

# Bougainville microfinance: Rebuilding rural communities after the crisis

*John Newsom, Bougainville Microfinance Scheme*

## Introduction

Long before the fighting had finished, planning began for the reconstruction of Bougainville. In 1996, the author was invited to meet the Bougainville Transitional Government (BTG) to help devise a rural finance scheme. With the conflict continuing in the background, a series of participatory workshops was held with grassroots people from all over the province. Based on the financial and community development needs they identified and on their design, the Bougainville Microfinance Scheme (BMFS) was formed.

By late 1998 BMFS was sufficiently advanced to attract substantial AusAID funding. It also attracted counterpart funds from the Bougainville administration. Phase 1 began in four pilot areas that had been selected for testing at the people's workshops. A central federated body, Bougainville Haus Moni (BHM), was formed, and it would thereafter coordinate all development on a locally directed basis. Development was supported by two Australian non government organisations (NGOs): Australian Volunteers International (AVI) and Credit Union Foundation Australia (CUFA).

Despite some competition from other microfinance institutions (MFIs) and severe inroads on members' savings by pyramid money schemes, the BMFS pilot areas flourished. Phase 1 targets were exceeded by early 2000. Design work then began for AusAID's Phase 2, which would be a three-year project let out to competitive tender. This phase began in the last quarter of 2001, with AVI/CUFA having been retained as the managing contractors.

The development of BMFS displays some design features that have been shaped by the Bougainville crisis and its aftermath. Some of these circumstances are replicable but many are not. The project has been designed, by the member/owners themselves, to be ultimately sustainable. It will be savings based, yet will provide a comprehensive range of loan and other services through a multi-tiered financial intermediation system. It is without question, therefore, an MFI that displays all the features of the institutional model. It is already achieving both broad and deep outreach. As it grows in tandem with more formal elements of the Bougainville economy, it can contribute greatly to the engagement of people at the grassroots in social and economic development.

## Political issues – talking to both sides

The introductory workshop in 1996 was held just two weeks after BTG Premier, Theodore Miriung, was assassinated. Miriung had been an inspirational planner for peace, and his killing created

an intense environment in which solutions for peace were being actively sought. BMFS immediately became one of those solutions. From the very start it was supported in its grassroots form by a number of prominent officials in the BTG administration, most notably the Assistant Secretary, Commerce, Albert Kinani, who still serves as a skilled adviser on the BHM (peak) board today.

Favourable though the climate was, it was nevertheless exceptional that the conclusion drawn at the preliminary workshop of BTG leadership was that the new MFI should be owned and directed by people at the grassroots. This unusual abnegation of power and influence was a key factor in the early development of Bougainville Haus Moni Scheme. So too was the provision of funding by the BTG, which enabled people over the following year to make the often hazardous journey to the relative safety of Buka town in the north for design workshops. (Similar funding has been provided for the life of the project so far.)

Valuable though this support from the BTG was at that time, it carried within it a possible derogator of ultimate success. Present support from the BTG might lead to ultimate dismantling by the opposition BRA/BIG (Bougainville Revolutionary Army/Bougainville Interim Government) when the conflict was eventually over. The Australian development advisers therefore turned to the strong network that existed between Australian NGOs and elements of the BRA/BIG, in particular to Moses Havini who was the rebels' emissary in Australia. The BRA/BIG was constantly informed through that network of what BMFS was doing and what its ultimate objectives were. Consequently, when the BRA/BIG later came to form the majority in the Bougainville People's Congress, BMFS was secure and its counterpart funding base even increased.

## Early design workshops

It is a common practice for international development organisations and NGOs, when implementing a poverty-alleviating community development project, to introduce some aligned microfinance facility. In the majority of cases the add-on facility is a revolving credit scheme, roughly but not always exactly replicating the Grameen Bank of Bangladesh and mainly targetting the welfare and income-generating capacity of women. There have been many cases where women have been encouraged to lift themselves out of poverty by having access to sometime cheap loans that allow them to engage in income-generating activities. There have also been many cases where the model has been inappropriately applied.

The European Union and at least two overseas NGOs have attempted to introduce revolving credit schemes to Bougainville.

This is not the place to explore in any depth the intense controversy that has taken place between the 'welfare' and the 'institutional' approaches to microfinance. For deeper analysis of the institutional approach that has come to be adopted by BHMS, see Ledgerwood (1998), Otero and Rhyne (1995) and Robinson (2001). The core of their argument is that it is only through an institutional approach that an MFI can become sustainable in the longer term and reach out to the greatest number of clients (to which the counter has been that institutional MFIs have difficulty reaching the poorest of the poor).

The key to the design of BMFS was that it was carried out by the people themselves through participatory workshops. The facilitator provided an array of microfinance activities from elsewhere in the world for workshop consideration. Financial intermediation – where the institution, like a bank, acts as 'broker' between depositor and borrower – and its role in supporting economic development was, however, explained in depth. In the end no one external model was chosen for replication.

In all cases, from all parts of Bougainville, the first choice from among the array of financial products was for a savings facility. This might seem counter-intuitive to a welfare practitioner, but to an institutionalist it would come as no surprise (see, for example, Robinson 2001:ch. 3). Financial intermediation was strongly supported. Small but variable (as to size, term, purpose and availability) loans were seen to be a later need. Revolving credit schemes after the Grameen model had a very low priority. (This process, and the priorities, closely parallel those described in Kopunye et al. 1999 and suggest that there might be similar patterns across Melanesia, or at least across Papua New Guinea.)

Clearly, people attached importance to having 'a safe place to keep their money'. In Bougainville, the crisis would have exacerbated this. For nearly ten years, most of the people were unable to reach Bougainville's sole financial institution: the PNG Banking Corporation sub-branch in Buka. All other forms of financial institution (except one credit union dating from the 1950s) had become extinct before or early in the crisis. Money was hoarded in secret places. As soon as the BMFS appeared in pilot areas, deposits flowed in.

Finally, it was decided that the system should be owned by the people themselves and embedded in their communities. Communities would deal with the problems of 'wantokism' and loan delinquency in their own ways, each according to custom at their own levels. The issues surrounding adapting 'custom' to external financial technologies were discussed in depth. The 'system' should eventually be open to all people of Bougainville, without exception. There should be a central peak agency, *Haus moni bilong ol manmeri long Bogenvil* or BHM, owned by the grassroots but created to support the development of the system.

## Building the BMFS system

BMFS was faced with a number of huge problems, all of which dictated that it was wise to proceed on a pilot basis and *go isi!*

Although the war was not over, it was already clear that all infrastructure and human support systems, including roads, transport, communications, power generation, schools and hospitals, had been destroyed. Much of the population had been living in the bush for years and most were deeply traumatised.

Community services needed to be restored. Reaching remote people with financial services and providing a kind of capacity-building support would be extremely difficult. Even when normality was restored, remoteness, dispersed populations and lack of communications remained problematic. Economic activity needed to be rebuilt and access to markets restored. Economic activity would also need to be extended to the grassroots, supported by financial services. Alongside financial services, other skills needed to be co-developed, including literacy and numeracy, community governance and management, vocational and microenterprise skills. In the early days it looked as if BMFS would have to provide many of these skills. Later on, cooperation with other agencies became more possible.

The solution was thought to lie in a three-tiered structure. First, development should begin at the grassroots in the four selected areas: Siwai and Bana in the south, Central and Nissan Island, and atolls to the extreme north. At the same time Bougainville Haus Moni should start up. A coordinator was appointed. Technical experts held train-the-trainer workshops for grassroots leadership in basic financial skills, awareness building, enterprise management, governance and policy development, supervision, loans management and financial planning. As the conflict was not over, most of these workshops were held in Buka. Given the distances and the dangers, it was difficult for women to attend (see Byford and Guanara's article in this issue).

Finally, 'district' presences were created – an intermediate tier. BHM district coordinators were recruited and trained in the four districts in which the pilot areas were situated. They began to bring training and supervision closer to the grassroots and wider awareness building became possible. This greater awareness, however, led in turn to an increasing clamour for extension of BMFS services beyond the original areas. Demand grew in those districts where, in the early stages, no services had started up at all. From the opposite direction, the Bougainville administration, which was providing increased counterpart funding, was also keen to see services spread as widely and as quickly as possible. It was clear that, as Bougainville emerged from the crisis, microfinance services were in high demand. In technical terms, BMFS was being asked to provide both wide and deep outreach very quickly indeed. The difficulty was that the more BMFS responded to such demands, the greater the risk of system failure.

By early 2000 (the real end of Phase 1 on the ground), there were 24 MFIs reaching nearly 4,000 people, with almost K100,000 in savings but only K4,000 out in loans.

## Competition and related 'problems'

The major ongoing 'competition' for BMFS is a branch of Village Finance, in Tinputz District on the northeast coast of the main

island. Village Finance, which operates nationally, started as a subsidiary of PNG Banking Corporation, the government commercial bank which has recently been privatised. In Tinputz it provides a reasonable range of credit and deposit services and has quite strong community support. It presents no threat to BMFS, or vice versa.

In 1999 a number of pyramid money schemes appeared in Bougainville (and in the Solomons and in Papua New Guinea). About 45 per cent of deposits were withdrawn from BMFS and reinvested in these fast money schemes, only to be lost. It says much for BMFS members that the shortfall was restored within a year. BMFS members learnt a lot from this experience.

The existing welfare-oriented revolving loan schemes represent no direct challenge, as they have little breadth of outreach. The largest of them, a European Union scheme, has lent out about K100,000 in K500 lots. It is said that a Division of Commerce assessment of this scheme estimated that up to 93 per cent of its loans are delinquent. The scheme is no longer revolving. It is not clear whether the EU will repeat this experience.

## BMFS – now and future

As W.W. Rostow might say, BMFS has now achieved lift-off. The guarantee of further funding for three years will see the system well advanced towards operational sustainability, with little or no need for expatriate technical input.

There is now a staff of seven in the Buka central office of BHM. Coordinators have been found for all eight districts, and all are growing rapidly, as Table 1 shows. Note that the fall-off in deposits in the last quarter of 2000 was combination of a write-off of unrecoverable pyramid scheme deposits plus withdrawals of Christmas club savings.

The rapid increase in membership and numbers of MFIs indicates a growth in breadth of outreach, especially into new districts where initial savings are small. That said, there is still a long way to go before all rural people are reached.

**Table 1 Bougainville microfinance: Some performance indicators, 2000–01**

	Sep. '00	Dec. '00	Mar '01	June '01	Sep. '01	% increase
No. of MFIs	42	58	76	112	136	224
No. of members	5,827	6,551	7,021	9,425	10,997	89
Savings (Kina) <sup>a</sup>	149,600	116,658	126,615	167,006	252,254	69
Loans (Kina)	15,696	32,629	37,427	62,223	97,782	523
No. of loans	n.a.	99	248	521	n.a.	<sup>b</sup> 426
Av. loan granted (Kina)	n.a.	330	151	119	n.a.	<sup>b</sup> -64
Loans as % of savings <sup>c</sup>	10.5%	28.0%	29.6%	37.3%	38.76%	

<sup>a</sup> K1.00 = A\$0.60 approx.

<sup>b</sup> For six-month period: December 2000 to June 2001.

<sup>c</sup> Target = 80% approx.

BMFS can also claim depth of outreach. Average savings per member are small (about K23), but this includes members of women's and children's savings clubs as well as more conventional deposits. Loans are increasingly reaching the grassroots, as the average size fell over the year to 1 June 2001 from K330 to K119. The stated purposes of recent loans are now being analysed, but anecdotal reporting from the districts suggests that more and more are being used for income-generating enterprises as well as for household purposes such as school fees and home improvements. Delinquency is yet to be reported, but the currently agreed practice in any case is to secure a loan against a member's savings.

As the Bougainville economy grows, new markets will open and new businesses emerge. Upstream and downstream linkages will develop and there can be increased economic activity from grassroots up. As this happens, BHM district offices will be transformed into cooperative financial institutions, providing a full range of essential financial intermediary services while supporting their smaller, grassroots MFI members.

All MFIs already agree that the system as a whole, and they individually, must move towards sustainability. This means setting interest rates that recover all costs, including the costs of training and inflation. Structural sustainability will also be achieved through insistence on good governance, through member elected boards and regulatory compliance at all levels.

To date, only a small fraction of donor funds (less than 3 per cent) have gone to meet the operational expenses of grassroots MFIs. Funds have been directed instead to system capacity building, especially the training of leadership and voluntary staff. While a provision has been made in the AusAID Phase 2 budget for some loan seed moneys, the ratio of loans to deposits is still low. It will therefore be a long time before any external borrowings might be necessary. By the time they are needed, it is possible that the system will qualify for commercial-rate loans from the new Asian Development Bank PNG microfinance fund which opens in 2002.

Meanwhile, there are some very human matters with special poignancy in post-crisis Bougainville that BMFS will need to focus on (adapted from Robinson 2001:105):

- Do grassroots people understand microfinance products and services and do they know how to use them?
- Can microfinance help economically active grassroots people expand and diversify their enterprises and increase their incomes?
- Can access to financial services enhance the quality of life of clients of MFIs?
- Can access to MFIs help economically active grassroots people in times of severe household difficulty?
- Can successful MFIs promote the self-confidence of their clients?

So far, times have been bad but the record has been good.

## References

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