

Loi Bakani: Development of the financial system in Papua New Guinea

Speech by Mr Loi Bakani, Deputy Governor of the Bank of Papua New Guinea Policy & Regulation, at the launch of the Lae branch of Wau Microbank, 22 April 2005.

* * *

Hon. Luther Wenge, MP - Governor of Morobe
Mr. Manasupe Zurenuoc - Provincial Administrator & Master of Ceremony
Mr. Werner Schneider - ADB Rep, Country Res. Mission
Ms. Charlotte Smith - AusAID Representative
Ladies and gentlemen

It gives me great pleasure to address this gathering to mark the launch of the Lae branch of the Wau Microbank. This occasion marks another milestone in the development of the financial system in PNG, which is within the heart of the Central Bank's function as a Regulator of the financial system.

The main functions of the Bank of Papua New Guinea, as a Regulator, are stipulated in the Banks & Financial Institutions Act 2000. These, among others, are:

- to promote general stability and effective working of the financial system; and
- to supervise the financial institutions authorized by it.

Noting from the above functions, the Bank is not mandated to undertake development activities. However, over the recent years the Bank has taken on board some development activities aimed at developing the financial and capital markets in PNG. It has also been actively involved in strengthening and building capacities of some financial institutions so that these institutions can contribute effectively to the development of the financial sector.

Some of the development initiatives that the Bank is actively involved include:

- Savings and Loan Societies Revitalization Program;
- Establishment of Port Moresby Stock Exchange; and
- PNG-ADB Microfinance & Employment Project.

The Bank contributes to the PNG-ADB Microfinance & Employment Project as the Executing Agent. The Project is guided by a Steering Committee chaired by the Deputy Governor for Policy & Regulation. The Bank has an internal Working Group and a Unit responsible for microfinance. This structure was established in full recognition of the importance we place on the development of microfinance institutions in PNG, and its role in filling the gap in provisions of financial services in the rural communities.

Microfinance institutions (MFIs) form a different tier of financial institutions that play an active part, through the informal and semi-formal sectors, in savings mobilization and the development of the financial system. These financial institutions that serve the disadvantaged majority equally require the Central Bank's supervision and some involvement in enhancing their growth. The services provided by the MFIs should be seen as complementary to the services provided by other licensed financial institutions (LFIs) in both the rural and urban areas of PNG.

Other recent positive developments initiatives in this area are: the proposed partnership arrangements between banks and Post PNG, and separately with the Government's District Treasury offices.

Like all other developing countries, PNG is constantly challenged to provide answers or ways as to how best it can wrestle the problems associated with poverty and lack of employment opportunities. Its 5 million population, of which 80% live in the rural areas have been denied development opportunities for many years, partly due to the deterioration in infrastructure conditions and lack of banking services.

Given these challenges, we recognized that the weaknesses of the financial system needs to be addressed in order to improve the provision of financial services required for private sector development. This includes addressing the lack of banking and financial services in the rural communities. The recent surge in cases of various forms of money schemes are an outcome of this problem. The Central Bank has taken actions on some of these schemes and will continue to be vigilant in eliminating such practices.

In addressing this problem, the Government requested the Asian Development Bank (ADB) to provide technical and funding assistance in developing the microfinance sector in PNG. Subsequently, this led to the establishment of the PNG-ADB Microfinance and Employment Project, which commenced in 2000.

The Project's overall objective is to contribute to economic growth through private sector development and employment creation and further development of the financial system. The specific objective of the Project is to provide sustainable microfinance services to viable formal and informal enterprises and savings services to the population at large.

Regarding regulation of MFIs, there is currently no regulation in place to govern the activities of MFIs. However, the Bank is in the process of developing an appropriate regulatory and supervisory regime that would support the development of MFIs and legally protect and equip them to serve the urban and rural communities of PNG. As deposit-taking institutions, these MFIs are required by the Central Bank to be duly incorporated and operate legally within a prescribed set of rules to ensure sustainability in the future.

Since there is no regulatory framework in place to license MFIs, the Central Bank gave conditional license to the Wau Microbank (WMB) under the existing Banks and Financial Institutions Act 2000 to operate as a licensed financial institution and allow it to collect public deposits. The licensing of the WMB portrays a new approach considered by the Project and BPNG to be an effective means to meet the expectations of the local people.

The establishment of the Lae branch of Wau Microbank should be seen as a sign of expansion of the Microfinance sector in PNG as more entrepreneurs from the formal and informal sectors will now be served by this microbank. The Morobe province has a vibrant economy and there are prospects for the expansion of the microbank to other areas of the province. The success of this branch will show the nation that a microbank can quickly become viable also in urban areas.

This province is fortunate to have the microfinance policy of the Government being tested with the establishment of the pilot microbank in Wau as a 'laboratory' for testing microfinance products and methodologies. The province should embrace and support the microfinance initiatives as an alternate 'vehicle' for delivery of financial services to a wider sector of the urban and rural communities. The MCC supported by the BPNG are working together to assist any institution, public or private, that wish to serve the Microfinance market.

I commend the Project team from MCC and IBBM for extending the provision of microfinance services to Lae city through the establishment of the branch of Wau Microbank.

The Bank also acknowledges the continued support of the donor organisations including the ADB and AusAID without which this Project would not have been established. I am sure your support will be extended to the other provinces as well.

I also wish to thank the Morobe Provincial Government and Administration for taking a proactive stance in this expansion plan for the WMB.

Thank you ladies and gentlemen.