Comment

'South Asian economic models for the Pacific? The case of microfinance'—a comment

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In the December 1999 edition of *Pacific Economic Bulletin*, Chris Gregory questions whether microfinance, at least of the Grameen Bank variety, is appropriate for the Pacific (Gregory 1999).[1]

Gregory contrasts his perspective, derived from the discipline of economic anthropology, to that of the development economist. Central to his analysis is that Papua New Guinea is a root-crop economy, rather than a rice economy like most countries in Asia. Whereas rice economies are surplus production economies, root-crop economies aim for mere self-sufficiency. The surplus production nature of rice economies means that they are 'penny capitalist', with many or most people engaging in a range of market-oriented activities such as small-scale trading, artisanal production and daily labouring. By contrast, root-crop cultures are not 'penny capitalist', with the indigenous exchange system primarily political rather than economic.

From this analysis, Gregory derives three main conclusions.

- In applying microfinance to cultures other than Bangladesh, what needs to be replicated is the thinking behind the development of the Grameen Bank model, not the institution itself. In particular, the Grameen Bank model of microfinance is not a solution in Papua New Guinea.
- Only those areas where there is vigorous cash-cropping near urban areas stand any chance of success in supporting a microfinance project. A credit system has no prospect of being economically viable in the remote areas.
- Credit needs to be of the 'dollar' rather than 'penny' capitalist variety. Loans less than around K800 (US$310) would not be much use, and the appropriate target group is the 'poorest of the rich', rather than the 'poorest of the poor'.

Gregory is right to warn against so-called 'microfinance evangelism' and to sound a note of caution about the application of microfinance in the Pacific. This comment finds a number of points of agreement. In some cases, donor agencies or governments have virtually forced microfinance programs onto reluctant or unwilling Pacific communities. United Nations Development Programme (UNDP) official Jeff Liew cites the following example

> In one particular scheme the outside proponents literally barged in blindly

> into a community. They were accorded the usual courtesy and hospitality because they were presumably important, had come from far away to this humble village, were accompanied by senior government people and came with messages of hope and greatness punctuated with many jargons that had no equivalent in the local language. Very simply they overwhelmed the local community. The council of elders' quiet acceptance (more like shock) was taken as approval (1997:6).

Nevertheless, in some respects Gregory's analysis does not appear to be borne out by experience to date with microfinance in the Pacific. Each of his conclusions are addressed here in turn.

Are microfinance models culturally specific?

This comment focuses on microfinance from a development economics perspective, rather than from an economic anthropology perspective. Nevertheless, two comments are in order. First, it is possible to exaggerate the effect of cultural and other differences on microfinance. Social anthropologist and microfinance specialist Marguerite Robinson, who has worked extensively in villages, lower-income urban areas and tribal areas in Asia, Latin America and Africa has stated that

> Speaking as an anthropologist, I find it very interesting that, as I work with banks and [microfinance institutions] around the world, I do not find much in the way of intercultural differences in microfinance. People all around the world—in all kinds of different cultures and economies, political systems, religions and geographical environments—seem to have very similar views about microfinance (Oberdorf 1999:96).

While the points highlighted by Gregory no doubt affect the scope for microfinance in the Pacific to some extent, microfinance has been successful in a very wide variety of settings, and not just in the rice economies of Asia. It is difficult to believe that the Pacific is so completely different from the rest of the world that some of these models could not also be successful in the Pacific.

Second, Gregory appears to equate microfinance with the Grameen Bank model. While the Grameen Bank model has been successfully replicated in many countries throughout the world, it is by no means the only model. Other prominent approaches include the village bank model, credit union model, self-help group model and financial systems approach, to name a few. Moreover, practitioners have adapted each of these models to reflect local needs and conditions or simply to better serve their clients.[2] None of this is to suggest that any such models are necessarily appropriate to Papua New Guinea or the Pacific. However, the need to adapt models to reflect local conditions, rather than simply transplanting them from one setting to another, is one that is generally accepted by the microfinance sector, both in the Pacific and elsewhere. For instance, programs such as Liklik Dinau/Abitore Trust (LLDAT) in Goroka, Papua New Guinea and Vanuatu Women's Development Scheme (VANWODS) in Port Vila, Vanuatu have made useful adaptations to the Grameen Bank model by offering voluntary savings facilities to clients.

Where in the Pacific is microfinance appropriate?

Gregory is right that the Grameen Bank model of microfinance and other models emphasising credit for income-generating activities are not likely to be suitable in remote areas of the Pacific. This conclusion can be derived from a development economics perspective as well as from an economic anthropology perspective. It is also consistent with the analysis in McGuire

(1996) and with the papers prepared for the Pacific Microcredit Conference held in Niue in October 1997, as well as with current practice in the Pacific.

Many parts of the Pacific are characterised by small populations, low population densities and extreme remoteness. These factors have two major implications for microfinance programs. First, they increase administrative costs and reduce the number of clients who can be served by each field officer, making it extremely difficult if not impossible for microfinance programs to reach self-sufficiency. Second, as noted by Gregory they limit the scope for market activity, reducing the opportunities for households to engage in income generating activities in the informal economy.

It would clearly be futile to attempt to set up a microfinance program focusing on lending for income-generating activities in these areas. This appears to have been recognised in recent projects, at least those programs incorporating 'best practice' principles and supported by UNDP. These programs have been or are being established in and around significant population centres such as Goroka in Papua New Guinea, Port Vila in Vanuatu, Suva and other centres on Viti Levu in Fiji, and Honiara in Solomon Islands. It must be acknowledged that even in these areas, cost structures are high and no program is yet close to sustainability. Nevertheless, a significant market-based informal economy exists in these areas, and while no impact studies have been conducted, experience suggests that clients have found programs useful in meeting their needs for financial services.

It should also be stressed that microfinance is not simply about credit, but about financial services in general. It is increasingly recognised that savings services are just as important, and in some cases more important, than credit. Some parts of the Pacific, most notably Papua New Guinea, have experienced a substantial decline in the outreach of formal financial services in recent years. Whereas in 1984 Papua New Guinea was served by 60 branches, 35 sub-branches and 407 agencies of commercial banks, by 1997 outreach had diminished to 52 branches, 25 sub-branches and only 25 agencies. Reasons include the increase in law and order problems, loan losses following the commodity price collapse of the late 1980s, and lack of profitability.

Yet the demand for financial services in these areas is if anything increasing, not declining. Experience with LLDAT and VANWODS has shown that clients have a high demand for the voluntary savings products offered by those programs, and this demand is not limited to the larger centres. There are very few areas in the Pacific that have not become part of the monetised economy, receiving inflows of money from the sale of agricultural produce, government wages, remittances and other sources, and spending money on consumer goods and small capital goods. Previous small-scale savings and credit programs have found that there is a demand for programs providing savings services and small loans for schooling and traditional and religious obligations. While the Grameen Bank model is not appropriate for meeting needs of this nature, the challenge is to find programs that can meet these needs in a cost-effective manner while ensuring that savings are secure.

Should microfinance target the 'poorest of the poor'?

Finally, Gregory suggests that credit programs in the Pacific need to target the 'poorest of the rich', rather than the 'poorest of the poor'. Gregory is right that programs should not target the 'poorest of the poor'. However, in this respect the Pacific is probably little different to anywhere else.

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While in the past much of the rhetoric of microfinance has focused on its perceived ability to benefit the so-called 'poorest of the poor', it is increasingly accepted that most major programs do not in fact reach this group, and that microfinance is unlikely to benefit them in any case. Hulme and Mosley (1996) examined the impact of 13 MFIs in seven countries, and found that households on or above the poverty line generally experienced a positive impact from microfinance. However, for the very poor, loan impacts were on average small or negative. This suggests that microfinance may not be effective in reducing poverty among the very poor. In the Pacific as elsewhere, direct provision of social services such as primary health care, family planning, nutrition and primary education is likely to be much more effective than microfinance in assisting the most disadvantaged households.

More experience is needed to test Gregory's view that only the so-called 'poorest of the rich' have a demand for credit, and that loans less than around K800 (US$310) would not be much use. However, this view receives only limited support from the experience to date.

- In the case of LLDAT, the initial loan is for a maximum of K350 (US$136), with subsequent loans increasing to a maximum of K1,000 (US$388). Interestingly, many clients have opted to take out initial loans of less than the maximum K350 (US$136). As at April 1998 there were 862 active borrowers, suggesting a reasonably healthy demand for loans of these amounts. On the other hand, a 1998 review found that the cumulative repayment rate was only 81 per cent, low by microfinance standards (but higher than repayment rates for loans in the K2,000 to K4,000 (US$775 to US$1,550) range made by the Rural Development Bank in Papua New Guinea). Moreover, there was only a small proportion of repeat borrowers, and loans were being made for a restricted range of economic activities. These factors perhaps lend some support to the Gregory analysis.
- In the case of VANWODS, initial loans are for a maximum of VT15,000 (US$111), with the maximum increasing to VT30,000 (US$223) for the second cycle and VT45,000 (US$334) for the third cycle. As at June 1999 there were 343 active members.

While these clients may not be the 'poorest of the poor', the data suggest that in the larger centres, there is a demand for loans well below the thresholds postulated by Gregory.

In summary, Gregory makes a useful contribution by highlighting some of the particular challenges facing microfinance in the Pacific. However, his conclusions are too stark in a number of respects. Experience to date suggests that the Pacific is not as different from the rest of the world as Gregory suggests, and that there is a useful role for microfinance in facilitating economic development and reducing poverty in the Pacific, especially in and around the larger centres.

Notes

1 While the title of the article refers to the Pacific as a whole, the article itself focuses on Papua New Guinea.

2 For instance the Association for Social Advancement in Bangladesh, which previously used the Grameen Bank model, has gone so far as to abandon the group guarantee.

References

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