INFORMAL FINANCE IN A SEMI-SUBSISTENCE ECONOMY

A Case of Papua New Guinea

Nimal Fernando

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NRI
Economic Studies Division
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ABSTRACT

Finance plays an important role in the development of the semi-subsistence economy of Papua New Guinea. However, various aspects of finance — particularly informal finance — have attracted little official or academic attention in Papua New Guinea.

This paper on informal finance has two broad objectives:

- to provide an overview of the existing informal financial arrangements in the economy; and
- to stimulate further research on the subject.

The paper begins with a presentation of the sources of informal savings and credit and the major characteristics of the informal finance market. This is followed by a discussion of the major arrangements of informal savings and credit in the economy. On the scattered evidence available, it concludes that informal finance is significant in the country and that perhaps more people market in the informal market than in the formal market. Certainly most of the poorer people market in the informal market. Evidence indicates that certain forms of such finance are still at the early stages of development. The paper makes reference to the emerging significance of semi-professional moneylenders in the urban sector and puts forward a tentative hypothesis that the high interest rates charged are due to the high risk factor and the shortage of capital in the market.

The assumption that people in the poorer sector of the community are unable to, and do not save is rejected as being unrealistic. Evidently, a large number of poorer households attempt to save money despite their low incomes.

The analysis of the informal arrangements indicates that the formal sector may be able to learn a number of valuable lessons from the informal sector. However, as very little data and information exist on the informal financial market there is an urgent need for further research on various aspects of the market.

Nimal Fernando
1. INTRODUCTION

Papua New Guinea is a country with a total land area of approximately 462,000 km² and a population of about 3.5 million people. The country consists of the mainland and a number of small islands and is culturally diverse with about 700 different languages or dialects being spoken. The country is rich in minerals (mainly copper and gold), highly fertile agricultural land and tropical forests. The per capita income of the country is currently estimated to be around US$800. However, in terms of social development indicators, the country remains conspicuously less developed: low life expectancy (55 years in 1985), adult literacy level (45 percent in 1985) and high infant mortality rate (about 99 per 1,000 live births in 1980) show its overall level of social development.

The land tenure systems of the country are very complex. About 97 percent of all land is held under customary tenure systems. The country's economy is predominantly agricultural. Nearly one-third of the Gross Domestic Product (GDP) originates in the agricultural sector while mining and manufacturing account for about 12 percent and 9 percent of the GDP respectively. The urban sector is small, accounting for less than 15 percent of the population.

Undoubtedly, a salient characteristic of the economy is the existence of a large subsistence agricultural sector which accounts for some 45 percent of the total agricultural output. Approximately 80 percent of the population is still engaged in subsistence agriculture, producing food mainly for their own consumption.

An important aspect of the agricultural sector is the dominant position of smallholders in the cash crop subsector which consists mainly of coffee, cocoa, oil palm and coconut. These cash crops account for approximately 55 percent of the total agricultural output and the smallholders account for about two-thirds of the total cash crop output.

The financial institutional structure of Papua New Guinea is not complex. It consists of the Central Bank, one leading indigenous commercial bank, several foreign commercial banks, one specialised agricultural credit institution, approximately 115 savings and loan societies (more than 50 percent of them are either defunct or inactive) and several non-bank financial institutions. The branches of all the banks are confined largely to the capital city and a few regional centres, while many remote areas — particularly in the rugged highlands region of the mainland — remain poorly served by the formal financial institutions.

With the penetration of cash crops into the rural economy, the subsistence sector's relative significance and character have changed somewhat over the last two to three decades. It has been estimated that little more than half of all the households sell some home-grown vegetables and fruit (Goodman et al. 1985:5). However, the rural economy is still largely traditional. The substantial use of exchange labour, transactions in kind, production of food for self-consumption, continued existence of age-old rituals and customs (particularly in the highlands region) and the significance of tribes, clans and extended families are evidence of the continuities of the traditional ways of life. In short, the economy may be described as semi-subsistence, agricultural and predominantly rural. The society is largely traditional and the culture is extraordinarily diverse.
Obviously, finance plays an important role in the development of this economy. However, various aspects of finance have not attracted sufficient official or academic attention. Except for a handful of anthropological studies dealing partially with informal finance, it has not been the subject of much research. As a result, the policy makers have very little knowledge of this segment of the financial market. Therefore, this paper attempts to discuss informal finance with a view to stimulating further research on the subject and to learn more about the financial arrangements in this sector of the financial market in order to shed more light on the policies of the formal sector.

The paper is divided into seven brief sections. In Sections 2 and 3, the structure of the financial market and the sources of informal savings and credit are outlined. Section 4 deals with some of the characteristics of informal finance. Sections 5 and 6 discuss informal savings and informal credit arrangements, respectively. The final section presents some conclusions from these discussions.

2. THE STRUCTURE OF THE FINANCIAL MARKET

As in many other developing countries, the Papua New Guinean financial market is characterised by a high degree of duality. The dualism is manifested in the existence of two completely different subsectors in the financial market:

- the formal sector consisting of the commercial banks, the Agriculture Bank, Savings and Loan Societies, and non-bank financial institutions such as finance companies; and

- the informal sector, which consists of a wide array of savings and credit arrangements based in part on traditions and customs and which operates outside the legal framework.

Unfortunately, data and information on the informal sector are scanty. The cultural diversity of the country and highly uneven level of regional development, coupled with the lack of data and information, make it extremely difficult to put forward generalisations about many aspects of the informal sector. However, the evidence and the semi-subistence nature of the economy tend to indicate that the informal subsector is significant — probably much more so than the formal sector — as it is in many other developing countries, both in terms of the number of persons served and the value of funds transacted. The Agriculture Bank of Papua New Guinea, for example, approved only about 45 000 loans between 1967 and 1987 and most of these were in respect of relatively large farm units and commercial and service enterprises orientated towards the urban sector. This tends to confirm that only a small number of persons are served by the formal sector institutions.

The duality of the financial market is not based on the dichotomy between the rural and urban sectors, with the formal sector operating in the urban areas and the informal sector operating only in the rural areas. Informal finance is a characteristic feature of both the rural and urban sectors. This indicates that factors other than the degree of urbanisation tend to explain the existence of the informal sector. However, urbanisation appears to have a significant bearing on the character of informal finance as is evident from the somewhat different features between rural and urban informal markets.
3. SOURCES OF INFORMAL SAVINGS AND CREDIT

The informal savings and credit market in Papua New Guinea consists mainly of relatively localised credit and savings transactions of money, real goods and labour services among members of extended families, clans and tribes, friends and relatives and tradestore owners. Major sources of credit appear to be the members of the extended families, clans and tribes (wantoks) and the tradestore owners.¹

In addition, credit is extended by informal savings and credit groups generally found among rural women and known as Wok Meri,² and rotating savings and credit associations (ROSCAs). While Wok Meri is almost entirely a rural arrangement of savings and credit, ROSCAs are found in both rural and urban areas. Evidence indicates that both Wok Meri and ROSCAs are relatively recent developments, the former dating back to only the early 1960s and the latter to more recent times. Village tradestores are also a recently emerged institution and probably became important since the early 1960s, partly as a result of the demonstration effect of similar stores operated by the missions and partly due to the penetration of cash crops into the rural economy.

An emerging source of credit in the urban sector is the semi-professional moneylenders. Although such moneylenders do not yet appear to be operating in rural areas, there is evidence of a growing class of semi-professional moneylenders who combine moneylending with their usual occupational activities in the urban sector. The informal moneylenders about whom some information was gathered included an officer working in a research institution, an accountant working in a public sector institution, a casual driver working in a hospital, and clerks, typists and labourers in the formal sector. These urban moneylenders provide very short-term loans ranging from K10-K200, mainly for persons who are well-known to them.

As very little is known about informal savings and credit is not possible to precisely assess the relative importance of different types of arrangements in the sphere of credit and savings. The wantoks perhaps are a major source of both production and consumption loans. Tradestores appear to be a major source of consumption credit in the rural economy while a significant amount of savings takes place with the network of Wok Meri in different parts of the country. Hardly any information and data about ROSCAs, other than passing references, exist in the rural sector. There is only one anthropological study on ROSCAs in a regional urban centre and that was undertaken by Wu [1974]. A small-scale survey among 30 public and private sector, senior and middle-level officers revealed that ROSCAs are found in almost all institutions in the city of Port Moresby.

4. CHARACTERISTICS OF INFORMAL SAVINGS AND THE CREDIT MARKET

Informal savings and credit arrangements in Papua New Guinea are influenced by a multitude of factors including cultural, the semi-subsistence nature of the economy, the low educational level of the population and the lack of access to institutional sources.

¹ Wantok is the Tok Pisin term for "one who speaks the same language".
² Wok Meri is the Tok Pisin term for "women's work".
As there is a large subsistence sector in the rural economy, based largely on family labour and to some extent exchange labour, informal savings and credit take the form of labour and commodity exchanges, in addition to monetary exchanges. However, due to the influence of cultural factors, some of these transactions do not precisely approach 'credit' or 'savings' activities, as those terms are generally understood. Thus, any one who contributes a pig to a clan member to pay "bride-price" may expect a repayment in some form. However, this does not necessarily constitute a well understood obligation on the part of the recipient in terms of interest payment and the quantum and period of repayment. In traditional ceremonial exchange systems, "partners may help each other on a basis of diffuse rather than balanced or calculated reciprocity" (Strathern 1969:43). In some exchange systems, there is a formal expectation that interest will operate in transactions. If a man makes a gift to an exchange partner he expects to receive one of greater value in return (ibid.). But, this does not appear to be a widespread phenomenon in the rural informal finance sector. Similarly, within the traditional extended family system, many credit transactions take place in the form of "labour" provided without cash payment but they are held against future obligations.

Perhaps the most remarkable characteristic of informal savings and credit in Papua New Guinea is the absence of a clear-cut interest component in most of the transactions. When consumption credit in kind is extended by village tradestores, apparently no attempts are made by the owners to inflate prices, unlike in many other developing countries. Default of village tradestore credit is a very common phenomenon in the rural sector. For example, in Pangia District, Southern Highlands Province, there were 297 tradestores in 1972 but only 15 of them were making a "reasonable profit" (Clark 1985:146). A major reason for this was the high rate of default of credit.

Similarly, in the Kewabe sub-district of Southern Highlands Province, the number of tradestores rose from two in 1966 to 138 in 1973. Most of these tradestores had a very short life span partly due to credit sales (Burkins 1984:176-187). The tradestores in Goroka also had similar experiences in the 1960s (Finney 1973).

The interest-free characteristic could be observed in the case of loan arrangements made between Wok Meri groups. While the lending group expects repayment of the loans in the future, it does not in any manner stipulate or express any concern about receiving any interest. Unlike the tradestore credit, these are cash loans. In many cases, the borrowing groups may not have close personal links with the lending group (Sexton 1982a). Therefore, to that extent, the transaction approaches the characteristic of formal finance. The absence of an interest component in connection with many Wok Meri intergroup loans therefore could be considered a significant aspect.

The rotating savings and credit associations (ROSCAs), found largely among school teachers and relatively low-income groups, also provide evidence of interest free loans. Members of ROSCAs contribute a fixed sum of money each time. Those who become savers receive no interest and those who become borrowers pay no interest.

Another salient characteristic of the informal finance market is the absence of professional and semi-professional moneylenders in the rural sector. While references to such moneylenders and "loan sharks" are common in most of the other developing countries, their absence is a conspicuous feature of the rural informal finance market in Papua New Guinea.

Such a situation could exist if a country has a highly developed formal financial system which extends credit at low transactions costs. However, this is not the case with Papua New Guinea. Perhaps the pre-capitalist characteristics of the rural economy
coupled with "subsistence affluence", communal land tenure systems and socio-cultural factors which often tend to measure "social status" by how much one gives away rather than in terms of how much profit one makes, explain this peculiar feature. Also, when people have access to interest-free credit from different sources, there is no incentive for professional moneylenders to emerge in the informal financial market.3

However, there appears to be an emerging class of moneylenders in the urban sector and semi-urban areas. These moneylenders come from diverse occupations ranging from clerks and casual drivers to accountants, and many seem to be formal sector employees. They do charge interest and specify the repayment periods.

Another important characteristic of the informal financial market is the absence of a "collateral syndrome". While the formal sector insists on collateral, the informal market functions without collateral and transactions are based on personalised relationships between the two parties. Mortgaging assets and pawning valuables to obtain loans are rare in this market, unlike in many other developing countries in Asia. As a result, moneylending operations do not appear to conclude in a transfer of real assets from borrowers to lenders.4

5. INFORMAL SAVINGS

The paucity of data, information and literature makes it difficult to discuss informal savings in Papua New Guinea. An analysis of subject catalogues of the libraries at the University of Papua New Guinea and the National Research Institute indicated an almost total absence of literature on this subject.

However, a review of literature relating to the rural sector provided some information on informal savings. Interviews with researchers, employees of public and private sector institutions (including banks) and a small-scale survey on informal finance among senior and middle-level public and private sector officers served as other sources of information.

In the rural sector, many people (particularly women) hoard money — both coins and currency notes. The villagers get money from different sources. Some such major sources are:

- cash crop holdings;
- gifts from the extended family or clan members;
- remittances from relatives employed in the formal sector;
- sales of food crops in village markets; and
- ceremonial exchanges and bride-price payments.

---

3 In a recent study on the cocoa and coconut sectors Livingstone (1989:121) provided data on sources of finance for investment, by fermentary owners and transporters. The list did not include professional or semi-professional moneylenders.

4 In some other countries several researchers have argued that moneylenders set the interest rates at high levels with the intention of acquiring real assets of the borrowers (Bhaduri 1977; Wai 1957).
Often, despite women's greater role in economic activities in the rural sector, they have limited access to money (Sexton 1982a). Therefore, when they receive some money, they tend to hoard it and keep it as a secret from the men. This practice still appears to be widespread among married women and is influenced by two major factors:

- the desire to keep it a secret from their husbands who often, according to women, waste money on beer and other unnecessary things; and
- lack of knowledge of, and easy access to, institutional sources of savings.

However, hoarding is not a phenomenon entirely confined to the rural sector. Even in urban areas, according to some informants, women attempt to reduce the problems arising out of male dominance over money, by hoarding it. Such practices in the urban sector are much more widespread among low-income households. It is the women in such households who face greater risks and uncertainty of income and, therefore, require greater social insurance. Apparently such women view 'hoarding' of money as a method of reducing risks. Also, the high transactions costs of saving in small amounts influence the hoarding by the poorer households.

An interesting aspect of informal savings in Papua New Guinea is that it is done primarily in the form of coins and currency notes. The women in Papua New Guinea do not generally save in jewellery or gold, although one of the country's major exports is gold. The accumulation of gold does not have the same social value in this society, as it does in India, Sri Lanka and Malaysia.

The other most common savings arrangement is "savings groups". The "savings groups" are set up for different purposes and are found both in rural and urban sectors. In the rural sector, such groups involve members of a given tribe, village, clan or sub-clan. They contribute savings regularly or irregularly to collect money for a given purpose such as payment of church fees, investment in a vehicle or to build some form of common facility. Generally, savings are handed over to a leader who keeps the money with him until the need to use the funds arises. When small savings groups are set up for specific purposes it is not uncommon for members to work as a group to earn money for contributions. Often people work on farms to earn money for such groups. The savings groups have evolved from the traditional arrangements which have been operating for a long time in the rural communities under which groups of people collected various goods to make relatively large payments.

The other savings arrangement in the informal sector is through the rotating savings and credit associations (ROSCAs), known as sandes in Tok Pisin. The only work that has been done on the history and various aspects of sandes deals with sandaying among a minority ethnic group — the Chinese — in the urban area of Lae (Wu 1974). However, brief reference has been made to sande groups in several other studies on other subjects.

The sandes are found all over Papua New Guinea but appear to be more widespread in the urban and semi-urban areas, among school teachers, relatively low-income groups and plantation labourers. However, they are not so common in the high-income groups and among businessmen.

Skeldon (1980:252), writing on regional associations among urban migrants, described the sandes among highland migrant labourers in the regional towns of Lae and Goroka:
"...all highland migrants I interviewed in Lae and Goroka participated in a very simple form of rotating credit system. This is known variously as 'sandaying' or 'fortnighting' and it is a characteristic of the labouring and low-income groups from all parts of Papua New Guinea; it is not typical of public servants or other white collar workers. In a sample of 28 working families in Lae, 22 heads of family engaged in 'sandaying' and in a sample of 89 migrant workers around Goroka, 59 sandayed, percentages of 79 and 66, respectively."

According to Skeldon, sandaying is common among students at teachers' colleges and it "has been well developed among plantation labourers for a considerable time" (ibid.:253-254).

Burkins (1985:205-206) also makes reference to sandes in his work on Southern Highlands Province. In his household money survey (which covered 24 households) he reported that K122 or 4.5 percent of the total household money income of males, during the reference period, consisted of sande receipts, while sande payments by all males in the sample amounted to K80 or 2.7 percent of the total male household expenditure. It is interesting to note that he reported no sande receipts or payments for females.

While sandaying is more common among persons with regular and stable incomes, it is found among persons with highly unstable sources of income as well. In Aroma Village in Abau District, Central Province, six fishing families got together to form a fishing group to earn money for sande contributions. They often were fishing as a group and sold the individual catch to make each member's weekly contribution of K40 for sande.5

Evidence indicates that women also take part in sandes. Sexton (1982a:24) made reference to women's sande groups in Watabung in Eastern Highlands Province. Tolai women in East New Britain also take part in sandes.6 In a small-scale survey undertaken on informal finance, involving 30 public and private sector, senior and middle-level officers, four stated that their wives have been sande participants.7

Although Skeldon (1980) reported that sandes are not typical of public servants, there is ample evidence of sandaying among employees in a number of public sector institutions in the capital city of Port Moresby. These institutions include the Central Bank, Ministry of Finance, Papua New Guinea Banking Corporation and the National Research Institute. This survey on informal finance showed that sandes are common in almost all institutions in Port Moresby.

Evidence indicates that sandaying is common among employees with low incomes, but not necessarily always limited to them. The evidence shows that:

- groups are often small, the most common size being four or five;

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5 I am thankful to Dr. Wari Iamo, an anthropologist at the National Research Institute, Port Moresby, for providing me with the information

6 This was revealed by Jacob Simet of the National Research Institute when he was interviewed in August 1989.

7 This survey was undertaken by the authro to gather some basic information on informal finance in August 1989.
almost always the contribution interval is two weeks (mainly because salaries and wages are paid every two weeks);
- members are known to one another;
- every member contributes a fixed sum in each turn;
- recipients are selected through consensus rather than lottery or other methods; and
- size of any group is purposely kept at a low level in order to facilitate transactions and avoid potential defaults.

Often the group participants come from the same occupational category or have similar income levels and work in the same institution.

Although it is not so common, sandaying was observed among executive level employees as well. In the survey referred to earlier, 11 out of 30 senior and middle-level officers stated that they have participated in sandes. Usually they participate in sandaying with persons in the same occupational category or the same income level. However, there are exceptions. One executive-level employee who was interviewed had joined a sande group of labourers at his place of work.

Often the fortnightly contribution is in the range of K20-K50. As the average size of a group is about four or five, the total collection per round amounts to about K60-K200 and the cycle is completed within two to two and a half months. Although the cycle is much shorter when compared with that of many other countries, the participants continue the activity for some 8-10 months, thus completing several cycles. New members often join only after a series of such cycles is completed by an existing group, and some of the original members perhaps decide to drop out.

The sande participant who was interviewed at the Central Bank was a member of a group of four persons and his group members were working in other institutions. Each member of his group contributed K50 per fortnight. He had started sandaying in 1987, stopped in 1988 and rejoined in 1989. His sande receipts have been used to remit money to his extended family members in the village and to buy some electrical items for the household. He has also deposited money in his passbook savings account with a commercial bank. Another sande participant who was interviewed contributed K50 per fortnight and was a member of a group of three persons. He had joined a sande group several years ago and from time to time dropped out and later rejoined. He has also used receipts to remit money to his parents in the village and to buy a radio, among other things.

Skeldon (1980:253) reported that one sandayer in Goroka sent K90 (two-thirds of his sande) back to his village during his sande, another sent a radio, and another spent K42 (one-third of his sande) on beer for his friends. Also one person in Goroka used almost his entire sande, plus other savings, “to buy a sewing machine for his wife and carpentry tools for himself so both could go into business to increase their family income”. Some participants in the sande group in Aroma Village (referred to earlier) used their savings to replace their old fishing equipment. It appears that many participants have some definite

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Skeldon (1980:252) reported that in Goroka there was one group involving 25 workers. In my survey, two respondents reported groups involving 20 and 30 members. These can be considered unusual.
target when joining sandes. Evidence shows that the savings mobilised through sandes are used not only on consumer durables, but also for investment purposes.

The fact that sandes are more widespread among low-income households tends to indicate that these people are eager to save, despite low incomes, and the formal sector schemes are not really orientated, for some reason, to meet their requirements. The existence of sandes among employees of formal financial institutions further confirms this hypothesis and indicates that informal savings arrangements have some definite advantages over the formal arrangements.

Skeldon (ibid.:252-253) noted that some migrant workers participating in sandaying borrow money from their wantoks or seek credit from neighbourhood tradestores to tide them over their 'off' period. This supports the view that the poor have the desire and an ability to save and sometimes involve themselves in a complex network of credit in order to save a relatively large amount.

Given that sandaying is common in rural and urban areas and was observed in most institutions in the country, one could assume that a significant amount of funds is saved through this informal mechanism. Unfortunately, it is not possible to even give a rough estimate of the volume of funds involved. Also, it appears that more people participate in sandes than in the savings and credit schemes of formal financial intermediaries.

Another important informal savings arrangement is the Wok Meri groups.9 According to Sexton (1982a; 1982b), these groups originated in the early 1960s as an effort by women to improve their deteriorating economic status. The women form informal groups consisting of from two to thirty-five members to save money which is earned from selling vegetables, coffee, or occasionally, their labour. Their activities consist of two distinct phases — a savings phase and an investment phase. After a group has collected money for about five to nine years, they end the savings phase of their activity with a large ceremony (Sexton 1982a:4).

The Wok Meri organisational unit is based on kinship. Each Wok Meri group engages in savings under the leadership of one or two "big women". The big woman plays a key role in the group. She organises a new group, establishes and maintains ties with big women from other groups, arranges meetings and ceremonies and leads the ritual. The big women also encourage their group members to save more money. The big women often save more than other members.

Each Wok Meri group (known as mothers) promotes at least one new group (known as daughters) and encourages the members of that group to save money by giving them small loans to be saved. "Since there is a ban on withdrawing money already deposited in Wok Meri accounts, the daughters must quickly save money to repay their mothers" (ibid.:17). Sexton (ibid.:15) explains the operational aspects of the groups:

"Wok Meri groups have a savings system they say is similar to banking. Each woman deposits her money into an account and a record is kept in her small notebook, which is labelled her passbook. Her money is kept in her own cloth bundle or mesh bag and all the members' bundles of

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9 This section draws almost entirely on work undertaken by Sexton (1982a; 1982b).
money are stored together in the leader’s house. Money is deposited at meetings in the evening of a market day. So, the women can save some of their money, before they are tempted to spend it or are asked for money by spouses and children. Savings meetings are fairly brief affairs and provide a chance for relaxed conversation among the members before people drift off to their houses to sleep."

Each group has two male representatives — one a bookkeeper and the other a chairman. However, they are not members of the group and do not engage in savings. The members are uneducated, mature women of about 35-40 years of age. Most ‘big women’ are about fifty years of age or older.10

As in the case of ROSCAs, the amount for contribution is not fixed. Each member saves according to her ability, but with a sense of competition with others. Each group also tries to save more than the other groups. Generally, each member deposits about K1-K2 at each meeting. They meet once a week in the early stages, more often during the harvesting season of cash crops such as coffee and at later stages, occasionally. However, there are no fixed schedules for meetings.

It is not known how many such groups exist in Papua New Guinea. According to Sexton (ibid.:3) the movement is most prevalent in the Goroka District in Eastern Highlands Province and in the Chuave District in Simbu Province. However, according to informants, the groups operate in other districts as well.

Very little information is available on the amount of savings collected by these groups. Sexton (ibid.:28) reported data presented in Table 5.1 on money saved by seven groups, before they held the ceremony to finish the savings phase.11

Table 5.1: Money Saved by Members of Seven Wok Meri Groups

<table>
<thead>
<tr>
<th>Group</th>
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<th>Mean Savings (Kina)</th>
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</tr>
<tr>
<td>7</td>
<td>2</td>
<td>650</td>
<td>325</td>
</tr>
</tbody>
</table>

a Includes outstanding loans amounting to K705 given to groups that had already finished their savings phase by holding the “washing hands” ceremony.

10 In the rural society of Papua New Guinea, older married women have a relatively greater autonomy and access to money than the younger women. This explains the high average age of Wok Meri members.

11 This is known as the “washing hands” ceremony.
Unfortunately, Sexton does not report the number of years each group took to save the respective amounts. Therefore, it is not possible to estimate the average annual savings. Given that the average annual income of women is generally very low in these areas, the per capita annual savings could be considered substantial, at least in some cases.

The groups have utilised the money they were able to save and mobilise through loans, for different purposes. In the early stages, most of them have been used for group investments in "trucks" and "tradestores" (Munster 1975; Sexton 1982a). Later they have shown a greater preference to keep the savings and loans separately, perhaps due to the failure of investments made by other groups (Sexton) 1982a).

6. INFORMAL CREDIT

A multiplicity of informal credit arrangements exists in Papua New Guinea. One such important arrangement in both the rural and urban sectors is the credit extended by wantoks. In general, these loans do not carry any interest. People rely on credit from wantoks for many different purposes, including business. The business leaders in rural as well as urban sectors have made use of the tradition of combining resources of clan members to obtain credit for starting up a business. In the early periods, such credits mainly took the form of "labour services" and later the form of "cash credit". The business leaders in different parts of the country had been able to finance considerable investments through such credit, mobilised sometimes from a large number of clansmen (Finney 1968:394-410). Often these loans are made interest free and with open-ended, less clear cut repayment arrangements. However, the lender expects repayment in some form in the future.

The Wok Meri groups discussed earlier also operate in the informal credit market in addition to their savings functions. These groups have intergroup credit transactions (Munster 1975; Sexton 1982a). When a particular group holds the finishing "washing hands" ceremony, other groups extend loans to the group holding the ceremony. According to Sexton (1982a:18-19) these:

"small loans are apportioned among the group members, according to their willingness to accept debts and their ability to repay. Each member takes on the responsibility to repay each of her small loans when the creditor's group 'washes hands'. These debts are individualized, but they are not personalized. The two women know only the names of each other's villages, but the lender will also keep her own records of which ceremonies she attended, and the repayment will make its way back to her when her group 'washes hands'."

The group members continue to attend 'washing hands' until they repay the loans they received in full. As the intergroup credit arrangements are as important as savings

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12 In Tok Pisin known as "bikpela man blong bisnis".
13 Finney (1968:403) reported that one business leader raised over A$3 000 from 784 persons scattered over 19 villages.
arrangements, the Wok Meri groups may be considered another unique type of savings and credit association with distinct characteristics.  

The Wok Meri is undoubtedly a more complex system of savings and credit than the Papua New Guinean version of ROSCAs and involves a fairly long-term commitment of the members. The savings phase itself ranges often from five to nine years. Thus, the involvement of women in such groups indicates clearly their determination to save money over a long period. The ritual aspects of Wok Meri also call for greater commitment and dedication from the members (Sexton 1982b).

There are indications that some women, after going through the Wok Meri savings phase, tend to prefer less complicated, short-term involvements in ROSCAs in some areas (Sexton 1982a:24). Perhaps, when women become more familiar with ROSCAs and have greater access to a regular money income there may be a tendency among them to shift towards ROSCAs.

As noted in Section 3, semi-professional moneylenders are emerging as a new class in the urban informal credit market in Papua New Guinea. These moneylenders are not necessarily rich persons. Some have started their operations with only limited capital and gradually increased the funds available for lending. Some lenders continue to operate with a small amount of capital. These moneylenders are found in urban communities and private and public sector institutions, including schools. The most interesting observation perhaps is that they are found in private as well as public sector commercial banks. The moneylenders in these banks were providing loans mainly to their fellow employees, indicating that some bank employees also find that the informal sector offers greater advantages over the formal sector in borrowing funds.

The moneylenders deal with persons who are well-known to them in their own communities or institutions. Therefore, their operational zones are small. Some lend to their fellow office workers only, while some lend to people in the neighbourhood. Their loans are almost always for very short periods. Unlike other types of informal lenders, they specify repayment periods and interest rates. Interest rates, according to the limited information gathered, apparently vary across borrowers, partly on the basis of perceived risks. The rates vary from 10 percent to 20 percent per fortnight. In several cases, the rate was as high as 40 percent per fortnight. Thus, annualised interest rates are very high. As the loans are very small amounts and for very short periods the borrowers do not seem to consider them exorbitant or exploitative. In the absence of institutional sources to rely on for such quick service, they appear to consider these moneylenders as a group providing a valuable service to the community.

14 Sexton (1982a:30) reported that one group with savings amounting to K2 481 received K1 297 as loans from other groups while another with savings of K2 100 received K485 in loans from other groups at ‘washing hands’.

15 I do not have evidence of similar developments in the rural sector. However, several National anthropologists and economists who were interviewed, stated that such a class of moneylenders has surprisingly not yet emerged there.

16 In the survey I conducted, 14 out of 30 officers who provided information were of the view that these moneylenders provide a useful service to the community particularly in a situation where banks are not willing to provide small loans. Three respondents stated that the lenders do something ‘bad’ by charging high interest rates.
Contrary to the popular presumption that informal moneylenders somehow always fully recover their loans, the semi-professional moneylenders in the urban sector appear to face default risks and are sometimes unable to recover their loans in full. Perhaps this explains, in part, the existence of very high interest rates in this market. In addition to risks, the limited supply of funds also appears to have a bearing on the high interest rates. It is less likely for the monopoly element to be significant for a long period. The data on 23 moneylenders showed that six of them belong to the low-income category of labourers, mailboys and casual drivers and another five are clerks. Only one could be categorised as a businessman. Thus, the entry into the market appears to be easy and high monopoly profits, therefore, cannot exist for a long period of time. However, this needs to be considered only as a tentative hypothesis until more systematic and thorough research is done on the operations of these moneylenders.

Tradestores also play a major role in the informal credit market, both in rural and urban areas, by providing consumption credit. During the last two decades, the number of tradestores in Papua New Guinea has increased dramatically. According to 1980 data about 10 percent of the households in rural and urban areas each derive money income from tradestores. Evidence indicates that many tradestores have, at early stages, adopted a liberal policy of consumption credit and encountered problems (Finney 1973; Burkins 1984; Clark 1985). However, many store owners, perhaps learning from the mistakes made by themselves as well as others, now apply restrictive rules in giving credit. Such rules include giving credit only to wage-earners and giving credit to a maximum of K2 per fortnight. Some store owners also send out reminder notices after one month (Newton 1985:187). On the whole, tradestores appear to provide a substantial amount of consumption loans and thereby play a significant role in the informal financial market, both in terms of the number of persons served and the value of loans extended.

7. CONCLUSION

Although reliable data and information on informal finance in Papua New Guinea are very limited, the scattered evidence tends to indicate that a large informal financial market does exist. However, the policy makers and may researchers in the country have not realised the significance of the informal market as evident, in part, from the almost complete lack of data and information on it.

The foregoing discussion has made it clear that many people in both rural and urban areas tend to operate in the informal financial market. The fact that they rely on informal finance is indicative of its relative advantages over formal finance. For many people in the rural sector and in low-income groups, formal finance constitutes an alien system due to the restrictive rules and regulations. Also formal financial institutions impose significant transactions costs on the poorer groups in society, who want to save and borrow small amounts of money for various purposes. Formal financial institutions in Papua New Guinea have yet to introduce effective measures to mobilise rural savings, particularly from low-income groups. The poor, both in the rural and urban sectors, do not have access to short-term consumption credit, in particular, from the formal sector.

While formal sources exclude many potential borrowers, informal sources continue to serve them showing that they enjoy strong cost advantages over the formal sources, particularly when lending small amounts. A multiplicity of functions of moneylenders is one way of minimising costs. The existence of formal financial institutions which focus only on lending and do not care to mobilise deposits indicates that the policy makers have failed to learn even the most basic lessons from the informal sector.
The assumption that the poor households are unable or unwilling to save is no longer realistic. The limited evidence on the informal financial market in Papua New Guinea shows that the poor households have an ability and willingness to save, and when put together, the amounts they save are substantial. The informal market also shows this in relation to the significance of reciprocity in savings and credit transactions. The reciprocal arrangements operate as a form of social insurance and are valued immensely by people, particularly the low-income groups. However, some formal lenders do not yet seem to appreciate the value of this factor.

Informal lenders operate in a very flexible way in the market. Their terms and conditions relating to transactions vary significantly, in contrast to the rigid terms and conditions of formal lenders. Perhaps this appears to be another of the many lessons which the formal lenders can learn from the informal sector.

As there is a serious lack of data and information on the informal sector of the financial market, it is important to carry out future research work on various facets of the informal sector. Such research is likely to throw more light on operational and qualitative aspects of the market and the knowledge gained would be useful in formulating policies to serve a wider section of the community in both rural and urban sectors, through formal financial intermediaries.
REFERENCES


