

## DEVELOPMENT COORDINATION

### A. Major Development Partners: Strategic Foci and Key Activities

1. The Asian Development Bank (ADB) has supported the development of the microfinance sector in Papua New Guinea (PNG) since 2001. ADB's Microfinance and Employment Project, which was implemented between 2001 and 2010, has successfully laid the foundation of a nascent microfinance sector and has developed microfinance as a suitable tool for rural development in the country.<sup>1</sup> In addition, the sector has been supported through ADB's Pacific Private Sector Development Initiative, one of the focus areas of which is increased access to finance through expanding the availability of microfinance and mobile payments, and reforming the collateral framework for lending.<sup>2</sup>

2. Other development partners in PNG's microfinance sector are the International Finance Corporation (IFC), the multidonor Pacific Financial Inclusion Program, and the Australian Agency for International Development (AusAID).

3. The IFC has provided support through several regional programs and has supported PNG Microfinance Limited (one of the two regulated microfinance institutions [MFIs]) in PNG through an equity investment of \$1.4 million and associated technical assistance. The Pacific Microfinance Initiative, recently established by the IFC in collaboration with AusAID, with funding of approximately \$10.3 million over 4 years from 2010, will promote the development of sustainable delivery models for microfinance to broaden access to finance in the Pacific region. With cofinancing from the World Bank's International Development Association, the IFC is also proposing to establish a risk-share facility for loans to small and medium-sized enterprises through several commercial banks. This facility will complement the risk-share facility for MFIs proposed by ADB as part of the project by focusing on slightly larger loans to formal small and medium enterprises. Furthermore, the IFC has supported payments system reform by the Bank of Papua New Guinea, as well as the development of the PNG Credit and Data Bureau through its Pacific Financial Markets Infrastructure Program. In 2010, the IFC made an equity investment of 10% in Bank South Pacific, a locally based commercial bank.

4. The Pacific Financial Inclusion Program, a multidonor facility of \$7.2 million over the period 2008–2012, provides support for innovative pro-poor financial services. It supports the development of branchless and mobile banking solutions around the region, including in PNG. Under the program, a PNG-based technical specialist will be recruited in 2010 to provide development partners, PNG authorities, and MFIs with informed analysis and options for expanding microfinance services to men and women in PNG. The specialist will also play a central role in coordinating and harmonizing development partner microfinance activities in PNG and will work closely with ADB, AusAID, and the IFC in this regard.<sup>3</sup>

5. AusAID supports access to finance in PNG primarily through significant grant cofinancing arrangements with ADB and the IFC. In addition, AusAID's Democratic Governance Program supports the strengthening of community groups and civil society organizations, including some organizations that engage in microfinance activities. The following table represents the ongoing and proposed development partner activities relevant to the sector.

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<sup>1</sup> ADB. 2000. *Report and Recommendation of the President to the Board of Directors: Microfinance and Employment Project for Papua New Guinea*. Manila.

<sup>2</sup> ADB. 2006. *Technical Assistance to the Pacific Region for Private Sector Development Initiative*. Manila; and ADB. 2009. *Technical Assistance to the Pacific Region for Private Sector Development Initiative – Phase II*. Manila.

<sup>3</sup> This position is being funded by AusAID for a period of 2 years.

### Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
<b>Finance (microfinance)</b>			
ADB	Microfinance and Employment Project (approved in October 2000) <sup>a</sup>	2001–2010	10.5
IFC	Pacific Microfinance Initiative <sup>a</sup>	2010–2013	10.3
	Equity Investment in PNG Microfinance Limited	2005 and 2009	1.4
	TA for PNG Microfinance Limited	2008–2011	...
Various	Pacific Financial Inclusion Program <sup>a,b</sup>	2008–2012	7.2
<b>Finance (banking systems/SME finance and leasing)</b>			
IFC	Pacific Financial Markets Infrastructure Program <sup>a</sup>	2008–2010	1.2
	Equity Investment in Bank South Pacific	2010	...
	SME Risk-Share Facility	Proposed	...
<b>Governance</b>			
AusAID	<i>Strongim Pipol Strongim Nesen</i> – Australia's Democratic Governance Program	2009–2014	87.0
<b>Private Sector Development</b>			
ADB	Pacific Private Sector Development Initiative (approved in November 2006) <sup>a</sup>	2006–2010	9.8
ADB	Pacific Private Sector Development Initiative – Phase II (approved in December 2009) <sup>a</sup>	2010–2014	12.0

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, IDA = International Development Association, IFC = International Finance Corporation, PNG = Papua New Guinea, SME = small and medium enterprise, TA = technical assistance, ... = information not available.

<sup>a</sup> AusAID provided cofinancing of (i) \$909,000 for ADB's Microfinance and Employment Project, (ii) \$8.7 million for ADB's Pacific Private Sector Development Initiative, and (iii) \$9.0 million for ADB's Pacific Private Sector Development Initiative Phase 2. In addition, AusAID provides significant cofinancing for the Pacific Financial Inclusion Program and several IFC programs.

<sup>b</sup> The Pacific Financial Inclusion Program is supported by the United Nations Capital Development Fund, United Nations Development Programme (UNDP), European Union, and AusAID.

Sources: ADB, AusAID, IFC, and Pacific Financial Inclusion Program.

## B. Institutional Arrangements and Processes for Development Coordination

6. Cooperation with development partners is an important feature of ADB's activities in support of improved access to finance in PNG. ADB, AusAID, the IFC, and a number of other bilateral and multilateral aid agencies involved in private sector development across the Pacific meet quarterly to discuss and coordinate their activities. These meetings involve discussions of general private sector development issues, as well as on financial inclusion (including microfinance). Donor activities in PNG account for a significant part of these meetings. In 2009, ADB and other aid agencies prepared situational and gap analyses for the finance sector in several countries in the region, including PNG. These analyses, which describe constraints and weaknesses in the sector, as well as current and proposed donor activities to address these constraints, will be routinely updated and form the basis for ensuring that interventions by aid agencies are complementary.

7. In processing this project, ADB consulted particularly closely with AusAID, the IFC, and the Pacific Financial Inclusion Program. AusAID, which will be cofinancing the proposed project,

has provided significant input on the components and activities of the project during the design phase. Consultations with the IFC focused on ensuring that the activities under the proposed project complement the support to be provided through the IFC's Pacific Microfinance Initiative and the joint IFC–International Development Association risk-share facility with commercial banks. Consultations under the Pacific Financial Inclusion Program also focused on complementary activities.

8. During implementation of the project, ADB and AusAID will both participate in meetings of a project steering committee, which will be chaired by the executing agency (Bank of Papua New Guinea) and will comprise representatives from the government and the microfinance industry. This will provide a forum for regular consultation between the government, ADB, AusAID, and industry stakeholders on the implementation of the project and for broader coordination of support to the sector. The Pacific Financial Inclusion Program PNG microfinance specialist will be invited to informally observe project steering committee meetings. In addition, ADB will regularly consult with and brief the IFC and other development partners in the sector, and share its findings.

9. While the Government of PNG has made clear policy statements on the importance of extending the availability of low-cost financial services to the general population, this has not led to the development of a comprehensive government strategy or program to support improved access to financial services. As a result, a program-based approach was not used in the design of this intervention, but its components are present in the project's design.

### **C. Achievements and Issues**

10. As a result of the positive coordination during the project preparatory phase, AusAID will be providing cofinancing support for the project through a grant, subject to AusAID financial and quality approvals. This funding will be administered by ADB.

11. The design of the project incorporated lessons learned under previous support to the sector from ADB and other aid agencies. The project specifically seeks to extend and build on the achievements of the Microfinance and Employment Project.

12. The project will actively pursue synergies with government and development partner-supported programs in other sectors, such as in rural development. This will include (i) the World Bank-assisted Productive Partnerships in Agriculture 2010–2016, (ii) New Zealand Aid Programme-assisted Smallholders Support Services Project 2010–2012, and (iii) New Zealand Aid Programme-assisted *Bris Kanda* Project 2007–2017. These projects are providing technical and organizational support to farming communities that will lead to an increased demand for financial services through MFIs.

### **D. Summary and Recommendations**

13. The scope and intention of the proposed project in the PNG microfinance sector, inclusive of all of its components, has been closely coordinated with all major development partners, including the IFC and AusAID. ADB's continued support for the sector is considered appropriate and timely, and the proposed project is complementary to existing aid agency programs. A regular process for development coordination in private sector development and financial inclusion is currently in place.