

Microfinance and financial intermediation in rural Papua New Guinea: An integrated scheme

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Introduction

Four million people in Papua New Guinea (PNG), more than 85 per cent of the population, live as semi-subsistence farmers in rural and remote districts. While there is some plantation farming in coastal areas, contact with the formal economy is intermittent, mainly through sales of surplus garden crops or artefacts for cash at the nearest town market. There is little small or 'micro' enterprise beyond the towns.

Many, if not all, rural people would like to be able to engage in some form of income-generating activity in order to improve their social and economic well-being. For the development of community enterprise to occur, however, some form of financial service, no matter how rudimentary, is a necessary, if not altogether sufficient, condition. As enterprises become larger and more complex, so the demand for a *diversity* of financial services increases. Financial intermediation – where a financial institution acts as an agent for moving money between depositors and borrowers – becomes essential.

There are no formal financial services for rural people in Papua New Guinea. It is unprofitable for banks to operate in rural districts. Rural people have little life experience in business. They are considered to be both poor savers and bad loan risks. Traditional systems of ownership and land tenure have made it impossible for banks to obtain their conventional loan collateral. Communication is extremely difficult and transaction costs are high. Problems of law and order raise security risks beyond acceptable levels.

The bad history of rural finance

Rural Papua New Guinea has not always been without financial services. In the last years of Australian administration, a special unit was formed in the central bank with the task of creating financial cooperatives throughout the colony. Similar to Australian credit unions but derived more from a South Pacific model, they were known as Savings and Loan Societies (S&LS). Although cumbersome and inflexible in design, their role was to accumulate 'member' savings and make small loans for prudential or productive purposes. They were genuine, though basic, financial intermediaries. Production and retail cooperatives developed alongside them in many areas. As one form of cooperative prospered, so did the other. Some 300 S&LS were formed and, when the Australians left, their development and custodianship role was taken over by the new Federation of

Savings and Loan Societies. Owned cooperatively by all the S&LS, it would look after development, training and financial supervision. Ultimate responsibility for licensing and compliance audits would remain with a small registry within the new central Bank of Papua New Guinea.

Today, not one S&LS has survived in rural Papua New Guinea, for any number of reasons: a collapse in commodity prices in the late 1970s and early 1980s; inefficient, even corrupt, direction and management; lack of training; cultural inappropriateness; *wantokism*. Whatever the causes, many people lost a considerable amount of money and there is much apprehensiveness about the risks of having the experience repeated.

Some 20 S&LS survive but only in the 'modern' sector, where an employed membership base affords some stability of income and assurance of loan recovery. Legislation relating to S&LS is about to be updated. Encouraged by the central bank, they are beginning to expand at provincial level, in cooperation with provincial governments. On the other hand, it seems now to be accepted that the task of development at the grassroots must be left to other forms of microfinance.

Of course, some forms of microfinance do already exist (see Felix Babilis article in this issue). For example, there are a number of projects in Highlands provinces, the Sepik District and now in the squatter camps around Port Moresby. They are sponsored by international agencies and non government organisations (NGOs) and are targeted at the vulnerable poor, mainly women. They mostly offer small revolving loans, and sometimes savings. A Village Banking scheme is emerging. But none of these schemes is offering full intermediation, the precondition for widespread microenterprise and small business growth.

Origins of *Putim na Kisim*

Sensing the gap, in March 1995 the Head Bishop of the Evangelical Lutheran Church of Papua New Guinea, Sir Gaetake S. Gam, convened a symposium of church community leaders at the Bundun *Ples Bung*, in Morobe Province. The symposium was supported by the Hanns Seidel Foundation of Germany (HSF) and facilitated by Credit Union Foundation Australia (CUFA) and the PNG Federation of Savings and Loan Societies (FESALOS).

The symposium recommended that the Church Council promote the formation of a rural finance facility within its structure and that the development of such a facility should be

the responsibility of the Lutheran Development Service (LDS). Mindful of previous failures, it further suggested that progress should be careful (*go isi!*), that it should be exhaustively designed and tested at the grassroots, and that up to eight different areas should be selected as target projects.

In 1996 the project began, with HSF, CUFA and AusAID funding. Its working title was *Putim na Kisim* (PnK), literally 'put in and take out', a name that has stayed with it to this day. The pilot areas selected were: Alkena/Tambul and Banz in the Western Highlands; Simbu Province; Goroka District in the Eastern Highlands; Sapmanga, Mumeng and Finschhafen in Morobe Province; and the Businessmen's Association in Lae. Of these, all but Mumeng and the Lae businessmen have stayed with the project. As awareness, needs identification and design proceeded over the next two years, other groups – in Gulf, Madang, Enga and Morobe provinces – volunteered to become involved. Some have now begun; others may be part of the next phase of PnK development.

Lutheran Development Service and the Yangpela Didiman programme

As with Village Banking (Nelson et al. 1995), the role of the in-country partner NGO is of paramount importance. 'The most prevalent (and proven) type of partnership is with existing NGOs . . . typically multi-sectoral organisations that can add village banking to existing programme portfolios.'

When PnK began in 1995, the LDS with its 'integrated Yangpela Didiman programme' precisely filled this role. Yangpela Didiman (YD) literally means 'young farmer'. This programme has been running for 25 years.

Village people are offered a ten-month course (*wokabaut skul*) to equip them to serve their people as volunteer development workers. The course is centred on agriculture, but allows for the teaching of basic living skills and spiritual development. The culture of fish, either in the ocean or lakes and artificial ponds, is given special attention (LDS undated).

There are more than 3,000 of these trained volunteers, known as *motiveta* (motivators), spread across hundreds of villages, mainly in what used to be New Guinea (although there are some in Papua). Their work has been supported by more than 30 LDS extension officers who visit them frequently, sometimes living in.

The major achievements of the Yangpela Didiman programme were recognised as follows (LDS 1994):

- Over 20 years of experience, development and adaptation, YD [Yangpela Didiman] has proved that the promotion of integral human development and sustainable rural development through a system of training and supporting motivated community members (*motiveta*, who by example motivate others in their village) is appropriate and viable for PNG.

- The YD rural development programme is complementary to government efforts and is well recognised by government for its significant role in rural development and the extent to which it has inspired other agencies.
- The YD programme has demonstrated that an integrated approach to rural development is more practical, fruitful and sustainable than a sectoral approach.
- Given the major logistical problems of PNG, the physical achievements of the YD programme in sustainable, integral human development are very impressive. Indeed, YD appears to have succeeded where most others have failed.

This, then, was the programme onto which PnK came to be grafted. The grafting was done through an intensive series of awareness, needs identification and programme design workshops in the pilot areas, conducted by facilitators from CUFA and FESALOS. These workshops were supplemented by 'plenaries' where representatives from all pilot areas came together at Bundun *Ples Bungto* to share experiences and advance the design of the ultimate financial support structure.

Designing an appropriate microfinance model

The assumption from very early on had, therefore, to be that no single microfinance scheme would fit all needs and all circumstances. We looked at a whole 'menu' of experiences from different parts of the world, including Aboriginal Australia. It can be reasonably claimed that no model in Otero and Rhyne (1994) was left unconsidered. In the end, the chosen model comprised an eclectic array of microfinance instruments (MFIs), on roughly three tiers, which could be selected from and interrelated both horizontally and vertically to meet each set of local circumstances. In simple terms these include:

- individual depositors (rare)
- small group 'solidarity' savings cells
- community/village savings 'clubs'
- solidarity group loans (Grameen style)
- peer group (community/village) loan funds
- direct microenterprise/business borrowing
- individual borrowing (rare)
- district (or higher) credit union cooperatives

Systems of governance, rules and levels for each MFI would vary, although not too significantly, from community to community. Nonetheless, it was considered worthwhile drawing up templates, or models, for each form of MFI. Of course, no one community would be likely to employ more than two, at the most three, of these forms. Just as the 800 PNG cultures are identifiably different, so PnK's community linkages will be different. The ultimate solution had to be flexible enough to encompass all.

The final key to drawing these together would be an apex organisation, PnK 'central'. This body would be the intermediary of last resort; provide all training and community support; arrange training in individual and group self-reliance and microenterprise management; monitor the sustainability of the system by undertaking first-line audit; and develop new, grassroots PnKs. Although formed within the LDS, PnK central would eventually become a discrete organisation, while still relying heavily on the YD network.

A key decision in the final plenary was that PnK should be open to people of all persuasions, although it should be embedded within, and supported by, the Evangelical Lutheran Church (ELC) to begin with. The ELC Council accepted this, along with all other proposals. As time has passed, PnK has begun to be seen as a financial service for all people of rural PNG.

Early stages of development

The next steps, in 1997, were to select and train the two leaders/coordinators of PnK central and begin the process of institution building, and to begin more intensive training of village-based leadership – mainly YD but with some LDS extension officers and women's group leaders – so that PnKs could open in the pilot areas.

Because of the geographical spread of these areas, one PnK central coordinator was based on the coast at Lae and the other in the Highlands at Banz. This has worked well. They both completed the South Pacific Certificate in Enterprise Development, a practice-based leadership course, in three segments of ten days each, conducted by the Asia Pacific Cooperative Training Centre and accredited towards an MBA with the University of the South Pacific. This course has successfully equipped them to take on both training and managerial roles with the emerging PnK system.

The village-based people attended a PNG Rural Microfinance Course, similar in structure to the South Pacific certificate and conducted by the same training centre, this time in conjunction with HSF and CUFA. This course expanded the skills of the YD *motiveta*, adding a basic knowledge of microenterprise, microfinance and cooperative management, while reinforcing the skills they had acquired through their LDS training. Two of the practical requirements for completing the course were a satisfactory enterprise business plan and success in starting up, or improving, a PnK MFI. (At this point, CUFA passed its project management role to Australian Volunteers International, although CUFA will still contribute skilled personnel to the project.)

Seventeen people completed the course in 1998. At least ten of these, assisted by the PnK central coordinators, have been successful in expanding, or opening, PnKs in their home areas. As a follow-up to the Rural Microfinance Course, in September 1998 a two-week PnK workshop was held for women from all ELC districts. Since then there have been skills workshops for

community leaders and YD trainers in board leadership, policy setting, financial management and basic bookkeeping.

Encouraging results

One of the emerging schemes, Jericho PnK, had 50 full members in June 1999 (Kopunye 1999). Membership costs K100 and there is an administration fee of K6. Full members are allowed to borrow the K100 they have put in and pay back at ten per cent interest (calculated as 50 per cent member's saving, 40 per cent reserve, and ten per cent administration). By September, membership had grown to over 300.

The isolated village of Sapmanga in the Sarawagut Range in Morobe has a similar story. They started as early as 1995. YD, Kitowe Mumusing, now manages a PnK which has over K12,000 in deposits and which is planned to grow to serve over 3,000 people in the entire valley. Sapmanga has an impressive history of community enterprise, with a *wokabaut somil* and a *woksop* in which furniture is made for sale throughout the valley and timber is cut for permanent housing.

Meanwhile, coordinator Aua Purumo has opened a PnK for Busu Parish in Lae, and another is being formed for ELC staff and workers. An application has been made to the Bank of Papua New Guinea for an S&LS licence for PnK central. PnK is also discussing proposals for further development funding from 2000 onwards with AusAID's Community Development Scheme.

Bougainville: A similar story

In late 1996, the Bank of Papua New Guinea and the then Bougainville Transitional Government asked CUFA's advice to set up a microfinance scheme to help the people of rural Bougainville with economic reconstruction once the civil crisis ended. A participative design and pilot scheme process similar to PnK was followed and a not-dissimilar structure of options has emerged. The significant difference between PnK and the Bougainville Microfinance Scheme has been that Bougainville had no long-established, large NGO within which such a scheme could grow. In this case, an NGO affiliate has had to be built from the ground up (Nelson et al. 1995). Nevertheless, by early August 1999 there were 13 operating MFIs, with over 3,700 members and some K80,000 in deposits, increasing by more than 50 per cent per month.

Conclusion

It has sometimes been forgotten that financial instruments are very recent in their arrival in Melanesia. They need to be introduced with care, leaving good time and space for inspection, testing and adaptation. There must be opportunities for self-design and for developing a strong sense of local ownership. Where overseas models have been imported – or imposed – in the past, the reasons for their failure need to be carefully

examined, identifying which faults were those of the imposer and which of those imposed upon. Where the latter are identified, the causes should be explored and the chances of future prevention enhanced accordingly. Nevertheless, it is clear that large numbers of people in rural Papua New Guinea wish to come to terms with financial systems and to enjoy their (perceived) economic and social benefits.

Formal financial institutions face insurmountable problems in reaching rural people in Papua New Guinea. The methods therefore have to be largely informal. This involves community endeavour, cooperative enterprise and volunteer effort, rather than for-profit solutions. Identifying and training potential microfinance leaders and managers is essential. Building the capacity of community organisations to assist, especially using existing civil sector agencies, will lessen the risk of failure against which, in any case, prudent reserves should be set aside.

Above all, as the people from *Putim na Kisim* insist, time for thoughtful development is of the essence. *Go isi!*

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