The lessons and potential for sustainability and outreach of microfinance institutions in Papua New Guinea and other Pacific Island countries

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Introduction

There have been prototype microfinance institutions (MFIs) in Papua New Guinea (PNG) and in other Pacific Island countries (PICs), including Fiji, Solomon Islands, Vanuatu, Western Samoa, Tonga, Kiribati, Cook Islands and Tuvalu, since the 1950s and 1960s. One example was the revolving fund schemes, usually managed by a local government or women's group. Unfortunately, repayment problems forced them into dormancy (Getubig et al. 1997:114). However, what is new with the 1980s and 1990s MFI models is their high repayment rates, market interest rates and savings and risk aversion products. The rate and extent of outreach achieved among previously considered 'unbankable people' has been phenomenal (Yaron et al. 1997:36). The aim of this paper is to highlight a few strategic constraints, suggestions for improvement, and lessons to meet the challenge of providing microfinancial services to the 70–80 per cent of PNG's approximately four million and other PICs' two million low income populations into the next millennium (Getubig et al. 1997:112).

Framework of analysis

One of these successful new models is Bangladesh's Grameen Bank. This financial innovation, although structured like a bank, is based on group borrowing. Since most of its clients normally lack collateral, peer pressure and cooperation are relied upon to minimise financial risks. Several studies indicate that the Grameen Bank strategy has produced high rates of repayment, and viable and sustainable operations. Thus, the bank could be described as a model worthy of emulation and, in fact, three replications of what is called the Grameen Bank Approach operate in Pacific Island countries (Getubig et al. 1997:114).

An exemplary model is the Liklik Dinau Abitore Trust (LDAT) in Goroka in Papua New Guinea, which can be used as a standard for assessing MFI possibilities in the Pacific region. The author's research findings strongly suggest that the Grameen Bank Approach as trialled by LDAT has great potential for addressing poverty and empowerment, especially of women, on market-based terms and conditions.

The need for MFIs

Successive United Nations Human Development Index figures have exposed the need for MFIs in the region. Based on quality of life indicators, such as average life expectancy, access to education, and purchasing power, these statistics reveal the extent of poverty. The 1999 index rankings (for 174 countries) from highest to lowest included Fiji 61, Western Samoa 70, Vanuatu 116, Solomon Islands 118, and Papua New Guinea at 129 (UNDP 1999). These rankings, for PICs like Vanuatu, Solomon Islands and Papua New Guinea, reflect poorly on the distributive capacity of their key service delivery institutions such as health, education, infrastructure development and communication, and even financial services.

Another reason that MFIs are needed is the lack of adequate access to usual financial institutions of the majority of PICs' rural and low income populations. Financial institutions play a critical role in wealth creation, which generally leads to higher standards of living. PNG Banking Corporation figures show that, between 1985 and 1995, the number of commercial bank networks and agencies in Papua New Guinea declined by 55 per cent, from 305 to 138. Moreover, only 30 per cent of the population held deposit accounts and less than one per cent had loans with commercial banks. Obviously, there is a huge gap in participation of the mostly rural population in the PNG financial system (LDAT 1998:2).

Major constraints

There are five major constraints on the implementation of MFIs in the Pacific region: the cost of accessibility; cultural limitations on the participation of women; direct government involvement; the need for capacity building and appropriate training; and pressure to expand too soon.

Poor accessibility

First is the practical cost of accessibility due to geographic isolation and sparse populations. This can be illustrated by comparing the population densities of two PICs – PNG: 9 people per sq km, and Fiji: 48 per sq km – with those of two countries in Asia which have relatively successful MFI operations – Bangladesh: 800 per sq km, and Malaysia: 400 per sq km. Thus, the Grameen Bank Approach can work well in many Asian countries because of affordable access to a lot of clients. Also, the recommended ratio of one field assistant to 300 clients is possible for Asia but problematic for the Pacific region (Getubig et al. 1997:112).

In order to maximise accessibility, PNG's LDAT strategically selected Goroka because of its good road network, transport system, low crime rate and relatively high population density. Despite these advantages, a ratio of about one field assistant to 100 clients is the average. This is based on the fact that a centre has a capacity for six groups, or one field assistant visiting 30 participants and four centres every week. Obviously, the PICs with scattered island communities, like Tonga and Kiribati, or isolated jungle hamlets, as in Papua New Guinea, face even higher accessibility costs (LDAT 1993).

The long-term solution is for governments to improve infrastructure, such as roads and bridges, and provide faster boats. Another solution, based on the author's LDAT research findings, could be to further decentralise the role of the field assistant to 'centre chief'. This would have the added advantage of minimising any perceived, or actual, paternalism. It is most important that people feel they 'own' the process and do not feel that it is something imposed on them. In practice, this means that the responsibility of centre chiefs must be increased. They could take on the routine tasks that field assistants normally perform, like collecting loan repayments and checking on the use of loans. This might mean additional training costs and minimum compensation for their role but it might be worth the gains in project sustainability and outreach. For isolated jungle hamlets or coral islands, a centre chief could be the difference that makes a project successful.

Limited women's involvement

The second constraint relates to cultural limitations on the role of women in formal production. Women in most PICs ensure the survival of the family unit but their traditional role is rarely enhanced beyond subsistence activities. One of the critical aspects of the Grameen Bank Approach is its recognition of women's productivity. There are practical reasons for targeting women. Their activities are generally for the well-being of their families, so supporting the women would be the same as supporting the family unit. There would also be positive multiplier effects, like better nutrition, health and education of children. The traditional role of women needs to change, therefore, to one of contributing breadwinner in a formal sense.

Fortunately, in the case of LDAT, no major problem was evident pertaining to the increased role of women in income generation. In a survey carried out by the author, 80 per cent of the women said that they had the support of their husbands. Anecdotal information from husbands also indicated general to active (in a few cases) support for their wives. Thus, the notion that the men might hinder the women's economic and social mobility was not evident. It remains to be seen what the situation might be at later stages in the project or in other PNG communities and the PICs.

Government involvement

The third constraint is the direct involvement of government. Unfortunately, most MFIs established with good intentions by government turn out to be less successful, as in the cases of Wewak and Simbu and the PNG Government's Meri Dinao Association. A lack of proper targeting procedures, manifested in the 'handout mentality' of many governments in the region, and the often short-term nature of political interests contribute to the demise of MFIs. A United Nations study of MFIs in Papua New Guinea in 1993 highlighted problems such as loans given to wives of public servants, individual loans given for less productive purposes, a lack of loan supervision, and application of non-market interest rates (LDAT 1993:Annex 1).

This dilemma can be addressed with a structure representative of a private organisation. A good example is the non-political or quasi-NGO structure of LDAT. The PNG Government's involvement is indirect, through PNG Banking Corporation (state-owned commercial bank) and Department of Village Services on the board of directors. By this means, the government has input into the funding and decision making of the microfinance project. Other NGO board members include the Foundation for Law and Order, and UNDP (UN Development Programme) governs the project. Such a structure has an added advantage of attracting funds from bilateral or multilateral organisations that are reluctant to lend directly to government institutions given their poor record of project implementation. The Solomon Islands Credit Union League (SICUL) has a similar structure (Getubig et al. 1997:114).

Lack of capacity

A fourth constraint is capacity building and appropriate training. Most MFIs normally receive seed funds but not training or trained personnel. Many do not see the need to train their disadvantaged low income clients either. On the contrary, however, such financial institutions require people who have specialised skills.

LDAT does training on two different fronts. First, its structure allows for the employment of a technical assistant, provided and paid for by UNDP as its contribution to the project. This specialist is responsible for training branch managers and field assistants, as well as for project monitoring and evaluation. Second, the field assistants run seven-day training sessions for microcredit clients. Participant observation by the author also indicated that the technical assistant continues to conduct his/her mandated tasks. LDAT procedures require that clients be trained before becoming members of the microcredit and savings scheme. This training for a new centre takes place every day for one hour over seven days. Topics covered include how to prepare a loan proposal, how and why LDAT operates the way it does, their pledge of allegiance and, for the illiterate, how to sign their names (LDAT 1993).

A suggested improvement would be to expand training to include basic business concepts. One of the author's research findings was that 90 per cent of clients did not know what profit was. This was also highlighted by the 1993 UN study (LDAT 1993:Annex 1). A second suggestion would be to improve the delivery method. The oral presentation approach, usually in pidgin that often is not fully understood, is not the most productive method for transmitting knowledge. Available alternatives are the demonstration approach by means of model projects and the use of coaching through appropriate language or translation when the need arises (Bablis 1999).

Thus, the suggestion for possible emulation is for other MFIs to establish similar training arrangements if they do not already have any. However, even if training is critical to organisational survival, it comes with a cost. It would be prudent, therefore, for MFI training to be centralised in a particular regional organisation. For instance, given more resources, LDAT could train field assistants for other MFIs in the Pacific region.

Rapid expansion

The fifth constraint concerns vertical expansion as opposed to horizontal expansion or, in economic terms, supply-driven as opposed to demand-driven expansion. In many earlier cases, MFIs in the Pacific responded naïvely to success stories like Grameen Bank. There was also political pressure to expand quickly to meet the high demand of needy clients. As a result, there was often a lack of proper and prudent planning, and many projects failed because they expanded vertically too soon. The Simbu Women's, East Sepik Women's, and (earlier) Eastern Highlands credit schemes suffered the consequences of this syndrome in Papua New Guinea (LDAT 1993).

However, there have been exceptions like SICUL in the Solomon Islands, which started in 1991 and had reached a population of 6,802 by December 1995. LDAT, in contrast, started in 1994 and has been successful in resisting political pressure to expand quickly. By 1998, LDAT had reached a population of only 1,000 clients between its branches of Goroka and Kainantu. Expansion has been slower than planned but the operating branches are relatively viable and sustainable (Getubig et al. 1997:114). It is critical to note that LDAT's approach has been a measured learning experiment. Now, on the basis of its successes and mistakes, it is poised to accelerate its rate of expansion. LDAT has successfully applied for and been given a financial institutional licence to operate under the trade name of 'Village Bank' in Papua New Guinea in 1999 (LDAT 1998).

Nevertheless, the optimal answer to the question of expansion probably lies somewhere in between the above two approaches and each MFI has to make its own estimations of how best to advance. Various economic analysis tools are available, such as optimisation procedures through the use of MS Excel or GAMs. The Grameen Bank has such mathematical tools (in Lotus format) to assist its project managers in making prudent financial and economic decisions on viability and expansion.

Conclusion and recommendations

Pacific Island governments continue to address directly or indirectly what the founder of Grameen Bank, Professor Yunus, described as the 'human right' of their rural and economically disadvantaged populations to financial services. Despite initial setbacks due to various constraints, there is evidence of phenomenal successes from the application of the Grameen Bank Approach in the Pacific context. One is the outreach record of SICUL in the Solomon Islands. Another is the financially and operationally self-sufficient LDAT of Papua New Guinea.

However, the challenge to learn valuable lessons from existing MFIs and to continue to improve remains. Thus, it is prudent to heed the advice of Professor Yunus: 'This can be achieved by going through an intensive dialogue and exposure programme in the existing units. All the people who would be responsible for implementation of the replication programme of GB [Grameen Bank] must go through this dialogue and exposure programme' (LDAT 1993:33). This advice could be actioned through the establishment of a regional forum for MFIs as a specialist rural industry, perhaps called the 'Pacific Islands Microfinance Forum'. Through this forum, a training centre, research centre, major conferences and workshops could be organised to promote the microfinance industry's critical role in human development in the region.

This paper has provided an indication of the strategic value and potential of MFIs like the Grameen Bank to halt the trend to real poverty and to contribute meaningfully to economic and human development in Papua New Guinea and other PICs into the next millennium.

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