

Discussion Paper - Papua New Guinea

Risk Sharing Facility

Key Facts

SBA 6 Sub-dimension:

6.1.5 6.2.4 6.3.1

Country:

Papua New Guinea

Results & Impact:

- New MSME Loans Value: EUR 130 million 2018
- No. of New MSME Loans: 1800 2018
- Women owned business: 25% of total extended loans 2018
- Capacity Building Programs: 810 Participants local MSMEs in 10 provinces (2012 - 2017)
- NPLs 2.5% on average
- Automated loan origination platform, which speeds up the credit review process and improves the credit risk management.
- Capacity building for MSMEs

A. Policy Level

The Government of Papua New Guinea (PNG) aims to increase the size and economic contribution of the domestic private sector, which consists mainly of MSMEs, with a focus on generating employment. Despite large external investments in PNG's resource sector, private-sector activity in the formal economy is low. Women and young people are especially dependent on small-scale informal businesses for their livelihoods. There are significant constraints to MSME growth and investment, primarily access to credit, despite sufficient liquidity in the banking sector. There are two main reasons for this: First, MSMEs often lack the collateral, information or guarantees to meet commercial bank requirements for lending. Second, banks perceive high levels of risk in lending to MSMEs. As a result in 2011, banks were not lending at all to SMEs. Addressing these impediments should enable MSMEs to engage more actively in economic growth, job creation and poverty reduction across PNG.

BACKGROUND

- In 2012: the Government of PNG established a Risk-Sharing Facility and technical assistance mechanism for MSMEs, commercial banks involved in MSME lending and relevant government agencies that support the growth of MSMEs. The Bank South Pacific (BSP) participated in the RSF. IDA would cover the first loss and the IFC second loss.
- RSF was closed in Dec. 2017.

B. Programme Level

The Risk Sharing Facility aims at facilitating access to sustainable credit for Small and Medium Enterprises (MSME) and thus contribute to incremental growth of MSME employment and income. The project had four components: **1. Risk sharing facility:** this component to supported newly originated MSME loans by Participating Financial Intermediary (PFIs) in an estimated amount of up to PGK 300 million by providing partial credit guarantee up to 50% of the loss;



2. Technical assistance: for financial institutions through a reimbursable Performance-based Grant; **3. Capacity building Programs:** for MSMEs through training, mentoring and coaching **4. Capacity Building Programs for the GoPNG:** Support to GoPNG Department of Commerce & Industry (DCI) for enhancing DCI's capacity to implement and monitor the project, and its capacity to implement an updated MSME strategy and policy.

2. Action Level

BSP, the first bank to sign on the RSF, developed a new MSME lending strategy and MSME lending product (SmartBusiness loans) to target micro and small business in PNG. Credit officers and relationship officers have been trained in all branches. An updated MSME lending strategy to mainstream services and products to MSMEs has been approved by BSP Board and is to be implemented in 2018.

More than 1800 loans were underwritten with a total commitment of PGK 491 million. The loans under the RSF were given to MSMEs in almost every province in PNG.

BSP, with the support of the Performance-based Grant under the project, developed the automated loan origination platform, which speeds up the credit review process and improves the credit risk management.

Deigned and delivered customized training programs targeted at newly established MSMEs and designated program for women entrepreneurs on improving business management skills.

Innovative and Revolutionary Step Change

- Surveys were conducted to assess the needs and the gaps to identify a new scope for the program. They indicated success.
- No bank had units devoted to MSME financing prior to RSF.

3. Key Success Factors

- Building on market opportunities (a \$19 billion dollar Exxon-Mobile gas project) to motivate banks to lend to MSMEs.
- RSF which was critical to motivate BSP to enter into MSME market which was promising because of the Exxon-Mobile project. The project created the initial market but now BSP is expanding to many other sector and other countries in the Region.
- Commitment and proactivity of BSP management.
- Capacity building for BSP and MSMEs was essential.
- Strong outreach and awareness building by BSP throughout the country.