

Loi Bakani: The inclusion imperatives - advancing policies, targets and plans

Keynote address by Mr Loi M Bakani, Governor of the Bank of Papua New Guinea, at the Asia-Pacific Financial Inclusion Forum on “The Inclusion Imperatives: Advancing Policies, Targets and Plans”, Tokyo, 27-28 June 2018.

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- ♦ Distinguished Delegates of the APEC economies,
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Good morning,

Let me acknowledge the Foundation for Development Cooperation, and the co-conveners of this summit, ABAC and the Asian Development Bank Institute (ADBI) for bringing us together, to continue discussing financial inclusion in a holistic way.

Evolving Regional and Global Initiatives for Financial Inclusion

Distinguished guests, effective financial inclusion is critical to drive an inclusive development that has a positive impact for people at the grassroots. As we all know, 2018 is Papua New Guinea’s year as APEC chair and there has been a need for APEC economies to cooperate to bring forth policy outcomes that reflect the aspirations of APEC collectively and meet the high expectations of the people in our economies. PNG’s focus is on achieving increased understanding in APEC towards advancing trade and economic policies that secure regional integration inroads; ease connectivity bottlenecks and structurally promote more inclusive and sustainable growth. PNG through the Finance Ministers Process has been able to champion financial inclusion. I see this forum as an important opportunity to engage in high level dialogue to review current trends, recent achievements, ongoing challenges and opportunities relative to financial inclusion and inclusive growth for the region.

To complement our various national level financial inclusion initiatives, there have been a number of global initiatives aimed at increasing financial inclusion. Over 40 countries have set targets for financial inclusion in the past two years, through platforms like the G-20 Financial Inclusion Peer Learning Program (PLP) and the Alliance for Financial Inclusion’s (AFI) Maya Declaration. Complementary alliances at the private sector level or topical level (such as alliances focused on improving electronic payments systems) provide an additional engine for framing and motivating countries to strive for high financial inclusion goals. The 2030 Agenda for Sustainable Development recognises that eradicating poverty in all its forms and dimensions, including extreme poverty, is the greatest global challenge and an indispensable requirement for sustainable development.

The APEC Finance Ministers have set a clear objective for this Forum which is “to identify

concrete actions that financial policy makers can take to expand the reach of financial services to the underserved.” Now in its 8th year, the Forum is taking a distinctive approach by broadening the view on financial inclusion as an enabler of inclusive growth and development with a strong focus on implementation as reflected in this year’s theme: *“A Call to Action- Advancing Policies, Targets and Plans.”*

Wealth Creation

You will recall, in August 2017, FDC hosted the Wealth Creation Roundtable in Port Moresby, Papua New Guinea to discuss strategies for ‘Wealth Creation’ across the Pacific region. The question addressed was the definition of Financial Inclusion to be broadened so that the demand side needs are a more vital contribution to the supply side focusing more on the positive contribution to people’s lives, wellbeing and prosperity as opposed to what solution we want to sell them. Essentially highlighting that financial inclusion needs to be more than just accessibility and affordability, it is about achieving secure financial outcomes in the form of assets and protections, where wealth building is the aim, and for wealth transfer the inflexion point in sustainable poverty reduction inter-generationally. In PNG and in other economies, reports show that access to a bank account does not drive usage however mere access to a bank account ‘counts’ as being financially included. After reviewing PNG’s first national financial inclusion strategy, two priority areas were added on, that is, the Informal economy including agriculture and the Resources Sector, recognizing the need to leverage opportunities and advance financial inclusion within the resources sector and enhance access to and usage of finance for enterprises in the informal economy including agriculture.

As such, the need for ‘Asset Building’ policies and programs as an extension of the focus on financial inclusion of the poor, was highlighted in that 2017 roundtable forum. A means to generate Wealth Creation can be to define the investment opportunity for superannuation funds into the micro banking sector. There is currently estimated to be over USD 30 billion within superannuation/provident and sovereign wealth funds in the Pacific countries, making these funds some of the largest financial institutions in the region. Well leveraged, these funds can offer significant potential for long term and sustainable economic growth; however, many countries struggle to realise the opportunity latent within this financial base.

Structural Reforms

Creating the structural and institutional environment in terms of economic policy that addresses pathways to optimise the investment and utilisation of these funds is important. Utilising and leveraging better financial returns to support and direct Asset Building outcomes requires cooperation across an interdisciplinary eco-system but the benefits – economically, socially and morally – make the undertaking worthwhile. For example, in most developing countries, the informal sector represents between 30-35% of GDP, while it is estimated that the “dead capital” residing in untitled poor dwellings globally is worth more than USD10 trillion.

To address this, policy reforms are often considered as ways to strengthen markets and stimulate growth. Throughout the forum, you will look to develop mechanisms in creating the structural and institutional environment in terms of economic policy that achieve financial and economic inclusion and addresses pathways for the vulnerable or unserved community to accumulate productive assets.

While these topics contain several key issues for which reforms are necessary to stimulate growth within the finance sector, they often lack enough consideration of the necessary actions which will have the greatest impact on marginalized population segments; namely low income or rural communities and those operating outside of the formal financial sector. While discussions on reforms for government securities and capital markets have in the past included specific reference to the informal sector, reforms or actions that would specifically address this core

group of stakeholders have been limited.

This situation highlights the opportunity to revisit how Wealth Creation or Asset Building can effectively be applied to the informal economy. As the host of APEC and on behalf of all Pacific island countries, PNG would like to accentuate the issue of Wealth Creation as a driver for economic development calling for high-level policy dialogue and stakeholder cooperation and reforms in key areas such as government capacity, collection of consumer data and creating an enabling environment for the development of online or digital financial products and services. These issues should be further aligned with broader reforms related to the investor base, regulatory frameworks and market infrastructure focused on the goal of accelerating inclusive economic growth.

Women's Economic Empowerment

If we agree with the adage that “a rising tide will lift all boats”, then a deeper focus on programs and policies that increase the participation of people in the informal economy to build productive assets, and portfolios of financial securities through products such as savings and insurances, is vital. Women are critical part of the informal economy and make enormous contributions to the economy. Investing in women's economic empowerment sets a direct path towards gender equality, poverty eradication and inclusive economic growth. While I have been encouraged by our progress in Papua New Guinea of women led micro-businesses, increased women with bank accounts and increased women recipients of financial literacy training – but more must be done. It is not just about having a gender specific numerical target of additional bank accounts – it's important that structural reforms enhance women's roles and contribution to the economy.

Development Finance, SDGs and Financial Inclusion in the Region

Let me draw your attention to the links between development finance, the Sustainable Development Goals (SDGs) and financial inclusion in the region. Global experience shows that financial inclusion has a significant impact on lifting the ultra-poor and poor out of poverty in a number of countries, and the Asia-Pacific is no exception. Financial inclusion plays a critical role across a range of sectors vital to sustainable development. The Pacific Forum Leaders SDGs Roadmap, seeks to ensure that member countries and development partners are able to deliver on the SDGs. Central to the success of the Roadmap is country ownership and a specific focus on SDG 17, which looks at the means of implementation – including partnerships and secure development finance for the attainment of the SDGs as a whole. The key tenets of financial inclusion overlap significantly with the current regional agenda on financing for development. Development financing, which includes climate and disaster finance, combined with financial literacy and financial empowerment is crucial to mobilise finance for development and adaptation initiatives across the region. Pacific Island Countries require additional finance for long-term development, on top of the required resources to address sudden economic shocks and extreme weather events. Distinguished guests will note for instance that recent cyclones in the Pacific region in Fiji, Samoa, Tonga and Vanuatu, have on average wiped out around 30-60 % of the national economy. A devastating impact by anyone's measure.

In recent years, Forum Economic Ministers have decided to look at innovative financing solutions for regional and national initiatives – including the use of resources within the region, such as our superannuation funds and excess liquidity in the banking sector. Of course, such proposals are still under development. Furthermore, development partners and private, public partnerships and collaborations are looking into options for increased accessibility to climate and disaster finance, including policy advice on contextualised financial instruments. So, while we continue to develop innovative development financing options at the regional level, attention is also required to address the concerns of those at community level and small and micro business owners. Financial inclusion initiatives which are being considered across our region to mobilise microfinance and insurance, ensure better use of remittances, credit and savings through

financial literacy, as well as embrace fin-tech solutions to reduce the transaction costs of access to finance will help build a stronger microeconomic foundation for a more holistic, resilient and sustainable development for our countries. In addition, global initiatives such as micro-insurance for healthcare, life, crop and livestock are being piloted or are planned for roll out in the Pacific. I hope that these initiatives can eventually be offered and implemented on a full scale where such services are desperately needed to improve livelihoods. I look forward to the discussions that we will have on these initiatives in the next two days.

The Future of Financial Inclusion in APEC

Throughout this Summit you will look to develop innovative mechanisms to ensure greater financial inclusion for our people in the APEC region. I would like to leave you with three proposals. **First**, I urge you to consider priority areas of structural and regulatory reform to promote financial inclusion. Reflect on schemes that encourage and incentivise the development of gateway products, removal or reduction of processes that are barriers to inclusion, and investments that build long term prosperity for the region's vulnerable community. **Second**, I urge you to explore leveraging digital platforms and mobile technologies to enable opportunities to create and monetize non-traditional assets also taking into account the role of data and consumer protection. **Third**, I encourage you to consider the role of women in economic inclusion and what more can be done to push for progress or harness their influence in financial and economic reform.

Conclusion

Distinguished Delegates, in closing let me thank the Foundation for Development Cooperation, and the various development partners for your continued support in promoting financial inclusion. Your discussions are to focus on issues that are at the very heart of sustainable development and poverty reduction. These are not trivial matters, but are issues upon which the lives of many depend. I wish you well in your deliberations, and urge you to take on your tasks with energy, knowing that you contribute to the welfare and benefit of our people – particularly those who are in most need of support.