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**SEMINAR ON INFORMAL FINANCIAL MARKETS
IN DEVELOPMENT**

INFORMAL FINANCE IN PAPUA NEW GUINEA: AN OVERVIEW

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ABSTRACT

Provides an overview of informal finance in Papua New Guinea. then goes on to describe some of the most common informal savings and credit arrangements in the country. Concludes that informal finance is quite important and that further research is needed on this topic.

INFORMAL FINANCE IN PAPUA NEW GUINEA: AN OVERVIEW

by

Nimal A. Fernando

I. INTRODUCTION

As in many other developing countries, the financial market of Papua New Guinea is characterized by a high degree of duality. The dualism is manifested in the existence of two completely different subsectors in the market -- the formal and the informal subsectors. The dualism is not based on urban-rural dichotomy. The informal finance is a characteristic feature of both urban and rural areas. Thus, the existence of the informal subsector will have to be explained not in terms of the degree of urbanization but in terms of other factors. Urbanization, however, appears to have a significant bearing on the character of informal finance, as evident from somewhat difference features between urban and rural informal markets.

The informal sector consists of a wide array of savings and credit arrangements based in part on traditions, customs, and so on, and operates outside the legal framework. Unfortunately, data and information on the informal subsector are very limited. This subsector had not attracted sufficient official as well as academic attention. Except for four or five anthropological studies dealing partially with the subject, informal finance has not been the object of research. As a result, the policy makers have very little knowledge of this segment of the financial market.

Many factors, such as the extraordinarily diverse culture and highly uneven level of development make generalizations about the informal subsector an extremely difficult task. Yet, the scattered evidence that is available and the semi-subsistence nature of the economy tend to indicate that the informal subsector is significant and probably much more so than the formal sector, as in many other developing countries, both in terms of the number of persons served and the volume of funds transacted.

The purpose of this paper is to provide an overview of informal finance of Papua New Guinea with a view to inducing further research on the subject and learning from financial arrangements in this subsector of the market in order to throw more light on policies of the formal subsector. The paper first outlines major sources and characteristics of informal savings and credit in the Economy and then discusses informal savings and credit. The final sector presents conclusions.

2. SOURCES OF INFORMAL SAVINGS AND CREDIT

The informal savings and credit market of Papua New Guinea consists mainly of relatively localized 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 family, clan 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 (which means women's work in Pidgin or Tok Pisin), 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 that is currently available indicates that both Wok Meri and ROSCAs are relatively recent developments, the former dating back to only the early 1960s and the latter with even a shorter history. Village tradestores are also a recently emerged institution and probably became important since 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 money lenders. Although such money lenders do not yet appear to be operating in rural areas, I observed a growing class of semi-professional money lenders who combine money lending with their usual occupational activities in the urban sector. The informal money lenders about whom I could gather some information included an officer working in a research institution, an accountant working in a public sector institution, a casual driver working in a hospital, clerks, typists and labourers in the formal sector. These urban money lenders provide very short term loans ranging from K10-K200, mainly for persons who are well-known to them well.

As very little is known about informal savings and credit it is not possible to comment precisely about the relative importance of different types of arrangements in the relative importance of different types of arrangements in the sphere of credit and savings. The Wantoks perhaps are a main source of both productive 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 one study on ROSCAs in a regional urban center. This particular study has been undertaken in 1974 by an anthropologist (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.

3. CHARACTERISTICS OF INFORMAL SAVINGS AND CREDIT MARKET

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

¹ Wantok is the Tok Pisin term used for one who speaks the same language.

As there is a large subsistence sector in the rural economy, based largely on family labour and to some extent exchange labour use, informal savings and credit take the form of labour and commodity exchanges, in addition to monetary exchanges. Yet, due to the influence of cultural factors some of these transactions do not precisely approach 'credit' or 'savings' activities as generally understood by those terms. Thus, one who contributes a 'pig' to a clan member to pay his '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 (Strathern 1969:43). But, this does not appear to be a widespread phenomenon in the rural informal sector of finance. Similarly, within the traditional extended family system, a great deal of credit transactions take place in the form of "labour" provided without cash payment but against future obligations.

Perhaps, the most remarkable characteristic of informal savings and credit in Papua New Guinea is the absence of a clear-cut component of interest 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. In pangia district of the Southern Highlands Province there were 297 tradestores in 1972 but only 15 of them were making a "reasonable profit" (Clerk 1985:146). A major reason for this is the high rate of default of credit.

Similarly, in the Kewabe sub-district of the 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 (Burkings 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 loans made by Wok Meri groups to other 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. These loans are made in cash, unlike the tradestore credit. 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 of many Wok Meri inter-group 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. Therefore, neither those who become savers receive an interest nor those who become borrowers pay an interest.

Another salient characteristic of the informal market is the absence of professional and semi-professional money lenders in the rural sector. While reference to such money lenders and 'loan-sharks' are common in most of the other developing countries, their absence is a conspicuous feature of the rural informal 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. Yet, 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, would 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 market.²

However, there appears to be an emerging class of moneylenders in the urban sector and semi-urban areas. These money lenders come from diverse occupations ranging from clerks and casual drivers to accountants and many of them 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 'collateral syndrome.' While the formal sector insists on collateral the informal market functions without collateral and, transactions are based on personalized relationships between the two parties. The mortgaging of assets and pawning of valuables to obtain loans are rare in this market, unlike in many other developing countries in Asia. As a result, money lending operations do not appear to result in a transfer of real assets from borrowers to lenders.³

4. INFORMAL SAVINGS

The paucity of data, information and literature makes it difficult to discuss the subject of informal savings in Papua New Guinea. An analysis of subject catalogues of the libraries of the University of Papua New Guinea and the Institute of Applied Social and Economic Research 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 a number of researchers, employees of public

² 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 money lenders.

³ 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).

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 another source of information.

In the rural sector, many people, particularly women, hoard money, both coins and currency notes. The villagers get money from different sources:

- their cash crop holdings;
- gifts from 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,

are some of such major sources (Burkins 1984; Clerk 1985).

Often, despite women's greater role in economic activities in the rural sector, they have limited access to money (Sexton 1982a:9). Therefore, when they receive some money, they tend to hoard and keep it as a secret from males. This still appears to be a widespread practice among married women. Hoarding is influenced by two major factors:

- the desire to keep it as 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, by hoarding, women attempt to reduce the problems arising out of male dominance over money. Such practices in the urban sector are, obviously, much more widespread among low income households. It is 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 savings in small amounts have a bearing on the hoarding by poor households.

An interesting aspect of informal savings in Papua New Guinea is that it is done primarily in the form of money. 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 a social value in this society, unlike in India, Sri Lanka or Malaysia.

The other most common savings arrangement is 'savings groups.' The 'savings groups' are set up for different purposes and 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, for investment in a truck or to build some form of common facility. Generally, savings are handed over to a leader who keeps 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 had been operating for a long time in the rural communities under which groups of people had collected various goods to make relatively large payments.

The other savings arrangement in the informal sector is the rotating savings and credit association which is known as sande in Tok Pisin (one of the major local languages). No work has been done on the history and various aspects of sandes except one study which deals with sandaying among a minority ethnic group -- 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. They appear to be more widespread in the urban and semi-urban areas, among school teachers, relatively low income groups and plantation labourers, but 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 Lae and Goroka (two regional towns). He writes:

"...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 the Teachers' Colleges and it "has been well developed among plantation labourers for a considerable time" (*ibid.*:253-54).

Burkins (1985:205-206) also makes reference to sande in his work on the 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 sande is more common among persons with regular and stable incomes it is found among persons with highly unstable sources of incomes as well. In Aroma village in Abau district in the Central Province, six fishing families got together to form a fishing group to earn money for sande contributions. They often went fishing as a

group and sold the individual catch to make each member's weekly contribution or K40 for sande.⁴

Available evidence indicates that women also take part in sande. Sexton (1982a:24) made reference to women's sande groups in Watabung in the Eastern Highlands Province. Tolai women in East New Britain also take part in sande.⁵ 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.⁶

Though Skeldon (1980) reported that sande is not typical of public servants, I found ample evidence of sande 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. The survey on informal finance that I carried out showed that sande is common in almost all institutions in Port Moresby.

Evidence I gathered indicates that sande is common among employees with low income, but not necessarily always limited to them. The evidence shows that:

- The groups are often small, the most common size being four or five;
- almost always the contribution interval is every two weeks (mainly because salaries and wages are paid every two weeks);
- the members are known to one another;
- every member contributes a fixed sum in each turn;
- the recipients are selected through consensus rather than lottery or other methods; and
- size of the group is kept at low levels purposely in order to facilitate transactions and avoid potential defaults.

Often the participants come either from the same occupational group or from those with similar income levels and working in the same institution.

⁴ I am thankful to Dr. Iamo Wari, an anthropologist at the National Research Institute, Port Moresby for providing me with the information.

⁵ This was revealed by Jacob Simet of the National Research Institute when I interviewed him in August, 1989.

⁶ This survey was undertaken by the author to gather some basic information on informal finance in August, 1989.

Although it is not so common, sande could be 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 sande. Usually they sande with their persons in the same occupational category or income level. However, there are exceptions. One executive-level employee who I interviewed had joined a sande group of labourers at his working place.

Often the fortnightly contribution is in the range of K20-50. Since the average size of a group is about four or five, total collection per round amounts to about K60-K200 and the cycle is completed within about 2-2.5 months.⁷ Although the cycle is much shorter when compared with that of many other countries, the participants, when started, continue the activity for about 8-10 months, thus completing several cycles. New member often join only after a series of such cycles is completed by an existing group. At this stage, some of the members may decide to drop out.

The sande participant who I 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 sande 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 some money in his pass book savings account with a commercial bank. Another sande participant who I interviewed contributed K50 every 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 rejoined. He has also in the past used receipts to remit money to 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 man 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 of 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 target when joining sande. The evidence shows that the savings mobilized through sandes are used not only on consumer durables, but also for investment purposes.

The fact that sande is more widespread among low income households tends to indicate that they are eager to save despite low incomes, and the formal sector schemes are not really oriented, for some reason, to meet their requirements. The existence of

⁷ 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.

sande 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 sande borrow money from their wantoks or seed credit from neighborhood 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 the involve themselves in a complex network of credit in order to save a relatively big amount.

Given that sande is common both in rural and urban areas and could be observed in all 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 sande than in savings and credit schemes of formal financial intermediaries.

Another important informal savings arrangement is the Wok Meri groups.⁸ 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 two to thirty-five members to save money 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 organizational unit of Wok Meri is based on a kinship unit. 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 organizes a new group, establishes and maintains ties with big women from other groups, organizes meetings and ceremonies and leads the ritual. The big women also encourage their group members to save more money. They themselves 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" (Sexton 1982a: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 money are stored together in the leader's house. Money is deposited at meetings

⁸ This section draws almost entirely on work undertaken by Sexton (1982a; 1982b).

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 in age. Most 'big women' are about fifty years or older.⁹

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 K1-2 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 (1982a:3) the movement is most prevalent in Goroka District in Eastern Highlands Province and in Chuave District, in Chimbu 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 (1982a:28) reported data presented in Table 1 on money saved by seven groups, before they held the ceremony to finish the savings phase.¹⁰

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 utilized the money they were able to save and mobilize 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 individually perhaps mainly due to the failure of investments made by other groups (Sexton 1982a).

⁹ In the rural society of Papua New Guinea, older married women have relatively greater autonomy and access to money than younger women. This explains the high average age of Wok Meri members.

¹⁰This is know as the "washing hands" ceremony.

Table 1: Money Saved by Members of Seven Wok Meri Groups

Groups	Number of Members	Savings (Kina)	Mean Savings
1	35	2 481	71
2	28	2 364	84
3	18	878	49
4	33	1 685 ^a	51
5	17	1 765	104
6	7	2 100	300
7	2	650	325

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

5. INFORMAL CREDIT

A multiplicity of informal credit arrangements exists in Papua New Guinea. One such important arrangement in both 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 purposes. The business leaders¹¹ 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 business. In the early periods such credits have taken mainly 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 mobilized sometimes from a large number of clansmen¹² (Finney 1968:394-410). Often these loans are made interest free and with open-ended, less clear-cut repayment arrangements. However, the lender expect repayment in some form in the future.

The Wok Meri groups explained earlier also operate in the informal credit market in addition to their savings functions. These groups have inter-group 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

¹¹Known as "big fellow man belong business" in Tok Pisin.

¹²Finney (1968:403) reported that one business leader raised over A\$3,000 from 784 persons scattered over 19 villages.

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. Since the intergroup credit arrangements are as important as savings arrangements, the Wok Meri groups may be considered another unique type of savings and credit association with distinct characteristics.¹³

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 some 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 regular money income there may be a tendency among them to shift towards ROSCAs.

As noted in an earlier section, semi-professional money lenders are emerging as a new class in the urban informal credit market of Papua New Guinea.¹⁴ These money lenders are not necessarily rich persons. Some have started their operations with a small capital and increased over time the funds available for lending. Some lenders continue to operate with a small amount of capital. These money lenders may be found in urban communities, and private and public sector institutions, including schools. The most interesting observation perhaps is that they could be found in private as well as public sector commercial banks. The money lenders 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 money lenders 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 office mates only while some lend to people in the neighborhood. Their loans

¹³Sexton (1982a:30) reported that one group with savings amounting to K2 481 received K1297 as loans from other groups while another group with savings of K2 100 received K485 in loans from other groups at 'washing hands.'

¹⁴I do not have evidence of similar developments in the rural sector. However, several national anthropologists and economists who I interviewed, stated that such a class of money lenders has not yet emerged there. Surprising!

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 I was able to gather, 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, annualized 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 money lenders as a group providing a valuable service to the community.¹⁵

Contrary to the popular presumption that informal money lenders somehow always recover their loans in full, I observed that the semi-professional money lenders in the urban sector appear to face default risks and are sometimes unable to recover their loans in full. Perhaps this may explain in part the existence of very high interest rates in this market. In addition to risks, 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 money lenders showed that six of them belong to the low income category of labourers, mailboys and casual drivers and, another five were clerks. Only one could be categorized 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 money lenders.

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 the Population Census of 1980 about 10 percent of the households in rural and urban areas each derive money income from tradestores. Evidence indicates that many trade stores have, at early stages, adopted a liberal policy of consumption credit and encountered problems (Finney 1973; Burkins 1984; Clerk 1985). However, many store owners, perhaps, learning from the past 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 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.

¹⁵In the survey I conducted, 14 out of 30 officers who provided information were of the view that these money lenders 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.

6. CONCLUDING REMARKS

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

As is evident from the foregoing discussion it is 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 poor, 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 mobilize rural savings, particularly from low income groups. The poor both in 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 money lenders is one way of minimizing costs. The existence of formal financial institutions which focus only on lending and do not care to mobilize deposits indicates that the policy makers have failed to learn from the informal sector even the most basic lessons.

The assumption that the poor are unable to and, do not, save is no longer realistic. The limited evidence on the informal financial market of 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. Also, as shown by the informal market is 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. Yet, some formal lenders do not 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 rigid terms and conditions of formal lenders. Perhaps, this appears to be another of the many lessons 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 direct 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 so 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.

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