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## ENHANCING FINANCIAL INCLUSION OF INFORMAL ECONOMY THROUGH MOBILE MONEY IN PAPUA NEW GUINEA

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### Key Points

- Financial inclusion in Papua New Guinea (PNG) still remains a challenge for the informal economy as most people are financially excluded and are not participating in a monetized economy.
- Mobile money technology can be a key enabler in addressing barriers to financial inclusion of the informal economy.
- Having a dedicated mobile money technology platform in PNG, that can be established and used at the village level using mobile phones can benefit most people.
- Partnership initiatives are vital to digitise and drive financial inclusion services for both rural and urban dwellers.

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## ENHANCING FINANCIAL INCLUSION OF INFORMAL ECONOMY THROUGH MOBILE MONEY IN PAPUA NEW GUINEA

By Joe Barak

Financial inclusion is a key enabler for meaningful participation in the modern economy. However, about 75 percent of Papua New Guinea's (PNG) population remain unbanked (PNG Department of Treasury, 2019). Financial inclusion remains a challenge across informal economy and informal vendors who open bank accounts do not use them (Kopel, 2020). This is a major development issue as most of our people cannot meaningfully contribute to and benefit from the monetary economy. Further, the Bank of Papua New Guinea (BPNG) acknowledges that financial exclusion is an impediment to monetization of rural economies, and it constrains the growth of micro and small enterprises (Bank of Papua New Guinea, 2022).

Ownership of a bank account at any financial institution is the first step to financial inclusion. Kunt et al. (2021) defined account ownership as ownership of an individual or jointly-owned account at a regulated financial institution such as a bank, credit union, microfinance institution, post office, or mobile money service provider. Access to financial services in PNG is limited by numerous major barriers. PNG's first and second financial inclusion strategies have set roadmaps which set the foundation for government to address the issue of financial exclusion. This paper is focused on the major challenges to financial inclusion and outlines the strategies of expanding financial inclusion.

### Factors affecting financial inclusion of the informal economy

There are many barriers to financial inclusion. Some of these barriers were highlighted by Highet et al. (2019) and Kopel (2020) including the following:

- **Poor infrastructure and geography.** Commercial banks in PNG have not expanded their branch networks down to district level. This is partly due to limited business potential and high costs of operation in most districts. Sparsely populated areas of high mountains and numerous islands contribute to high transport costs and deteriorating infrastructure making it difficult to sustain their regular branch

operations. Therefore, providing financial inclusion to remote or rural villages has been costly for financial institutions.

- **Education and literacy.** Education and literacy are also fundamental in financial inclusion. Being able to read and write excludes informal entrepreneurs from accessing financial services at the outset, because they lack the ability and confidence to approach banks to fill out forms to open bank accounts and conduct transactions.
- **Informal entrepreneurs not having enough money.** The money people make from informal businesses is used to meet household needs including social obligations.
- **Banking is a lengthy and time-consuming process.** Banking takes a lot of time and people find it inconvenient to spend money and hours to do small transaction. Sometimes it costs more to make the trip to the bank. It is easier and cheaper to hide money at home than to save it in the bank.
- **Not formally working so no need to have a bank account.** Many people have this perception that owning a bank account is only for formally employed people. This is partly due to lack of education and information to instill in people the idea that access to financial services is for everyone.

The remainder of this article highlights the features and benefits of mobile money technology and makes a case for adopting it as a tool to enhance financial inclusion. Given the many challenges experienced by informal entrepreneurs, providing banking services with improved access and usage will need more collaborative partnerships and innovative approaches to ease the barriers.

### Financial services provision by financial institutions

Like most countries in the world, the financial sector landscape is changing in PNG due to the spread of information and communication technologies, most importantly mobile

phones, as well as increased digitisation of the processes (PNG, CEFI 2016). Digital transformation presents opportunities for financial inclusion, as shown by the growth in the application of digital financial services as well as “access” and “usage” points in recent years. The first quarter 2022 data collated by Center for Excellence in Financial Inclusion (CEFI) depicts that the total number of mobile financial service (FS) access points was 14,304, and mobile FS accounts was 1,099,747 (see Table 1). In comparison to the last quarter of 2021 data (see Table 2), mobile FS access point was 14,297 and mobile FS account was 1,058,863. There was an increase in seven mobile FS access points and a significant increase of 40,884 in mobile FS account held in financial institutions. Generally, when “access points” increase, “usage” of access points also increases (See Tables 1 and 2). Increasing physical access points of mobile FS drives financial inclusion.

**Table 1. 2021 Access & Usage Point**

2022 ACCESS & USAGE POINTS		
Dimension	Indicator	Q1,2022
Access	No. of Access Points/Cash-In & Cash-Out Points	15,668
	No. of Branches	220
	No. of ATMs	474
	No. of EFTPOS	13,315
	No. of Agents	508
	No. of Mobile FS Access Points	14,304
Usage	No. of Mobile FS Accounts	1,099,747
	No. of Women with Mobile FS Accounts	356,824
	No. of Deposit Accounts	3,529,243
	No. of Women Deposit Accounts	1,180,761
	No. of Credit Accounts	326,312
	No. of Women with Credit Accounts	114,221

*Source: CEFI Financial Inclusion Data 2022 (<https://www.thecefi.org/financial-inclusion-data-q1-2022/>)*

**Table 2: 2022 Access and Usage Points**

2021 ACCESS & USAGE POINTS					
Dimension	Indicator	Q1,2021	Q2,2021	Q3,2021	Q4,2021
Access	Number of Access Points/Cash-in & Cash-out Points	14,719	14,923	15,087	15,031
	Number of Branches	212	215	220	220
	Number of ATMs	474	470	471	469
	Number of EFTPOS	13,602	13,820	13,945	13,325
	Number of Agents	431	427	451	516
	Number of Mobile FS Access Points	14,507	14,717	14,867	14,297
Usage	Number of Mobile FS Accounts	939,442	1,099,641	1,131,162	1,058,863
	Number of Women with Mobile FS Accounts	323,085	337,936	356,603	347,812
	Number of Deposit Accounts	3,324,000	3,374,823	3,473,678	3,474,922
	Number of Women Deposit Accounts	-	-	1,025,646	1,154,314
	Number of Credit Accounts	284,764	298,802	299,176	323,687
	Number of Women with Credit Accounts	91,061	90,898	92,860	113,219

*Source: CEFI Financial Inclusion data 2021. (<https://www.thecefi.org/financial-inclusion-data-q1-2022/>)*

## Opportunities mobile money can create through financial inclusion in PNG

At a most basic level, mobile money is the provision of financial services through mobile device (Donoven, 2012). This broad definition employs a range of services, including payments, (such as peer-to-peer transfer), finance (such as insurance products), and banking (such as account balance

enquiries). Mobile money can become a general platform that can assist in transforming the entire economy if it is adopted across commerce, healthcare, agriculture, education and other sectors.

In extending financial services to informal entrepreneurs, mobile money is expected to improve productivity by increasing the efficiency and lowering the cost of transaction, improving security, generating new employment opportunities, and creating a platform through which other business can grow. Additionally, digital financial services such as mobile money account enables users to store funds in a safe and inexpensive place and transfer them quickly across long distances on demand. Therefore, financial institutions and mobile network operators have made efforts to advance with launching different types of mobile money services in PNG. Some of the products and services that have been launched and can be accessed, used and further developed are shown in Table 3 below:

**Table 3: Mobile money products in PNG**

Financial institution	Mobile product
Bank South Pacific	SMS banking/Wantok Money
Kina Bank	SMS banking
MiBank	MiCash
Women’s Micro Bank/ Mama Bank	Mama Bank Access Point (MAP)
Digicel PNG	Cell Moni Wallet

## Mobile technology as way forward to escalate financial inclusion in PNG

PNG can benefit extensively from the application of digital technology to enhance financial inclusion.

- It is vital to align the new national financial inclusion strategy with the PNG Digital Transformation Policy 2020 and related policies to ensure that all financial-inclusion related government policies are consistent.
- There is a need for collaboration and close partnerships between financial institutions, non-governmental organisations (NGOs), donor partners, mobile service providers and government to carry out educational programs aimed at informing and educating rural farmers and urban vendors to use mobile money services through peer learning. This will encourage take up and use of financial services by the informal economy and contribute to macroeconomic benefits.
- Interventions aimed at training informal vendors to adopt mobile technology could target peer education

and learning as an effective way to educate those with limited or no education.

- Village and ward level establishment of agents to provide financial services using mobile technology platforms will provide an important service and encourage people to develop a culture of saving, access and use financial services.

### Strategies to enhance financial inclusion for informal entrepreneurs

The use of mobile technology is an easy way of increasing financial inclusion as it avoids many of the challenges associated with providing conventional banking services.

As Highet et al. (2019) noted, banks and micro finance institutions in PNG are already using the network of mobile phone service providers: Digicel and Bmobile, to expand banking services to rural areas. The following strategies could be adopted to leverage existing initiatives to further expand the provision of financial services:

- **Public and private partnership.** Partnerships with micro finance institutions such as “Women’s Micro Bank Limited” which uses a tailor-made, low-cost biometrically enabled kiosk type structure called Mama Bank Access Point (MAP). Application of biometric technology makes banking secure and convenient even for illiterate customers. With the establishment of MAP at the district level, customers may no longer need to travel to provincial capitals to visit a bank branch. All banking needs, including deposits, withdrawals and loans can be offered through MAP (STREIT, 2022). Partnerships like this are already being implemented in the Sepik basin under the donor funded STREIT project.
- **Mobile money agents.** Using local networks such as mobile network agents, small traders and micro finance institutions armed with tablets can help people to open accounts and issue debit card to customers in remote communities and even in the suburbs.
- **Introduce a mobile money technology.** A dedicated mobile money technology can be established in PNG as a company that will provide this service. The entity may design mobile money products, including those that are customised for rural farmers and urban informal vendors to have access to simple and convenient banking services.

- **Donor assistance.** The role of donor partners is essential to provide financial and technical assistance to micro finance institutions, mobile network operators, and mobile money agents to introduce intervention programs to implement financial services using mobile technology. Thus, it will attract and make it easy for urban informal entrepreneurs and rural farmers to open and use bank accounts.
- **Financial literacy trainings.** Financial literacy and business skills taught to informal entrepreneurs must co-exist with mobile technology. With low literacy levels in the informal economy, mobile banking is a user-friendly technology. Some issues of safety, and complicated long processes of opening accounts can be solved through mobile banking.

### Conclusion

The lack of financial services provision in rural areas continues to be a barrier to financial inclusion in PNG. Financial inclusion for the informal economy remains as a challenge across the country. To address this, adoption and sustained growth of mobile money accounts delivered through the application of mobile technology under public and private partnership arrangements is necessary to reach those unbanked population that are operating in the informal economy.

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