Economic and Financial Review

Volume 35 | Number 3 Article 6

9-1997

Mobilizing Rural Savings in Papua New Guinea: Myths, Realities, and Needed Policy Reform (N.A. Fernando, The Journal of Institute of Development Economics, Tokyo, Japan, Vol. XXIX, No. 1, March, 1992)

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MOBILIZING RURAL SAVINGS IN PAPUA NEW GUINEA: MYTHS, REALITIES, AND NEEDED POLICY REFORMS [N. A. FERNANDO, THE JOURNAL OF INSTITUTE OF DEVELOPING ECONOMICS, TOKYO, JAPAN, VOL. XXIX, NO. 1, MARCH, 1992]

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INTRODUCTION

A review of the article "Mobilizing Rural Savings in Papua New Guinea: Myths, Realities and Needed Policy Reforms" is imperative considering the efforts of the Federal Government and monetary authorities, especially the Central Bank of Nigeria to mobilize rural savings in Nigeria. This is evidenced by the establishment of the Nigerian Agricultural and Cooperative Bank (1973), the Agricultural Credit Guarantee Scheme (1977), the Central Bank of Nigeria Rural Banking Programme (1977), the Peoples Bank (1990) and the Community Bank (1990) nationwide.

SUMMARY OF THE PAPER

In this paper, the author highlights that voluntary rural savings mobilization has been a "neglected area" in the rural development of Papua New Guinea due to deliberate government policies since independence (1975) and the demise of Savings and Loan Societies (SLSs). He argues that the SLSs which were introduced in 1963 as an ideal 'pre-banking' system to reach rural people later concentrated in the urban centres due to lack of patronage, neglect by the Central government and the type and policies of state-owned financial institutions. For instance, the Agriculture Bank of Papua New Guinea (set up in 1967), which is supposed to contribute considerably towards rural development and has legislative powers to "accept deposits", has been operating only as a lender, even since independence. Similarly, the state-owned commercial bank, the Papua New Guinea Banking Corporation (PNGBC) is deficient in rural savings mobilization because of her inability to grant loans. They provide only passbook savings and withdrawal facilities, and the interest rate policy on passbook savings accounts, does not offer a sufficient positive real interest rate.

Other arguments advanced for low rural savings in developing countries include low income and the cost of savings mobilization by certain formal institutions. This poverty explanation/argument for neglecting rural savings in developing countries has, however, been challenged by some scholars.

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For example, Von Pischke (1978) argues that irrespective of income levels almost everyone saves at least for short periods as "saving commonly proceeds expenditure" and there is no "minimum holding period for funds not spent to be considered as having been saved". Thus, it is inappropriate to conceptualise savings as a residual of income after consumption.

Empirical evidence from a large number of Asian and Latin American countries also suggests that the rigid notion of low or zero savings capacity of rural households is unrealistic. Rural households are believed to have high propensity to save than what is generally assumed by the policy makers. In Papua New Guinea rural households have been not only regular savers but also have exhibited a significant capacity to save.

Savings in kind has been a common practice among rural Papua New Guineans. This entails inter alia: saving a proportion of the food production in "yam houses," built specially for the purpose; deferring the harvesting (save in the ground) of kau kau (sweet potatoes) which is the staple food in many rural areas - for future use; and distribution of surplus production among wantoks (relatives and friends who speak the same language) has been practised in part as a method of saving due to the significance of reciprocity in the rural society. Other forms of saving by rural Papua New Guineans include hoarding money in tin boxes in the house or burying it underground, hiding money between the pages of books, and giving money to older people for safekeeping. The hoarding of money was a significant problem in the rural sector during the 1960s. In 1967 A. R. Lanes (1969:67) estimated the hoarded money to be Australian $2-3 million.

Data on SLSs further proves the saving habits and capacity of rural Papua New Guineans. The number of SLSs increased from 4 in 1963 to 221 in 1969 with the membership rising from 209 to 11,238 during the same period. The total deposits in these societies upsurged from Australian $6,256 in 1963 to $781,481 in 1969. This tremendous growth was recorded despite very low levels of socioeconomic development, per capita incomes, monetization, and infrastructural facilities.

The Rotating Savings and Credit Association known as Sande is a popular informal arrangement of savings and credit among the rural populace. The Sandes are found among migrant workers in coffee and cocoa plantations, settlers in oil palm schemes, small-holder growers of cash crops, fishermen, poor women and prominently among low-income households.

'Work Meri' groups made up of women only also play a vital role in the savings habit of rural Papua New Guineans. Another significant savings arrangement is "savings groups" which are set up for different purposes and composed of members of a given tribe, village, clan, or sub-clan. The small-holder cash crop sector also acts as financial intermediaries among the growers of coffee and cocoa.

According to the author, a major bottleneck in Papua New Guinea appears to be not the lack of savings habits and capacity, but lack of appropriate incentives, easy access to appropriate institutions, and measures to mobilize potential savings in the rural sector. He opines that mobilization of rural savings by formal institutions would result in an improvement in rural distribution of income provided that such institutions pay positive real rates of interest on deposits and keep transaction costs at low levels. The non-payment of interest on deposits by both the Sandes and the Work Meri groups accounts for the inequality of income distribution among the rural populace. As such, formal sector involvement is likely to provide better returns to the rural savers and thereby improve rural income distribution, resource allocation, financial viability of lenders, and level of investments, etc. If the formal sector financial institutions can mobilize a greater amount of domestic savings, the government of Papua New Guinea may be able to reduce foreign borrowings, as the substitutability of domestic savings for foreign borrowings is much higher than what is generally assumed by the policy makers. Similarly, the commercial banks will be able to accommodate the demand for credit from the private sector, provided that the government sector demand will not lead to a greater "crowding-out" effect under this arrangement. The reforms in interest rate policy that will be necessary to mobilize rural savings will boost the lender's risk bearing capacity. The lenders may in turn increasingly look for cost effective financial innovations as lending to the rural sector appears to be a profitable rather than a "loss-making" proposition.

The author suggests that the PNGBC should introduce innovative, cost effective ways of reaching rural households with both savings and credit facilities and other financial services. This is because without easy access to financial institutions, a higher positive real rate of interest would not serve a useful purpose to the majority of the rural populace in remote areas. The policy reforms before policy makers should include inter alia:-

i. Improving infrastructural facilities at the rural areas.
ii. Introduction of cost effective measures aimed at minimising transaction costs to both the institutions and their clients.
iii. Establishing communication links with formal and semi-formal groups so as to enhance accessibility to the rural populace.
iv. Exploring the self-help groups in the rural sector.
v. Promotion of SLSs in the rural sector since they provide both savings and credit facilities unlike the agencies of the PNGBC which provide only savings facilities and the ABPNG which provide only credit facilities.

vi. The Agricultural Bank as well as the PNGBC could establish links with the SLSs to make them more active and resourceful in both savings mobilization and in channelling credit to the rural sector.

vii. Introduction of appropriate savings instruments for rural savers instead of them to rely only on the passbook account scheme.

viii. Reducing the minimum balance requirement of 20 Kina for the passbook account holders since many rural households average annual income is lower than 100 Kina.

ix. Savings instruments should be re-designed to cater for the needs of not only the educated but also the illiterates since adult literacy is only 45 per cent in Papua New Guinea.

x. Savings/literacy enlightenment campaigns should be widely embarked upon.

COMMENTS

The standard of this technical paper is quite high. It provides an insight into the problems and prospects of mobilizing rural savings in Papua New Guinea. The paper represents an objective assessment of the savings habit of the rural dwellers. The author seems to disagree with the view that rural Papua New Guineans have no propensity to save. The experiences recorded based on various empirical studies are vital to developing countries, including Nigeria. The policy reform measures proposed are equally of much relevance to the Nigerian situation. This is due to the fact that despite the existence of some rural branches of commercial banks, most of the branches of Peoples Bank and Community Bank are concentrated in the cities and other urban centres and they do not have agencies in the remote rural areas. Majority of the rural populace in Nigeria keep their money with elders, under pillows, in pots either buried underground or kept on top of trees. This practice is however, common among the illiterates since they constitute the majority.

This assertion is evidenced by the large volumes of mutilated currency notes that often originate from such areas. Of recent, the prevalence of financial distress in some commercial banks coupled with the closure of the urban and rural branches of such banks has also hindered formal financial intermediation among the rural populace in Nigeria. Similarly, the Rotating Savings and Credit Associations known as the Esusu or Susu are not spatially spread in our rural areas.

The author believes that if the recommended policy reform measures are properly implemented, the level of savings in Papua New Guinea and other developing economies would be quite high. The paper is quite interesting and it is recommended for those interested in the informal financial sector, not only in Papua New Guinea but in developing economies as a whole.