.8m to K15.6m
- Total loans increased from K 0.6m to K 5.5m
- Branches in Lae (HO), Wau, Bulolo, Madang, Kainantu and Wewak.
- It had 165,029 depositors, and
- It has 10,113 borrowers

During 2007, the Wau Microbank applied for a full licence to enable it to expand its operations. The due diligence on the application was undertaken and the Bank is satisfied with the application. One of the requirements imposed by us was for the bank to have a country wide recognized and acceptable name.

On that note, ladies and gentlemen, it gives me great pleasure to announce that on 12th June 2008, in accordance with Section 10 of the Banks and Financial Institutions Act 2000 approval was granted to Wau Microbank to change its name to "Nationwide Microbank Limited".

I would like to ask the Chairman, Mr. Ray Clark to come forward and receive the new Banking Certificate for Nationwide Microbank Limited.

In line with that authority, it is also my pleasure to invite the Governor of the NCDC, Hon. Powes Parkop, MP and the Chairman of Nationwide Microbank Limited, Mr. Ray Clark to join me in opening the Port Moresby Branch of Nationwide Microbank Limited.

It gives us great pleasure in declaring that the Nationwide Microbank Limited is now open for business.

Thank you, ladies and gentlemen.