South Asian economic models for the Pacific? The case of microfinance

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The 'microfinance evangelists' tend to overlook the fact that the Grameen Bank system of microfinance is a solution to a problem that has its origins in the particular socio-cultural conditions of an Asian rice economy. While the general features of this form of village economy are found in many places throughout the world, the perspective of economic anthropology suggests that the particular socio-cultural conditions of the Pacific's root-crop based economy pose particular problems for microfinance development projects.

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Muhammad Yunus's establishment of the Grameen Bank in Bangladesh in the 1970s has revolutionised microfinance both in Bangladesh and the world more generally. The Grameen Bank, which now works in 36,000 Bangladesh villages and gives loans to over 2 million (mostly women) borrowers, has become something of a Mecca for aid workers keen to replicate the model elsewhere. Microfinance enterprises have not only been established in Africa, Latin America and the Pacific, they are also being developed in the poor neighbourhoods of rich countries. Needless to say, the experiment has captured the attention of academics from many disciplines and a vast literature now exists.¹

There can be no doubt that the microfinance revolution is an exciting new development that has helped many poor people and will continue to do so. However, the uncritical enthusiasm of the 'microfinance evangelists' is beginning to be challenged. For example Buckley (1997) suggests that extensive donor interest in microfinance in Africa offers the illusion of a quick fix rather than a solution to the real problems that microentrepreneurs face. Rogaly (1996) also offers a swingeing critique of the 'hard sell' of a new anti-poverty formula. Given that microfinance is now being considered as a policy option for the Pacific, a critical appraisal of the applicability of this Asian economic model...
for the Pacific is called for. By means of a general comparison of the village economies in both regions, I will argue that microfinance projects in the Pacific will encounter difficulties even if we make the contrary-to-fact assumption that the policy, legal and regulatory framework is optimal, and that financial institutions function perfectly.

As my perspective is that of an economic anthropologist rather than a development economist it is necessary to briefly outline the scope and limits of my argument. Zander (1997:45) distinguishes three levels of microfinance-policy analysis:
- the macro-policy level, the enabling environment concerned with the policy, legal and regulatory framework
- the institutional level, the microfinance institution as the key instrument of policy
- the household level, the socioeconomic conditions of the project clients.

The economic anthropologist is concerned with the household level of analysis. They examine the socio-political context of case studies and strive to achieve generality by means of the comparative method. Development economists, by contrast, are primarily concerned with the other two levels of analysis. Most of the writings on the subject have been rationalist in the best sense of that much-maligned term. They argue, for example, that if financial sustainability is a goal then certain consequences follow. For example, if costs exceed revenue and if the costs cannot be reduced or if the interest rate on loans cannot be raised, then the economist tells us the project will fail (see McGuire 1996). One cannot dispute logic of this kind. When development economists and others write about target groups they correctly acknowledge that microfinance projects must be tailored to suit the particular socio-cultural conditions of particular regions (Yaron 1994) but we get little analysis beyond that. In this sense, then, the economic anthropologist’s approach complements, rather than contradicts, that of the development economist.

Comparative economic issues: similarities

The economic anthropologist uses an historically-informed comparative method when trying to grasp the microeconomy of a place like Papua New Guinea. This perspective enables us to understand what the PNG economy has in common with other economies and where it differs.

On the similarity front, one point is clear. Papua New Guinea, like every society in the world today, is very much part of the global market economy. The people of Papua New Guinea understand the values that inform the market and eagerly participate in it. PNG people, like people anywhere, prefer more money to less; they also understand the ancient mercantile principle that one must buy cheap and sell dear if one wants to make a profit.

Some people argue that these commercial principles are subordinated to the wantok system in Papua New Guinea.

The wantok system, while being an economic safety net for vulnerable groups, also acts as a severe disincentive for individual economic development, as those seen to have wealth are targeted the most (Hickson 1997:3).

The idea that the wantok system works to destroy PNG commercial enterprises is based on a fundamental misunderstanding about the general relationship between kinship and the economy. Kinship values are often seen as antithetical to the values of commerce. While they are different they are not always antithetical. Indeed, I would...
argue that not only is kinship the secret to many commercial enterprises throughout Asia and the Pacific, but that it is also the key to the success of many enterprises in the ‘developed’ world. In Australia, for example, it is estimated that some 80 per cent of all businesses are family businesses (Australian Centre for Family Business, Bond University).

The wantok system also includes friendship relations as well as kinship. In Australia we call this mateship. This has good and bad connotations. Insofar as the latter is concerned, the many commissions of inquiries into corruption in Australia serve to remind us that the Papua New Guinea’s wantok system is a variation on a theme that is found in all economies.

The values of the market are not the only values that people live by. The values associated with friendship and kinship, such as prestige and honour, coexist with those of commerce. Rationalist economics has its place, but its limits become obvious when it comes to understanding the social and cultural contexts of economic action. People everywhere are motivated by many values; they switch between these according to the contingent circumstances they find themselves in.

The uniqueness of the indigenous PNG economy

What is unique about the PNG economy? There are many ways to approach this question. One way is by means of a contrast between economies based on a culture of rice production and those based on a culture of root-crop production. Papua New Guinea, along with most other economies of the Pacific, is a root-crop culture in that products such as sweet potatoes, sago, bananas, yams, taro and the like constitute the staple diet. Most villages in Asia, by way of contrast, are based on rice. This distinction is of fundamental importance for understanding the two regions because the two staples have radically different ecological, social, cultural and economic consequences. Rice cultures, for example, have higher population densities but it is the socioeconomic differences in surplus production, systems of property, and modes of exchange associated with population density that is the crucial factor.

Rice economies are surplus production cultures whereas root-crop economies aim for mere sufficiency. The paradox of rice cultures is that only a small minority of the population—the landlords and the rich farmers—are able to produce marketable surpluses. The majority of the population cannot produce enough rice to survive. They have rice deficits of varying sizes which means that to survive they have an economic need to engage in a range of market-oriented activities including small-scale trading, artisanal production, daily labouring, and so on (Gregory 1997).

Associated with this is a particular form of land tenure. Instead of the large consolidated block of land that characterises capitalist farming of the Australian type, peasant proprietors have private property rights to a range of tiny scattered plots. A relatively well-off farmer may possess a holding of 20 acres consisting of six or seven scattered plots, many have holdings of around 5 acres consisting of 3 to 4 plots, and some have no land at all (Gregory 1997).

Land of this kind rarely reaches the market. Its transmission and division is determined by kinship, marriage and inheritance systems. Everybody knows how much land everybody else owns. In many countries village accountants keep these land records and they provide a precise measure of poverty.

This, in turn, is associated with a system of rural periodic markets where
villagers can sell their produce and buy the food, clothing and other necessities. The markets also provide poor villagers with opportunity to engage in petty trading to earn extra income. It is important to note that the temporal distribution of markets of this kind—a Sunday market in one small town, a Monday market in another, and so on—means that any village is no more than a few hours walk to a market (Gregory 1997).

In 1953 an economic anthropologist (Tax 1953) coined the phrase ‘penny capitalism’ to describe indigenous economies of this type. Microfinance, from this perspective, is another name for ‘penny finance’ and it is no accident that it has its origins in a penny capitalist economy. Penny finance is most likely to succeed in those countries whose indigenous economies are of the penny capitalist type. The literature from Asia confirms this: most loans go to penny industrial capitalists — artisans such as blacksmiths, potters, and so on, who require an advance of capital in the form of raw material — and penny mercantile capitalists such as the woman trader who needs the capital to buy her trading stock.

Are the socioeconomic characteristics of root-crop cultures penny capitalist? By the criteria outlined above — surplus production, land tenure, and indigenous exchange system — the answer is a most definite negative. Capitalism in Papua New Guinea is of the stalagmite dollar (‘top down’) variety not the grassroots (‘bottom up’) penny capitalist kind found in rice cultures.

Surplus production is possible in rice cultures because of the botanical characteristics of rice. It is a seasonal crop that is readily stored and self-reproduced. Root crops are not homogenous in their botanical characteristics. Some, like sweet potatoes, are perishable and have no seasonality. They are simply harvested as required. Others, like yams, are seasonal.

As such, surpluses are possible but in the few places where they are produced the motive is chiefly prestige rather than capital accumulation. Generally speaking, most farm households in Papua New Guinea, droughts aside, are able to produce sufficient food to survive. Some people use the term ‘subsistence affluence’ to describe the situation. What this term means, is that, compared to rice cultures, most people in root-crop cultures have no economic need to engage in a variety of penny capitalist activities in order to survive on a day-to-day basis.

Consider now the land tenure system found in root-crop cultures. This is very different from that found in rice cultures. Instead of fragmented scattered plots, land tenure in Papua New Guinea is ‘customary’. Any given piece of clan land is subject to a myriad of complementary and conflicting claims. People have different rights of access to a given piece of land depending upon their kinship status as lineage member, affine, adoptee, and so on. They will also claim rights to land their forefathers lost in battle, claims hotly contested by the clans that won the battle. So whereas land tenure in a rice culture is for the most part clearly defined, unambiguous, and registered with the state, land tenure in root-crop cultures is most unclear, riddled with controversy, unmapped, and unregistered.

Finally, the indigenous exchange system associated with this system of subsistence production and tenure is unique. Papua New Guinea had none of the periodic marketing systems indigenous to rice cultures. There were trading links based on barter but it is competitive gift exchange that Papua New Guinea is famous for in anthropological circles. These exchanges were and are primarily political rather than economic; they were battlegrounds for prestige rather than profit (Gregory 1982).
Whereas the indigenous economies of Asia are penny capitalist, the indigenous economies of Papua New Guinea are not. This does not mean that penny finance-led development is impossible in Papua New Guinea but it does mean that such a development strategy is fraught with difficulties. To gain some understanding of the prospects for such a strategy, we need to look at some of the features of the 'top dollar' capitalism established in Papua New Guinea by the colonial powers.

While the PNG economy today is still very much a root-crop economy from the point of view of subsistence consumption, many villagers produce cash crops for the world market, of which coffee, palm oil, cocoa and copra are the most important. The money earned from the sale of these crops is now an integral part of the indigenous economy and society. Not only do they use it to purchase clothing, trucks and other imports, money is also used in non-market activities such as marriages and other cultural rituals.

Papua New Guineans are victims of the global market forces. This can be beneficial, as has been the case since 1993 when kina prices for coffee and cocoa doubled in price in the space of two years, leading to a frenzy of commercial activity in certain areas. But it highlighted a principal contradiction in the PNG economy, the contradiction is that in Papua New Guinea marketable products are being produced on land that is not itself marketable. Land in Papua New Guinea, and the Pacific generally, is still, for the most part, under customary tenure (see Larmour 1991; Lundsgaarde 1974; Ward and Kingdon 1995). As such it has no money value because it cannot be alienated. Unlike the case in rice cultures, no one individual member of a clan can decide to sell it or to will it for the exclusive possession of his son or daughter. To act in such a way would be to deny the rights of others to the land. But the fact that cash crops are being produced on this land gives it an implicit value. This would not be a problem, but for the fact that land can become damaged and/or alienated and owners receive compensation. The absence of private property rights in land poses a unique distribution problem.

Such questions arise in the contexts of natural resource developments. The macroeconomy of Papua New Guinea is dominated by exports of gold, oil, copper and logs which, between them, account for some 85 per cent of export income. The macroeconomic logic behind the development of these projects is that they will increase government revenue and enable more money to be spent on school, health, roads and the like. As a top-down perspective, this theory is sound but the village people tell a different story as their schools run out of books and pencils, their children die for want of basic medical services, their forests are destroyed, and their rivers polluted; they argue, with some justification, that they bear the costs and get none of the benefits of these projects (see Kirsch 1997; Schieffelin 1997). As such they are driven to fight for their benefits through compensation claims for alienated and damaged customary land.

Demands for high compensation payments began to skyrocket when government policy moved in the direction of resource development over a decade ago (for a discussion of these issues see Scaglion 1981; Toft 1997). These claims have become so high that some people now argue that they are hindering development. For some policymakers the answer is simple. Customary land tenure is a barrier to development because it cannot be used as collateral. The solution: reform land tenure.

The World Bank proposed this long ago, but when the Chan government tried to introduce a proposal to register customary land in 1995 it was met with
overwhelming opposition from the general public. The government put the proposal aside after a series of demonstrations during which property was destroyed and people were killed (for a Papua New Guinean perspective on this event see Lakau 1997).

At the micro level these problems continue. Ethnographic studies of contemporary land tenure disputes show that violence or excessive litigation resolves disputes. One example from the PNG Highlands can illustrate this point (Westermark 1997). The government acquired land near Kainantu for the town. A compensation claim was made and the government figured that paying $6,000 in compensation was preferable to waging a legal battle. It divided this land up into four $1,500 lots to be shared equally between the four villages involved. As it turned out, these were all of one clan and other clans in the village were upset. In one village a leader gave $200 of the $1,500 to another clan. This was returned and court proceedings began to get more. Thirteen months and eight court hearings later, the defendant was ordered to pay $300.

In the more remote areas natural resource exploitation is giving uninhabited forest lands a new value. These lands, whose significance for neighbouring villagers was usually more religious than economic, have been the subject of various forms of competing traditional ownership claims. However, these competing claims were of no significance because of the lack of a context in which they could be contested. Natural resource developments have changed all this. There is now a scramble to register a customary claim. Some of these are no doubt opportunistic but this is not to deny the validity of many other overlapping claims. The problem is a most intractable one. It pits kinsmen against kinsman, clan against clan, and villages against the government and business. This fact suggests that many of Papua New Guinea's law and order problems have their origin in the material conditions of economic production rather than in any psychological predisposition of the people.

The following case illustrates something of the complexities involved in a customary land tenure dispute. Among the Gende (Zimmer-Tamakoshi 1997), one's right to land is determined by the contribution one makes to one's father's mortuary ritual payments. X, a long-term migrant who was away from his village when his father, Y, died, was not able to contribute to his father mortuary ritual. His role was taken over by Z, his father's brother's son, who thereby acquired rights to Y's land. It also obligated X to Z, which X resented. They feuded for years and eventually X ended up killing Z in a fight.

Economics is ultimately about relationships between people. These relationships are always complicated but the types of complications we find in Papua New Guinea have few parallels elsewhere in the world. Rice cultures are characterised by a recognisable pattern of complicated social relations, which the term 'penny capitalism' captures. However, the pattern of social relationships found in root-crop cultures does not replicate this. As such, an institutional replication of the Grameen Bank type would seem to have very little chance of success.

What policy?

In applying the microfinance model to other cultures, what needs to be replicated is the thinking behind the development of the Grameen Bank in Bangladesh, not the institution itself. The Bank is a grassroots answer to a grassroots problem. Yunnus, a Bengali with an intimate understanding of the social and cultural contexts of village economic activity in his country, spotted a
problem and fought to overcome it. Here are some penny capitalists who need
penny finance, he noted, how can they get access to finance when they have no
collateral? His answer, a village bank, was appropriate to the problem in hand. It
should be noted too that recent studies suggest that the key to the institutional
success of his bank is not so much peer group pressure to repay as the peculiar,
almost military-style, institutional culture that pervades the bank (Jain 1995).

Policies for the alleviation of poverty in
Papua New Guinea require a special
understanding of the uniqueness of Papua
New Guinea's root-crop economic culture.
If this is a challenge for the policymaker, it
is also a challenge for the academic. The
history of theorising about the socio-
economic situation in Papua New Guinea
is a history of misinterpretation and error.
This is because PNG people use familiar
objects such as money in most unfamiliar
ways and it is very easy for an outsider
misinterpret the activity in question. The
women's savings and loans clubs are a
case in point. These are as much about
politics and religion as they are about
economics. Power is everywhere but
everywhere different. Understanding PNG
society and culture, presents us with an
extraordinary intellectual and moral
challenge. We shouldn't expect to resolve
this quickly and we should expect to make
mistakes. The solution must come from the
PNG people, of course, but it is legitimate
to ask how an aid agency might facilitate
the process.

A grassroots strategy of development
must begin with root-crop cultures found
in Papua New Guinea. The main root crops
—yams, sweet potatoes, sago, and taro—
require different ecological conditions,
support different socioeconomic systems,
and require different policies. If these
systems are so many rows on a matrix then
they must be seen in the light of the
columns for cash crops, timber resources,
and mining resources which, in turn,
require different policies. A third dimension
is the distinction between urban and rural.

Only those areas where there is
vigorouc cash-cropping near urban areas
stand any chance of success of supporting
a microfinance project. Even then, the
finance required is likely to be macro rather
than micro—a truck rather than a bicycle,
an outboard engine rather than a paddle,
four hundred coffee trees not four, and so
on. Such a target group is not the poorest of
the poor in Papua New Guinea but the
poorest of the rich. The richest of the rich
are well financed by the big banks, the
natural resource companies. The least
advantaged are those who live in the
remote areas. Their desires for money run
the danger of becoming millennial if their
dreams, excited by the geologists and
foresters who trample their land, are not
realised. For them a road or a riverboat is a
necessary prelude to any development
project. At present they must choose
between the money dreams peddled by the
logging companies or the ecological
nightmares peddled by the non-
government organisations.

Another problem is that villagers do
not speak with one voice. Anthropologists
specialise in trying to get the villager's
point of view. When we do this we find
that we must distinguish between the
village headman's, the poor man's and the
woman's perspective. In the bush the
headman's is often turned by the lure of the
logger's dollar but not always.

Here is what I heard when I spoke to
representatives from these three groups in
a village in Port Moresby two years ago.

Headman: I told the 2,000 members of
my clan that we shouldn't waste our
$2 million compensation money up by
dividing it up into so many little
lots but that we should form a company
and use this as capital and start
a clan business. However, they were all too greedy and wanted their little bit.

**Poor man:** I had to use my $1,000 compensation money to pay the bridewealth of my daughter. In any case, I think that family-based fishing businesses are better than clan-based ones. If I could get a loan of $10,000 I could buy a fibreglass boat with outboard and pay off the loan in a few years. My ancestors have been fishing this area for generations and I do not have to use dynamite to catch my fish like those Hula people. They are destroying the reefs in this area. What does the government do about it? Nothing. Instead the bank lends them money to buy their boats.

**Woman:** I can make good money by selling cakes to the workers in the morning. But it is very hard work. I have to work all day in the office and then come home, cook the meals for the men and clean the house. The men sit around and do nothing. I have to hand my money over to them. When I was baking cakes I had to stay up to 2am in the morning baking. I could make a good business out of this but I earn a regular income from my wages and I could not risk losing this while I set up business. I would like to set up this business for my daughter but I don’t have anyone to help me. I would need to buy a bigger stove for example, and this would cost K1,000.

These anecdotes give us some indication of the problem villagers in the capital city face. On the face of it, these villagers seem relatively well off. Some are, but the majority are not. Education levels are falling dramatically. The schools have no books. People die young, often due to unknown (water-borne?) diseases. Finance is not the answer to their problems but it would help. Microfinance—loans less than K800—would not be much use. Bigger amounts are needed. Village banks would be useful, but what sort?

A land compensation bank (or some such similar scheme) would help the headman in this village. This would ensure that compensation payments are preserved as large amounts to finance clan projects. It may even resolve inter and intra-clan disputes over land if some legislation was enacted to give customary landowners some form of official tenure. This is a fraught area, but even the most strident defenders of customary land tenure recognise the need for some reform.

A bank that favoured village women over village men would exacerbate existing tensions between men and women so why not a bank for women and a bank for men? Such banks could build on existing women’s and men’s clubs in Papua New Guinea. As such, their goals would have to encompass social welfare as well as economic ends.

The problem of microfinance in Papua New Guinea has no simple solution. I have put these ideas forward as the sort of issues and solutions that may emerge from a consultation process that involved village people. What we can be sure of is that any village bank proposal that does not take account of the particular sociocultural conditions found in Papua New Guinea, and does not involve the active participation of the village people in the policy planning process, will surely fail.

**Key points**

- The Grameen Bank system of microfinance is a solution to a problem that has its origins in a rice culture. Given that more than 95 per cent or more of the world’s poor live in such cultures the hype surrounding microfinance is understandable (Rogaly 1996); sustainable microfinance projects obviously should be encouraged. However, a sceptical approach to ‘microfinance evangelism’
is also needed. This is especially so in non-rice economic cultures areas. The Pacific is such a case.

- Papua New Guinea has a root-crop economic culture. As such is has different problems which require different solutions. The Grameen Bank model of microfinance is not a solution to Papua New Guinea’s problems, but, rather, yet another problem. PNG farmers are the best root-crop producers in the world. Aid projects should take cognisance of this fact.

- There is a need for credit in Papua New Guinea but, given Papua New Guinea’s economic history, this needs to be of the ‘dollar’ rather than the ‘penny’ capitalist variety. Development of such a project must be tailored to meet specific local needs rather than the ‘poorest of the poor’. Such tailor-made projects require tailor-made preliminary investigations. The work done by the Mapping of Agricultural Systems Project provides a sound basis for such work (see Allen et al. 1995; Bourke et al. 1993).

- A credit system has no prospect of being economically viable in the remote areas. Indeed, any microfinance bank that relies on anything other than foot or cycle transport for its officials is unlikely to be viable.¹

- My analysis suggests that problems with microfinance projects will arise even when there are no policy or institutional failures. Given the policy and institutional problems facing Papua New Guinea at the moment, the question of whether or not AusAID should even be involved in private sector development of this kind must be posed.

Notes

¹ A guide to this can be found at the Grameen Bank’s web site: http://www.citrecho.net/grameen.

² A recent study on the role of commercial banks in microfinance in the Asia-Pacific region (Foundation for Development Cooperation 1998) notes that the largest program in the Pacific, Liklik Dinau Abitore Trust in Papua New Guinea, had only 334 clients in June 1998 and that most of the schemes in the Pacific have been unsuccessful so far. Asia, by contrast, houses six successful microfinance ‘giants’, each of which has over one million clients.

³ A number of useful case studies of microfinance and other rural finance institutions in the Pacific have been made (see Fleischer 1996, Hickson 1997, Kannapiran 1994, 1995). Policy and institutional failure is a common theme of these accounts. With the Lik Lik Dinau Abitore Trust, for example, it costs K10 to lend K1 (Fleischer 1996:32).

⁴ It is relevant to note that my argument is informed by my experiences in Papua New Guinea, where I was a lecturer in economics at the University of Papua New Guinea in the mid 1970s, from fieldwork experience in central India at various times since 1982, and from my own theoretical perspective on economic theory (see, for example, Gregory 1982, 1988, 1997, Gregory and Altman 1989).

⁵ It is possible, of course, to debate the desirability of the goal of financial sustainability. Some people argue, for example, that the Grameen Bank’s unsustainable ratios can be justified because of the social objectives they achieve (see Counts 1996, Hossain 1988, Jain 1995, Yaron 1994). Such issues are first-level policy matters.

⁶ For an analysis that combines the anthropological case study method with sample survey data see Hashemi, et al. (1996), Schuler and Hashemi (1994).

⁷ Fleischer (1996:25) when comparing that the Lik Lik Dinau microfinance project in the Highlands of Papua New Guinea the
wak meri movement claims that the ‘two schemes have some similar characteristics’. Warry (1987:165), an anthropologist, reports that women involved in the movement stress the differences not the similarities. For example, once a woman has made a contribution to wak meri she cannot withdraw it until the group dissolves.

One anthropologist with long experience in Papua New Guinea has suggested the need for a Compensation Commission with an ecological focus (see Strathern 1997).

Hickson (1997:40) relates a case where driver and branch manager travelled 70 kilometres in a 4WD vehicle to collect K20. He estimated the cost of collection to be K55.

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