



Initial Poverty and Social Analysis

October 2019

PNG: Supporting Inclusive Finance through the Development of Private Sector Banking

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
CSO	–	civil society organizations
ESMS	–	environmental and social management system
GBV	–	gender based violence
KSL	–	Kina Securities Limited
PNG	–	Papua New Guinea
SME	–	small and medium enterprise
SPS	–	Safeguard Policy Statement (2009)

NOTE

- (i) In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Papua New Guinea	Project Title:	Supporting Inclusive Finance through the Development of Private Sector Banking
Lending/Financing Modality:	Financial Intermediary	Department/ Division:	Private Sector Operations Department Private Sector Financial Institutions Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The proposed equity investment in Kina Securities Limited (KSL) will contribute to the following operational priorities of Strategy 2030: (i) addressing remaining poverty and reducing inequalities and (ii) accelerating progress in gender equality.^a Further, the project will also strengthen governance through the Asian Development Bank's (ADB) presence on KSL's board. KSL's focus on serving the local small and medium enterprise (SME) segment, which has high employment potential, and the emerging middle class will help build the conditions for inclusive growth. This inclusive finance transaction will also contribute to the achievement of the following national development plan goal of the Government of Papua New Guinea (PNG): increased participation of citizens in national development. Through public sector support since 2010, ADB has contributed to the implementation of the PNG National Financial Inclusion and Financial Literacy Strategy, 2016–2020. The transaction will further contribute through the strengthening of the financial services of KSL and the strategic transformation of its subsidiary Kina Bank. While the transaction aims to directly support inclusive growth through improved access to finance, given the largely rural nature of poverty in the country and the investees' current focus on urban areas, it can only aim to indirectly support poverty reduction in the country.

B. Poverty Targeting

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2)

The project represents a potential general intervention in contributing to poverty reduction in PNG. Kina Bank's branches are located in the capital, Port Moresby, with one branch each in the three provincial capitals of Kokopo, Lae, and Mount Hagen. According to ADB Statistics 2019, 39.9% of the country's population lives below the national poverty line.^b ADB's country partnership strategy (CPS) found that poverty incidence is concentrated in rural areas where most of the population live.^c The CPS further notes that more than 80% of people living in poverty live in rural and remote regions, while only 6% are in urban areas. The CPS's private sector assessment concluded that the country's transition from a subsistence to a market economy is severely hampered by the lack of financial services to finance micro-entrepreneurs, including women. Women suffer from significantly lower levels of financial inclusion, even in urban communities where financial services are more readily available.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The major impediments to poverty-reducing financial inclusion are the geographically remote population, lack of physical infrastructure, limited participation in the formal economy by most Papua New Guineans, and high levels of financial illiteracy. The primary direct beneficiaries of the transaction will be KSL's financial services and banking customers who can take advantage of increased competition in the finance sector, which is expected to result in better service, and broader reach to underserved customer segments, members of the growing middle class, and primarily locally owned SMEs.

2. Impact channels and expected systemic changes. The continued strengthening of Kina Bank, the fourth largest retail bank in PNG, will enhance competition. More competition in the retail banking sector is expected to contribute to reductions in the cost of banking services and expansion of products, especially lending, therefore contributing to greater access and improved financial inclusion. The project will also address some financial sector limitations caused by infrastructure constraints by introducing new digital finance technologies and leapfrogging traditional banking distribution channels.

3. Focus of (and resources allocated in) the transaction TA or due diligence. Due diligence will focus on the capacity of Kina Bank to project its services into rural PNG with digital finance and financial literacy services.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? Women suffer from significantly lower levels of financial inclusion (as measured by ownership of a bank account), even in urban communities where financial services are more readily available. World Bank research in 2015 reported that the level of financial exclusion experienced by women in PNG appeared to be much higher than that found in comparable developing countries.^d While direct explanations for the gender difference are currently not known, possible causes suggested in the World Bank research include different employment patterns such as the greater likelihood of women working in informal employment, the lower literacy levels of women, and limited familiarity with regulated financial institutions (whether shareholder or member based) by women. KSL recognizes the importance of diversity and actively promotes gender equality in employment. KSL's diversity policy requires the

board to review the company's gender composition annually and to publicly disclose findings. In 2016, KSL appointed its first female board member and increased the number of female managers to 10. As of 2018, two of the six board members were female and about 53% of all employees were women. KSL was an inaugural member of the country's Business Coalition for Women and throughout 2018 provided specialist career development training to women managers.

KSL advocates gender smart policies in the workplace, and provides its staff with generous maternity and paternity leave benefits, access to legal and counseling services, and a staff recognition program to celebrate staff who demonstrate company values and outstanding community service. Following this focus on staff wellbeing, and in addition to its corporate social responsibility program, KSL has committed to pilot a staff focused training program to address gender based violence (GBV) in the country. The magnitude of GBV incidence in PNG is considered by some to be of epidemic proportions: 41% of men in PNG admit to having raped someone and over two-thirds of women are estimated to have suffered some form of physical or sexual violence in their lifetime. Only 73% of survivors of GBV in PNG seek assistance and the vast majority of these individuals (88%) seek this assistance through informal support structures which indicates that GBV is under-reported.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No

The project has the potential to introduce gender mainstreaming actions and measures within Kina Bank and its customer base. Prior to ADB's share subscription, the project team will discuss opportunities with KSL such as setting targets to increase (i) the number of female clients, borrowers, and personnel; and (ii) the number of capacity development sessions provided on addressing GBV as a KSL and/or Kina Bank staff member or customer.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No

While such impacts are not expected, ADB will ensure during due diligence that KSL and Kina Bank have appropriate policies and procedures in place to ensure that its business activities do not cause adverse impacts on women or girls or widen inequalities.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. The primary direct beneficiaries of the transaction will be KSL's financial services and banking customers who can take advantage of increased competition in the finance sector, which is expected to result in better service, and broader reach to underserved customer segments, members of the growing middle class, and primarily locally owned SMEs.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded? The transaction offers limited opportunities in its implementation for strengthening inclusiveness and empowerment of the poor and vulnerable, except through Kina Bank's borrower credit appraisal, loan due diligence and monitoring procedures. Potential borrowers will participate through market research activity already undertaken by Kina Bank in determining the most appropriate lending products. If Kina Bank customers are required to conduct public consultation due to the nature of their business activities, Kina Bank due diligence will include measures to assess if such consultation has been carried out in accordance with applicable national laws and regulations and the ADB Safeguard Policy Statement 2009 (SPS).

3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design? Kina Bank engages civil society organizations through its corporate social responsibility program, which includes youth training and internships, fostering the development of a microfinance organization, and support for local sport and health events through fundraising. KSL abides by all Bank of Papua New Guinea prudential regulations that ensure transparency and accountability in the country's finance sector.

Information generation and sharing (L) Consultation Collaboration Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? Yes No

A participation plan is not required, however KSL subsidiaries are responsible for marketing services and ensuring customer satisfaction.

IV. SOCIAL SAFEGUARDS	
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI	
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The activities of KSL's financial services provider subsidiaries are not expected to cause involuntary resettlement impacts. KSL reported to ADB that no preexisting Kina Bank loans were for business activities that have caused category A involuntary resettlement impacts. All large corporate loan applications are assessed for compliance against national laws and regulations. ADB will during due diligence work with KSL to establish an appropriate environmental and social management system framework commensurate with risks and impacts found in its loan portfolio.	
2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None	
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI	
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The activities of KSL's financial services provider subsidiaries are not expected to cause impacts on distinct and vulnerable indigenous peoples' communities in PNG. Kina Bank has confirmed that no preexisting Kina Bank loans were for business activities having category A or B impacts on indigenous peoples as defined in the ADB SPS.	
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No All large corporate loan applications are assessed for compliance against national laws and regulations. ADB will during due diligence work with KSL to establish an appropriate environmental and social management system framework commensurate with risks and impacts found in its loan portfolio.	
4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix <input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None	
V. OTHER SOCIAL ISSUES AND RISKS	
1. What other social issues and risks should be considered in the project design? <input checked="" type="checkbox"/> Creating decent jobs and employment (L) <input checked="" type="checkbox"/> Adhering to core labor standards (L) <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____	
2. How are these additional social issues and risks going to be addressed in the project design? The transaction will have a limited impact on the local labor market. KSL follows national labor-related laws and regulations and ensures its subsidiaries' customers are operating in compliance during due diligence and loan administration.	
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT	
1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence? Due diligence will be undertaken by the project team in accordance with ADB requirements for financial intermediaries. The team will seek assurance that following ADB's investment, KSL and Kina Bank has adequate resources and capacity to undertake required due diligence commensurate with risks and impacts identified in their respective portfolios.	

^a ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

^b ADB. 2019. *ADB Basic Statistics 2019*. Manila.

^c ADB. 2015. *Country Partnership Strategy: Papua New Guinea, 2016–2020*. Manila.

^d Emily Darko, William Smith and David Walker. 2015. *Gender violence in Papua New Guinea The cost to business*. ODI.