

L Wilson Kamit: Opening up opportunities for agriculture and rural development

Address by Sir L Wilson Kamit, CBE, Governor of the Bank of Papua New Guinea, to the Consultative and Implementation Monitoring Council (CIMC), 2009 National Development Forum on “Opening Up Opportunities for Agriculture and Rural Development”, Port Moresby, 5 August 2009.

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Distinguished guests,

Ladies and gentlemen

May I firstly thank the organizers of this conference for the invitation to speak on the financial sector in Papua New Guinea. I was asked specifically to comment on the financial sector’s outreach to rural areas and low income households.

Let me start by briefly talking about the macro economy. Acting Secretary Tosali has already mentioned most of these developments.

Macro economy

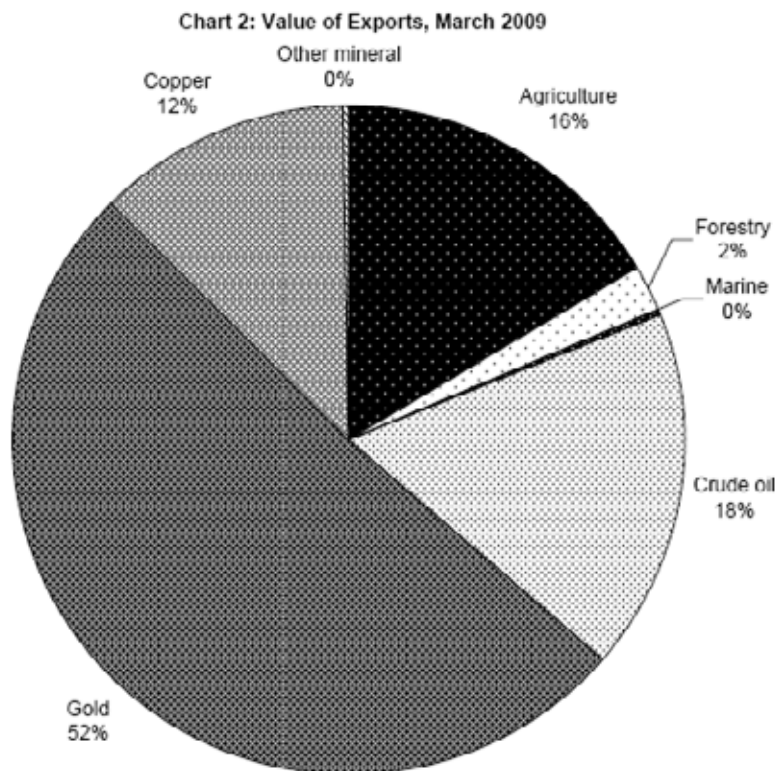
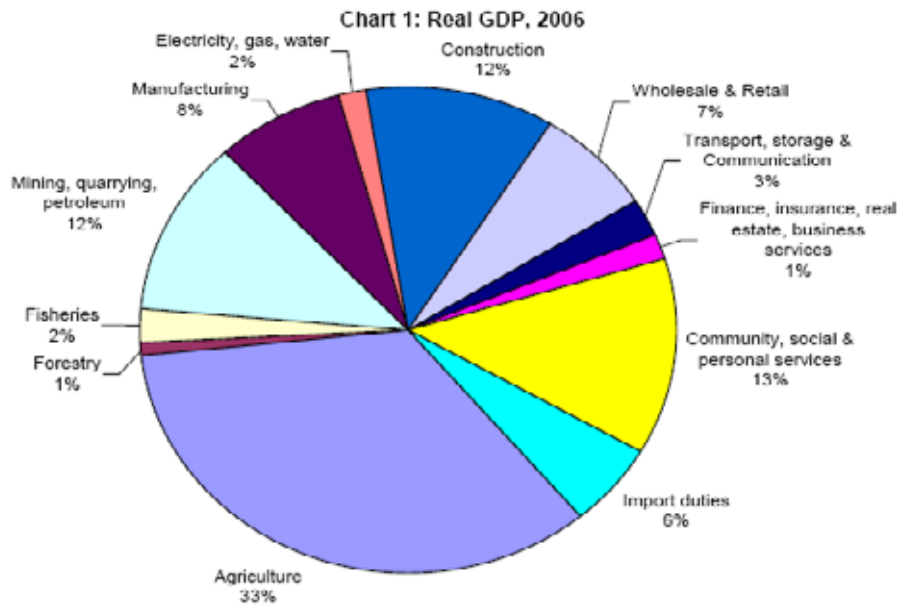
Papua New Guinea has, over the last five years, benefited significantly from the export commodity price boom as it resulted in fiscal surpluses, record international reserve levels, reduced total public debt and sustained real GDP growth. In the same period there was a substantial financial sector reform, which commenced in 2000, that contributed to a sound and prudently managed financial system and aided economic growth.

The sound and prudent management of our financial institutions is reflected by the high capital adequacy ratios, a liquid banking system, low level of non-performing loans, and funding of loans by the banking system from deposits rather than from borrowings from overseas. The Central Bank authorized financial institutions also remained highly profitable.

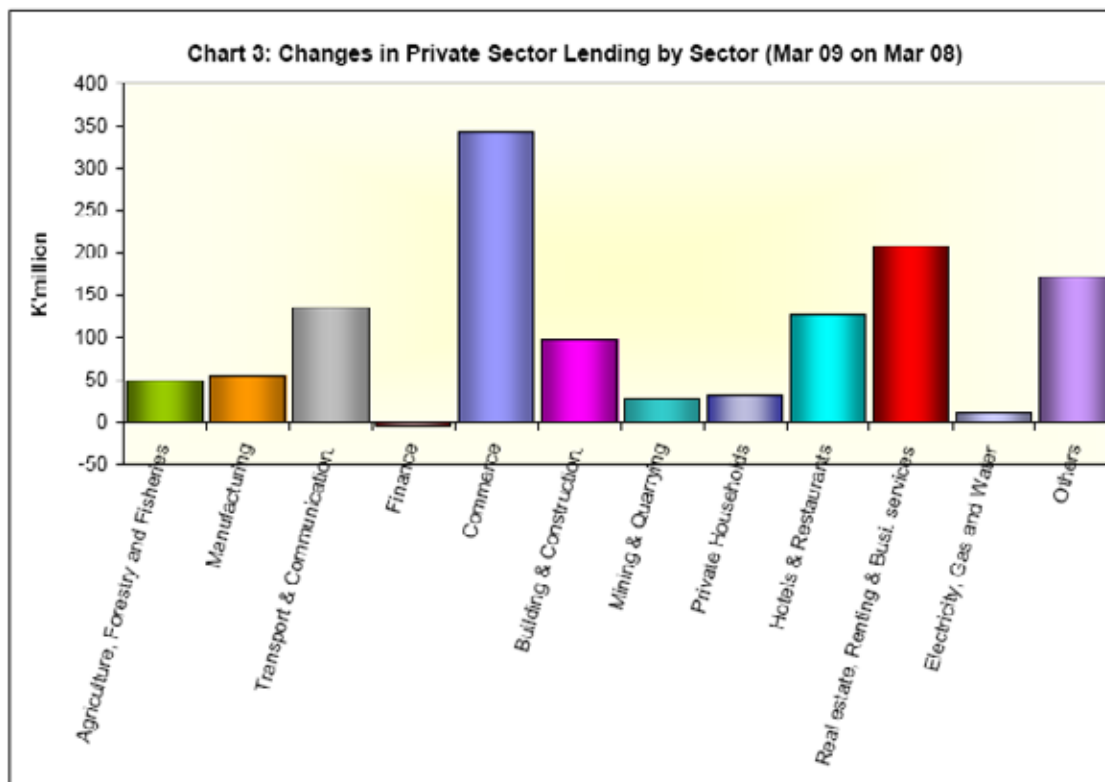
Prudent monetary and fiscal policies between 2003 and 2007 and a co-ordinated approach in their management also contributed to stable exchange rates and price stability (low inflation) and improved confidence in the domestic economy. Together with the low interest rate environment, this led to a significant increase in lending to the private sector, with a growth of between 30-40 percent during the period. The removal of foreign exchange controls, particularly on lending to non resident companies also supported the strong growth.

Agriculture sector

The agriculture sector continues to be an important one for Papua New Guinea, providing employment and income-earning opportunities for a large number of our people, sustaining the livelihood of many and providing foreign exchange inflows. This sector contributed 33 percent to the country’s overall GDP, according to the most recent official National Accounts from the National Statistical Office, which is for 2006 (see chart 1). The value of agricultural exports in the March quarter of 2009 was K406.8 million, 16.4 percent of total exports (see chart 2). This is down from K659.0 million or 17.3 percent in March 2008, and partly reflects the impact of the global financial crisis and the economic recession in the major industrialised countries.



Despite its significance to the local economy, financial resources channeled to the agriculture sector remains dismal. Commercial banks' lending to the agriculture sector, excluding forestry and fisheries, totaled K147.7 million in the March quarter of 2009, which was 3.1 percent of total lending. This compares to K104.1 million and 4.0 percent of total lending in March 2008. These amounts compare poorly against lending to the other sectors of the economy, including commerce (retail and wholesale trade), manufacturing, transportation, construction and services such as hotel and real estate (see chart 3).



The financial sector reforms have created the foundation for an efficient and sound financial system that assist the course for stability and growth, which provides an opportunity for the financial sector to introduce new financial products that are suitable for the Papua New Guinean economy. The new area of banking that has been successful in several developing countries is electronic or mobile money banking. Electronic banking products have enabled banks to capture the un-banked population, provide financial literacy and significantly reduce the cost of banking. Mobile phone banking and branchless banking operating through agents have become a norm to bring banking services to the rural areas. The fragmented characteristics of the PNG economy suggest that mobile money or electronic banking is the way forward to provide financial services to the mass in the rural areas.

The rapid economic growth in the last five years has created opportunities for bank expansion. The increase in business activities requires commercial bank presence in respective regions of the country. The presence of a fully licensed conventional bank can increase the efficiency of the financial intermediation process and promote economic development. However, many banks have indicated that some of the branches are unprofitable due to the high cost of operations. To circumvent the high cost of running full branches, the commercial banks have expanded the net work of ATMs and EFTPOS, which has complemented branch net work and in some instances have become substitutes for branches to a limited extent. The existences of ATMs and EFTPOS have made banking easier and efficient in the rural areas.

However, these developments will not succeed if:

- Infrastructure is not in place for investors to build on. Mobile banking and branchless banking requires transport, power, and communication infrastructure. E.g. Namatanai sub-branch of a bank closed down due to communication and power problems and failures. I recently visited Dogura. There is no mobile phone communication link between Dogura and Alotau in the Milne Bay province.
- Law and Order/Security issues are a serious concern. The law and order problems have caused the banks to reduce the size of their representations throughout PNG.

Over the years, banks had to close down in provincial centres. The closure of branches in Popondetta twice in the last few years is an illustration.

- An alarming law & order issue is the threat to staff of financial institutions. Officers and families of staff employed in the financial system should not be placed in situations of psychological stress and anxiety caused by unsavoury elements of our society. The cases of kidnapping and threatening staff and their families is a problem that must stop. Bank staff must be allowed to contribute to the development of our nation without threat or intimidation in carrying out their duties.

Microfinance

Microfinance institutions and development orientated institutions are important vehicles for involving those at the bottom of the pyramid to become financially included. The rapid growth of microfinance institutions over the last few years have begun to make a positive contribution to providing banking services to those in the rural area and the informal sector of the economy. Under the BFIA, 2 microbanks were licensed by the BPNG and they continue to expand their branch network and outreach to rural areas and informal sector, which were previously under-banked. To expand this outreach further into the remote rural areas, the PNG-ADB Microfinance Project is piloting linkages of 3 rural groups to the Nationwide Microbank. This linkage involves provision of financial literacy and banking services to the members of these 3 groups, and will form the basis for expanding these arrangements to other areas of the country.

Traditionally, savings and loans societies in Papua New Guinea have been the vehicle for providing financial services to members who do not have access to banking services in the rural areas. Two types of savings and loans societies; provincial based societies and employer based societies. The provincial based societies have extensive branches at the provincial level, particularly to those in rural areas, while the employer based societies provide least expensive financial services to members of that institution.

The savings and loans movement in Papua New Guinea have grown significantly over recent year in assets value. Total assets increased to K730.3 million as at end of March 2009, from K232.9 million as at end of December 2004. The growth in asset values reflects good performance by the Board and Management of those institutions and on-going supervision by the Central Bank. Membership also increased significantly from 131,000 in 2004 to 216,000 as at end of March 2009.

The National Development Bank (NDB) is an important development institution that provides credit to development projects such as those in the agriculture sector. Development lending is usually targeted towards individuals with low capital and longer grace periods for the repayment of loans. Efforts to commercialize the NDB from its mandated function may not assist in achieving the developments objectives of the Government.

Payments system

The Central Bank is also undertaking a strategic project to improve the payments system of Papua New Guinea. An efficient payment system is therefore a vital component of a modern economy and society.

Conclusion

Ladies and gentlemen, in an environment where many banks and financial institutions around the world affected by the global financial crisis are contracting, it is pleasing to note that we in Papua New Guinea are still expanding. Our banking system is sound, liquid and prudentially managed and is prepared to take on the challenges offered in the advent of

global financial crises, the fast pace of private lending growth, development of the LNG project and a changed risk landscape of PNG. Everyone must play its part in upholding these hard fought gains.

Thank you.