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Q1: Respondent details

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Q2: Country or Customs territory

- MULTILATERAL OR REGIONAL DEVELOPMENT BANK

Q3: Organization

Other (please specify) Regional Development Bank

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Q4: Title of case story

Papua New Guinea: Expansion of Microfinance Project

Q5: Case story focus

Infrastructure upgrading and the development of related services markets, including through support for investment climate reforms.

Q6: Case story abstract

ADB estimates that only approximately 15% of the population in Papua New Guinea (PNG) has access to formal or informal banking facilities, and that this is lower in rural areas. Lack of access to financial services is an impediment to the monetization of rural economies, a constraint on the growth of MSEs, and a restraint on the mobilization of domestic capital. The project will extend and build on the experiences and lessons learned from ADB's Microfinance and Employment Project, which built a solid base for microfinance and developed microfinance as a suitable tool for rural development in PNG.

Q7: Who provided funding?

Other (please specify)
Asian Development Bank and Australia Government

Q8: Project/Programme type

Single country

Q9: Your text case story

Despite earlier successes, the microfinance sector in PNG continues to face a number of development issues, including (i) lack of access to financial services, particularly in rural areas; (ii) poor financial literacy and business management skills; (iii) low capacity among microfinance and socioeconomic institutions; (iv) increasing demand for borrowing by MSEs; (v) lack of a microfinance-specific legal and regulatory framework; and (vi) lack of accepted industry-wide standards. The project will direct assistance to achieve greater impact on these issues through mutually reinforcing activities. Poverty in rural areas is significantly greater than in urban areas and women face particular issues in accessing income-generating opportunities. A key focus of the project will be improving access to credit and income-generating opportunities in rural areas and for women, both directly and through improvements in the enabling environment.

The project's impact will be increased economic growth led by the private sector. The outcome will be PFIs sustainably and safely providing financial services to a substantially increased number of clients across PNG.

The project will support the further development of the microfinance sector in PNG through six outputs. Outputs 1, 2, and 3 will strengthen the capacity of the microfinance industry to provide financial services to a broader cross-section of the community and strengthen the capacity of its clients and potential clients to utilize these services. Output 4 will provide appropriate regulation for, and supervision of, microfinance institutions (MFIs) and savings and loan societies (SLSs) through the Bank of Papua New Guinea (BPNG). Output 5 will increase lending to micro and small enterprises (MSEs) to increase rural income generation. Output 6 will provide efficient and effective project management services. As a result, institutions selected as participating financial institutions (PFIs), which will be identified through a series of institutional assessments, will be better able to provide profitable, appropriate, reliable, and safe financial services to financially literate clients and capable businesses, with a view to reducing poverty.

The project is estimated to cost \$24.06 million equivalent. The government has requested a loan in various currencies equivalent to SDR 8,412,000 (\$13.00 million) from ADB's Special Funds resources to help finance the project. The Government of Australia will provide grant cofinancing equivalent to \$6.00 million as project specific funding to finance about 25% of the project costs, to be administered by ADB on a joint basis. The Government of PNG will provide counterpart funding of \$3.09 million equivalent, or 13% of the project cost, in the form of cash and in-kind contributions.

Q10: Lessons learnt

The design of the project has taken into consideration the key lessons from an earlier ADB Microfinance and Employment Project that was completed in 2011. These lessons include:

- (i) there is widespread demand for accessible savings services relative to borrowing;
- (ii) different MFIs and SLSs require greatly differing levels of support to properly manage their assets, liabilities, and operations;
- (iii) support for capacity development provided offsite, with poor follow up and mentoring can reduce its long term effectiveness;
- (iv) financial illiteracy, poor loan monitoring, and social and cultural factors have resulted in a high rate of arrears in all loan portfolios; and
- (v) MFIs have avoided lending, particularly to MSEs, due to repayment concerns.

A broader set of challenges encountered in the implementation of the earlier project were also taken into account, and these included the following:

- (i) Realistic design key in conditions of uncertainty. When a project seeks to develop a nascent industry in a challenging environment, outputs need to be realistic. The project redesign highlights the need to be flexible in adapting the project to emerging realities and experiences in the industry.
- (ii) Efficient reporting and data collection essential.
- (iii) Timely reviews, earlier solutions, lower costs.
- (iv) Match ADB staff skills to specific project needs. When supporting the development of a new industry in a challenging environment, project administration needs to be particularly vigilant and carried out by ADB officers with strong expertise in the area. Stakeholders noted that the performance of ADB improved when staff had expertise in the microfinance sector and were actively involved in the implementation of the project.