Bad customer-bank relationships could be blocking SME’s access to finance in PNG

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A crucial element in the development of the Small and Medium Enterprises (SME) sector is access to finance, particularly to bank financing. In Papua New Guinea (PNG), however, many SME owners/managers decry the lack of access to finance, even when it does not appear that there is a shortage of private money in the country that can be lent to SMEs. So, what is the problem?

On the surface, it would seem that the few commercial banks in the country are not effectively dealing with their customers’ complaints; so many SME bank customers are increasingly becoming vocal about their problems dealing with their bankers. But perhaps business climate survey data might lend support to theory.

SME Perceptions of Difficulties Dealing with Banks

In a recent survey, owners/managers of (SMEs) were asked to express their opinions about the degree to which various indicators of the business environment represented obstacles to their businesses. The survey was commissioned by the World Bank and the Government of PNG as part of the SME access to finance project. The survey respondents were asked to use a four-point scale: “not an obstacle”, “minor obstacle”, “moderate obstacle”, and “major obstacle” to say what they believe is true.

Among the finance related-related obstacles, nearly 34% of SME owners and managers perceive difficulty dealing with banks as a major obstacle to their business operation or expansion. While this is less than half of the sample of respondents, the implication is clear: the policy focus should be directed towards assisting SMEs in reducing the inhibiting effect of the perceived difficulty of dealing with banks.

The commercial banks might argue that the survey results suggest policy priorities based on respondents’ answers that reflect their tendency to complain about perceived obstacles. But the response could also be symptomatic of the sensitivity with which SMEs experience the effect and report constraints on their businesses. So what is the magnitude of the effect of difficulty dealing with commercial banks on SME performance?

In a recent study of perceived obstacles to operation and expansion of SMEs – using the same survey data mentioned above, Vinod Mishra, Russell Smyth and I found an important negative link between perceived difficulty dealing with banks and the prospects of the SMEs increasing their assets or investments a lot.

Specifically, the statistically significant negative association suggest that as dealing with banks become increasingly difficult, say, by ‘one more unit’, then SME owners and managers in PNG will most likely reduce their expectations about increasing their assets or investments a lot by 2.7 percentage points.

Implications for Financial Inclusion policies

This is bad news for the Departments of Finance, Treasury and Commerce, Trade and Industry as
well as the Bank of Papua New Guinea who have been aggressively pursuing financial inclusion as one of the key policies to achieve inclusive growth. But the result also has a wider implication for Pacific Island region – PNG’s largest commercial bank, the Bank South Pacific (BSP), operates in Fiji, Niue, Solomon Islands, and has recently acquired rival Westpac branches in Vanuatu.

So even if it is not entirely clear what factors contribute to the perceived difficulty dealing with banks in PNG, it is prudent to conclude that the sentiment is symptomatic of bad SME-bank relationships, which could be blocking customers’ access to finance which, in turn, potentially derail enterprises’ plans to increase their investment and asset base a lot.

In current and future policy debates, therefore, and as a matter of utmost importance, finding a solution to the bad SME-bank relationship should be given priority as one of the most critical constraints to be addressed as part of a successful medium- and long-term SME development strategy.

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