Papua New Guinea
Small and Medium Enterprise Access to Finance Project

Providing access to finance for small and medium enterprises.

Background
The Government of Papua New Guinea aims to increase the size and economic contribution of the domestic private sector consisting mainly of small and medium enterprises (SMEs), with a focus on generating employment. Despite large external investments in Papua New Guinea’s resource sector, private sector activity in the formal economy is low. In particular, women and young people remain dependent on small-scale, informal businesses for their livelihoods. There are currently significant constraints to SME growth and investment, chief among which is the difficulty in accessing credits by SMEs, despite sufficient liquidity in the banking sector. This occurs for two main reasons. Firstly, SMEs often lack the collateral, information or guarantees needed to meet commercial banks’ requirements for lending. Secondly, banks perceive high levels of risk in lending to SMEs. Addressing these impediments should enable local SMEs to more actively engage in economic growth, job creation and poverty reduction across Papua New Guinea.

About the Project
The primary objective of the Small and Medium Enterprise Access to Finance Project for the Government of PNG is to provide access to sustainable credit for SMEs, and thereby contribute to growth in SME employment and incomes. The project will provide support to develop managerial and financial skills within SMEs, with particular attention to women entrepreneurs, as well as to enhance credit risk management capacity in commercial banks.

There are four components to the project:
1. Developing a risk sharing facility (RSF) in partnership with local financial institutions—This will partially guarantee a portfolio of new loans from commercial banks to SMEs up to US$116 million. This is expected to immediately accelerate commercial banks’ lending to emerging and established SMEs. The Government of PNG (through the IDA credit) and the International Finance Corporation (IFC) will cover 50 percent of all principal losses in the portfolio of new SME loans.
2. Technical assistance for financial institutions—Performance-based technical assistance will be provided to private banking institutions. It is expected that this will allow commercial banks to develop long-term procedures for sustainable lending to SMEs.
3. Capacity building for SMEs—This will consist of four sub-components: (a) training SMEs in management and financial skills; (b) focused mentoring and coaching for SMEs; (c) targeted training for women entrepreneurs; and (d) training for provincial government commerce division staff.
4. Capacity building for GoPNG—This will improve the government’s capacity to implement and monitor the project, and to develop an updated SME strategy and policy.

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Implementing Agency: Papua New Guinea Department of Commerce and Industry