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Inception Report for Microfinance Expansion Project

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Papua New Guinea
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Consulting Services to Support Implementation of Microfinance Expansion Project

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List of Abbreviations

ABC	Activity Based Costing
ADB	Asian Development Bank
AMFI	Association of Micro Finance Institutions
ATM	Automated Teller Machine
AusAID	Australian Agency for International Development
BDS	Business Development Services
BPNG	Bank of Papua New Guinea
BSP	Bank South Pacific
CGAP	Consultative Group to Assist the Poor
DoT	Department of Treasury
EA	Executing Agency
FE	Financial Education
FESALOS	Federation of Savings and Loan Societies Limited
FGD	Focus Group Discussion
FI	Financial Institution
FMC	Fund Management Company
GDP	Gross Domestic Product
GFEP	Global Financial Education Program
GGBDF	Ginigoada Business Development Foundation
GNI	Gross National Income
HIES	Household Income and Expenditure Survey
IBBM	Institute of Banking and Business Management
IFC	International Finance Corporation
KRA	Key Result Area
LNG	Liquefied Natural Gas
M&E	Monitoring and Evaluation
MCC	Microfinance Competence Centre
MEP	Microfinance Expansion Project
MF	Microfinance
MFI	Microfinance Institution
MIS	Management Information System
MSE	Micro and Small Enterprise
NCFI	National Centre for Financial Institution
NGO	Non-Government Organisation
NMB	Nationwide Microbank
PFI	Participating Financial Institution
PGK	Papua New Guinean Kina
PMU	Project Management Unit
PNG	Papua New Guinea
PPMS	Project Performance Management System
PRA	Participatory Rapid Appraisal
RSF	Risk Share Facility
SLS	Savings and Loan Societies
TA	Technical Assistance
TNA	Training Needs Assessment
TOR	Terms of Reference
ToT	Training of Trainers
UPNG	University of Papua New Guinea
USD	United States Dollars

Inception Report for Microfinance Expansion Project
March, 2012

Executive Summary

The Microfinance Expansion Project (MEP) is designed to give a significant boost to the microfinance sector in Papua New Guinea (PNG). It has a comprehensive approach which gives it the potential to change the microfinance landscape of the country. The project aims to take forward the learning from the PNG Microfinance and Employment Project - which was implemented from 2002 to 2010.

Estimates indicate that the demand for microfinance services is more than twice the current supply of services in PNG. This is because the microfinance sector faces a lot of challenges, both, in the internal working of the service providers and the operating environment in which they deliver the services. The strategic positioning of the project requires it to have interventions at three levels, so that the project impact is spread across all the key stakeholders of the project. The project will work with:

- The financial institutions that deliver microfinance services
- The end-users of financial products and services
- National stakeholders (regulators, networks, associations, policy makers and Government departments) who together play a role in promoting and establishing an enabling environment for a nascent but emerging microfinance sector.

This multi-pronged approach of MEP ensures that issues relating to all the stakeholders are adequately addressed by the project and that the project interventions will lead to the following six outputs:

1. Clients and potential clients understand, and know how to access, financial services for personal or business use;
2. The business and product management capacity of participating financial institutions (PFIs) is increased;
3. The Association of Micro Finance Institutions (AMFI) monitors jointly agreed microfinance industry standards;
4. Bank of Papua New Guinea (BPNG) regulation and supervision of Micro Finance Institutions (MFI)s and Savings and Loan Societies (SLS) is streamlined and improved;
5. A risk-share facility (RSF) is established that supports increased Micro and Small Enterprise (MSE) lending; and
6. The project management unit (PMU) provides efficient and effective project management services.

The objective of this inception report is to ensure that the aim of this MEP is confirmed. It covers all the activities that will be undertaken within the scope of the upcoming project start phase and the implementation phase, as well as the consultants approach to the project. It details the activities that were performed within the scope of the preliminary inception phase and the challenges envisaged in the project ahead. Based on the assessment of the current microfinance scenario and other factors affecting project implementation, the report suggests some modifications in the approach and strategy of the project. A detailed work plan for completion of the activities, with a focus on the first year of the project concludes the report. Any modification recommendations suggested in this report are considered in the work plan.

Output 1: Business and product management capacity of PFIs is increased.

The project will partner with financial institutions to provide capacity building and technical assistance (TA) to help them deliver effective and affordable financial services. The focus is on the low income population, especially in rural areas. While effort will be put to ensure that all financial institutions get the opportunity to participate in the project, selection will be through a three phased process. It will be conducted objectively using globally recognised CGAP/*MicroSave* institutional assessment tools. Among other parameters, what

will be of significant importance is that the PFIs have to commit to share resources – financial and non-financial - with the project and aim to achieve and maintain financial sustainability. Strategic Business Planning will be conducted upfront, after the agreements are signed, which will set the path and the milestones in the partnership. Core components of this planning will be: a very structured approach to capacity building, designing new and innovative products and delivery channels and setting up effective Management Information System (MIS). Though the focus is on the PFIs, capacity building support will also be extended to all other Financial Institution (FIs), whose vision and mission are in line with that of the project. The process of institutional assessments is expected to continue from March - July 2012, culminating in partnerships being signed between May and June 2012, following which, capacity building and onsite mentoring will be initiated.

Proven international best practice training courses will be reviewed and adapted for the PNG market. Project staff will be trained in their use and able to deliver them to the market directly. Established partners such as Institute of Banking and Business Management (IBBM) and University of Papua New Guinea (UPNG) will be considered for possible partnerships for this output. The Microfinance and Lead Specialist will take a lead in the selection of PFIs, the Microfinance Training and Curriculum Development Specialist on training and the MFI Product Innovations and Market Development Specialist on the designing of products and delivery channels based on market research.

Output 2: Clients and potential clients understand and know how to access, financial services for personal or business use.
Spread of financial education (FE) and business development services (BDS) amongst the end users are the two key components of this output.

Work in FE has been initiated with the review of the FE material used in the earlier PNG Microfinance and Employment Project, as well as through adaptation notes from original materials of the Financial Education for the Poor Project (which has delivered its materials globally and is the leading work in this field). The review listed the areas where significant amount of customisation is required for the material to be made effective for use in PNG. Training of Trainers (ToT) materials will also be adapted for the local market.

Based on discussions held in PNG it is clear that there is a need for many types of FE. The FE program with therefore begin with these topics while further exploring specific needs. Findings from a training needs assessment and primary research conducted during the baseline survey will also provide details about the need for FE.

Along with the development of the materials, the project team will also be identifying local organisations which are best positioned to implement community level trainings. Organisations most importantly should have close ties with the community and experience in outreach of educational efforts. They should be committed to improving the welfare of their communities and have a history of such activities. The project will develop a terms of reference, advertise and evaluate interested parties who apply for the partnership. The organisation should see the benefits of partnership beyond financial reward to ensure sustainability after the life of the project. Staff of these organisations would be trained by the Training Specialists who then would train community members in the FE modules.

The Microfinance Training and Curriculum Development Specialist will lead the above process. The basic training materials will be ready in March 2012 and finalised by May, 2012 (assuming no translations needed) with continuous improvements based on participant feedback and market needs. Project staff will be trained by May, 2012 so that they ready to train partners thereafter. Project staff may also deliver FE training to end users in addition to partner organisations. This work will be initiates after the implementing organisations are selected through the defines procurement process.

A similar approach will be applied for BDS outreach. Training needs assessment (TNA) will be conducted and current best practice materials will be procured, reviewed and adapted for PNG. Local potential partner institutions will be encouraged to apply to participate in the project. They will respond to a solicitation and identify trainers to be trained and agree to deliver BDS to business people in their communities. Continuous assessments of the sector will lead to new course developments on as needed basis.

In addition to BDS, there will also be an assessment of key value chains. To address the issue, service providers being risk averse, leading to very less loans being disbursed, the project will focus on 2-3 sub-sectors, in which large numbers of the rural population are involved in and which show promising growth potential. The value chains for these sectors will be studied in detail by the project team and BDS training will be delivered around these value chains to establish model enterprises. Local agencies that are experienced working in different value chain contexts and international consulting firms may have to be brought in to do value chains assessment.

To bring in focus in the project, defined geographical areas will be agreed upon to implement the trainings under output 2.

Output 3: The Association of MFIs (AMFI) monitors jointly agreed microfinance industry standards.
The project requires to set up/reactivate the association of the practitioners, so that it acts as a guardian to establish and adhere to industry standards. However, given the previous performance of the association, the need for the association to be financially sustainable and the limited size of the microfinance market in PNG, it has been recommended that the readiness of the market for such a body, be reassessed. The existing business plan of AMFI will also have to be revisited after June 2012, that is after the mandate and structure of the National Centre for Financial Institution (NCFI) is finalised.

NCFI as an industry resource body could play the role of an industry collective and could strengthen its position in the microfinance landscape. However, a clear distinction in the role of an institution promoting and coordinating microfinance initiatives and an interim association is required and need to be taken care of. AMFI can be designed to work under the aegis of NCFI. Subsequently as the sector grows and demand emerges, AMFI can be set up as a separate entity.

If AMFI is re-activated, and is able to collect fees and perform its scheduled activities, it will be responsible for collecting reports at regular intervals and maintain them in the central database. The Microfinance Institutional Development Specialist will be the point person to coordinate with AMFI on these aspects, with support from the technical team. Also a definite strategy for growth and an exit plan is to be prepared latest by early 2013, so that AMFI gets the support of the project to help take off.

Output 4: BPNG regulation and supervision of MFIs and SLS is streamlined and improved.
The key areas of interventions identified and confirmed during the preliminary inception phase are the following

- Drafting of new regulations for different legal entities
- Establishing a supervision structure, and
- Developing the capacities of the microfinance regulations team at BPNG

An enabling environment is key to the growth of microfinance sector in PNG. Given the nascent stage of the sector, policy formulation and the evolution of an enabling regulatory environment are of great importance in this project. There are three key areas of intervention in regulation: assessing the need for a separate regulation for microfinance institutions, revision of the existing regulations for Savings and Loan Societies and continuously assessing the mobile banking regulations, as new initiatives with a diverse range of stakeholders, especially when non-bank entities, emerge during the life time of the project.

The objective is not to excessively restrict the scope of the services, but to provide a firm base on which the sector can expand. Another role of the regulator is to ensure that clients receive financial services that are affordable but more importantly services are provided in a transparent manner and clients savings are not lost because of unscrupulous promoters of MFIs. More recently, creating an environment that encourages the use of mobile technology which helps reduce costs and make transactions secure, has gained significance. Given the huge limitations in terms of infrastructure and as microfinance in PNG has been largely savings led, the use of mobile technology becomes increasingly relevant.

The project will also finalise the role and approach of BPNG in supervision. The Microfinance Regulation and Supervision Specialist and the MFI and SLS Supervisory Support Specialists, closely with the team at BPNG will develop a comprehensive set of guidelines for supervision of the MFIs. These guidelines will be prepared keeping in mind the role of BPNG in supervision as well as changes in the sector might expands in scale, outreach and in the range of service providers. As MFIs in PNG adopt these new initiatives, the supervisory role of BPNG is expected to enhance significantly and supervision becomes more complex with possibilities of overlap with other regulatory domains (e.g. mobile banking will need BPNG to coordinate with agent networks, telecom operators).

As an implementing strategy, the project will ensure client protection and responsible finance principles will be factored into regulation so that service providers, that feedback from practitioners is taken frequently through workshops, sharing of forums, and is incorporated in the regulations and supervision norms.

The project will invest significantly in ensuring that the BPNG staff are trained on basic operational and functional aspects of microfinance, and on the agreed supervisory norms and standards.

Output 5: A risk share facility (RSF) supports increased MSE lending.
To encourage the (micro) financial institutions to increase their lending activities to MSEs, a RSF will be established during the project lifetime. The RSF is expected to compliment the efforts initiated in output 1 by providing the required buffer to encourage financial institutions to offer new and innovative products and services and to create an opportunity to enhance their portfolio management abilities. Additionally, it will compliment the initiatives in output 2 by ensuring that the clients have enhanced and diverse opportunities to access funds to initiate or expand their business.

The Risk Fund Management Specialist will be leading this initiative with support from the Microfinance and Lead Specialist. Given the nascent stage of the sector and the early stages of the project, it is recommended that the Risk Fund Management Specialist will conduct an initial assessment in the second half of 2012 to review the market scope, needs and benefits for the establishment of a RSF on the one hand side and to define the necessary eligibility criteria on the other hand.

During the assessment mission, after consultations with the key stakeholders, a workshop will be helpful to agree on next steps and to finalise the action plan for the procurement and implementation process. By the end of the assessment, the Risk Fund Management Specialist will draw up eligibility requirements to allow potential RSF Managers to express their interest as managers, as well as all details of tender for the RSF management contract and detailed guidelines on the selection of the RSF Manager.

Based on the recommendations of the Risk Fund Management Specialist, an appropriate legal entity will be established by the second quarter of 2013 to house the RSF. The process of procurement will be initiated in early 2013.

Establishing the National Centre for Financial Inclusion (NCFI)

The project is designed to culminate in the establishment of the NCFI. As this entity is expected to be financially sustainable and run beyond the project life to enure that the project initiatives are carried forward, the positioning of this entity and it business model is critical. It also has a larger mandate than IBBM or Microfinance Competence Centre (MCC) or the AMFI. The NCFI is envisaged to act as a national level coordination unit. The services that it will deliver should be relevant to various sectorial stakeholders. Some of the services that NCFI can deliver to establish revenue streams by helping the demand and supply to match could be arranging to provide technical services, promoting networking and sharing of information in the microfinance sector, providing financial support to the service providers and/or provide technological support services.

However, it is important to note here that given the nascent microfinance market of PNG it will be very challenging for NCFI to reach sustainability and more importantly to maintain financial sustainability. The difference in the objectives and roles of AMFI, NCFI, IBBM as the interim implementing agency would also need to be clearly defined so that overlaps and conflict of interest situations is avoided. Even if the NCFI is perceived as a coordination unit, not requiring a large team to deliver services, it would need substantial preparation and support to ensure that it continues to function well and meets its objectives.

This initiative would be led by the Microfinance and Lead Specialist. It is scheduled to be done in June 2012 followed by the registration of the NCFI. Planning this upfront would help give adequate time during the project life to follow up on the establishment of the entity and give it time to attain financial sustainability.

Project Monitoring and Evaluation (M&E)

Monitoring the progress against the defined outputs is of significance not only because it enables the deliverables to be compared with the intended results but also because it presents learnings for future project design. The impact of this project will spread across different levels (sectoral, institutional and end-user levels). Project Monitoring and Evaluation will consist of four distinct components:

a) Baseline Data – This is needed to be able to progress M&E. The baseline exercise (comprising a mix of desk-research, qualitative consultation and quantitative survey) will capture disaggregated baseline data for output and outcome indicators from sectoral, institutional and end-user levels. It will include information across all the six project outputs and cover national level data.
b) M&E System Design – This will establish the main framework of the M&E system to assess project progress and monitoring across the project outputs. It will be designed in line with the ADB's Project Performance Management System (PPMS) framework.
c) M&E Implementation – This will include regular data collection, analysis and review as per the N&E guidelines that would have been prepared, enabling corrective measures when needed
d) M&E Review and Periodic Assessments – This will include episodic reviews, annual, midterm and end of term reviews to ensure on time progress and quality delivery.

The baseline survey will define indicators and targets for all desired project outputs, outcomes and impacts for annual and/or episodic points in the project cycle in order to measure the project efficiency and effectiveness. This will be based on:

- Results of the desk research undertaken collectively by the M&E team with inputs from the Project (Key Result Area) KRA specialists
- Qualitative consultations
- Qualitative / Quantitative surveys

On completion of the baseline survey, the M&E team will also develop the detailed M&E implementation framework of the project. The M&E framework will measure both qualitative and quantitative progress parameters of the project; collect gender dis-aggregated data; and be aligned to measure the progress across the six outputs.

A set of reports facilitating monthly, bi-annual and annual progress reporting will be established to assess the outcome relevant to the defined beneficiary as well as annual, mid-term and final benefit monitoring reports. In case deviations are detected, the project team will recognise it so within a timely manner and will be able to take actions and decisions. The key indicators as defined in the M&E framework, will be monitored and reported periodically in relevant project reports.

The Project Benefit Monitoring and Evaluation Specialist will start work offsite from the last week of February, 2012 and then onsite from mid March with a focus on the baseline survey. Work on the collecting qualitative data will be initiated in March 2012 and it is expected that the first interim results of the qualitative survey will be ready by May 2012. Quantitative survey is expected to begin in June, 2012, after the engagement of the survey institution. Detailed work on developing the M&E indicators will be undertaken subsequently in October 2012.

Project Management

For effective functioning of the project, defined reporting structures and performance appraisal systems will be put in place for both the technical and administrative team.

Some of the national consultants have signed the contract while others have taken up other assignments, or refused on grounds of this project offering less than market rates. *MicroSave* is presently in touch with alternative potential consultants to fill in all the national consultant positions. CVs of the consultants shortlisted after due process of interviews will be shared with the Executing Agency (EA) for approval.

Initiation of project activities on the ground has been delayed due to delays in procurement of work permit for the Microfinance and Lead Specialist and the Microfinance Training and Curriculum Development Specialist. To speed up the work on the project and cover up for the lost time, and to ensure that activities are conducted on time, some recommendations have been made, like bringing in more of *MicroSave* consultants for short time, merging some of the positions and bring in more of international expertise in place of national consultants. To overcome the gap of resources at the beginning of the year, *MicroSave* has assigned an international Senior Analyst from mid February, 2012 in order to initiate activities in PNG.

Though work plans have been prepared for 2012, they may be affected by the forthcoming elections, availability of the local organisations/agencies which would have to be contracted to undertake a lot of the activities, time taken to complete the procurement process, response from the different stakeholders to the MEP. As a result, the inputs from the consultants have been revisited. In some cases, inputs from the consultants have been staggered to spread over a longer period of time, as the activities are expected to continue beyond the previously presented timelines, while in some the total time has been shortened or combined TA and training inputs have been suggested or some of the national positions may be merged.

One of the key challenges at the inception phase has been the lack of material of earlier PNG Microfinance and Employment Project. As this project will also generate a lot of critical technical material, knowledge management will be given high importance. BPNG as the executing agency will be the final custodian of all the information.

Finance and Budget

The total project cost is expected to be USD 24.06 million. It is envisaged that there may be a shortfall in the budgets allocated for some of the line items due to the following reasons.

It is felt that the project needs to focus mostly in rural areas, which would lead to increased travel and accommodation cost. Training and TA costs might go up as the project aims to address the demand for onsite TA and customised inputs. Inflation rates in PNG have seen an increase in 2011 leading to an increase in prices of commodities and services.

There may also be deviations in the projected estimates, depending on how the activities of the project take shape. The activities may get affected by project operational issues such as signing of contracts with implementing agencies or external circumstances such as the national elections scheduled in June 2012 and its effects.

The MEP has had a delayed start and given the uncertainties in relation to the upcoming elections, it is recommended that the inception phase is extended till after the elections and the workplan re-visted after that. It is foreseen that the amount budgeted as contingency may have to be utilised before the end of the project period. However, a review of funds and utilisation after twelve to eighteen months of start of the project will give a better idea of resources and their utilisation.

The project launch is scheduled for early April, 2012 and will take place in Kokopo. The launch organised by the project team will be hosted by BPNG. It will be attended by important stakeholders – regulators, practitioners, training institutions, research organisations, community based institutions. The MEP has huge potential. The project is facing some initial set back leading to delay in implementation, but is poised to make a great impact in PNG as it gradually takes off.

Inception Report for Microfinance Expansion Project
January, 2012

Section 1: Project Objectives and Outputs

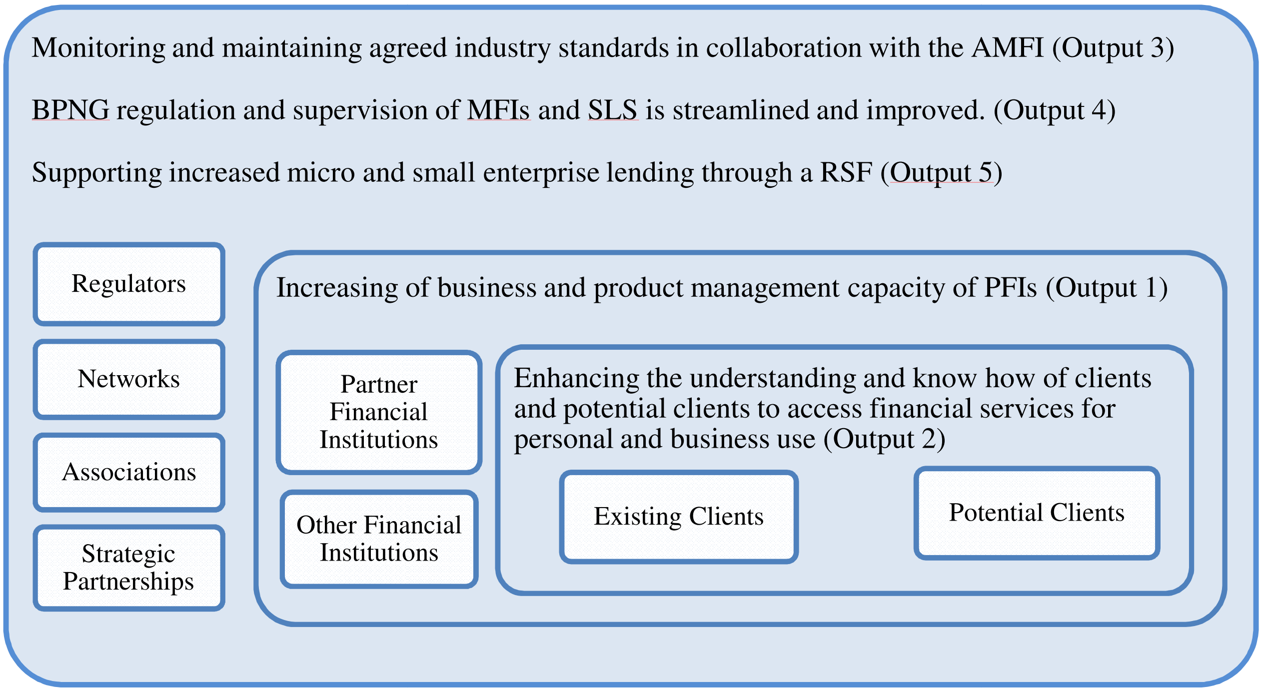
The MEP aims to give a significant boost to the expansion of the microfinance sector in PNG. The project aims to take forward the progress made under the PNG Microfinance and Employment Project - which was underway from 2002 to 2010. The MEP is a comprehensive national level project, strategically positioned such that it provides a holistic approach for the development of the nascent microfinance sector of PNG. Thus, the project envisages parallel interventions at three levels (Figure 1.1):

1. The financial institutions that deliver microfinance services
2. The end-users of financial products and services
3. National stakeholders (regulators, networks, associations, policy makers and Government departments) who together play a role in promoting and establishing an enabling environment for a nascent but emerging microfinance sector.

The project design ensures that issues at all the levels viz. regulatory institutions, enabling institutions, delivery institutions and target clients, are adequately addressed in the project. Accordingly, the project is designed to deliver the following outputs:

1. Clients and potential clients understand and know how to access financial services for personal or business use;
2. The business and product management capacity of PFIs is increased;
3. The AMFI monitors agreed microfinance industry standards;
4. BPNG regulation and supervision of MFIs and SLSs is streamlined and strengthened;
5. A RSF is created that supports increased MSE lending; and
6. The PMU provides efficient and effective project management services.

Figure 1.1: Envisaged Project Outputs



This project culminates in the setting up of the National Centre for Financial Institution (NCFI), which has the responsibility to promote the microfinance sector beyond the project life.

Section 2: Report Objectives

The objective of this inception report is to ensure that the aim of this MEP is confirmed. It covers all the activities that will be undertaken within the scope of the upcoming project start phase and the implementation phase, as well as the consultants approach to the project. It details the activities that were performed within the scope of the preliminary inception phase and the challenges envisaged in the project ahead. Based on the assessment of the current microfinance scenario and other factors affecting project implementation, the report suggests some modifications in the approach and strategy of the project. A detailed work plan for completion of the activities, with a focus on the first year of the project concludes the report. Any modification recommendations suggested in this report are considered in the work plan.

The sections that follow in this report are:

- Section 3: Project initiation
- Section 4: A contextual background of PNG, based on which the project activities have to be designed.
- Section 5: Analysis of each of the five technical outputs and detailing for each of them:
    - The approach to be taken by the project based on the analysis of the present scenario
    - Work done till date for each output
    - A summary table to list the key objectives, the strategy, activities and expected outputs
- Section 6: Approach to monitoring and evaluation of the project
- Section 7: Approach to project management
- Section 8: Finance and budgets
- Section 9: Annexure

Section 3: Project Initiation

The MEP started with a preliminary inception phase in November 2011 and was foreseen to start as such by February 2012 after seasonal vacation and end of year period. However, due to lengthy visa and work permit application processes the actual start has been delayed to late February 2012. The Microfinance Training and Curriculum Development Specialist, the Microfinance Institutional Development Specialist, Monitoring Specialists have started first, while further long-term project team members will join later. In addition, most international consultant will be on-site from March and April onwards, according to the proposed work plan (Annexure 1: Project Workplan), but will work part-time off-site before if required. The Microfinance and Lead Specialist was not able to return in early February, 2012 as envisaged, as her work permit is still in process and due to the rules she is not entitled to enter the country while it is being processed.

The project inception phase started mid November 2011 and this report is a result of the initial inception mission but should be revised after project start and project launch.

The project launch is scheduled for early April, 2012 and will take place in Kokopo. The launch organised by the project team will be hosted by BPNG. Official invitation will be expressed to important stakeholders – regulators, practitioners, training institutions, research organisations, community based institutions.

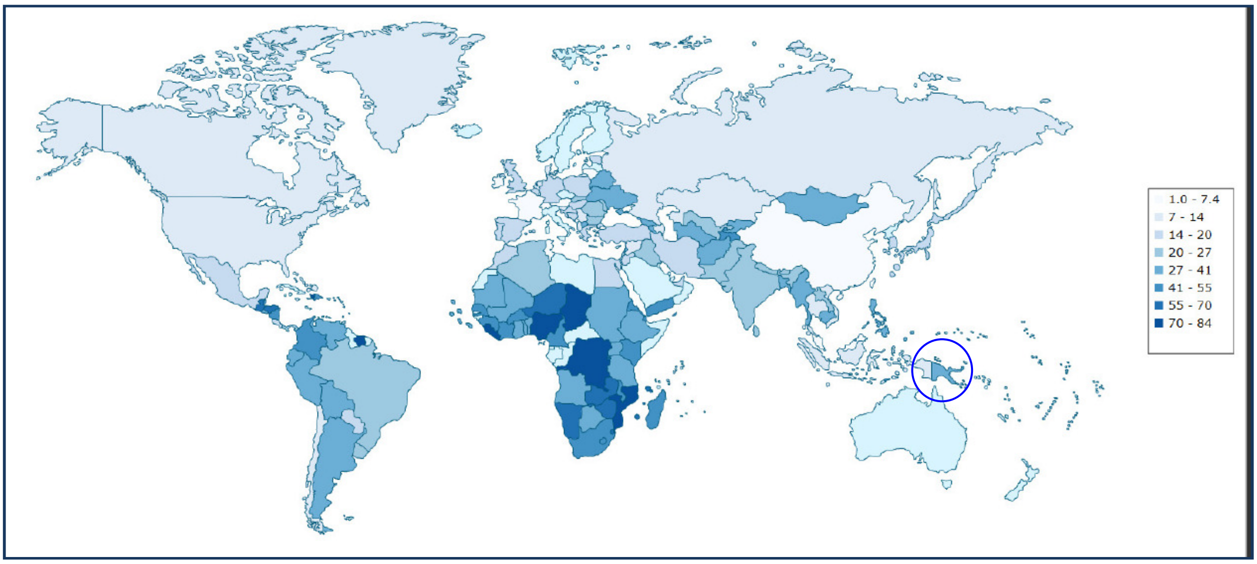
Section 4: Contextual Background to the Project

PNG is unique in many ways, which makes designing and implementing a microfinance project, both interesting and challenging. This section analyses the different dimensions of the country which have a bearing on the microfinance sector and hence the project design.

Demographic and socio-economic context

PNG with a population density of around 14.86 persons per square kilometre (compared to Asian average of 89) has very high financial inclusion barriers[1]. In PNG, about 40%[2] of the population lives on less than USD 1 per day. PNG has a population of about 6.8 million (2010 estimates) of which more than 87.5% (2010 estimates) live in rural areas, 48% (2010 estimates) is female and 37.5% (1996 estimates) live below the national poverty line.[3] (Figure 2.1)

Figure 4.1: % Population below Poverty Line[4]



PNG has also one of the most rural economies in Asia-Pacific with only 18%[5] of its people living in urban centres. The problems of financial exclusion are confounded by higher than average dependence on agriculture related activities and a weaker service industry than the rest of Asia-Pacific and low overall levels of employment. Agriculture is the primary livelihood option in rural areas; fisheries, handicrafts and non-timber forest products also represent important sources of livelihood, particularly in areas of weak agricultural performance. The ability of the poor to enhance their livelihoods is constrained by limited access to productive assets and employment and lower human capability in terms of education and skills. Poor infrastructure and the resultant physical isolation of certain social groups increases the cost of delivery, resulting in poor access to basic services as well as to agricultural inputs and extension, financial services and product markets.

Economic, social, cultural, and environmental factors, as well as poor governance and law and order situation are all contributory factors to rising incidence of poverty, especially in rural areas among largely excluded, indigenous communities. Unless development measures are adopted it would be difficult to get people out of poverty; in fact there will be a real danger that people may slip back into absolute poverty.

[1] Papua New Guinea - Country Brief - World Bank Group
[2] Estimated data
[3] The Word Bank Data (retrieved 8.1.2012) (http://data.worldbank.org/country/papua-new-guinea)
[4] National estimates of the percentage of the population falling below the poverty line are based on surveys of subgroups, with the results weighted by the number of people in each group. Definitions of poverty vary considerably among nations. CIA World Factbook (retrieved 8.1.12) Data is of January, 2011).
[5] Ibid. 1

The country faces numerous challenges, which have constrained its growth over the years. Common issues across the country are lack of access to basic services, dependence on subsistence agriculture, limited accessibility due to difficult terrain, vulnerability to health hazards and climatic events. Urban areas have an additional issue of very high cost of living. In general, road conditions are poor with the capital not connected to the rest of the country by road. With only 7,500 kms of roads in PNG of which three per cent is paved, about 17 per cent of the population has no access to roads and 35 per cent of the population lives more than 10 km from a national road. Only seven per cent of the population has access to electricity. Nearly two-fifths of health/sub-health centres and an even greater proportion of rural health posts have no access to electricity or essential medical equipment. In recent years, HIV/AIDS epidemic has been increasing at an alarming rate. Gender inequality is significant with women being deprived of basic health care, education, access to credit, banking, and markets. Gender based violence is also very high.[6]

Economic context

The Gross Domestic Product (GDP) of PNG was USD 9.4 billion in 2010 and Gross National Income (GNI) per capita was USD 1,180. GDP grew from 5.5% in 2009 to 8% in 2010 and exceeded 8% in 2011[7]. Mining, petroleum, forestry and downstream industries for processing these resources account for close to 50% of the GDP. The other contributors to the GDP include agriculture, fisheries and services. Although richly endowed with natural resources such as forests and mining resources such as gold, oil and gas, copper and silver, the difficult geography and associated cost of developing infrastructure, worsening law and order problems and complex land entitlement systems make it difficult for PNG economy to grow. 85% of the population is engaged in agriculture and allied activities and even this is usually performed as a subsistence livelihood activity.

However the USD 15 billion PNG Liquefied Natural Gas (LNG) project, implemented by a consortium of international and domestic investors led by Exxon Mobil is expected to nearly double PNG's current annual GDP. This project will have a significant impact on the economy. Major construction is in progress and is expected to peak in 2012 with the first gas shipments scheduled in late 2014. Once completed, petroleum is expected to surpass mining as the largest industry. Real GDP is expected to expand by 21.1% in 2015 as LNG exports begin[8].

Financial context

Geographically-dispersed islands with low density population, rugged terrains and challenges related to physical and banking infrastructure have resulted in a high number of people being left out of the purview of banking services. Poor indicators of access to financial services for low and middle-income people in PNG call for a holistic approach to improve access. Low branch and Automated Teller Machine (ATM) availability (1.71 branches and 0.47 ATMs per 1,000 square kilometres[9]) highlights the need for expanding financial access to low and middle-income clients across geographies. 80 branches of four commercial banks and 40 branches of microfinance banks and depository corporations are clearly inadequate and demonstrate the need for strong financial institutions with widespread outreach providing multiple financial services and products to the poor[10].

PNG has multiple financial service providers - commercial banks, micro banks, finance companies, savings and loan societies, NGOs, and cooperatives. While there is no confirmed source of data, it is estimated that there are 2.5 million adults in PNG. There are four commercial banks and two licensed micro banks in PNG.

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[6]Country Brief, Papua New Guinea (retrieved 8.1.2012) (http://web.worldbank.org)
[7]The Word Bank Data (retrieved 8.1.2012) (http://data.worldbank.org/country/papua-new-guinea)
[8] http://beta.adb.org/sites/default/files/pacmonitor-201112.pdf
[9]Financial Access Survey 2009
[10]Bruett, T. and Firpo, J, Building a mobile money distribution network in Papua New Guinea, Pacific Financial Inclusion Programme

Of the adult population, an estimated 500,000 have one or more accounts with the four commercial banks and an additional 175,000 clients are served by the two micro banks. Perhaps 15,000 to 20,000 more are served through the Savings and Loan Societies (SLS).There may be considerable overlap in membership between the banks, micro banks and SLSs.[11] Rural banking branches of the four commercial banks downscaled from 485 branches in 1980 to 195 branches in 1996 mainly due to profitability and law and order concerns. High operational costs, lack of secured systems, low density of population, prevalence of the *wantok*[12] system are additional problems faced by the financial sector.

The IFC and PFIP's report on mobile banking[13]lists the following key findings from a study:

- 75% respondents said that there are no banks, credit unions, formal or informal savings schemes that are accessible to them
- 45% of people do not save money because there are no opportunities to save
- 70% say they can afford to save only PGK100 (USD25) or less each week with an average of PGK 15-20 (USD 3.5-5) per person per week
- 70% of people borrow money; the most common sources are relatives and *wantoks* (41%) followed by moneylenders (24%). Formal institutions (banks, financial SLS) accounted for less than 5% of loans
- The average amount of borrowing is rather small, around PGK 405 (USD101)
- 41% of all borrowing is for amounts less than PGK 200 (USD50).

Mobile banking is evolving as a preferred option to deal with the challenges of access to financial services. The pull of mobile banking is that it can overcome the constraints of terrain (at one level), has the potential to serve low population hamlets and at the same time keep delivery costs lower than branch based outreach models. While only 28% of the total population has subscribed to cell phones, the numbers is bound to increase and offers an option for enhancing outreach of financial services, using the 'rails' laid out by mobile telephony . Bank South Pacific (BSP) Rural was the first to introduce a mobile banking solution in PNG and Nationwide Microbank (NMB) has already launched Mi Cash which allows account holders to check balances, purchase airtime top up, buy goods and services and pay bills. NMB is now in the process of piloting a full fledged cash-in / cash-out system of mobile banking and has plans to extend outreach to remote parts of the country which cannot be serviced through physical branches. As the sector evolves, the Bank of PNG (BPNG), as a part of this project, aims to develop regulations governing mobile money, which can address the issues of both banks and non-banks and bring millions into the fold of financial services. So while a set of guidelines governing mobile banking does exist, growth in outreach fuelled by this programme as also by the latent demand may call for a more evolved set of regulations. Also, over time the overlaps between telcos and banks as also the need to segregate micro banks from banks may call for detailed guidelines for mobile banking.

ADB's PNG Microfinance and Employment project (2000 -2010) was designed following a study on the poverty situation in the country. The aim was to reduce poverty through the provision of microfinance services and private sector led enhancement of economic growth. The lessons learned as gathered from those involved in the earlier PNG Microfinance and Employment Project are:

- There is a huge demand for accessible savings services
- It is challenging to encourage FIs to promote lending
- There is greater need for onsite technical support along with classroom trainings and workshops

[11]Bruett, T. and Firpo, J, Building a mobile money distribution network in Papua New Guinea, Pacific Financial Inclusion Programme, International Finance Corporation, 2008

[12]Literally translated from Pidgin: *'Wantok'* means "one talk". It is a term used to denote anyone who is from your family or anyone who is a close. This system is an example of where existing cultural systems based on social capital can have both positive and negative effects on group dynamics.

[13]Ibid. 16

- The support required by different MFIs to manage their business is of varying levels
- There is need for financial literacy and skill enhancement in business development for end users

In 2011, the MEP was approved to provide further support for the development of the microfinance sector based on the lessons learnt and experiences gained during the recently concluded PNG Microfinance and Employment Project and keeping in mind the trends in the economic, social and financial landscape of PNG.

Section 5: Project Description

Section 5A: Review of Output 1

Output 1: Business and product management capacity of PFIs is increased.

PNG's financial sector is characterised by a diverse number of players. They are mostly home grown with little history of extensive capacities in financial services delivery. The institutions typically have their bases in urban and peri-urban areas and are focussed on urban clients. Institutions are risk averse and typically do not extend micro-loans. Rural and remote areas are underserved or unserved and there is ample room for institutional strengthening in areas such as governance, systems, processes and human resources.

The deposit taking institutions of PNG comprises of 22 Savings and Loan Societies (SLS), 11 licensed Financial Institutions including 3 micro banks, the National Development Bank and around 70 small community-based nongovernment organisations (second-tier MFIs) (Annexure 2: Scan of the Microfinance Sector in PNG). During the preliminary inception phase, the Microfinance and Lead Specialist introduced the activities and objectives of the MEP to some of the service providers (Annexure 3: List of People Met). At the time of the project design, a total of 21 institutions, two micro banks, six SLSs, and 13 non-government organisations, having 43,000 microcredit borrowers and 250,000 deposit accounts all together, have indicated interest in participation in the project. However, as the project starts to roll, more institutions will be contacted and attempts will be made to widen the pool especially to achieve geographic diversity and to bring into the fold, more high potential institutions. It is also proposed that an annual assessment be taken-up to monitor the progress registered by the participating institutions. Agreement with the PFIs will be renewed based on performance, follow up on recommendations and interest in cost sharing and investing its human resource in the partnership. To achieve the defined outcome as well as output 1 and 2, the consultant recommends to start the project with a wider base of institutions so that if a few fall by the way-side during the course of the project, the deliverables will still be achieved.

Overall, as per ADB estimates, the demand for microfinance services is more than twice the current supply. Also, there is significant gap in financial services in terms of quality of services available and desired. While some institutions are tapping into the unfulfilled need for financial services, as reflected by asset growth of more than 20% in licensed micro banks, a lot more needs to be done to meet the existing demand. There is also a need for improvement in the technical and management capacities of service providers and above all in promoting a strategic long term business approach. Hence, while the market for financial services does exit, an enabling environment, in terms of outreach channels, tailored products and capacities of financial institutions, has to be created to fulfil the needs of the people.

The key challenges faced by the PFIs working for provision of microfinance services are:

- Lack of strategic focus and business planning skills
- Poor quality portfolio leading to an aversion to micro lending
- Inadequate capacity of staff and management to manage scale
- Lack of a range of market-led and client-centred products and services
- High cost of servicing clients due to geographical remoteness / inaccessibility and security issues; and
- Absence of delivery channels to sustainably cater to client needs in rural and remote areas.

Based on *MicroSave's* experience of working in nascent microfinance environment and the analysis during the inception phase of this project, what is required is a comprehensive and very structured approach to TA which will ensure holistic development of these organisations. Hence, institutional capacities have to go hand-in-hand with development of products and outreach channels. This has to be supported by simultaneously developing local capacities which will be able to provide consistent and cost-effective support in the long run.

Selection of Partner Financial Institutions

The focus of the MEP is to ensure that the financial services are made available in further rural and remote areas where there is high demand for financial services but where supply is non-existent or inadequate. Hence, the project is open to considering partnership with any financial institution if they are better positioned to deliver microfinance services in rural areas and serve excluded communities. To become eligible as a partner institution under the project, financial institutions have to meet basic eligibility requirements. Key among them are:

- The desire and vision to be financially sustainable
- Plan for structured growth with a inclination to be registered as the most appropriate regulated entity (if not registered)
- Focus on low income population in rural areas
- The institution should be in operation and have some experience in deposit collection and lending as allowed by the legal entity under which it is registered
- Need to have a committed Board and management team, who are ready to invest in the partnership and are willing to enhance outreach.

The project targets to conduct institutional assessment of 13 institutions and to partner with at least seven institutions[14]. The project will be officially launched in April, 2012 following which efforts will be made to spread the information and invite applications from all registered financial institutions so that they participate in the project.

Way Forward

A more detailed and precise selection criterion will be developed as part of the project and an institutional assessment exercise will be undertaken on the basis of the selection criterion. An institutional assessment tool will be developed on the basis of the selection criterion and based on CGAP/*MicroSave* tool kits. The institutional assessment tool will however be customised to the needs of the microfinance sector in PNG and to the core objectives of the project. Institutions wanting to partner under the project will be assessed on the basis of the tool which will also serve as an 'institutional base line'. The institutional assessment will be done through a three level selection process (explained below) to ensure that the process is rigorous and that each institution gets an equal opportunity.

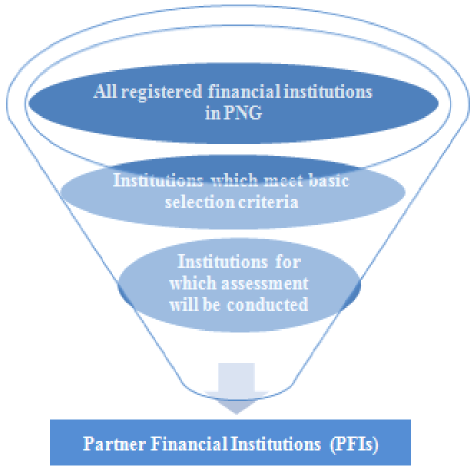
The project targets to conduct institutional assessment of 13 institutions and partner with at least seven institutions[15]. The project will be officially launched in April 2012 following which efforts will be made to spread the information and invite applications from all registered financial institutions so that they participate in the project.

Stage 1: Initially a database will be developed of different registered financial institutions in PNG. They will be contacted requesting basic information, using a prescribed format. If the institutions meet the basic selection criteria, they will be invited to participate in stage two. The format for inviting information from registered financial institutions is already under development and will be finalised before 15th March, 2012.

[14] Excerpted from ADB's Detailed Implementation Plans
[15] Excerpted from ADB's Detailed Implementation Plans

Also at this stage, the institutional assessment tool will be developed and piloted (institutional assessment tool will be developed and finalised before 31st March, 2012). Subsequently, the assessment tool will be tested in the field.

Figure 5.1: Selection of PFIs



Stage 2: Institutions selected from stage one will be advised to send request for participation with required supporting documents. Based on the documents, the institutions will be assessed using the assessment tool developed. Those institutions that attain the qualifying score will be invited to participate in stage three. In the selection of the PFIs for capacity building, emphasis will be on institutions serving rural and remote destinations in relatively underserved areas.

Stage 3: The project team led by the Microfinance and Lead Specialist and supported by the Microfinance Institutional Development Specialist and Market Research Specialists will visit these institutions to see their field operations and verify actual data with information sent previously. The team will conduct a two-day institutional diagnostic in which the senior management and a cross section of the staff of the financial institution will have to participate. As stated previously, a customised version of *MicroSave's* Rapid Institutional Assessment Tool and CGAP's toolkit will be used for the diagnostic study.

Strategic Business Planning

On the basis of the field visit and diagnostic tool, once the institution is shortlisted, a partnership agreement will be signed with the institution[16]. Following the signing of an agreement, a detailed session will be conducted to develop a long term strategic business plan. This exercise will be the first technical input that the institution will receive and enable the long term planning of the institution and the strategic thinking of the management of these institutions to emerge. The strategic planning exercise will not only lead to big picture vision and mission statements but will be cascaded to ensure connect to key objectives, goals and activities as also measures and targets. The strategic plan will be updated every year and the measures and targets will be monitored. The business plans will also identify areas in which TA is required. This exercise will also bring clarity on the role of the project and the contribution and commitment expected from the partner financial institution.

During this stage we will also be developing a detailed TA plan in collaboration with each participating financial institutions. The design of the TA will be calibrated to progressively match the absorptive capacity of the participating financial institution. The sequencing of inputs prioritises strategic aspects first and the operational aspects later. Throughout the handholding process, capacity building of staff, strengthening systems, defining and refining the processes and documentation will be taken up with full involvement of participating financial institution's staff. The TA plan will be prepared in keeping mind about the absorption of TA inputs by participating financial institution staff, adequate time for assimilation of inputs by participating financial institution and conversion of learning in to action.

Partnership will be renewed based on annual review of progress made against plans and targets and on the basis of commitment shown by the partner institution. The Project Benefit Monitoring and Evaluation Specialist will work closely with the Microfinance Training and Curriculum Development Specialist to develop systems for monitoring the quality of training and its impact on the PFIs.

[16] A partnership agreement will have to be developed and vetted legally so that it can be issued to all participating institutions

Structured Approach to Capacity Building
The need for tailored capacity building of the staff of MFIs is very evident and a demand voiced by many institutions. Key areas of request for technical training involve product design, MIS, portfolio management, business planning, financial analysis, delinquency management and market research. Some of the larger institutions have also requested for additional skills to design and deliver trainings to staff as also inputs on project (branch) management,

Under the earlier PNG Microfinance and Employment Project 9,200 days of training[17] had been conducted. A further need that was suggested at the time of review was that the training needs to be customised to make them relevant to PNG and for specific institutions based on their legal entities, size of operation, range of products and services, MIS used etc. Another key element that needs to be addressed, is the connection between trainings and on-site TA. Institutional trainings / workshops have to be followed by onsite TA and this need has emerged in various discussions across the sector. It is strongly felt by sectoral stakeholders that trainings followed by on-site implementation will enable the learning to be implemented better and will help staff in building capacities which will last much beyond the tenure of this project. The same set of people will be used for delivering training and on-site customised TA. Ideally, the TA staff will follow on a training and work with the MFI staff in the area in which training has been conducted. This will ensure that training just does not remain a class room concept but the MFI staff is able to use the learnings in actual field situations. In addition, committed Business Mentors will be based in the PFIs to provide them more on going support on operational issues.

It was possible to make contact with previous project personnel and collect outputs from the previous project very late. It was not possible for the Microfinance Training and Curriculum Development Specialist to complete review and assess the current materials being used at IBBM as part of the Microfinance Curriculum prior to her unanticipated departure. A quick review by the Microfinance Training and Curriculum Development Specialist and the Microfinance and Lead Specialist revealed that the material distributed to participants were not a comprehensive package but a mixed collection of slides, notes, handouts, collected from various sources, such as *MicroSave,* CGAP etc. Hence the Microfinance Training and Curriculum Development Specialist recommends to develop the training materials from the beginning. The content and delivery of the modules would be designed based on the feedback collected during the TNA as well as general knowledge of the sector. A draft training needs assessment questionnaire has been developed by the Microfinance Training and Curriculum Development Specialist in January, 2012. It will be finalised now that the Microfinance Training and Curriculum Development Specialist is back in PNG and the local perspective can be incorporated.

The TNA will be piloted in March 2012 in at least one microfinance banks and one SLS, located in Port Moresby to confirm the TNA instrument. Once the TNA instruments have been tested, a roll out plan will be developed, data will be collected and analysed during an initial period of two – three months. In addition, an ongoing TNA tool will be developed to continue to collect information over the life of the project and together with the output of the annual strategic planning exercise, this will provide inputs on further training and TA needs of each PFI.

Although the TNA will be underway, given the status of microfinance in PNG, it is envisaged that the following CGAP and *MicroSave* training materials will have to be anyway adapted to the PNG market. These topics are likely to include:

- Delinquency Management (2 days)
- Interest Rate Calculations (2 days)

[17]PNG Microfinance & Employment Project - Project Completion Report, Asian Development Bank, 2011

- Accounting (5 days)
- Financial Analysis (5 days)
- Risk Management (4 days)
- Market Research (5 days plus field work)
- Product Development (5 days)
- Business Planning (6 days)

Other topics and sources of materials will be considered as well based on emerging needs. Based on other similar markets they may include: Human Resource Management, Mobile Banking, Incentive Systems, Remittances, Savings, Social security Payments, etc.

Relevance of the training content for the participants is key to effective training. Thus, the relevance to these topics for the participants will need to be reassessed before the actual trainings are scheduled. However, to assist in planning, a tentative implementation schedule is detailed in the project workplan (Annexure 1) with the possible timings of trainings to the PFIs.

To ensure that the training curriculum is relevant and effective, the participating institutions should be more closely involved in the assessment of the trainings and in providing regular feedback. The feedback received would be used to update the training material and to make them more practice oriented and field based. Feedback will be collected onsite and offsite at the end of each training and shared with the curriculum development team. This will enable real time tracking of the performance of trainings and trainers and also document the feedback that is shared by the participants. This will over time be developed into a monitoring and management tool to ensure best use of the project resources. To enable the institutions to internalise the learnings, the trainings will be followed by on-site TA.

All trainings will be conducted on a cost sharing basis so that the PFIs take more ownership in the project. However, the actual share of the PFIs can be decided after the initial assessment and on the basis of the stage of development / financial capacity of the MFI. So while a larger contribution can be expected from the micro banks, some of the more remote community based institutions may not be able to contribute as much (or maybe even just a token contribution). It is proposed that capacity of institutions to contribute to training costs be decided at the time of assessment of the institution and can be one of the parameters for selecting the institution.

The Microfinance Training and Curriculum Development Specialist will be responsible for reviewing existing training material from the earlier PNG Microfinance and Employment Project and developing updated material for the identified topics. She will conduct ToT for the trainers for each of the training modules developed. ToT for the project team will focus on delivery of training and additionally basic design adaptation skills. This will ensure that the Training Specialists can update the material as they deliver the trainings and customise it to the needs of the PFIs and the participants. The Microfinance Training and Curriculum Development Specialist will accompany the Training Specialists during the delivery of the initial trainings, to ensure that the knowledge and skill has been transferred to the Training Specialists and to help update the training material. For subsequent trainings, the Microfinance Training and Curriculum Development Specialist will review the material that is customised by the Training Specialists before they get incorporated in the final modules and the trainings are delivered.

While the focus under this part of the project is on PFIs, trainings will not be limited to partner institutions only. The project will also hold trainings for other financial institutions on a cost sharing basis. To get financial institutions to participate actively in the training, the team will develop a six monthly or annual training calendar and that the trainings will be marketed / advertised ahead of time. Based on the response and keeping in mind the long term objectives of NCFI, details of cost sharing will have to be worked out in the next months. The Microfinance Training and Curriculum Development Specialist will lead the training calendar development and monitor its implementation. The Training Specialists will lead the preparation and delivery of trainings with support from other staff members.

The Microfinance Training and Curriculum Development Specialist will be responsible for maintaining a database of all the trainings that are delivered, their evaluation documents – both for the training and the trainers. She will update the project database with these details at the end of each training as these are part of the central database of NCFI. This is important as coordinating capacity building initiatives will be explored as a key source of income for NCFI after the completion of the project.

While it is envisioned that project staff will deliver a number of trainings under this project, partnerships with existing institutions will also be explored for the sake of consistency and continuity. IBBM already offers a microfinance certificate program. The project may forge links to ensure that they are offering current best practice materials to the market and assist them to continue their efforts with their programs. New alliances may also be explored with relevant existing institutions - such as with departments of UPNG. Exploring these formal partnerships with existing and potential training providers will be initiated by the end of 2012.

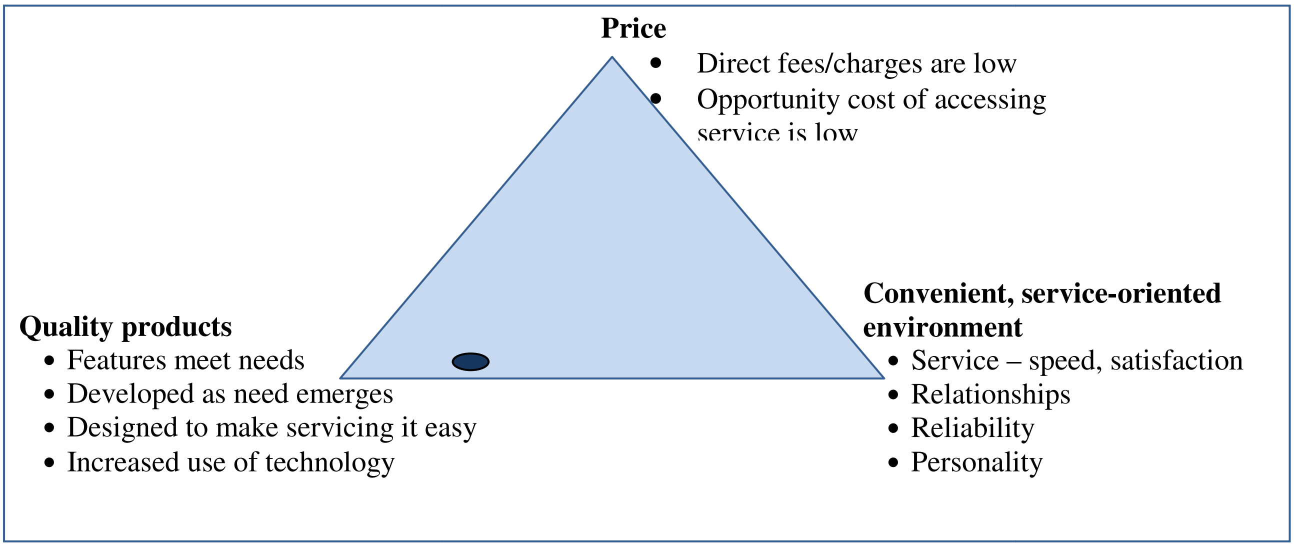
Focus on Market Research and Product Development

Stakeholders, during discussions in the inception phase repeatedly cited development of financial products and services which are client oriented, as a key requisite. A simple perceptual map (Figure 3.2) helps identify client preference. Clients' decision on choice of financial institution and their products are either based on:

- **Price -**The cost incurred by a client to access that product/service. It includes the direct fees, charges and opportunity cost of accessing the product/service.
- **Quality products -**The effectiveness of the product/service is meeting the problem the client has.
- **Customer oriented service -**The ease of accessing the product/service and the satisfaction from the product and process.

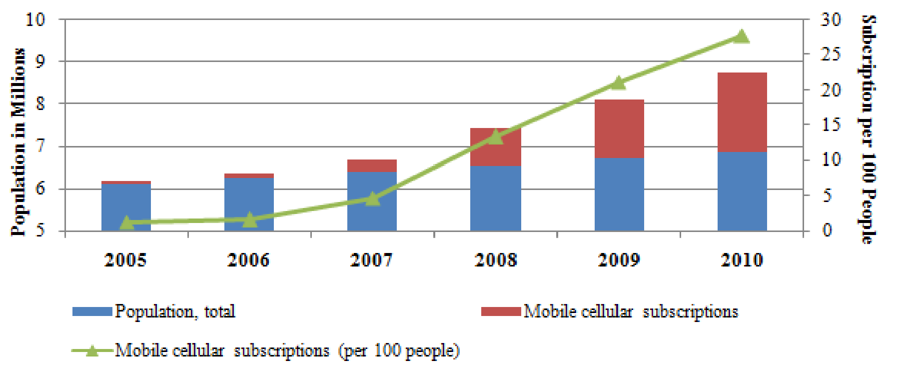
Each institution thus should identify and strive to be positioned as the market leader in any one of the aspects, based on their strategic focus and institutional strengths and weaknesses. Being positioned in the centre of the triangle denotes not having a clear position in the minds of the clients.

Figure 5.2: Simple Perceptual Map



In PNG, there are numerous challenges in the delivery of services as detailed in the first section of this report. Due to limitations in infrastructure, high cost of operations, limited and expensive technology, it will be very difficult for financial institutions to deliver services at low prices and/or with the kind of convenience that microfinance is known to provide. Thus, the focus largely shifts to design of customer centric products and market research plays a key role in product development. To address the limitations in PNG, it is critical that product development and delivery focuses on alternative channels and products are made to ride 'rails' developed by alternate channels such as mobile networks.

Figure 5.3: Total Population and Mobile Subscription in Papua New Guinea



For example, mobile technology has helped make a big leap in improving the delivery of financial services. The mobile phone penetration has increased over the years and this trend is very encouraging. The project will utilise the penetration and network of mobile phones and focus on mobile phone banking options for enhancing financial inclusion and access. However, it is to be noted that mobile phone banking has its own set of challenges. Mobile banking also calls for establishing alternate delivery channels and agency arrangements. Liquidity management and agency arrangements add to the risk and in the context of PNG will be significant challenges. Significant scale up will require time and effort as risk control measures and appropriate regulations will also need to be developed. Thus, if significant scale up happens, it will require time and effort to develop risk control measures. Existing regulations might also need to be reviewed and modified to ensure that the new facets of mobile banking which is also likely to bring in a diverse range of stakeholders, are adequately addressed by the regulations. The BPNG, with support from the project team and as part of this project, will develop the necessary regulations needed to both promote mobile banking and to ensure that it is secure for clients.

However, it is accepted that not all institutions will be able to evolve to levels where they can offer mobile banking. Smaller institutions will be encouraged to develop new branch based offerings or at least to review the existing products to make them more client focused. In the first year, the project will take up a lot of the product development exercise as development of processes and delivery channels (in case of agent based offerings) will follow the product development process. All institutions will be encouraged to at least review the existing products and seek feedback from existing and potential clients on their perception about the product and their needs for financial services. Initially, the project will focus on core credit and deposit products which can later be expanded to explore remittance offerings (especially for larger players capable of managing agent based offerings) and micro-insurance. While agency based micro-insurance is standard offering with credit in many countries with an evolved microfinance sector, the current regulation in PNG and the capacity of insurance providers to be able to offer such a product will have to be explored in some detail along with the demand for such products (especially considering that existing community based structures do offer some risk mitigation tools).

Systematic qualitative market research will be undertaken using participatory rapid appraisal tools to understand client needs and preferences and to assess the institutional challenges in delivering them. The MFI Product Innovations and Market Development Specialist will lead the product development initiative by using *MicroSave's* systematic market research approach. The Sociologist and Market Research Specialist trained by him will maintain a database (qualitative and quantitative) of all researches conducted. Once new products are designed, a systematic pilot testing and roll out will follow. The MFI Product Innovations and Market Development Specialist will ensure effective implementation. To monitor and evaluate the impact of the work, he will work closely in the beginning with the Project Benefit Monitoring and Evaluation Specialist to define relevant indicators.

The final product definitions should encompass the 8Ps and 8Cs, as defined below:

Figure 5.4: The Product Concept

8Ps of a Product from the Institution Perspective	8Cs of a Product from the Client Perspective
Product: The core features that define the product or service that the institution offers	*Customer Solutions:* Products and services that meet client needs/solves the problem for which they want to access the service, today and in the future
Price: The price that the institution charges to cover the cost of delivering the service and to make surplus for further investment for scale up	*Cost:* The cost to be incurred to access the product/service. Other than direct costs in the form of fees, it also includes opportunity cost, transaction costs etc.
Physical Evidence: Tangible things which help attract clients by enhancing the confidence of the clients on the institution, like a good branch office	*Cleanliness and Creativity*: Physical proof of the institutions products and services which attracts the clients
Positioning: The way the clients define the institution. Ideally it should match with the way institution wants to be defined by the market	*Commitment and Consistency:* Reliable delivery of the value for which the institution stands in the marketplace
Promotion: Sharing the benefits of the products and services in a transparent manner	*Communication:* Keeping customers fully informed and in a language they understand the benefits of being a client of the institution
Place: The branch/centre etc. where the clients can reach to transact easily and in a secured environment	*Convenience and Comfort*: Safe, easy and pleasant access to products and services when and where they are needed

Figure 5.4: The Product Concept	
8Ps of a Product from the Institution Perspective	**8Cs of a Product from the Client Perspective**
Process: Efficient and risk free processes which ensure good management and delivery of services	*Courses of Action:* Quick, simple, confidential, clear, reliable and flexible processes and procedures
People: A qualified and professional institutional team, who interacts with the client for any reason. It is not limited to the front line staff	*Competent and Courteous Care:* Staff who are knowledgeable, polite, respectful, welcoming, attentive and friendly

To link the trainings appropriate with the TA, he will also work closely with Microfinance Training and Curriculum Development Specialist to prepare the training on product development and to prepare additional trainings as identified during pilot test and roll out period.

The project suggests activity based costing (ABC) to be undertaken for the products designed. ABC maybe beneficial for some of the larger institutions offering numerous products, such as the two microbanks. However, considering the nascent nature of the microfinance sector and the non-bank institutions, it is suggested that the costing exercise be initiated using allocation based costing. This will ensure that the costing exercise will be more cost effective, easy to implement and meet the need of the small and mid-sized MFIs in PNG. In both cases, the costing tools can be downloaded to the staff of partner institutions for continued use.

Management of Information System

MFIs in PNG struggle to maintain basic institutional level data. As the MEP seeks to support growth and outreach of the institutions, it will be very critical for all PFIs to have a good and easy to use MIS. Here again, the diversity in terms of MIS needs will be immense. Micro banks moving to m-banking platforms may be already equipped with well structured systems but the smaller institutions would need support and hand-holding to embed an MIS and train staff to be able to manage the MIS. MIS support is one of the aspects that will be brought in the project towards the latter part of year one. In the first year, the project will focus on staff training on basic accounting and financial management, which will be designed as per the institution's needs as captured during the institutional assessment and will also consider regulation and supervision requirements. The mentoring thereafter will ensure that basic data is being captured and performance reports are being generated. If needed, formats will be designed to capture basic financial / operational data in some of the smaller institutions. This will also give the opportunity to validate the MIS requirements, keeping in mind the new products that the PFIs are expected to start pilot testing from the third quarter of year one. The MFI Product Innovations and Market Development Specialist will coordinate with the MIS Specialist to ensure that the PFIs have adequate capacities and resources to generate the information required to monitor the performance of the product as also to track larger institutional performance and health parameters.

Towards the end of the third quarter, the MFI Management Information Systems Specialist will work on the larger MIS strategy of the project as defined below. This will be targeted specifically for partner FIs but will also to the extent possible factor overall sectoral trends and needs. While the institutional assessment exercise (and to an extent the strategic planning exercise) will assess the MIS status and requirement for the PFIs, the baseline will capture the same for the sector.

The MFI Management Information Systems Specialist will undertake the activities listed in the project document to enable a decision on the software to be purchased. This will be critical as the sale of the software and software related services would be explored as a key source of revenue for the NCFI. The

NCFI Manager will assist the MFI Management Information Systems Specialist in the procurement process of the MIS.

Figure 5.5: Approach to Establishing a Robust Management Information System			
Key Objectives	**Strategy**	**Activities**	**Outcomes**
To develop basic MIS for PFIs	Understand the demand for MIS of PFIs Develop forms and formats that enable basic operational / financial data to be captured Build staff capacities through customised training and support	Assess MIS status and requirement during institutional assessments and strategic planning Draft MIS requirements and develop training module, forms / formats based on the emerging requirements Conduct PFI trainings on basic accounting, financial management, reporting (on the basis of forms / formats developed) and MIS Provide onsite support to streamline existing MIS	Institutional assessment reports defining MIS status and requirements Forms and formats and data capturing structure / processes for smaller institutions requiring support Training module on basic accounting, financial management and MIS PFIs have very basic but functional MIS in place
To identify the most relevant software for the PFIs	Understand the supply side of MIS and IT systems in the country (and nearby countries from where on-going support can be accessed) Identify the software requirements of financial institutions	Collect data on current status during baseline and later through market studies, discussions with vendors and MIS suppliers, supported also by secondary data Analyse the products and services being offered by MFIs and the expected future trends in the country Draw comprehensive system requirements taking into consideration, staff capacities, institutional needs and growth trends. Also doing a comparative between different vendors in PNG and the MIS solution that they are offering.	Software Requirements Specification (SRS) report is prepared
To assist NCFI to continue MIS support beyond project life	Identify vendor through a transparent process of bidding and selection Set up common	Develop a tender on the basis of the SRS and get tender document, bidding process, timelines and bid evaluation committee in place / approved. Invite proposals and select vendor through a process of evaluation of techno-economic feasibility, which will include field testing	Vendor selected for MIS common platform development MIS implemented with PFIs

Figure 5.5: Approach to Establishing a Robust Management Information System			
Key Objectives	**Strategy**	**Activities**	**Outcomes**
	platform, implement common platform, and monitor performance	Evaluate vendors in setting up a common platform for financial institutions and develop technical requirements report Train staff of PFIs and NCFI on handling the software. Pilot test the MIS and IT system and implement it for PFIs Review its performance based on a monitoring framework, and fine tune, as required.	Performance report of the MIS is prepared

Development of the Microfinance Sector

It is important to reiterate that the MEP has a strategic and national level mandate. Thus even though there will be focus on selected partner organisations, the project coverage is much beyond institution building and focuses on a holistic development of the microfinance sector. Therefore, the project will ensure that other potential financial institutions, which are not part of the partnership programme, also benefit from the project.

Previous experience shows that it is not easy to identify institutions, which meet the basic selection criteria, due to the lack of maintaining appropriate operational data. With sectoral level trainings, workshops and forums that are scheduled in the project lifetime, it is expected that financial institutions will improve their management/operations to achieve the eligibility criteria for partnership and to receive on-site TA support thereafter. So while the formal institutional assessment will commence at the project start, it is proposed that the option to join the project as a partner at a later stage be left open and will encourage MFIs to improve their performance nevertheless.

In addition, the partner institutions should act as model institutions, offering unique products and services that at least in a few cases will be riding on innovative delivery channels. This effort in a few identified institutions will in the long run help strengthen the sector as it develops models for other service providers to follow. Provincial and national level workshops and trainings will be organised at regular intervals to create forums to share learnings, challenges and success stories. These institutions should have immense demonstration effect and create the awareness in the country which will attract other serious players to the sector.

Figure 5.6: Approach for Output 1 - Business and product management capacity of PFIs is increased.			
Key Objectives	**Strategy**	**Activities**	**Outcomes**

Figure 5.6: Approach for Output 1 - Business and product management capacity of PFIs is increased.			
Key Objectives	**Strategy**	**Activities**	**Outcomes**
Select the most effective microfinance institutions as PFIs	Conduct a staged institutional assessment process to ensure that all eligible institutions participate in the request for proposal - wide publicity to be generated and focus will be on provincial organisations and institutions poised for growth using innovative channels The final stage of institutional assessment will be a thorough a process based on strategic business planning exercise. This will help ensure that both the project team and the PFI are clear on the long term commitment.	Organise national launch of the event Ensure wide publicity about the project's partnership programme Conduct structured institutional assessment process for the sector Conduct Strategic Business Planning for selected institutions	At least seven PFIs will be selected and partnership signed based on the institutional assessment Strategic business plan will be available
To establish a structured approach to capacity building	Based on the institutional assessment, market knowledge and the strategic planning exercise, key areas of capacity building will be identified. Based on the initial interactions with stakeholders, some of the areas for training and follow-on TA have already been identified. Capacity building will be done through multiple channels for better learning and sharing	Capacity building initiatives will be as follows: - Retail trainings for the sector (in which PFIs can also participate) - Common training only for PFIs - - Followed by onsite support by Training Specialists and Business Mentors / Microfinance and Lead Specialist - Organising forums for PFIs to meet and share their learning, challenges, experiences - Assist PFIs to participate in national/regional level forums with other sectoral stakeholders Attempts will be made to have interventions will be on a cost sharing basis. However, actual sharing of costs will vary from institution to institution	PFIs will have clear idea of the way ahead in the partnership, milestones to be achieved, resources to be committed. PFI staff will be trained on relevant aspects of microfinance and MFI Management, leading to acquisition of knowledge and skills
To design	Conduct market research	Training given to project staff and	Key personnel are

Figure 5.6: Approach for Output 1 - Business and product management capacity of PFIs is increased.			
Key Objectives	**Strategy**	**Activities**	**Outcomes**
effective financial products and services for PFIs to offer to the target market	and follow systematic approach to product development Pilot test and closely monitor the tests to plan for a successful roll out PFIs will be encouraged to move towards technology based products and services wherever possible and to go for products which can widen outreach.	key PFI staff on use of PRA tools, as they can be effectively used for any research Facilitate qualitative market research for each PFI and design innovative and client oriented products and channels Finalise capacity building plans based on the product designed and the skills needed for its pilot test and roll out	trained in qualitative research and have acquired the skills to conduct research and analyse results PFIs have a new/modified product/service ready to pilot test
To provide capacity building support to other microfinance institutions	Though the focus is on PFIs, the project will extend its support to other institutions. Such institutions will be invited for trainings and will also be encouraged to share a basic outreach data periodically. These institutions can be later allowed to become full-partners and avail of on-site TA in case they demonstrate progress and / or the project has capacities for additional partners. These FIs can participate in generic training to widen the discussions and have bigger more meaningful teams of participants. All trainings will be on a cost sharing basis.	Conduct provincial trainings on topics that emerge as relevant and important during the first phase Arrange for forums (workshops, publications) for capacity building	Staff of microfinance organisations in the provinces are trained Experiences of the organisations are documented and shared, so that the publications provide input to sectoral level initiatives such as policy formulation, designing of the RSF, defining the roles of the AMFI etc.

Section 5B: Review of Output 2

Output 2: Clients and potential clients understand and know how to access, financial services for personal or business use.

The focus of the MEP lies on facilitating the growth of the microfinance sector in PNG. In order to do so in a sustainable way, it is by no means sufficient to focus on the supply of financial services only. Instead, also the needs and necessities on side of the potential and existing customers of PFIs need to be taken into account. At the client level, the core focus remains to understand and utilise financial services effectively. FE and literacy enhancement can improve the poor's ability to make informed decisions so that they can take advantage of financial opportunities and plan their future successful. Without the provision of FE it is difficult for people to use financial services appropriately and with confidence. Further, they are also more vulnerable to exploitation and at risk of going into a debt, which can push poor people further into poverty. Additionally, BDS trainings will be conducted, which target entrepreneurs in running their business more successfully. Therefore, planning and execution of output 2 is critical to achieving the national mandate of the project. Developing FE programmes for the poor, implementing financial literacy enhancement programme on a wide scale and reviewing the impact of targeted financial literacy programmes is envisaged as the outcome of this phase.

The financial institutions would benefit from the enhanced financial literacy of clients as they can attract new clients (unserved/underserved), retain existing clients by improving their offerings and develop a competitive edge.

Progress made

The financial literacy material used in ADB's MEP was made available to the Microfinance Training and Curriculum Development Specialist. These were manuals on:

- Budgeting
- Savings
- Debt Management, and
- Bank Services

These versions were the only versions available and that too in hard copy. These have been reviewed and it appears that the material was loosely based on training material developed by Microfinance Opportunities and Freedom from Hunger under the Global Financial Education Program (GFEP). Two of the manuals were reviewed in great detail, noting every point that was changed from the original versions. Electronic copies of the reviews of Bank services and Budgeting however were made are available. After in depth analysis of the two documents it became clear that they did not meet international best practices for adaptation and therefore new adaptation would be required based on the original versions. The other two manuals were reviewed and notes made on the available paper copies. The key issues with the adaptations that made the existing material unacceptable are:

- Lack of participatory activities/exercises resulting in too much emphasis on lectures
- Complete omission of hand-outs and pictures for illiterate participants
- Currency, names, business examples used are not localised and thus likely to be perceived as not relevant by participants
- Budgets and financial figures not relevant to PNG economy

Additionally, the Microfinance Training and Curriculum Development Specialist reviewed five Financial Literacy manuals of the GFEP project with the intention to enrich the existing manuals further. There are:

- Budgeting: Use Money Wisely
- Savings: You Can Do It!
- Debt Management: Handle With Care
- Bank Services: Know Your Options
- Financial Negotiations: Communicate With Confidence

The Microfinance Training and Curriculum Development Specialist has made electronic corrections and comments through these manuals. With the help of the Training Specialists, these manuals will be finalised by mid-March. This assumes that no translation to local languages/dialects is required.

Additionally, the Microfinance Training and Curriculum Development Specialist met with representatives of Microfinance Opportunities while in the United States. The purpose of the meeting was to understand the licensing agreements with adaptation, ownerships and acknowledgements as well as to become familiar with new curriculum not part of the core curriculum above. Further, the Microfinance Training and Curriculum Development Specialist reviewed four more manuals for possible deployment under this project. Those manuals were:

- Young People, Your Future, Your Money
- Remittances How to Make the Most of Them
- Risk Management And Insurance: Protect Your Family's Future
- Consumer Protection: Balancing Rights and Responsibilities

Based on content review and general knowledge of the industry in PNG it is recommended that two modules be considered for procurement and adaptation to the PNG market. They are Young People, Your Future, Your Money as a stand-alone in the series and Consumer Protection to be included in part in the Financial Negotiations course and also as a stand-alone offering. As the market evolves, the other two topics, remittance and insurance should be considered as and when needed.

The key outline of a TNA has been drafted that also includes guides for individual interviews and Focus Group Discussion (FGD). Collection sheets and an analysis tool for demographic information have also been designed and will be reviewed from mid February onwards. At the same time, further adaptation and translation will be done together with the support of the national specialists.

Training Design

The design of financial literacy programme rests on primary and secondary research that will be conducted by the Microfinance Training and Curriculum Development Specialist, supported by the Training Specialists and the entire project team. The design phase of the financial literacy programme begins with a secondary research on the state of financial literacy and existing education programmes dealing with the issue in the country. After the secondary data collection and analysis, an assessment will be taken-up using primary market research tools. The primary research will enable an understanding of the depth and extent of financial literacy of different socio-demographic groups such as women, men, rural, urban. This will enable more structured understanding of needs and gaps for financial literacy for each of these groups. The areas to be probed for assessing financial literacy are:

- Day-to-day money management that includes financial control (budgeting and keeping track of finances) and making ends meet
- Financial Planning includes savings/insurance, saving for a rainy day and retirement
- Choosing appropriate products, product comparison and product suitability
- Financial knowledge and understanding includes knowledge of products and key concepts, consumer rights and use and choice of advisers

Apart from the aforementioned topics affecting financial literacy of the clients, the primary research will also include the assessment of service provision levels in the country such as the different providers, existing material, if any, and pedagogical tools used and gaps in methodology.

Based on the primary research, the Microfinance Training and Curriculum Development Specialist will identify gaps in the financial literacy and education scenario in the country and will adequately use the information to design appropriate material/ programmes. The fundamental design principles will be ease of access, appealing and engaging nature of the tools used, supportive learning environment, simple and engaging messages and tools, incentives, goals and plans to the participants to enable change in behaviour.

Upon design of the financial literacy programme, the team will test its suitability to the market needs and changes in the behavioural pattern and will improve the content accordingly. Once the programme elements are finalised, the project team will work towards implementation and engage local service providers (after careful assessment of fit to the goals of the programme) and support the implementation with periodic reviews and monitoring. Local service providers will be assessed on the basis of qualitative and quantitative measures.

Identification of Local Training Providers

Identification of local partners to implement FE training programs will be led by the Procurement Specialist in discussions with the Training Specialists. Their collective expertise and knowledge of potential local partners will be leveraged to identify the organisations that are best positioned to deliver FE training. While choosing the local training providers it will be taken into account that trainings will not only be imparted in areas where the PFIs are currently operational but also in areas that PFIs have identified in their outreach plans (as part of the institutional assessments) as potential growth areas. In case that new PFI come into existence during the project phase (two new micro banks have been established at the end of 2011), trainings can be extended to their chosen growth areas. Consequently, new local training providers might be identified.

Due to the fact that the procurement process of training organisations is likely to be time-consuming, this process will be initiated in due course. Once the local training providers for the financial literacy programme are identified, the Microfinance Training and Curriculum Development Specialist will not only develop content and materials for the delivery of ToT but will also deliver training to 10 master trainers of the training providers. This will be done within the first two project years. Subsequently, the master trainers will be responsible for training up to 80 trainers who will deliver the courses on financial literacy within the first four years of the project. However, while the procurement process is still on the way, it is recommended that pilot courses are already to be delivered by the project staff near Port Moresby so that the training material can be pilot tested an improved in a timely and adequate manner. Once the training on financial literacy are running, the Microfinance Training and Curriculum Development Specialist be in charge of overseeing (including monitoring its quality and effectiveness) the conduct of the financial literacy training.

Discussions were held by the Microfinance Training and Curriculum Development Specialist with the local team to list potential partners for conducting trainings on FE. Of the different institutions that were visited, Ginigoada Business Development Foundation (GGBDF) emerged based on a very preliminary discussion as a possible option. It was set up by the Government of PNG and has been in existence for ten years. GGBDF specialises in providing basic business and life skills training; development services and awareness to promote income generating activities and small business enterprises largely targeted at the urban population, particular the poor around National Capital District. Its offerings include basic business awareness, financial competency, mobile money, family money and business money etc. Three mobile centres in the form of completely equipped buses are used to offer trainings, targeted at both adults and children. Over 7,300 participants accessed GBDF services this year and it is reports that more than 700 participants have become employed. No fees are charged by GGBDF for training and outreach services. Some funding support has been received from Asia Foundation and Digicel Foundation while the balance is from the Department of Community Development, Government of PNG. The institution showed specific interest in partnering with the project to deliver financial literacy as well as BDS training.

Institutions from the earlier project, such as Bogia Cooperative Society, Sepik Savings and Loans Society and Ambumangre Catholic Women Credit Scheme, will also be approached for partnership in this project. Upon completion of financial literacy programme design, the project will develop the business development skills (BDS) programme to upgrade skills of MSEs in financial and management aspects aiming at enabling them to better manage their enterprises. The trainings will deal with operational as well as strategic issues to ensure long term sustainability of MSEs, growth in business volumes and subsequently a higher demand for financial products and services.

Working on Value Chains

To address the issue of low loan off take, the project will focus on 2-3 sub-sectors, in which large numbers of the rural population are involved in and which show promising growth potential. This is expected to encourage service providers who are generally risk averse. The value chains for these sectors will be studied in detail by the project team and BDS training will be delivered around these value chains to establish model enterprises. The BDS intervention will start with identification of agencies which can conduct an assessment of predominant value chains and the potential that each of them has in terms of increasing the involvement and incomes of primary producers. Next to local agencies that are experienced working in different value chain contexts,, international consulting firms may have to be brought in to do value chains assessment. The value chain assessment exercise will lead to identification of the described 2-3 sub-sectors which will be the focus areas.

At this stage, the BDS intervention will get linked to PFIs and will move in tandem with the intervention in the financial services sector. Financial services are one of the most critical input for value chain players and PFIs will be encouraged to develop products suited to identified value chains. In fact this can also become of the basis for assessing the suitability of PFIs as partners under the programme

The value chain assessments will therefore lead to two tasks: (i) the development of BDS training material which is specific to the identified value chain and (ii) the development of financial products which can be offered to various players along the identified the value chains. For some of the more organised players in the value chain with higher credit needs, a tie-in with the RSF can be considered. However, this aspect will become clearer after the assessment has been completed. The project will seek to initiate value chain assessments in the first quarter of the second year and preparatory activities for the exercise will begin in the last quarter of year one.

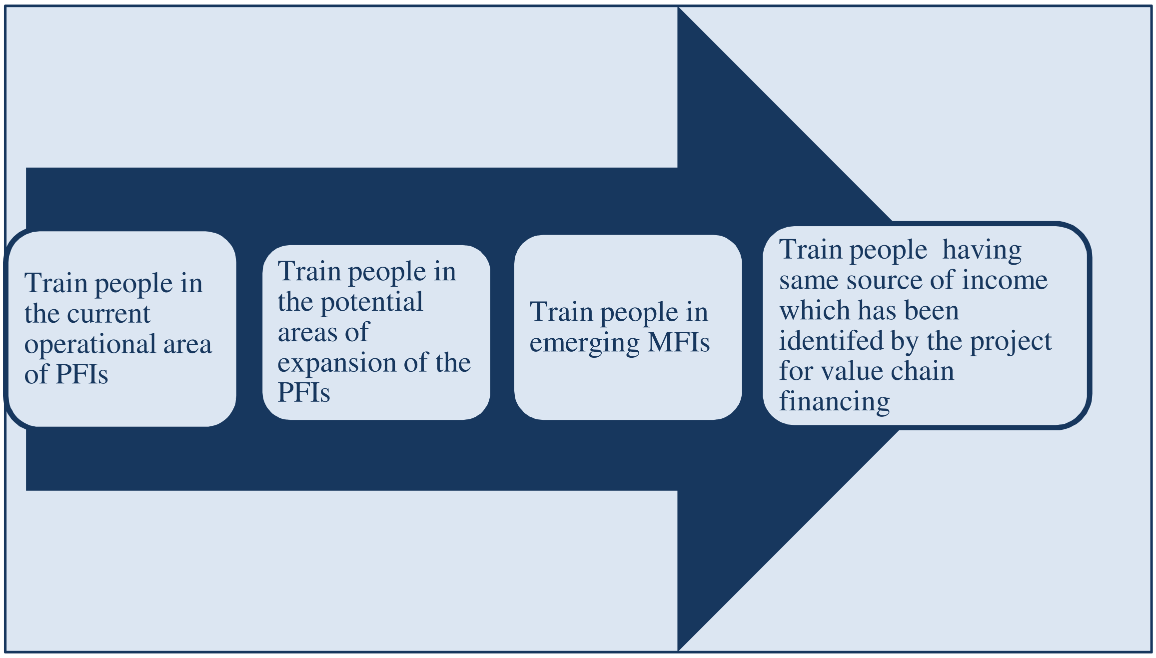
Once the assessment is completed, local trainers are to be identified in a manner similar to the one mentioned above. In addition, the Microfinance Training and Curriculum Development Specialist will be responsible to develop ToT programs for the BDS training and deliver these ToT sessions to identified individuals and organisations that will conduct the BDS training courses. Further, the Microfinance Training and Curriculum Development Specialist will be responsible for monitoring the training delivery and the quality of the training content, which might have to be adapted.

Training being the core component of output 2, the Microfinance Training and Curriculum Development Specialist will take a lead on this. The Training Specialists and the Gender and Community Development Specialist will work closely with her. The Microfinance and Lead Specialist, the MFI Product Innovations and Market Development Specialist will also contribute to the development of the training material, as reasonably requested by the Microfinance Training and Curriculum Development Specialist

Conduct of Financial Literacy and BDS Training

Due to the fact that different types of trainings are to be conducted under the project in question, we recommend a phased approach for targeting, as outlined in figure 5.7 below. This approach will ensure that the project inputs are shared beyond the PFIs, and that the resources are not spread too thinly across the country. A careful targeting strategy will ensure optimal usage of project resources.

Figure 5.7: Strategy for Geographical Preference of Client Level Trainings



To ensure that we meet the national mandate with emphasis on specific geographies, the financial trainings will not be limited to existing financial institutions and their clients. It will focus on the low-income market segment, particularly in rural areas to help them manage their financial lives better. However given the large scope and spread, a strategic approach has to be taken as detailed below:

1. FE training helps people make better and more informed choices about their financial matters. Trainings will be given to all members in the community in areas where the PFIs are currently operational (and not limited to existing clients of the PFI). This is because based on the learnings from the earlier PNG Microfinance and Employment Project ; the response and effect of the trainings are better if people, are also able to access financial services after the training has been delivered. It has been proven across the world that financial literacy interventions will lead to better results if they are followed with experiential learnings through actual usage.

2. Trainings will be imparted in areas that PFIs have identified in their business plans as potential growth areas of growth (as part of the institutional assessments) but will not be limited to existing PFI clients and will be targeted at the larger community.

3. If during the project phase, new MFIs come into existence (two new micro banks have been established at the end of 2011), trainings can be extended to their chosen operational areas. This will help these nascent MFIs by preparing the market better for the products and services that the MFIs plan to offer.

FE training will be provided to all members of communities interested regardless of membership to any financial institution. The project targets 120,000 participants to undergo literacy training, with women comprising 40% of the trainees. For BDS, the project aims to train 22,000 participants, of which at least 20% are female. It also states that female trainers should deliver at least 15% of the courses. While every effort will be made to achieve targets as established, these targets will need to be revisited after the baseline survey.

It is not considered best practice to link FE to use of financial products or subscription to specific providers of financial services. FE improves capabilities that allows for individuals to make better decisions about money matters. It leads to more informed and prudent choices of the uses of financial services, which may or may not always lead to enhanced use of financial services. For example, household budgeting is a major skill in FE. It can be monitored at regular intervals, but may or may not show increased use of financial services. Or, a person might decide not to borrow till he/she has a clear idea of the use and repayment capacity of the loan. Thus best practices recommend FE initiatives to be delivered as an independent approach preferably not by staff of the same institutions that deliver financial services. However, considering the market scenario in PNG, a puritan approach may not work. Competition for financial services is low outside of Port Moresby and presence of more than one institution in a geography (especially remote geographies) will remain a challenge in the foreseeable future. Hence in some instances to ensure financial literacy and financial service usage in remote areas, partner PFIs may also be involved in the delivery of FE. This approach may be adopted in cases where local language / dialects and remoteness precludes the involvement of specialist institutions.

The same applies for BDS. The project assumes PFIs play a key role in the identification and selection of participants as well as facilitates subsidies from the project for the training. However this is not recommended across the board. This is because, for example, if a client of PFI suffers a loss in business after attending BDS trainings and may attribute it to the application of some newly knowledge and/or skill at the BDS training. The client may return to the PFI claiming he/she cannot make a repayment due to 'bad advice' received at the BDS training. Hence, while it is prudent to separate provision of financial services from business development services, it may so happen that the remoteness of the location and the local community customs / traditions may make it prudent to have institutions play a role in BDS and financial services. Here again, a case by case approach is advocated.

The project will thus also seek to partner with local institutions who work closely with the community (preferably on education, literacy, social and cultural issues), corporates involved in community development, such as Digicel, Exxon Mobil, to support delivery of trainings to the community. The staff of PFIs will also be trained in FE and BDS. The PFIs may not be the primary channel for delivery of the trainings, but knowledge of FE will ensure that delivery will get ingrained into the functioning of the institution and will be delivered to the clients well after the project has come to an end.

The focus will be on better usage of opportunities that the community has access to and not on meeting the targets for output 1. The trainings are expected to have a longer term impact which will later lead to enhanced use of financial services. The PFIs working in those areas are expected to make use of the knowledge and skill transferred to the community through these trainings. However care will be taken to ensure that the PFIs do not push their products and services by using these trainings as a forum for marketing their products. Given the nascent stage of the sector in PNG and the demand for financial services, increased accessibility might also lead to over indebtedness if not monitored well.

Based on the points mentioned above, it is proposed that the requirement that one third of the participants should be the existing clients struggling to make use of services, be removed. Defining such clauses will require (subjective) assessment from the PFIs on the target audience for the training. The PFIs may or may not have the resources (capacities and finance) to identify such clients. Trainings for identified clients can be organised as part of the growth strategy of the PFIs and not for the generic FE and/or BDS training. Depending on the need, performance, attitude of clients, they may need other specific training.

Training being the core component of output 2, the Microfinance Training and Curriculum Development Specialist will take a lead on this. The Training Specialists and the Gender and Community Development Specialist will work with her closely. Key responsibilities of the team will include:

- Design and delivery of the ToT for FE and BDS
- Designing of selection criteria and then the actual selection of the partner organisations who will be running these trainings in the rural areas
- Designing selection criteria for participation in training, especially for BDS
- Monitoring of the delivery of the trainings by the partner organisations
- Customisation of training material as and when needed (depending on geography, local enterprises, cultural practices etc.)

The Microfinance and Lead Specialist, the MFI Product Innovations and MFI Product Innovations and Market Development Specialist will also contribute to the development of the training material, as reasonably requested by the Microfinance Training and Curriculum Development Specialist.

Designing Training Modules

The number of people to be trained per TOT, the number of modules, hours of engagement etc. might be different for each training.The project will provide flexibility to customise trainings to the local situation, availability etc. Similarly, the project will make every effort to focus on women being a part of the trainings. However, same sex training for financial literacy may not always achieve desired results. Money matters in low income communities are often household matters and in some cultures it has emerged that everyone needs to be educated so that decisions can be made for the benefit of the household. In some cases it is often "safer' and culturally prudent that husbands know what their wives are doing. Thus, the project will lay down broad guidelines for delivery of the trainings but will allow flexibility to the training teams to decide on the best way to deliver trainings for effective results. The team will ensure that the utmost importance and respect is given to gender issues and to local customs.

For BDS, the exercise will start with an assessment of key value chains. The identification of value chains for intervention will enable development of BDS material relevant to the value chains and for initiating work related to financial products which support the value chain. At this stage, the BDS intervention will get linked to PFIs and will move in tandem with the intervention in the financial services sector. Financial services are one of the most critical input for value chain players and PFIs will be encouraged to develop products suited to identified value chains. In fact this can also become one of the basis for assessing the suitability of PFIs as partners under the programme

The detailed implementation plan relies on PFIs wanting to access the training program for their clients to develop a marketing plan and identify specific target markets and clients. These PFI marketing plans will need to be approved by the project before they can access the business development skills training program for their clients. But PFIs may not have resources or interest to develop such plans. So links outside of PFIs should also be identified to help recognise potential BDS participants. People should be able to access services independent of PFIs.

Monitoring of Trainings and its Impact

The monitoring framework developed by the Project Benefit Monitoring and Evaluation Specialist will define the method of reviewing the training targets against performance. It will deal with assessing both the qualitative and quantitative aspects of the trainings. Records of all trainings will be maintained till the close of the project.

The monitoring framework will also define the method of measuring the training impact. Field perceptions will be considered while developing the monitoring and evaluation system. It is again important that though the project will consider the use of financial services as an important element, the monitoring system should not only consider increased financial services as an indicator for measuring the success of the FE program.

Figure 5.8: Approach for Output 2- Clients and potential clients understand and know how to access, financial services for personal or business use.

Key Objectives	Strategy	Activities	Outcomes
To provide financial literacy and business developmen t services to the low income population in rural areas of PNG	Train on generic BDS skills and FE knowledge in order of priority as follows in : - Current operational area of PFIs - Potential areas of expansion of the PFIs - Operational areas of emerging MFIs Train people from the same value chain by providing BDS. Support will be extended for 2-3 value chains that have high potential in terms of livelihood generation and offer producers an opportunity to move up the chain and increase income. Provide financial education and BDS training to all members of communities who show interest, regardless of membership to any financial institution. Not use these forums for marketing of PFIs own products and services. However, where alternative delivery channels are not available, the PFIs network and outreach may be utilised especially while serving remote rural communities. Training in most instances will be delivered by the project staff and other selected partner organisations. Again an exception may have to be made for remote rural communities.	Procure, modify and design material for financial education trainings. Deliver the modified material on a pilot basis through a structured ToT. Roll out through a mix of partner PFIs and other NGOs / support institutions. Map value chains with high potential for growth and capable of providing livelihood opportunities to the low income population Develop training matrial on 2-3 selected value chains Market the events and ensure participation and cost sharing Conduct series of trainings in local communities through partner organisations. Support PFIs to develop financial products suited to clients.	Modified and adapted training material for financial education and BDS. Network of partners trained in delivery of financial education, supporting the delivery of trainings to clients/prospective client Report on value chain assessment and identification of 2-3 high potential value chains Material for training to clients in BDS and identification of organisations which will deliver the training to players. Financial products developed to support the clients Local communities trained in FE and BDS Local communities will have better managed financial lives Institutional assessment format for partner selection will be available Increased demand for credit
To design training modules on FE and	Training modules developed for BDS and FE will be available to the sector. Trainings will be delivered by organisations	Prepare training material Select partner organisation through a	Complete training modules available for use by trained partners

Figure 5.8: Approach for Output 2- Clients and potential clients understand and know how to access, financial services for personal or business use.

Key Objectives	Strategy	Activities	Outcomes
BDS, from which the sector can benefit	which have undergone the ToT.	formal process of selection Select staff undergo TOT by the project staff	ToT modules will also be available Project staff and staff of partner organisations have the knowledge and skill to implement these trainings
To monitor training quality and its impact	The monitoring framework of the project will help assess the quality of the training material, training design, quality of delivery etc. so that the feedback can be used to improve the training material quality as also delivery The monitoring framework will also help measure the impact of the trainings on the financial lives of the participants	Prepare monitoring and evaluation framework for output 2 Prepare formats for monitoring trainings and the impact of trainings as also a system to record and analyse the data Maintain database of all reports generated, analyse them and generate periodic reports on quality of trainings / delivery, measures taken to improve outreach / delivery and improve training material	Framework for evaluation of trainings and their long term impact Updated database of trainings Consolidated project reports on trainings and their impact

Section 5C: Review of Output 3

Output 3: The Association of MFIs (AMFI) monitors jointly agreed microfinance industry standards.

Assessment of Current Situation and Challenges Foreseen

AMFI was incorporated in June 2009 and also received some support from the PNG Microfinance and Employment Project. Twenty eight institutions were registered with AMFI. A five year (2010-2015) business plan was developed in October 2009 by Deloitte.

The key role of AMFI as envisaged in the project is to:

- Advocacy on policy issues and sharing of activities taken up by the microfinance sector with policy makers and the wider financial community
- Identify performance indicators and establish benchmarks that will be used to maintain industry standards and encourage transparency among service providers
- Collect data on these performance indicators from service providers at frequent and regular intervals and information sharing across the sector
- Establish a forum for information sharing in the sector

The existing business plan of AMFI indicated that its activities are similar to the ones envisaged for the NCFI. AMFI's mission is 'to enhance institutional capacity of existing and future microfinance institutions and to ensure microfinance services are effectively delivered to larger sections of the population. Given that the AMFI discontinued its activities at the end of the previous project, it is recommended to debate and to assess the readiness for another association in a fledgling market.

Some of the activities that could be undertaken by AMFI as articulated by practitioners are:

- Creating a database for all relevant information on the sector
- Sharing of success stories of channels, individuals, models etc. so that the sector can benefit from them
- Promote transparency in sharing information with clients and other stakeholders
- Promote healthy competition rather than unbalanced geographical distribution of services
- Develop and advocate a regulatory framework for the sector by liaising with Bank PNG

The activities planned to deliver output 1 and 4 are expected to help promote an enabling operating environment which will help establish more players and grow the sector. This may lead to a demand for a forum of industry representatives which can establish standards to improve their own performance and promote information sharing among players. It can also be explored if in the interim, NCFI can also play the role of an industry collective which takes a lead in the activities envisaged for the association such as, sharing best practices, holding forums to discuss sectoral issues. As and when MFIs scale up and more MFIs become active contributors to the growth of the sector, AMFI as a separate industry body can be established.

However, the project should monitor market readiness and establish an association when conditions are conducive to long term success instead of taking it as an assumption that the sector is ready for such an organisation.

Also as the size of the current microfinance market and service providers is very limited, it needs to be debated if there is a need for two associations undertaking similar activities.

Way Forward

The results of the baseline survey that will be conducted in the next few months will provide a clear understanding of the need for various support services by the financial institutions and the possible role of such an association, the demand and the readiness to form such an association.

Although the industry should be ready and developed enough, it is also important that the forum is made active at an early date, so that it can benefit from the support offered under this project. Therefore the project will assist in the capacity building of the office bearers of AMFI to get them prepare to undertake roles and responsibilities and deliver services to their members when the time arrives to do so.

When AMFI begins to perform its envisaged role, the Microfinance Institutional Development Specialist will coordinate with AMFI together to collect reports at regular intervals and to maintain same in the central database of NCFI.

The financial sustainability of AMFI is a concern and thus various business models and service offerings will be evaluated. For the time being, the project will focus on (i) setting up NCFI and (ii) supporting industry collective activities as part of NCFI. This will ensure that NCFI has a larger role and the fledgling microfinance sector is not saddled with many overarching institutions. NCFI as an industry resource body could play the role of an industry collective and could strengthen its position in the microfinance landscape.

However, a clear distinction in the role of an institution promoting and coordinating microfinance initiatives and an interim association is required and need to be taken care of. AMFI can be designed to work under the aegis of NCFI. Subsequently as the sector grows and demand emerges, AMFI can be set up as a separate entity.

With this approach, AMFI could take over the role of establishing industry benchmarks from NCFI and be the repository of data for the sector in future and could act as a sustainable full-fledged institution that in the following.

Figure 5.9: Output 3 - The Association of MFIs monitors jointly agreed microfinance industry standards.

Key Objectives	Key Objectives	Key Objectives	Key Objectives
To assess readiness of the sector and need for an AMFI	Collect information on demand and envisaged role of AMFI during baseline Take a decision on the need for AMFI based on the feedback received, but not before the end of 2012 or early 2013 and maybe later. Consider NCFI also playing the role envisaged for AMFI. In the interim, as the sector grows and it is clear that AMFI can become a sustainable entity, only then should it be separated from NCFI. This should not also jeopardise the sustainability of NCFI.	Collect data/feedback during baseline on need for AMFI Review the business plan of AMFI prepared in 2010 Prepare a strategy note on the way forward for AMFI, clearly defining its role and relation with NCFI. Implement the activities as per the strategy document	A strategy paper on the way ahead for AMFI (even if it is to function as a division of NCFI initially) A revised business plan and financial projection if the decision is to go ahead with reactivating AMFI If the decision is to go ahead, a definite strategy for growth and an exit plan Implementation plan for AMFI

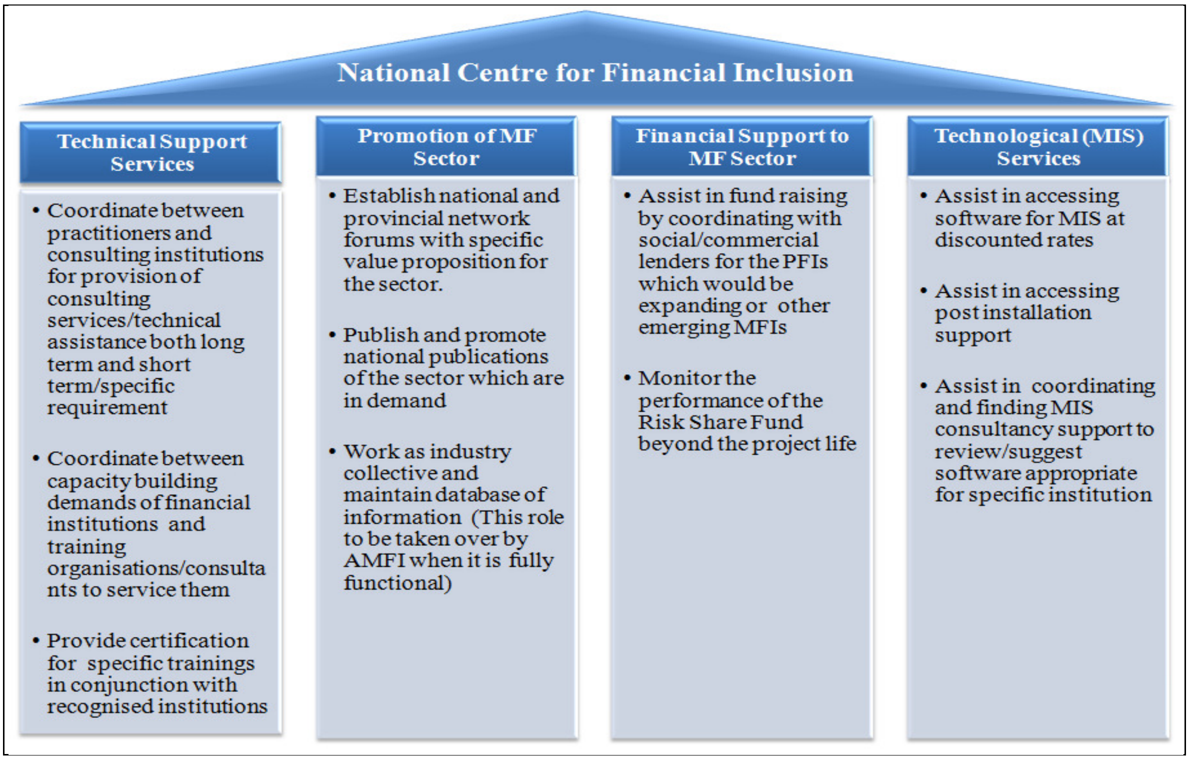
Section 5D: Proposed Strategy for National Centre for Financial Inclusion

The NCFI is designed to play a strategic role to promote the microfinance sector of the country. The entity is envisaged to act as a national level coordination unit such that the services it is designed to deliver should be relevant to various sectoral stakeholders.

IBBM was the implementing agency of the former project phase and focused primarily on capacity building, and it remains to be the Project Implementation Unit (PIU) for Output 1, 2 and 3 in the actual phase, till the time the NCFI is registered. This shift would help ensure that the initiatives of the project are sustainable and extend well beyond the project life as the NCFI has a much larger mandate than IBBM.

Some of the services that NCFI can potentially deliver to establish revenue streams are listed in the Figure 3.10.

Figure 5.10: Services to be Offered by NCFI



Based on the services that NCFI will deliver, the relevant legal format will be identified. This will be would be led by the NCFI Manager, with technical support from the Microfinance Institutional Development Specialist and the Microfinance and Lead Specialist. The Board of NCFI will have representation from the regulators, donors/investors, practitioners, and technical experts. The regular coordination /operational activities will be discharged by the management team. NCFI will have a clear business plan and until it becomes financially sustainable, it will be supported by the project.

However, the achievement of the breakeven point and to retain financially sustainability especially thereafter, might be challenging for the NCFI, considering the current nascent microfinance market. The difference in the objectives and roles of AMFI, NCFI, IBBM needs to be clearly defined so that overlaps and conflict of interest situations will be avoided or niches for each can be created.

As the NCFI emerges as the coordinating body for capacity building initiatives for the microfinance sector, IBBM can benefit by being supported by this national level initiative. For example, NCFI can outsource some of the training requests to IBBM and also provide updated training material in lieu of which it will charge fees. This will ensure that a key resource created during the earlier intervention will not be starved of support during MEP. The relation with IBBM will be redefined and it will not enjoy exclusivity as a training institute as other institutions will also be encouraged to look at service provision to MFIs as a sustainable activity. As NCFI has a national mandate in terms of geographical coverage. To ensure outreach to remote areas, it will have similar arrangement with other eligible institutions for delivery of its services.

Way Forward

Again, as mentioned, the baseline survey will give a detailed assessment of the current microfinance scenario in PNG. Based on the findings the project team will discuss the possible products and services that NCFI could deliver. It will outline potential sources of income and the relationship that NCFI could establish with other entities in the sector.

Once the services are identified and the business model has been developed, the NCFI Manager and the Microfinance Institutional Development Specialist with technical support from the Microfinance and Lead

Specialist will explore possible legal formats under which NCFI can be established (private limited company, a training institute etc.) Based on the first assessments and interviews done in the preliminary inception phase, an umbrella/holding company with subsidiary companies will be also explored, as multiple verticals within NCFI playing distinct roles. If required, legal expertise may be hired by the project to get a complete picture on possibilities and the pros and cons of each.

The next step is the preparation of the business plan for the NCFI, to ensure that financial sustainability of the entity is established.

Thus by June 2012, the following deliberations will be submitted:

- A concept note on the role and structure of the NCFI for approval by the Steering Committee
- Upon approval, a detailed strategic business plan along with financial projections for the NCFI by involving the key stakeholders
- An activity schedule to take the initiative forward

The concept note and business plan will be followed by the registration of the NCFI in the second half of 2012. Planning this upfront would help give adequate time during the project life to follow up on the establishment of the entity and give it time to attain financial sustainability.

Figure 5.11: Strategy for Setting up the National Centre for Financial Inclusion			
Key Objectives	**Key Objectives**	**Key Objectives**	**Key Objectives**
To define the role and strategic business plan of NCFI	To define the role of NCFI in promoting microfinance To develop a detailed strategic plan along with an implementation plan, with a focus on attaining financial sustainability	Collate data from the baseline survey and prepare a concept note on the proposed role and structure of the NCFI Present the basic concept to the Steering Committee and fine tune it Conduct a workshop with concerned stakeholders to develop the detailed strategic business plan and financial projections	Concept note on the role and structure of the proposed NCFI A comprehensive business plan for the NCFI along with financial projections and detailed implementation plan
To register the NCFI and initiate its functioning	Identify most relevant legal entity and get the NCFI registered Develop implementation and progress monitoring plans	Analyse the different legal options and their applicability to the NCFI Get the institution registered under appropriate legal entity Develop operational guidelines, financial management systems, knowledge management systems, M&E for the NCFI	A comparative list of options for the legal entity of the NCFI Registration documents of the NCFI Operational guidelines and monitoring formats for the NCFI
To define the role and strategic business plan of NCFI	To define the role of NCFI in promoting microfinance To develop a detailed strategic plan along with an implementation plan, with a focus on attaining financial sustainability	Collate data from the baseline survey and prepare a concept note on the proposed role and structure of the NCFI Present the basic concept to the Steering Committee and fine tune it Conduct a workshop with concerned stakeholders to develop the detailed strategic business plan and financial projections	Concept note on the role and structure of the proposed NCFI A comprehensive business plan for the NCFI along with financial projections and detailed implementation plan

Section 5E: Review of Output 4

Output 4: BPNG regulation and supervision of MFIs and SLS is streamlined and improved.

Assessment of Current Situation and Challenges Foreseen

An enabling environment is key to the growth of microfinance sector in PNG. Given the nascent stage of the sector, policy formulation and the evolution of an enabling regulatory environment are of great importance in this project.

The Bank of PNG (BPNG) regulates commercial banks, finance companies, merchant banks, savings and loan societies, superannuation funds, life insurance companies and other licensed institutions in PNG. MFIs are regulated by the Bank and Financial Institutions Act 2000 and the SLSs by the Savings and Loan Societies Act. Apart from 4 banks, 10 licensed financial institutions (which includes the 2 micro banks), 22 SLS and other insurance and superannuation companies, no other entities are authorised by BPNG to mobilise public money as deposit. With the likely growth of the microfinance sector in terms of scale, diversity of services and channels of delivery, there will be an increase in number of service providers. It will thus be prudent to first take a broad based approach and decide on the possible roles of different legal entities in promoting the microfinance sector, as each legal entity has its unique position, advantages and disadvantages. Each legal entity will be further classified based on its operating scale, the risks it entails, the services it can deliver, the permissible limits to ensure portfolio quality is maintained.

The role of the regulator is envisaged to ensure a supporting environment to foster effective and affordable microfinance services. The objective is not to excessively restrict the scope of the services, but to provide a firm base on which the sector can expand. This translates to ensuring provision of reliable infrastructure, security of services and a healthy competitive environment. Another role of the regulator is to ensure that clients receive financial services that are affordable but more importantly services are provided in a transparent manner and clients savings are not lost because of unscrupulous promoters of MFIs.

More recently, creating an environment that encourages the use of mobile technology which helps reduce costs and make transactions secure, has gained significance. Given the huge limitations in terms of infrastructure and as microfinance in PNG has been largely savings led, the use of mobile technology becomes increasingly relevant.

As part of the initiatives under output 1, the project will work closely with PFIs to develop innovative products, services and channels and under output 2, the project will help enhance the skills / knowledge of end users towards financial issues as also in some cases towards business development services. . Initiatives under output 4 will in parallel create the base on which the users and suppliers will interact. With the growth of the sector under this project and the introduction of a more diverse range of products and services, it will be important to review the relevance of the existing regulations and assess the need for change, if any. According to the World Bank Survey, 2008, PNG has the lowest level of financial inclusion in the Asia-Pacific region. Declining quality of infrastructure and security has over the years resulted in scaling back of the branch based banking delivery structure that existed earlier. With Bank South Pacific expanding its own rural operations, with Nationwide MicroBank introducing MiCash using mobile technology, and other entities also taking more interest in introducing technology in delivering services there will be a shift in business models, service strategies, structural changes in institutions and new delivery channels. The regulators would need to be open to these changes and reform the existing regulations if required to accept these changes and monitor the new institutions and delivery models.

As mentioned in section one of this report, PNG's unique demographic features requires financial services to be delivered at the door step in remote areas so as to promote usage and inclusion. This is very difficult given the current state of infrastructure and the security situation. The way out could be the move to agent based banking and to increase the number of low cost customer service points by utilising existing distribution channels. Use of agent network and mobile banking which is being tried across the world as a means for financial inclusion can be the way ahead. As MFIs in PNG adopt these new initiatives, the supervisory role of BPNG enhances significantly and supervision becomes more complex with possibilities of overlap with other regulatory domains (e.g. mobile banking will need BPNG to coordinate with the regulator for mobile telephony). While there is the need to be open to these changes there is also a need to establish norms for supervision of microfinance service providers so that the end user finds access to services from the new network to be safe and convenient.

Progress Made and Way Forward

The key areas of interventions identified and confirmed during the preliminary inception phase are the following

- Drafting of new regulations for different legal entities
- Establishing a supervision structure, and
- Developing the capacities of the microfinance regulations team at BPNG

After a preparation phase (including desk research and input of baseline survey results), the Microfinance Regulation and Supervision Specialist will assess the need for a separate regulation for MFIs, will review the progress made in the amendments suggested for the exist regulation for Savings and Loan Societies and will draft regulations amendments which consider mobile banking initiatives therein non-bank entities are involved. Furthermore, he will consider primary and secondary research to incorporate international best practice, particularly from countries that have established independent microfinance regulatory bodies or introduced mobile banking regulations. He will conduct national and provincial workshops at regular intervals with practitioners to understand operational challenges which need regulatory support. The Microfinance Regulation and Supervision Specialist and the MFI and SLS Supervisory Support Specialists will work closely with the team at BPNG to bring the field issues to the regulators, analyse the same and to find solutions jointly. Provincial workshops, with representatives from the sector, will be held in May, August and November and a national workshop in December, to collect feedback and suggestions.

In addition, client protection and responsible finance principles will be factored into regulation so that service providers are not able to take advantage of illiterate clients. The Microfinance Regulation and Supervision Specialist will work during his engagement very closely with Bank PNG to build capacity and encourage the increase in scale and outreach of the microfinance sector while at the same time ensuring that regulatory compliance is ensured and poor people feel secure about the institutions that service them.

To ensure effective understanding of microfinance and its characteristics, it is recommended that the team at BPNG participate in the trainings along with practitioners that will address basic operational and functional aspects of microfinance.

The Microfinance Regulation and Supervision Specialist and the MFI and SLS Supervisory Support Specialists, closely with the team at BPNG will develop a comprehensive set of guidelines for supervision of the MFIs. These guidelines will be prepared keeping in mind the role of BPNG in supervision as well as changes in the sector might expands in scale, outreach and in the range of service providers.

Once the guidelines for supervision are finalised, they would be translated to operation manuals. Training modules based on these operational manuals will also be designed by the Microfinance Training and Curriculum Development Specialist.

As the new supervisory norms are defined, the concerned staff of BPNG will then receive training to strengthen their supervisory roles. The trainings expected to start from mid 2013. They will be focused on both knowledge enhancement and skill development on supervision of microfinance institutions using the risk based approach.

Collection of detailed feedback will be secured after the implementation of the supervisory guidelines, for quality assurance and to address concerns that might be raised by the institutions.

Figure 5.12: Output 4 - BPNG regulation and supervision of MFIs and SLS is streamlined and improved.

Key Objectives	Strategy	Activities	Outcomes
To develop regulations that support the growth of the microfinance sector	Learn from other countries where regulations have been formulated, especially for mobile banking or established independent microfinance regulatory bodies Conduct national and provincial forums to collect feedback on challenges and issues and incorporate them in regulations Study client protection principles and responsible finance guidelines with an intent to build them into the proposed regulation Work closely with the Bank PNG to develop more detailed guidelines and regulations for SLS and Microbanks, if required Develop guidelines for classification of SLS on a risk based approach	Conduct secondary research to review global options / trends and client protection principles / responsible finance guidelines Conduct national and provincial workshops at regular intervals with practitioners to understand operational challenges which need regulatory backing Involve the regulators in forums where the practitioners will participate to enable two way communication and an understanding of each other's perspectives Review existing regulations and suggest modifications to adjust to the changing environment and to foster growth	New and revised regulations / guidelines which support the microfinance sector Regulation / detailed guidelines on mobile banking (and agent based banking), if the evolution in the sector so demands (at later stages of the project[18]) Classification of SLS available for easy supervision and monitoring Increased coordination and information sharing between regulators and practitioners

[18] While regulation for mobile banking does exist, it is felt that the existing regulation may have to be tweaked to address the needs of microfinance and the low income segment. Whether this leads for a separate set of mobile banking regulation for micro banks and SLS or calls for changes to the existing regulation can only be determined after a more detailed study.

Figure 5.12: Output 4 - BPNG regulation and supervision of MFIs and SLS is streamlined and improved.			
Key Objectives	**Strategy**	**Activities**	**Outcomes**
		Finalise the role and approach of BPNG in supervision, keeping in mind the growth of the sector Focus on supervision of entities such as agents in relation to mobile banking if it takes off on large scale Ensure that the BPNG staff are trained on basic operational and functional aspects of microfinance Develop training modules based on the agreed supervisory norms and standards Train the staff of the bank on carrying out their supervisory roles Create a system for training future staff of Bank PNG on effective supervision.	The sector has clarity on the role to be played by the supervisory body, guidelines and expectations / rules for all stakeholders Training modules are available to train staff of the regulation and supervision department through the project and The key staff have gained knowledge and skills to play an effective supervisory role

Section 5F: Review of Output 5

Output 5: A RSF supports increased MSE lending.

Assessment of Current Situation and Challenges Foreseen

The microfinance industry in PNG has been largely savings led. Experiences in the Microfinance and Employment Project confirmed that the client demand for savings products in PNG is much higher than for loans. The revolving finance facility that had been designed in the earlier PNG Microfinance and Employment Project was discontinued after the mid-term review because deposits were cheaper source of funds than borrowing from the fund and financial institutions had surplus deposits.

It has been difficult to encourage both clients and financial institutions to use more of micro credit opportunities. Discussions with practitioners revealed that:

- For the clients the challenges have been:
  - Limited options for profitable business
  - Small size of market
  - High competition from foreign investors in micro enterprises
  - Prevalence of the *wantok* system

    - Limited infrastructure and communication which retard growth of business and increase cost of operations
    - High vulnerability due to exposure to natural calamities, poor health conditions, lack of literacy etc.
    - Lack of access to formal systems and thus dependence on informal systems (*wantok*, money lenders)

- For financial institutions, challenges have been:
    - High cost of operations due to difficult terrain, security etc.
    - Continued limitations in infrastructure in spite of improvement in communication
    - Port Moresby not being connected by land to the rest of the country
    - No success story so far of traditional community based microfinance
    - PNG is prone to natural calamities
    - Lack of availability of professionals at affordable rates
    - No encouragement from commercial banks for small value transactions
    - Door step services cannot be introduced to attract clients due to high cost and security
    - To ensure quality portfolio by establishing good systems of internal control

The concept of the RSF has been developed differently in this project. The fund aims to encourage institutions to undertake more loan disbursements to increase interest income, rather than from investment in government securities, improve their portfolio quality, enhance internal control mechanisms, all collectively aiming to facilitate scale up, enhanced outreach to new locations and attain sustainability.

While the success of the RSF is expected to lead to national level growth of the microfinance and micro enterprise sector, it is not a separate initiative. It is designed to build on the comprehensive approach that the project supports and all the outputs that the project commits to deliver.

- Output 1 focuses on the improvement of the performance of the PFIs, introduction of new products and services and expansion into new geographical areas to ensure enhanced financial inclusion. The RSF is committed to encourage the improvement of portfolio quality of the PFIs.
- The RSF will compliment the initiatives in output 2 by ensuring that the clients have enhanced and diverse investment opportunities and have access to funds to initiate or expand their business.
- The eligibility criteria set by the RSF will assert the importance of adhering to industry benchmarks, which is the role played by AMFI, promoted under output 3 and to the regulation and supervision guidelines defined by BPNG under output 4.

The focus here is to encourage FIs to enhance their lending and to maintain good portfolio quality.
Financial institutions accessing the RSF should give adequate importance to the products and services it delivers, the systems they establish, the portfolio quality they maintain. Thus, staff capacity building initiatives on training on portfolio management, establishment of effective systems and procedures will necessarily have to be in place in the FIs accessing the RSF. This will enhance the portfolio quality and ensure that risk claims to the facility are minimised. The RSF will then be able to sustain over a long period of time and service larger number of institutions.

To ensure that the RSF is used for the intended purposes of risk sharing only, the Risk Fund Management Specialist will work on developing detailed guidelines on the use of the fund, the eligibility criteria for accessing the fund, the specific purposes for which the fund can be used, the legal structure for the housing and management of the fund. While the terms and conditions would be kept stringent to ensure proper use of the fund, effort will be made to keep the process of accessing the fund simple. It is recommended that the

RSF is designed after the completion of the baseline and the selection of the PFIs, as it would then give a better understanding of how the project is going to be finally structured.

The concept of RSF has been tried in other countries and it has proven to be successful. The RSF must be made accessible to the sector to continue to support the development of microfinance industry. The RSF should be available to all legal entities focused on working with the low income population, rather than being limited to micro banks. The policies will be defined such that the funds increase over time and can be used by large number of service providers.

Way Forward

Based on the learnings from the earlier PNG Microfinance and Employment Project and keeping in mind the early stage of the microfinance sector in the country, the strategy ahead will be as follows:

- To encourage the (micro) financial institutions to increase their lending activities to MSEs, a RSF will be established during the project lifetime. The RSF should be a legal entity. The implementing agency will nominally be the Department of Treasury, the implementation of the RSF will be assigned to a third-party professional RSF Manager, while a Risk Fund Management Specialist will be engaged by the project to establish the same facility. A procurement process needs to be undertaken to select the appropriate Fund Management Company. Therefore, we recommend that the Risk Fund Management Specialist of this project will conduct a first initial assessment in the second half of 2012 to review the market scope, needs and benefits for the establishment of a RSF on the one hand side, and to define the necessary eligibility criteria on the other hand. During the assessment mission, after consultations with the key stakeholders, a workshop will be helpful to agree on next inputs and to finalise the action plan for the procurement and implementation process. By the end of the assessment the Risk Fund Management Specialist will draw up eligibility requirements to allow potential RSF Managers to express their interest as managers, as well as all details of tender for letting the RSF management contract and advise on the selection of the RSF Managers.
- Based on the outcome of the assessment, the Risk Fund Management Specialist will propose a legal and operational structure for the RSF, set out the details for its operations. The RSF will be established with the amount of USD 5.4 million through direct payment methods and once established; the funds will be disbursed in one tranche into the facility and held in PGK.
- During the procurement process lead by the PMU, the prospective risk fund manager need to undergo a due diligence evaluation whereas the management, financial, staffing capacity and other relevant areas will be assessed.
- Based on the recommendations of the Risk Fund Management Specialist, an appropriate legal entity will be established by the second quarter of 2013 to house the RSF. The process of procurement will be initiated in early 2013.

The Risk Fund Management Specialist will advise in the course of the assignment on:

- Thresholds that will make a financial institution eligible for coverage under RSF
- Conditions for eligibility under the partial guarantee facility
- The processes and procedures for coverage under RSF, the reporting requirements and claim processes.
- Template of all documents / formats / reports to be used for the management of RSF
- The selection process and qualifications of trustee(s) for the RSF.

Figure 5.13: Output 5 - A risk share facility (RSF) supports increased MSE lending.			
Key Objectives	**Strategy**	**Activities**	**Outcomes**
To design a RSF to encourage lending activities by FIs	Study the perceived role and relevance of RSF in promoting microfinance and micro enterprise lending	Collect information as part of qualitative research of baseline survey to understand perceived role of RSF and its possible usage and value add Conduct secondary research on design and use of RSF in other countries	Concept note is prepared summarising the findings of the baseline survey and secondary research on the perceived role of RSF
To set up the RSF based on the policies defined	Develop the policy and guidelines for the fund usage during the project Establish legal entity and procedures to manage the RSF Plan the usage and management of fund after project completion	Conduct initial assessment to: Review market scope, need and benefits of establishment of a RSF Define the necessary eligibility criteria, procedures for accessing the RSF Hold workshop to: Agree on next inputs and to finalise the action plan for the procurement and implementation process Draw up eligibility requirements to allow potential RSF Managers to express their interest as managers, as well as all details of tender for letting the RSF management contract and advise on the selection of the RSF managers. Run the agreed procurement process to select the appropriate Fund Management Company (FMC) Engage the services of the selected FMC to manage the RSF	Detailed guidelines on the design and functioning of the RSF is prepared taking on board the needs of different stakeholders Legal entity established to manage the RSF RSF is available to eligible PFIs as per the guidelines
To manage the RSF	Ensure understanding and build capacities of the FMC to implement the RSF Monitor the use of RSF closely	Operationalise the RSF and train local team to manage the facility Establish and ensure monitoring of RSF on a regular basis	The team is trained on the management of the RSF Quarterly performance reports are available to the PMU and SC on the use of RSF There is increased credit off-take in the PFIs

Section 6: Project Monitoring and Evaluation

An important component of the project is the monitoring and evaluation framework which will be used to measure the progress made by the project and the impact it makes through the project duration.

At the project start, the Project Benefit Monitoring and Evaluation Specialist will design in close cooperation with other consultants, a comprehensive M&E program that is in line with the ADB's PPMS framework. Information obtained during the pre-inception and inception phase, and through meetings and interviews held with the PMU, BPNG and PFIs will be necessary to understand and verify the benchmarks and performance indicators and outcomes defined.

The Project M&E approach consists of the following four distinct components:

1. **Component 1: Baseline Data**, produced from the project pre-inception and early inception phases, to be qualified and updated during the later stages of the inception phase, using the following approaches:

   I. Desk-Research and review of previous studies, policy/analysis papers and other relevant publications;

   II. Consultation with key stakeholders in Port Moresby, and to selected provinces, representing the following:
   - Sectoral level e.g. BPNG, ADB, Donors, etc.
   - Industry level e.g. Banking/Financial Institutions, Business Networks, NGOs, etc.
   - End-User level e.g. SMEs/Business Networks, NGOs, Community Networks, Regional/Community representatives etc.

   Note: Consultation will be based on a structured questionnaire (to be designed) and consultations will be conducted by the project team on a one-to-one or focus group basis, depending on seniority and logistics of the respondent.

   III. Survey of target beneficiaries, with an emphasis on regional/rural communities and SMEs, identifying challenges, literacy, needs and expectations. This survey exercise will be conducted by an external PNG-based survey firm, under the supervision and guidance of the project (using a structured survey questionnaire (to be designed) and applying sampling techniques), within which a pilot stage is envisaged to test validity and ensure no unforeseen challenges.

2. **Component 2: M&E System Design**, incorporating the baseline data and establishing the main components of the M&E system to assure progress monitoring and performance monitoring across the three levels and within the project (in line with the ADB PPMS framework), defining indicators/targets for all project outputs/outcomes/impacts;

3. **Component 3: M&E Implementation**, by measuring performance/progress against targets on a project cycle basis, including monthly reporting approaches/formats, highlighting deviations and enabling corrective remedial actions to be undertaken on a timely basis;

4. **Component 4: M&E Review and Periodic Assessments**, incorporating episodic reviews, incorporating updated information/surveys etc. and scheduling formal annual, mid-term and end-of-term reviews to assure project quality, progress and outputs/outcomes, incorporated into reporting formats;

Component 1: Baseline Data

In this regard, a baseline survey needs to be conducted to be able to progress M&E. The baseline exercise (comprising a mix of desk-research, consultation and survey) will capture disaggregated baseline data for output and outcome indicators from sectoral, institutional and end-user levels, including numbers on current levels of financial competency and inclusion as well as on institutions. Overall, the Microfinance Institutional Development Specialist will establish and oversee the collection, collation and publication of financial and social performance measurements from PFI. Furthermore, the Microfinance Institutional Development Specialist will advise on, and assist with, the details and implementation of baseline and market studies. The six defined outputs as illustrated in the figure 6.1 will be followed at all times. Additionally, the M&E Specialist will work with the Gender and Community Development Specialist to develop a database with appropriate gender-based monitoring indicators to highlight women's participation, access to financial services, livelihood improvement and social development. In coordination with the Microfinance Training and Curriculum Development Specialist, he will also develop indicators and measurements for effective on-going monitoring and evaluation of the training programs.

The Project Benefit Monitoring and Evaluation Specialist will define indicators and targets for all desired project outputs, outcomes and impacts for annual and/or episodic points in the project cycle in order to measure the project efficiency and effectiveness. This will be based on:

- Results of the desk research undertaken collectively by the M&E team with inputs from the Project KRA specialists
- Qualitative consultations
- Qualitative / Quantitative surveys

As the MEP is addressing the micro, meso and macro level of the micro-finance sector in PNG, a set of reports facilitating monthly, bi-annual and annual progress reporting will be established to assess the outcome relevant to the defined beneficiary as well as annual, mid-term and final benefit monitoring reports. In case deviations will be detected, the project team will recognise it so within a timely manner and will be able to take actions and decisions. The key indicators as defined in the inception phase, will be monitored and reported periodically in relevant project reports.

Since the baseline survey exercise will require lot of effort, using quantitative and qualitative survey tools, the project will engage a local survey firm to conduct the quantitative survey. This will be in line with the procurement process set out in this project (refer to Annexure 1: Project Workplan for procurement) closely coordinated with the PMU and will be financed by the imprest accounts and Government counterpart funds. The baseline survey process will be piloted to test validity and ensure no unforeseen challenges, before being rolled-out more comprehensively to the elected regions (at urban/peri-urban/rural levels). The outcome of the baseline survey is crucial for the overall project progress. It is expected that the first interim results of the qualitative survey will be ready by May 2012.

Figure 6.1: Framework for Baseline Data

Key Objectives	Strategy	Activities Outcomes
To provide financial literacy and business development services to the low income population	Train on generic BDS skills and FE knowledge in order of priority as follows in : - Current operational area of PFIs - Potential areas of expansion of	Procure, modify and design material for financial education trainings. The procured material will also be modified and adapted to the local context. The modified material will be delivered on a pilot basis through a structured ToT. After the pilot, the financial education material will be rolled out

Figure 6.1: Framework for Baseline Data

Key Objectives	Strategy	Activities Outcomes
in rural areas of PNG	the PFIs - Operational areas of emerging MFIs Train people from the same value chain by providing BDS. Support will be extended for 2-3 value chains that have high potential in terms of livelihood generation and offer producers an opportunity to move up the chain and increase income. Provide financial education and BDS training to all members of communities who show interest, regardless of membership to any financial institution. Not use these forums for marketing of PFIs own products and services. However, where alternative delivery channels are not available, the PFIs network and outreach may be utilised especially while serving remote rural communities. Training in most instances will be delivered by the project staff and other selected partner organisations. Again an exception may have to be made for remote rural communities.	through a mix of partner PFIs and other NGOs / support institutions. Value chains with high potential for growth and capable of providing livelihood opportunities to the low income population will be mapped. Based of the final narrowing down to 2-3 focus value chains, relevant training material will be developed for the dominant market players. While the project staff will be able to develop material related to business aspects, external agencies will be hired in case support is needed in technical areas of the value chain. Market the events and ensure participation and cost sharing Conduct series of trainings in local communities through partner organisations. Support PFIs to develop financial products suited to clients. Modified and adapted training material for financial education and BDS. Network of partners trained in delivery of financial education, supporting the delivery of trainings to clients / prospective clients. Report on value chain assessment and identification of 2-3 high potential value chains Material for training to clients in BDS and identification of organisations which will deliver the training to players. Financial products developed to support the clients Local communities trained in FE and BDS Local communities will have better managed financial lives Institutional assessment format for partner selection will be available

Figure 6.1: Framework for Baseline Data		
Key Objectives	**Strategy**	**Activities** **Outcomes**
		BDS intervention will enable higher demand for credit and at the same time ensures that producers in the value chain benefit by moving up the chain.
To design training modules on FE and BDS, from which the sector can benefit	Training modules developed for BDS and FE will be available to the sector. Trainings will be delivered by organisations which have undergone the ToT.	Training material prepared Partner organisation selected through a formal process of selection Selected staff undergo TOT by the project staff Complete training modules will be available for use by trained partners ToT modules will also be available Project staff and staff of partner organisations will have the knowledge and skill to implement these trainings
To monitor training quality and its impact	The monitoring framework of the project will help assess the quality of the training material, training design, quality of delivery etc. so that the feedback can be used to improve the training material quality as also delivery The monitoring framework will also help measure the impact of the trainings on the financial lives of the participants	Prepare monitoring and evaluation framework for output 2 Prepare formats for monitoring trainings and the impact of trainings as also a system to record and analyse the data Maintain database of all reports generated, analyse them and generate periodic reports on quality of trainings / delivery, measures taken to improve outreach / delivery and improve training material Framework for evaluation of trainings and their longer term impact Updated database of trainings is maintained Consolidated project reports on trainings and their impact

It is foreseen that the Project Benefit Monitoring and Evaluation Specialist will support the data set-up of the survey, while he is on-site in March 2012 and will return to PNG to work subsequently on the monitoring and performance indicators by October 2012. In between the two visits, he will provide off-site support to the Project Monitoring Specialist and will work towards establishing the M&E system.

Components 2-4: Project M&E

On completion of the baseline survey, the M&E team will also develop the detailed M&E implementation framework of the project. The highlights of the M&E framework will be as follows:

- Follow ADB's PPMS framework
- Measure both qualitative and quantitative progress parameters of the project
- Collect gender dis-aggregated data
- Aligned to measure the progress across the six outputs
- Focus on project efficiency (planned outputs against allocated inputs) and effectiveness (achievement of project outcomes and impact as a consequence of implementing planned interventions)
- Record if the project is delivering expected benefits to the intended beneficiaries
- Record deviations in a manner that help identify key issues early, so that adequate measures can be taken
- Ensure that the high risk items, as defined by ADB's project document, are given adequate attention
- Define the schedule for submission of each report to stakeholders and the process to accomplish the same

Based on the outputs of phase one of the project, it is absolutely essential that the key evaluation milestones, such as the mid-term review are well planned and conducted in time. This will give adequate time for the project to make corrections if needed and save valuable resources of the project.

Figure 6.2 : Approach to Project Monitoring and Framework components

Key Objectives	Strategy	Activities	Outcomes
To conduct a national level baseline study for the project	Conduct national level baseline study using both primary and secondary and quantitative and qualitative research techniques.	Develop baseline survey framework, with input from project team Select agency for quantitative data collection Train relevant members of the team on data collection and data entry Get additional members into the team, if needed, to ensure that the baseline is completed on time Collect qualitative and quantitative data Analyse data and collate	Baseline survey report with qualitative and quantitative data
To develop a monitoring and evaluation framework for the project	Develop M&E framework based on findings of the baseline survey (adopting ADB PPMS framework)	Develop the M&E framework	An M&E framework defining the method, schedule and responsibility chart of data collection Tools for data analysis
To ensure accurate and timely data flow to monitor the project progress	Define schedules and responsibilities of data collection and collation. Develop reporting formats	Collect data as defined in the framework Enter data in the relevant tools/formats Analyse data and come up with qualitative assessments	Accurate monitoring reports generated on time and submitted to stakeholders

Progress Made and the Way Forward

Overall, the forward as foreseen by the project team is as follows:

1. Review and pre-define project indicators and monitoring
2. Preparation of Benchmark Survey
   - Desk Research – Impact (household income and expenditure survey (HIES) from 2010 and earlier, BPNG reports, MFI reports, others)
   - Desk Research – Outcome (Microfinance Industry benchmarking reports, BPNG reports, PFI reports and annual statements)
   - Desk Research – Outputs (BPNG reports, PFI reports and annual statements, AMFI report, Microfinance Industry benchmarking reports, RSF Reports)
   - Define Target Group
   - Define region(s) for survey (Geographic residence: urban, peri-urban, rural, remote)
   - Data design needs including: sex-disaggregated data
   - Data design/ Disaggregated baseline data for output and outcome indicators and define indicators and targets for all project outputs, outcomes, and impacts for annual and/or episodic points in the project cycle
   - Develop quantitative and qualitative survey:
3. Recruit a survey firm (parallel process to 2)
4. Benchmark Survey
   - Testing/piloting
   - Roll-out
   - Collecting Data
   - Analysis of Data
   - Qualitative consultations
   - Report Writing
5. Establish and finalise project indicators and monitoring system
6. Improve data management (kick off with Project Monitoring Specialist and Supervision and regulation expert team and hand-over to local team)

The Project Benefit Monitoring and Evaluation Specialist will commence inputs from the end of February, with initial work offsite, though with more emphasis on onsite investigation and consultations which would involve:

- Initiating the outline approach for the baseline, in conjunction with the project team inputs
- Designing the tools of data collection in conjunction with the project team and the local Survey Firm
- Developing formats for capturing the data collected
- Drafting the training module for data entry

The national consultant will start onsite work from 1st of March, 2012 to:

- Make local arrangements as desired by the Project Benefit Monitoring and Evaluation Specialist
- Coordinate with concerned stakeholder and finalise the schedule for field activities
- Complete contracting the local survey company (with help from the Procurement Specialist)

The M&E team will start onsite work by the second week of March, initially by training the team of data collection and data entry and then with the qualitative research, followed by the quantitative research. Members of the administrative team and other national consultants will help enter the data collected, based on the training received.

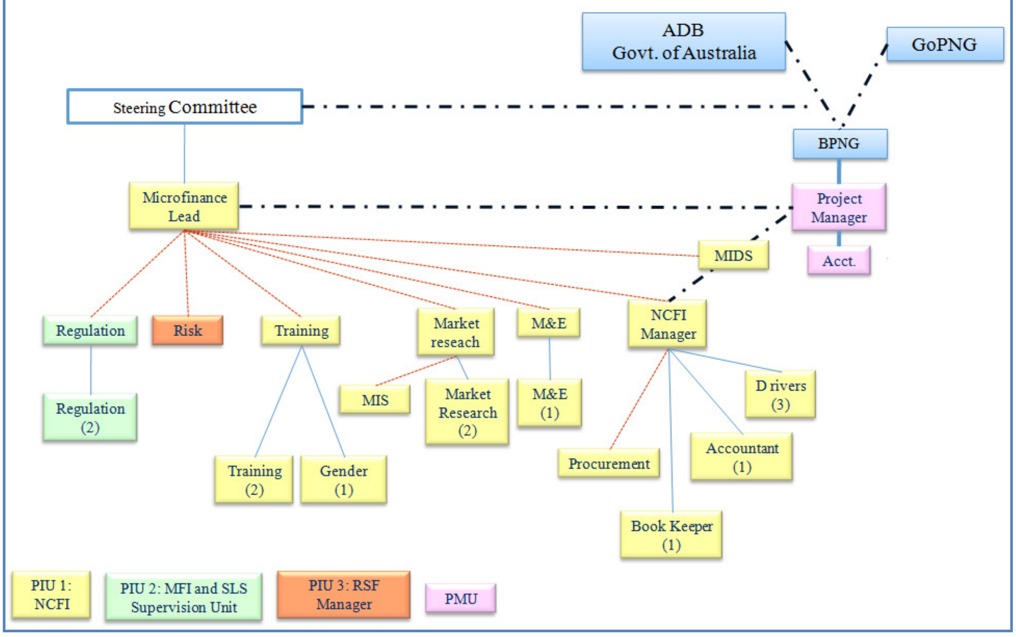
On completion of the baseline survey, the team will work on the baseline report and finalise the M&E framework of the project.

Section 7: Project Approach and Management

Human Resource Management and Development

For effective functioning of the project, reporting structures (figure 7.1) and performance appraisal systems will be put in place. The project team will be supported by administrative staff who are being recruited by the PMU.

Figure 5.1: Reporting Structure



MEP is a long term project intervention working with a large complement of full time consultants. The performance of each consultant will have to be monitored periodically. Work has already been initiated for designing the performance appraisal formats. The formats would be finalised by the end of March, 2012, once the full team is in place and feedback has been collected from them. The core features of the feedback and appraisal system are:

- The formal appraisal will be done six monthly, but feedback would be collected on a regular basis and tracked, so that there is no delay in making necessary amendments as demanded by the stakeholders
- Feedback would be collected from both internal and external stakeholders, across the different levels
- Regular performance appraisals will be conducted against set targets - both qualitative and quantitative
- Performance appraisals will be for both technical and administrative members of the team
- The feedback collected will be for the project as also for the team members
- Every attempt will be made to make the process simple and objective

Though some of the international consultants come in for short periods, they are expected to play the role of core team member in the project as the impact of their work would be long term. It is extremely important that they work closely with the local consultants, mentor them and help them gain knowledge and skills so that they can effectively play their role in the project even after the international consultants have withdrawn.

This is a comprehensive project and all the outputs are closely related so that they complement each other. Thus work of each of the consultants is not in isolation but should be designed to build up on each other's efforts. The consultants, at times, may be required to work outside the prescribed TOR in the best interest of the project as maybe decided by the Microfinance and Lead Specialist.

Based on the finalisation of this inception report, the TORs of some of the team members would require to be updated. The TORs would again be revisited at the end of six months (August, 2012) to incorporate changes as the project progresses. TORs of consultants may evolve during the course of the project.

Recruitment of Team Members

The final process of contracting the national and international consultants was initiated in January 2012 even though efforts had been initiated in this direction right at the beginning. Though discussions had been initiated earlier in December, 2011 in Port Moresby and meetings had been held with all the national consultants individually, contracting took much longer than anticipated. Concerns were raised by the national consultants largely on the salaries offered because it was felt that the market rates had changed significantly since the proposal was prepared, almost a year ago. While every effort is being made to hire the team originally proposed, there are likely to be changes in the list.

- Contracts have been signed with:
    - Kerry Main Pagau (Monitoring Specialist)
    - Francis Bella (Sociologist and Market Research Specialists)
    - Gure Huk (Training Specialist)
    - Peter Muriki (Procurement Specialist)
    - Nona Susanti Diya (Sociologist and Market Research Specialists)
- Keith Akane (MFI and SLS Supervisory Support Specialist) and Priscilla Akapi (Training Specialist) had taken up other assignments in between the submission of proposal and initiation of the inception in November.
- Bernadette Haro (Gender and Community Development Specialist) and Ivan Gutai (MFI and SLS Supervisory Support Specialists) have rejected the offer on financial grounds. Their demands have been much higher than what was presented by them at the time to proposal development. The revised rates they claim are because the remunerations in their present engagements have gone up significantly in line with market trends.

MicroSave is presently in touch with alternative potential consultants to fill in all the national consultant positions. CVs of the consultants shortlisted after due process of interviews, will be shared with the EA for approval. To overcome this gap of resources, *MicroSave* has assigned an international Senior Analyst in order to initiate activities in PNG.

It is to be borne in mind that as the project is long term, there are possibilities that some of the consultants may leave or may required to be replaced at later stages, which will be decided based on performance appraisals, emergent needs of the project and other considerations such as budgets. *MicroSave* will maintain a database of alternative CVs both national and international, from within *MicroSave* and beyond so that they are replaced in time in the best interest of the project.

One of the challenges envisaged is the availability of the international consultants as and when required by the project. Though work plans have been prepared for 2012, they may be affected by the forthcoming elections and will also depend on the availability of the local organisations/agencies which would have to be contracted to undertake a lot of the activities. The international consultants have raised concern about the per diem rates and arrangement for accommodation in provinces, as cost of meals and room tariffs are significantly high, both in and out of Port Moresby.

Based on the experiences and discussions with different stakeholders so far, some of the activities are envisaged to take longer than initially was suggested in the proposal. So the inputs from consultants have been revisited and some adjustments in the proportion and scheduling of the onsite and offsite time spent by consultants have been made.

The inputs from the consultants have been staggered to spread over a longer period of time, as the activities are expected to continue beyond the previously presented timelines. To ensure that work continues to progress even during elections, office and offsite activities have been planned during those months such as, secondary research, finalisation of training manuals etc.

It is envisaged that the total inputs from the consultants might have to be reduced, especially since a combined TA and training methodology is being suggested. However, care will be taken so as not to affect the project adversely in any way. Also as the NCFI would be established upfront, there would be adequate time to ensure that it takes full responsibility as envisaged for the NCFI.

Also, the national level positions of Gender and Community Development Specialist and Training Specialist may be merged. It is felt that this will ensure greater synergy between the outputs especially in terms of outputs 1 and 2. This will also create opportunities where PFI level training and community level training can support each other.

In case of a situation where national consultants with the knowledge and experience required contributing to a strategic level project as MEP are not available for long term, especially for critical positions such as the MFI and SLS Supervisory Support Specialists, it is recommended that the alternative options such as merging the two positions to replace it with another international consultant, or having one national and one part time international consultant may be explored.

To ensure that the project implementation is not affected and to speed up the work on the project it is recommended that provision be made to bring in one *MicroSave* research consultants to support the baseline survey which would start from March 2012. It is also suggested that one consultant is brought in to work with the national consultants and business mentors. This will make up for some of the lost time. This will also ensure that the training and on-site mentoring approach, which has been tried successfully in other projects, is initiated in PNG. However international travel budgets and some consultancy fees may go up as a result of these additional international consultants.

BPNG has recruited the Project Manager, Jacob Gop, in March 2011, who has played a key role in bringing together the project and providing the required support with support from ADB. BPNG has also recruited Ellen Hau Pati as the Microfinance Institutional Development Specialist from December, 2011, who has been working closely with the Project Manager to complete the work of setting up the project office, recruitments etc.

Janis Sabetta was hired in November 2011 to take the work of the review of the training material etc. forward before *MicroSave* initiates its work. Though she was able to be in Port Moresby for a month (November-December, 2011) during the inception phase, she had to leave PNG as her work permit could not be processed from the country. She returned to PNG on 22nd February, 2012 to resume her role in the country. Her contract was amended to allow at-home work days and she was able to complete reviews and suggest adaptations of the FE materials during this time.

Other international and national consultants recruited are expected to clear their work permit and visa requirements and join the project onsite starting March, 2012.

Considerable efforts are on to expedite the issuance of the visa for Madhurantika Moulick (Microfinance and Lead Specialist) so that she can be onsite before the other technical team members come in and to complete other administrative responsibilities, such as opening the bank account etc. Her work permit has been issued. Given the delays in the processing of work permit, *MicroSave* has sent Jagdeep Dahiya, Senior Analyst, to fill in the gap and start off the project activities. He will continue to work in the project till the Microfinance and Lead Specialist joins the project and also beyond (subject to extension of visa) to help cover lost ground.

Some of the changes mentioned above have been incorporated in the team schedule, while others have not been shown, as they are still under discussions. (Annexure 4: Team Schedule).

The PMU has recruited an accountant for handling the finance and budgets of the project at BPNG. In addition recruitments are on for the other administrative posts of the project. The position of the NCFI Manager has been advertised and considering the critical role that the person has to play, both on technical and administrative side, the Microfinance and Lead Specialist will also participate in the final selection of the NCFI Manager.

Project Reporting

Figure 5.1 presents the reporting and communication structure of the project. For the regular project progress report a format will be agreed to by the stakeholders and the same would be used. The report generation process would be as follows:

1. The technical team members will contribute to their specific sections of the report and submit it to the Microfinance Institutional Development Specialist.
2. She will review and pull together by the draft report and update the work plan for the next quarter, in discussion with the Project Manager, PMU.
3. The Microfinance and Lead Specialist will then review the report and work plan and give a final approval on the same.
4. The Microfinance Institutional Development Specialist will work in close coordination with the Project Manager, PMU and draft the budget for the next quarter.
5. The Microfinance and Lead Specialist will review the budget and give approval for the same for submission to the Steering Committee.

The report will use the project monitoring and evaluation indicators to present the progress made and highlight deviations if any and reasons for the same. It would report on the programme aspect on each of the six outputs, on the project management and on the financial usage and projection for the past and upcoming quarter respectively. It will the responsibility of the Microfinance Institutional Development Specialist to ensure that reporting is initiated on time in discussion with PMU, so as to ensure timely release of payments. To set up these systems and the required bank accounts, it has been planned that the Microfinance and Lead Specialist will work with the Microfinance Institutional Development Specialist and Project Manager, PMU closely in February, 2012 before the other consultants join the project to define the details of the relation between the PMU and the project team. However that is subject to issuance of work permit and visa for the Microfinance and Lead Specialist.

We propose to extend the inception period of the project till the end of the election. The project timelines can be subsequently revisited against the deliverables and the work plan finalised.

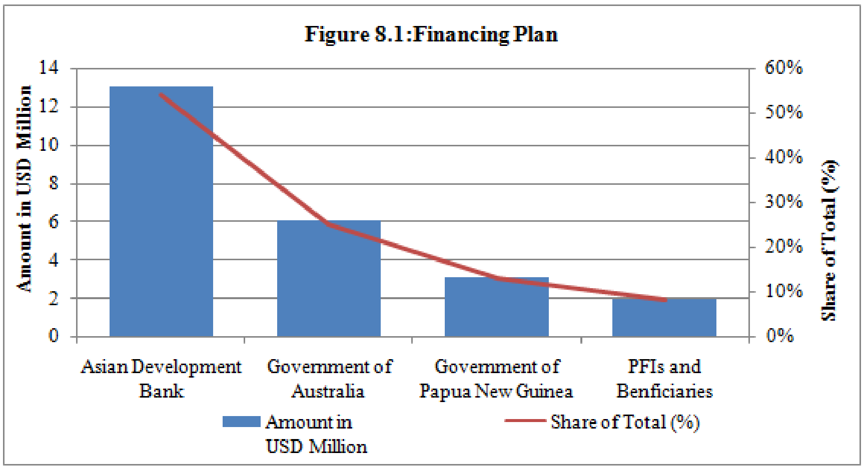
Knowledge Management

One of the key challenges at the inception phase has been identifying and location materials / outputs from the earlier PNG Microfinance and Employment Project. Trying to locate the material took up significant time of the two international consultants during the inception phase as there was no clarity on with whom or where the material was housed. What has been retrieved after much follow up is either incomplete, or a draft version, or in paper copy only and some material in local language. The key reason of advance recruitment of the Microfinance Training and Curriculum Development Specialist was to complete review of material from the earlier project. The review of material was largely delayed and in the end it was found that what was reviewed was in need of total re-work.

This project will generate a lot of technical material - training modules, reports, collect information on the microfinance sector of the country. All these will be managed well so that it is available to all team members and other stakeholders as and when needed. BPNG as the implementing agency will be the final custodian of all the information. However, the first level of collating all the updated information, maintaining back up with be the responsibility of the NCFI Manager. Given the extensive experience of the Microfinance and Lead Specialist in Knowledge Management at *MicroSave,* she will work closely with the NCFI Manager to set up the systems necessary to ensure that the project documents are well managed.

Section 8: Finance and Budget

The total project cost is expected to be USD 24.06 million. The breakup of the contribution is given in figure 8.1. The MEP was scheduled to be implemented from 1 January 2011 to 31 December 2017. However the project has had a delayed start as recruitment of consulting services was completed in October 2011 and the project inception phase started in mid November 2011.



It is envisaged that there may be a shortfall in the budgets allocated for some of the line items due to the following reasons. However, a review of funds and utilisation after twelve to eighteen months of start of the project will give a better idea of resources and their utilisation. At that stage, it may be recommended to move budgets across line items and rework budgets as per utilisation, projections and needs of the project.

High quantum of services to be delivered in rural areas: The partners for the project selected will be both in and outside Port Moresby, with greater focus on improving microfinance services in the rural areas. PFIs with their Head Office in Port Moresby will also have operations outside of the National Capital District. Onsite and customised TA to PFIs will require the consultants to travel frequently outside Port Moresby and spend time in the operational areas of the PFIs. This has been found to be the most effective methodology for TA and one that enables transfer of skills to the staff of PFIs. This approach may however increase the budget required for travel, per diems and hotels.

Work plans will be made much in advance, such that tickets can be purchased at lower prices. Attempt will also be to plan activities such that when team members travel, they complete multiple tasks during each visit and are not required to make frequent visits to an area. However, despite these efforts, it is anticipated that local travel, hotel and per diem budgets may have to be enhanced.

However, since training and TA is envisaged to be delivered together, it may be possible to tap into some of the travel budgets earmarked for training and off-set the lower budgeting under TA. Once again, the emphasis is on achieving the deliverables and viewing this project as one whole and not as disaggregated components.

Training costs: Feedback from the first phase suggests the need for more of onsite TA and customised inputs, rather than generic trainings. Some of the training budget would be better utilised as customised training followed by onsite support for PFIs which leads to building capacities of staff members of partner institutions. Providing TA is the responsibility of all the team members and not only the training team which has to work in tandem with the other teams for the achievement of project objectives. Wider involvement of the other technical team members is also likely to increase project implementation cost. Hence the training and TA budgets should be used together as both the components are intended to achieve the same results and the training and on-site TA strategy will be one of the key pillars of the project.

Operational expenses: After some moderation in inflation in 2009 and 2010, inflation rates in PNG have seen an increase in 2011 leading to an increase in prices of commodities and services. Operational expense for the PMU and PIUs has been significantly under budgeted for items like equipments, office rentals, furniture, installation and maintenance of internet services, car maintenance/running costs, insurance, stationary, travel, accomodation etc. These would need to be reviewed as the project progresses and some corrections may have to be made. While optimal use of resources is the responsibility of each team member, the project should also not be hampered by lack of resources.

There may also be deviations in the projected estimates, depending on how the activities of the project take shape. The activities may get affected by project operational issues such as signing of contracts with implementing agencies or external circumstances such as the national elections scheduled in June 2012 and its effects. It is foreseen that the amount budgeted as contingency may have to be utilised before the end of the project period.

Section 9: Annexure
Annexure 2: Microfinance Sector Scan

Savings and Loans Societies (SLS)[19] : 22 financial institutions are licensed under the Savings & Loan Societies Act 1995 respectively to accept or collect deposits from the public.

1. Air Niugini Savings & Loan Society Ltd
2. Alekano Savings & Loan Society Ltd
3. CBO Savings & Loan Society Ltd
4. East New Britain Savings & Loan Society Ltd
5. Federation of Savings & Loan Societies Ltd
6. Financial & Private Sector Savings & Loan Society Ltd
7. Lae city council Employees Savings & Loan Society Ltd.
8. Manus Savings & Loan Society Ltd
9. Mining and Petroleum Savings and Loans Society Ltd (Formerly OK Tedi Mining SLS)
10. Nambawan Savings and Loan Societies Ltd
11. Nasfund Contributors Savings & Loan Society Ltd
12. National Farmers Savings & Loan Society Ltd
13. Niu Ailan Savings & Loan Society Ltd
14. PNG Ports Corporation Savings & Loan Society Ltd (formerly PNG Harbours Board Staff SLS)
15. PNG Power Staff Savings & Loan Society Ltd
16. PNG University of Technology Savings & Loan Society Ltd
17. Police & State Services Savings & Loan Society Ltd
18. PTP Savings & Loan Society Ltd
19. Rural Development Bank Savings & Loan Society Ltd
20. Sepik Savings & Loan Society Ltd
21. Teachers Savings & Loan Society Ltd
22. Water Board Staff Savings & Loan Society Ltd

Licensed Financial Institutions: 10 institutions have been licensed by BPNG to accept or collect deposits from the public.

1. Credit Corporation Finance Ltd
2. Finance Corporation Ltd
3. First Investment Finance Ltd
4. Heduru Moni Ltd
5. Kina Finance Ltd
6. Kokopo Microfinance Limited
7. Nationwide Microbank Ltd
8. PNG Home Finance Ltd
9. PNG Microfinance Ltd
10. Resources and Investment Finance Ltd

[19] Data source: Bank of Papua New Guinea

Annexure 3: List of People Met

1. Andrea Irvin, Department of Education
2. Anthony Dela Cruz, Executive Manager- Corporate Affairs, National Development Bank Limited
3. Anthony Wabiyaui, Assistant Manager Training, IBBM Enterprise Centre
4. Carol Flore-Smereczniak, UNDP
5. Gajanan Barve, General Manager, Moni Plus
6. George Mathew, CEO, PNG Microfinance Limited
7. Jane Nash, Head Financial Inclusion and Capability, ANZ Bank
8. Joep Roest, UNCDF Financial Inclusion
9. Koupa Kila, Business Development Manager, Moni Plus
10. Major Rex Johnson, Secretary for Programme, The Salvation Army
11. Manoa Kamikamica, ANZ Head Corporate Responsibility
12. Owen Makindi, ANZ Learning and Development Advisor
13. Paulus Laveil, Federation of Savings and Loan
14. Petras Ralda.FIS Coordinator, Small Business Development Corporation
15. Pst. Michael Field, Foundation Manager, Ginigoada Bisnis Development Foundation Inc.
16. Ravindra Goud, COO, PNG Microfinance Limited
17. Ray Clark, Principal Consultant, IBBM Enterprise Centre
18. Robert Favave, Administration Officer, Ginigoada Bisnis Development Foundation Inc.
19. Salvation Army
20. Sweta Sud, IBBM Managing Director
21. Tony Westaway, MD, Nationwide Microbank

From The Bank of Papua New Guinea

1. George Awap, Manager, Banking Supervision Department
2. Jacob Gop, Project Management Unit Manager
3. Nickson Kunjil, Manager Microfinance Unit

From the Asian Development Bank

1. Erik Aelbers, Private Sector Development Consultant
2. Kymberley Kepore, Private Sector Development Coordinator
3. Marie Miel de Villa, Associate Project Analyst
4. Sabine Spohn, Private Sector Development Specialist

Consultants of the Project, who have Contributed to the Inception Report

1. Ellen Hau Pati, Microfinance Institutional Development Specialist
2. Flor Healy, Project Benefit Monitoring and Evaluation Specialist
3. Francis Bella, Sociologist and Market Research Specialist
4. Gure Huk, Training Specialist
5. Janis Sabetta, Microfinance Training and Curriculum Development Specialist
6. Peter Muruki, Procurement Specialist
7. Saliya J. Ranasinghe, MFI Product Innovations and Market Development Specialist

Inputs from *MicroSave*

1. Anup Singh, Specialist
2. Jagdeep Dahiya, Senior Analyst (Interim Project Lead for MEP)
3. Manoj Sharma, Director