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Financial Services Models in Papua New Guinea: Increasing Access to Finance in Rural Areas

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Summary

As part of its work to increase financial inclusion in developing countries, FDC recently assessed various business models for the provision of financial services in Papua New Guinea (PNG). FDC assessed the following models: traditional branch model, electronic banking services, mobile phone banking, rural banking through mobile branch and community trust funds. This work resulted in a list of considerations that we believe are crucial in identifying and implementing the right business model(s) to meet the needs for financial services in rural PNG. We found that the suitability of financial services for a culturally and economically diverse country such as PNG must be determined based on a number of criteria such as social inclusiveness, accessibility, affordability and security for the user and provider, and community needs. Also, it was found that a combination of different business models may generate more positive outcomes than relying on a single approach.

Introduction

The population of PNG is approximately 6.5 million, with the majority living in rural and remote regions. It is one of the most culturally and linguistically diverse countries in the world, with more than 700 indigenous languages (Oxfam 2009). Approximately 15 percent of the population is employed in the formal sector, mainly by the government or extractive industries. PNG's formal economy relies heavily on the resources sector with mining, petroleum and associated industries, accounting for close to 50 percent of GDP. Agriculture, fisheries and services account for most of the remainder (Bruett and Firpo 2008: 6).

The majority of people in PNG have limited or no access to basic financial services such as savings or loans. The 'unbanked' population is estimated at 84 percent. Of the estimated economically active population of 2.4 million adults, only 500,000 have bank accounts with commercial banks and can be considered 'electronically banked'. A further 200,000 people are clients of Microfinance Institutions (MFIs) and Savings and Loans Societies (S&Ls), which provide savings facilities with passbooks (Porteous 2008:10).

Limited access to financial services, in particular savings, can be a major constraint to the participation and contribution of the poor to economic growth. Greater levels of financial inclusion can significantly improve the welfare of low income households by helping them meet basic needs, protecting against risks and economic shocks and contributing to women's empowerment. Though a significant portion of PNG's economy is subsistence based, there remains a large cash economy. Because of this and the well established direct correlation between access to financial services and poverty rates, greater access to financial services has become a priority in PNG's development strategy.

In seeking to achieve greater access to financial services we need to take into account that the appropriateness of any given financial service has to be evaluated according to the needs of individuals that live in rural/remote communities. We also need to recognise that government regulation will determine the type of financial services that can be legally provided in a community and the way these services will be rendered.

Specific Considerations for Rural/Remote Areas

Due to PNG's cultural and geographical diversity, limitations and potential of financial services in each community will differ according to many factors. The harsh, rugged terrain of the country and the associated high costs of financial service delivery has meant that most financial institutions are confined to major towns. Unreliable infrastructure and, until recently, limited telecommunications access, have also made the provision of financial services difficult and often quite costly.

For instance, communities that have gone through rapid industrialisation from growth in the resources sector are more likely to experience many unexpected socio-cultural impacts. A resource company's presence, operations and extra-curricular activities, all have the potential to influence the social, environmental and economic landscapes of their location, both now and well into the future. The many positive impacts of industrialisation on a community can include poverty alleviation and an improved quality of life resulting from increased employment opportunities, better services, better housing and improved working, health and safety standards.

However, many communities in PNG have experienced negative impacts due to an increasing dependency on external income and dramatic changes to their traditional culture resulting from the growth of a cash-based economy. Consumerism, rising rates of alcoholism, prevalence of diseases like HIV/AIDS, in addition to increasing domestic violence rates are further examples of the negative impacts of rapid industrialisation. Moreover, significant law and order issues have also arisen from migration (both from outside and within the country) to areas which experience economic growth. The Enga province in the Central Highlands is one such example where the population has grown from about 10,000 to over 40,000 within a decade. The uncontrolled increase in ethnic diversity and inadequate policing and provision of justice services in the region, has resulted in a decline in peace and order in the province (Enga Provincial Government 2007). To date, law and order remain a significant consideration for financial service providers operating in rural/remote locations.

Stakeholders and the Regulatory Environment

The major stakeholders involved in the financial sector in PNG are summarised in Table 1 below.

Table 1: Existing financial services stakeholders in PNG

- Central Bank of Papua New Guinea
- 4 commercial bank: BSP (35 branches), ANZ (12), Westpac (15), Maybank (2) (+200 ATMs and over 4000 EFT POS - mostly BSP)
- Bank agents (BSP-68)
- 2 licensed MFIs: Nationwide Microbank (12 branches), PNG Microfinance Limited (9)
- National development bank (rural lending – 19 branches)
- 21 Savings and Loans Societies
- 15+ non licensed MFIs
- Stock market, 7 superannuation funds, 5 life insurers and 12 general insurers
- 2 telecommunications companies: Digicel, B-mobile

Source: Table adapted from Bruett and Firpo 2008:8 and ADB, October 2009

All of these stakeholders are bound by national laws and regulations in PNG. These laws affect the types of financial services mechanisms that can be implemented, creating either an enabling or constraining operating environment. In the last five years, the financial and legal framework governed by the Central Bank of PNG (BPNG) went through an overhaul. BPNG reforms have contributed to the development of microfinance services, giving rise to two new MFIs: PNG Microfinance Ltd and PNG Wau Microbank (now called Nationwide Microbank). Both MFIs have since demonstrated success in extending financial services to rural populations across PNG (Biggs 2007).

Further changes to PNG's telecommunications regulations have improved possibilities for the delivery of more inclusive financial services to rural/remote communities. Until very recently, the government-owned Telikom Pty Ltd, trading as B-Mobile, had a monopoly on the provision of mobile phone services throughout PNG. This persisted until the mobile telecommunications sector was partially opened up to competition in July 2007, allowing for the entrance of Irish-owned company, Digicel, to the market. With the liberalisation of mobile telecommunications, it is estimated that the number of mobile phone subscribers in PNG increased dramatically from just 140,000 prior to July 2007, to over a million in 2009 (Batton, Duncan and Guoy 2009). Some estimates expect that by 2010, 80 percent of the adult population in PNG will have a mobile phone subscription. However, there is currently a lack of clear regulations guiding mobile phone banking (m-banking) which may act as a barrier to the development of this financial service delivery model (Porteous 2008).

Appropriate Financial Services Models for Rural and Remote Communities

In the context of PNG and its particular settings, FDC has identified criteria to evaluate the appropriateness of financial service delivery mechanisms. These include: socially inclusive; accessible in rural/remote regions; affordable for the user and provider; physically secure for the user and provider; and meeting the targeted population need for particular types of financial services.

Taking into account the above criteria, FDC has selected a number of business models for financial services which promise greater access to finance for those living in rural and remote areas. These are outlined in Table 2 below.

Table 2: Business Models for Financial Services

- Traditional branch model (including agencies)
- E-banking services
- M-banking
- Rural banking through mobile branch banking
- Community trust funds

The **traditional branch model** refers to the permanent establishment of a branch which provides financial services to its members or to the wider public. This model can be developed by any financial institution including a commercial bank, a licensed or non licensed MFI, a S&L or a Community-Based Organisation (CBO). Bank South Pacific (BSP), the largest commercial bank in PNG, has had success in delivering financial services to remote areas by instituting over 70 banking agencies with Post PNG and the District Treasury Office to service the provinces (Bruett and Firpo 2008:9). An example of a non licensed MFI utilising this model is Putin na Kisim (Pnk), operated by the Lutheran Development Service. PnK groups are formed in areas with low or no access to commercial banking facilities and operate in five provinces: Morobe, Western and Eastern Highlands, Simbu and Madang (LDS 2009).

Electronic banking (E-Banking) services are technologies which supplement and expand on the successful delivery of other models. They include technologies such as Automatic Teller Machines

(ATMs), Personal Digital Assistants (PDAs), and EFTPOS. An example of the successful use of e-banking to facilitate delivery of financial services to rural/remote areas in the Pacific comes from the National Bank of Vanuatu (NBV) whose Rural Banking Officers travel to remote villages by motorbike and use PDA technology to conduct financial transactions (NBV 2008).

M-banking and associated technologies allow for several different financial services to be delivered by a variety of stakeholders including financial institutions and other third parties such as telecommunications companies[1]. These services may include:

- Account activity notification, whereby the provider sends an SMS to the client informing them of movements on their account
- Internet banking on mobile phones using a high-end handset with internet capability
- Mobile channel enablement, whereby the financial institution connects its banking system to the mobile network and allows customers informational and transactional access to its accounts, normally through SMS
- Mobile-centric operations by third party financial providers who build a payment system with its main channel through the mobile network (Porteous 2008)

M-banking services operated by third parties, such as mobile phone companies, allow users to exchange cash in return for an electronic record of value stored on the server of the provider (McMurray 2009). The user can then make reciprocal transactions with anyone else participating in the same system. Users can make/receive payments to/for/from: bills (e.g. water, electricity, etc), participating retailers, micro-credit loans with MFIs, remittances, cash deposit and withdrawal via an agent (Williams and Torma 2007). PNG's first m-banking service was recently launched by BSP in partnership with Digicel. This mobile channel enablement service offers BSP customers a variety of transactions via SMS (BSP 2009). A further example of how mobile technology can be adapted and customised to suit user and business needs is the development of software tools to facilitate bill payments and transactions. The PNG telecommunications networking company, DataNets, has recently piloted their GSM-based payment technology in partnership with PNG Power, a national electricity company, to enable customers to buy prepaid electricity for home meters with their mobile phone airtime (DataNets 2009).

Rural banking through mobile branch banking is another model which aims to provide a range of financial services, including savings and loans, to rural/remote communities with no fixed base in the area. The geography and population density of the targeted communities influence the method of service delivery and the frequency. Therefore, there are many different variations on how this model operates. ANZ rural banking in Fiji is a good example of this model. They have six mobile bank branches operating out of fully secure trucks which travel regularly to over 300 designated rural villages and settlements. Customers can open accounts and make transactions as well as receive/repay micro-loans. The mobile branches are operated by 18 specially trained staff (6 teams) and, as of 2009, had over 70,000 rural accounts, with more than FJD$10 million worth of deposits (ANZ Fiji 2010).

Complementing the various business models presented above is the community trust fund model, whose objective is to ensure the long-term economic sustainability of a community, rather than the provision of everyday financial services. Some examples of successful trust funds in PNG have been developed by resources sector companies (e.g. Lihir Gold Limited (LGL), Oil Search) with the objective of ensuring the socio-economic development of affected communities long after operations have ceased. An example of this is the Lihir Sustainable Development Plan developed by LGL. Administered by the Lihirian people through Nimamar Rural Local Level Government, this trust fund, developed with a one-off investment of 7 million Kina and a subsequent amount of 100 million Kina over five years, has as its main objective to sustain community development activities such as education, health and infrastructure for 20 years after the closure of LGL operations (LGL 2007).

Implications for Stakeholders

Based on the preliminary assessment conducted by FDC, it is clear that there are many possibilities on the horizon for greater financial access in rural/remote communities in PNG. When selecting and implementing a financial service delivery mechanism for a particular community, FDC made the following observations:

1. The appropriateness of a model must be judged according to the following criteria:
    - Social inclusiveness
    - Accessibility in remote regions
    - Affordability for the user and provider
    - Security for user and provider
    - Meet specific and general needs of targeted population

2. A combination of both grass-roots (bottom-up) and external (top -down) approaches can lead to greater and longer lasting results. Though maximising outreach to rural communities is an important success factor, it is also equally as important to consider sustainability over time. For example, top-down approaches (like M-banking) may provide greater outreach, however grass-roots financial service models (like MFIs and

CBOs), if well designed and implemented in a way that ensures community ownership, could have a more far reaching impact because they offer value-added services to improve financial literacy over time.

3. A number of factors need to be considered when planning and implementing a chosen business model for financial services. These may include:
   - Conducting a preliminary analysis of the overall context, with a particular focus on community needs
   - Using a participatory approach, engaging community and stakeholders in the process
   - Tailoring the chosen model to the needs and situation of the targeted population
   - Considering the implementation time horizon and the intensity of impact
   - Supporting the development of strong and long lasting partnerships
   - Allowing for adjustments to be made when necessary

In conclusion, facilitating access to financial services for PNG's large rural/remote population remains challenging. Although there have been a number of constraining factors in the past, technology and the regulatory environment are now changing and thereby improving the possibilities for the delivery of more inclusive financial services in rural/remote communities.

Based on the preliminary assessment conducted by FDC, it is clear that there are many suitable business models for greater financial access in rural communities in PNG. Nevertheless, the success of chosen strategies will depend on/may be affected by a number of external factors, such as the development of national programs, or the response from the local community.

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[1] FDC has recently published a report on M-Banking technologies and how they extend the reach of financial services. An electronic copy of the report can be found at: http://www.fdc.org.au/123

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