

Loi M Bakani: Financial system reform in Papua New Guinea

Address by Mr Loi M Bakani, Acting Governor of the Bank of Papua New Guinea, at the launch of the Fincorp downscaling initiative closure meeting, 23 June 2005.

* * *

1. Acknowledgement

Chairman of Fincorp Mr Kerengua Kua, staff of Fincorp and MCC. Thank you for giving me the honour to address the launch of the downscaling initiative closure today.

Firstly, on behalf of the Microfinance Steering Committee (MSC) and the Bank of PNG as an executing Agent of the Microfinance & Employment Project, I would like to acknowledge and thank those involved in initiating this downscaling program, namely; the staff of MCC, the staff & management of Finance Corporation Limited (FINCORP), and last but not the least the 500 or so micro entrepreneurs under the Liklik Bisnis Finance Loan Program. This is another milestone in the development of microfinance in PNG, with a product provided based on mutual trust.

2. Introduction

Let me congratulate you all for the success in running and expanding this Program for one year now.

Like all other developing countries, PNG is constantly challenged to provide solutions as to how best it can wrestle the problems associated with poverty and lack of employment opportunities. PNG's 5 million population of which 80 percent live in the rural areas have been denied development opportunities because of unfair or uneven distribution of the country's financial resources & limitation in infrastructure developments.

Lack of serious attention to the declining state of infrastructure has forced many of the rural dwellers to migrate to the urban centres in search of employment opportunities and services of urban dwellings. With lack of education and entrepreneurial skills, many could not find jobs and had to resort to crime and other illegal activities as a means to survive.

In addressing the lack of financial services to the rural population, the Bank had agreed to be a party to the development of the microfinance sector, although is outside the core functions of the Bank. We see this new development as an important milestone in the development of the financial system in PNG. This industry will complement the financial services provided by the existing financial institutions, but with different scope and mandate. We are encouraged by the huge interest in the microfinance sector as evidenced by the growth of the current two (2) microfinance institutions, namely, the Wau Microbank and the PNG Microfinance Limited. The strong interest shown by small entrepreneurs in the downscaling program by Fincorp is an indication of the available demand for such financial services that has been lacking in the rural areas of PNG. It reflects the need for financial empowerment to improve living standards and contribute to the development of our country.

The Bank of PNG is in a process of establishing a legal framework for the microfinance industry and will soon announce broad guidelines on the licensing requirements for microfinance institutions or microbanks. It is our intention that we will exit from our involvement in the development phase of the sector and concentrate on our core role as supervisor & regulator of the financial system.

The Bank welcomes and fully supports initiatives such as this, we are witnessing. However at the same time, the Bank expects all licensed financial institutions to fully comply with the regulatory and prudential requirements of the Bank under various legislations by which it is empowered, so as to ensure protection of public funds and stability of the financial system. For these reasons, we continue to enforce good governance in both the Board and management level, through the "Fit & Proper" tests for those involved. The Bank has taken actions on some licensed institutions found to be violating the provisions of these Acts or the prudential standards and directives of the Bank, and will not shy away from pursuing such actions in future.

The development and deepening of this financial sector will provide support for the Bank's ongoing fight against money schemes, which has eaten up a significant portion of the innocent savers hard-earned incomes. The Bank of PNG has taken out various public notices and educational campaigns and will continue to do so to create public awareness that such schemes are not legitimate and are

illegal, because they are not licensed by the Bank to conduct banking business, mainly taking deposits from the public. We have few cases of these schemes before the court, and are confident that their operations will cease as we continue to expose their illegal activities to the public. This is much the Bank of PNG can do to educate the public, but the onus is on the public to ensure their savings are placed with licensed financial institution where their safety is guaranteed.

Microfinance is for the "grassroots". It is their hope of making a change in their lives and contributing meaningfully to the development of PNG. It requires hard work, dedication and commitment to success. It also demands patience because the accumulation of surplus or profit takes time given that the kind of money involved in microfinance is relatively small. I am sure you all have experienced that in your businesses through this Liklik Bisnis Finance Program.

To conclude, I commend FINCORP for being sensitive to the needs of small people who need financial empowerment, by taking a bold decision to engage in this downscaling initiative. This program has established itself as a model product, which may be introduced later in other areas. We wish you all the success in your endeavors to continue with the program into the future.

The Project Office will continue work with microfinance institutions to test out new financial products, and as the Chairman of the Microfinance Steering Committee, we will ensure these are appropriately implemented to the benefit of our people. With this remark, I wish the entrepreneurs success in the business activities that you are doing under this downscaling program with Fincorp.

Thank you very much.