PERFORMANCE ANALYSIS OF "GOROKA MICROCREDIT SAVINGS TRUST": A MICROFINANCE INSTITUTION IN PAPUA NEW GUINEA

By

FELIX GREGORY BABLIS

Bachelor of Education
University of Papua New Guinea
Port Moresby, Papua New Guinea
1989

Master of Philosophy
Massey University
Palmerston North, New Zealand
1993

Submitted to the Faculty of the
Graduate College of the
Oklahoma State University
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Thesis Approved:

James P. Key
Thesis Adviser

Robert Terry

William D. Warde

Dean F. Schreiner

Catherine M. Sleezer

Wayne B. Powell
Dean of the Graduate College

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CHAPTER I

INTRODUCTION

Empirical research on successful Microfinance Institutions (MFIs) has established the fact that the concept of "programs that extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families," especially in third world countries, is meaningful and sustainable (Results Educational Fund, 1997, p.1). Among many such models in the world, the Grameen Bank (GB) model of Bangladesh gained prominence due to its high degree of success in terms of self-sustainability and consistent repayment rates of 90 to 98 percent. Also, phenomenal is GB's outreach to more than two million poor women after almost two decades of operation. The founder of GB best articulated the need for, "Credit as a Human Right"(GMST, 1993, p.64). Credit has become a tool to empower especially poor women to borrow previously inaccessible funds to improve their family's standard of living.

Background of the Case Study

Papua New Guinea (PNG) is a developing country of approximately 4.5 million, located in the South West Pacific, and shares borders with Indonesia on the east and Australia to the south. After a history of colonialism from Germany and Great Britain (1884 – 1945) and finally Australia (1945 – 1975), PNG gained its political independence in 1975. In the World Bank's development report of 1998, PNG was listed as a low - income developing country (World Bank, 1999). Microcredit projects (MCPs) held similar promise as an economic tool that could minimize the rising problem of poverty. PNG has piloted similar MCPs over the last decade. This case study looked at an adaptation of the Grameen Bank model known (in local language) as the "Liklik Dinao Abitore Trust" (LDAT) or "Goroka Microcredit Savings Trust" (GMST- in English) project in Goroka, Eastern Highlands Province (EHP) of PNG. A 1996 study by the Asia and Pacific Development Center (APDC) described GMST as

> basically an NGO (non government organization) established specifically to implement a UNDP (United Nations Development Program) microcredit and savings project and is governed by a seven-member Board of Trustees comprising representatives from the Papua New Guinea Banking Corporation, UNDP, the Government and NGOs. The Trust made its first loans in 1994, and had 334 women borrowers as of June 1996. The lending procedure strictly follows the Grameen model. (Getubig et al., 1997, p.114)

MCPs are some of the latest alternative tools of rural development, especially in third world countries. There are others, such as integrated rural development projects, rural resettlement programs, and massive infrastructure input into rural development.

However, MCPs possess several critical differences. First, MCPs do not require massive overhead costs. Second, the process is "bottom up" and empowers the beneficiaries to have more control over their living standards. Third, MCPs target basic needs of the family unit, especially through women, and the benefits are easily measured at the household level. Fourth, the huge rural client base of the financial sector of most third world countries offers a lot of potential for its market share expansion. Fifth, evidence is mounting that, due to the above reasons, the economic, social and political costs and benefits of MCPs have begun to compare more favorably as opposed to the impacts of alternative projects. Based on reasons described above, Papua New Guinea (PNG) was one of many third world countries that decided to adopt the Grameen bank approach (GBA). This was done through GMST, which was the focus of this study.

Figure 1 shows the savings and lending flows for Papua New Guinea's major financial institutions. The savings flow highlights where the deposit monies come from and to whom the funds are lent. The thickness of the lines indicates the large amount of flow

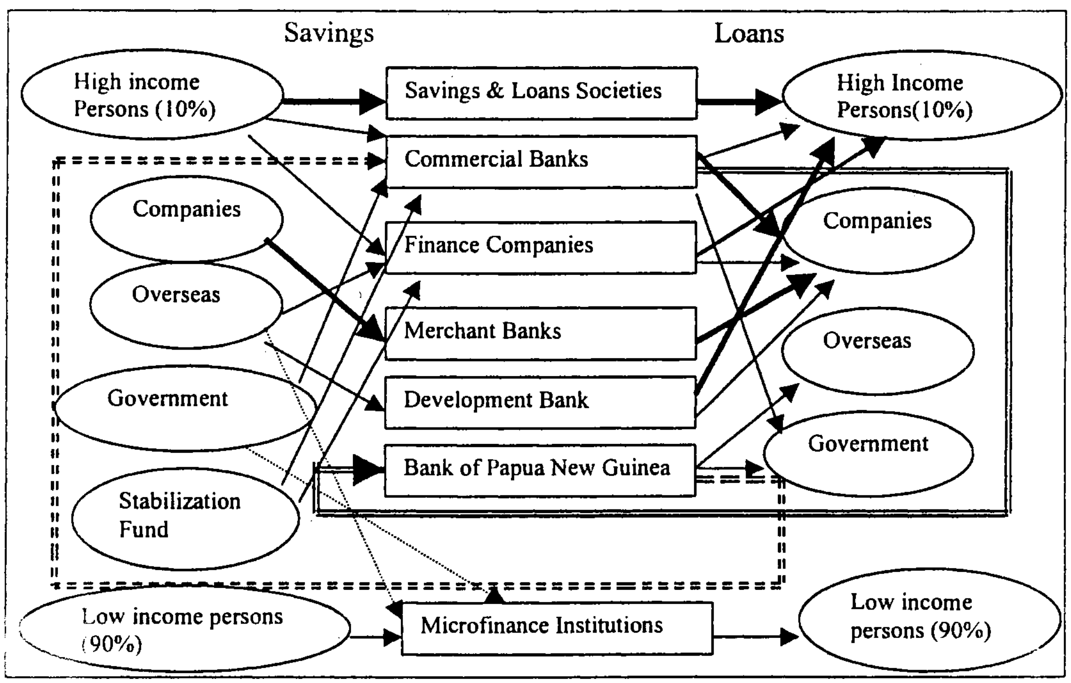

Figure 1. Savings and lending flows in Papua New Guinea. From "Banking and finance in Papua New Guinea," O. S. Pidgeon & D. L. Toule, 1980. Adapted with permission.

from a source. The bank of Papua New Guinea acts only as a banker to the commercial banks and the government. The important missing factor is, these institutions serve only about 10% of the total population of approximately 4.5 million people of Papua New Guinea (LDAT, 1998).

Finally, there was one important reason for the selection of GMST for this study. That rationale was provided by a description in the 1996 APDC study as "...the only program (in the pacific region) with a sufficient data base to enable reliable estimates of operational and financial sustainability " (Getubig et al, 1997, p. 117).

Statement of the Problem

In a study of MFIs in the Asia Pacific region commissioned by the Asia Pacific Development Center (APDC) in June of 1996, it was shown that GMST's performance was highly subsidized at an operational self-sufficiency level of 18.2% and a financial self-sufficiency level of 16.9 % (Getubig, 1997). There was a need to lower that level, as a negative percentage would signify profitability. The same study determined a second problem, where after almost four years of operation, GMST's outreach was limited to only 334 out of a possible 100,000 women client base in the Eastern Highlands Province (EHP) of PNG (PNG 1990 Census listed in GMST, 1993).

The consequent problem was to systematically identify GMST's operational and financial, and quality and quantity of outreach criteria that need appropriate intervention with the objective of maximizing outreach in a sustainable manner. The diagram below summarizes GMST's dilemma. GMST's performance as determined by earlier studies was located at level 1, but it needed to progress systematically to the desired level 4.

Purpose and Significance of the Case Study

The purpose of the research was to evaluate the performance of Goroka Microcredit Savings Trust (GMST), a Grameen Bank replication microcredit project in the Goroka area of Papua New Guinea. The study is significant in the sense that it will strive to identify and describe best practices that have potential to contribute to increasing the level of sustainability and quality, and quantity of outreach of GMST.

Scope of Study

The findings of this study were limited to three stakeholders' perceptions of their performance at Goroka Microcredit Savings Trust in its Goroka branch in Eastern Highlands Province of Papua New Guinea.

Objectives

The three major objectives were;

1. Identify and describe the performance needs of Goroka Microcredit Savings Trust's (GMST's) Field Assistants, as perceived by those Field Assistants (FAs), that have potential to contribute to the goals of increasing financial and operational sustainability, and quality and quantity of outreach beyond the current levels.

2. Identify and describe the performance needs of GMST's beneficiaries, as perceived by those beneficiaries, that have potential to contribute to the goals of increasing financial and operational sustainability beyond the current levels.

3. Identify and describe the performance needs of GMST's operations, as perceived by the management, that have potential to contribute to the goals of increasing

financial and operational sustainability, and quantity and quality of outreach beyond the current levels.

Assumptions of the Study

During the planning and implementation of this study, the following assumptions were made:

1. Information made available to the researcher by GMST's workers, clients, and management was accurate, valid, and reliable.
2. The researcher was objective in terms of minimizing biases and reactivity in his approach to the findings and establishment of the facts of the case study.
3. Interpretations from English to Pidgin, and in some cases into the local language/s during questionnaire preparation and interviews were accurate.
4. The activities observed by the researcher were very representative of GMST's critical roles and responsibilities.
5. All stakeholders, including management, donors/investors, workers, clients and society, view the criteria of progress in sustainability and outreach as in their interest, thus an acceptable measure of performance of GMST.
6. All information gathered and processed by the researcher was adequate for him to reach the conclusions and recommendations of the study.

Limitations of the Study

Some of the limitations of the study were;

1. Due to limited resources, such as adequate finance and time, the Kainantu branch of Goroka Microcredit Savings Trust (GMST) also located in the Eastern Highlands province of Papua New Guinea, was not visited.
2. A lengthy interview could not be made with the general manager of the project because he was busy with work during most of the study.
3. Translation of questionnaire # 2, which was applied as an interview guide, had to be translated further into two, and in some cases a third language. As such, it could have lost some conceptual meanings.
4. Views from participant stakeholders, such as loan defaulters and donors who were non-participant members of the community, could not be accessed. A representative sample of 12% of the total population of 737 clients based at the Goroka branch was reached.
5. A few comparative analyses, such as operational and financial self-sufficiency as described by Getubig, 1997, could not be made due to the lack of data and limited information on procedures used.
6. The results of this study were limited by the methods of data collection and analysis. This study represented one snap shot in time and reflected the views of those who participated in the study.

Definition of Key Terms and Concepts

The following are the definitions and key terms used in this study:

Operational Sustainability – Activity of a microfinance institution that excludes financial sustainability, that produces a positive and progressive outcome in the future despite internal and external changes (Avneyon, 1988; Schreiner, 1996).

Financial Sustainability – Activity of a microfinance institution that involves the method and practice of dealing with money, credit, capital and management of the risks that produce a positive and progressive outcome in the future, despite internal and external change (Avneyon, 1988; Schreiner, 1996)

Analyst – The researcher who processes information collected to determine the performance needs of an organization.

Training Needs – The identified necessities for an individual related to closing a discrepancy, satisfying a lack, relieving a condition, or doing something that can be addressed through the process of transmitting knowledge, skills, or attitudes (Ng, 1988; Swanson, 1987).

Performance – Productive outcomes of meaningful activities that contribute to reaching the mission of a microfinance institution. This mission is to improve the living standards of clients through the activities of microfinance institutions (MFI) (Schreiner, 1996).

Framework – Guide to analysis that proposes, links and offers ways to answer the questions that can lead to better measurement of performance (Schreiner, 1996).

Subsidy – Cost to society in order to finance the banking needs of the economically disadvantaged.

Subsidized Resources – Resources other than money that are made available to the MFI at the expense of a third party like a donor or the host government.

The performance of MFIs – This is viewed from five stakeholder perspectives. These stakeholders are: society customers, managers, investors (donors), and workers. No single measure can satisfy the performance requirements of all concerned stakeholders. However, increased sustainability and outreach are acceptable indicators of progress and serves the interest of all stakeholders concerned (Schreiner, 1996).

Outreach – This can be defined in terms of type of products, quality of services, affordability of services and products, and type and number of clients reached.

Exchange Rate – The national currency of Papua New Guinea is called "Kina." At the period of study, (May 1998 to July 1998) the rate of the kina was approximately 0.5430 against the United States dollar.

Microfinance Institutions (MFI) – "Small" mobile banking institutions that offers two basic products of small loans and small savings deposits. Some, such as the Grameen Bank have diversified such products to include contractual savings, and therefore can best be described generally as microfinance and savings institutions. It is important to note that "small"or "micro" is expressed from the perspective of the analyst and society in general. The fundamental is, from the perspective of most targeted clients, the loans and savings are "big" because the first loan of approximately US$50 to US$60, is usually the largest amount of money that they have been entrusted with in their lifetime.

CHAPTER II

REVIEW OF LITERATURE

Introduction

The roles of microfinance institutions (MFIs) are became increasingly important as macrofinance institutions found it unprofitable to provide services and products to rural populations of developing countries. As a result many specialized MFIs were created in the 1950s and 1960s. The review of literature focused on the recent emergence of market –oriented models especially in the 1980s and was presented in three parts.

The first section described a framework of analysis that highlighted criteria that guided the analysis of self-sustainability and outreach for the study. Outreach criteria was based on six levels of outreach as offered by Navajas et al. (1999). Following that, a discussion of some of the major concepts that could eventually contribute to providing a theoretical structure to understanding MFIs as a new phenomenon (1980s –1990s) would ensue. The second section was a broadly focused look at three successful major Asian MFI's attempts to overcome the challenges of self-sustainability, and maximum outreach to their targeted clients in rural areas. The third chapter had a more specific focus on the MFIs in the Pacific region. Also, there was a discussion of some of the major constraints, potential for sustainability and increased outreach. Last, but most important, Goroka

Microcredit Savings Trust (GMST), the MFI that was the focus of this study was introduced and discussed.

Framework of Analysis

Microfinance institutions (MFIs) were financial innovations that attempted to divert funds from the high accumulators of wealth to the low accumulators of wealth through meaningful and legitimate means. The recent MFIs were evolving institutions in a state of fluidity and transition. A quote from Schreiner clarifies the issue of what MFIs (or microfinance organizations as referred to here) were:

> MFOs are odd. They need subsidies, but they need to outgrow them. MFOs are non-profits, but they need profits. MFOs do not have owners, but they need to attract them. MFOs are not private, but they need to act as if they were. MFOs help the poor by charging rates higher than the market rate to pay for the cost of their products and services. MFOs are too odd to fit into traditional frameworks. For example, financial statements do not inform questions about performance. Return-on-equity is meaningless without owners. In addition, revenues are inflated with grants; expenses are deflated by subsidies and subsidized resources from donors. (Schreiner, 1996, p.2)

Despite such confusing descriptions, it should be noted that. MFIs are a new concept of providing financial services to a market niche considered as "unprofitable" and was never fully employed prior to the 1980s.

Furthermore, Yaron identified some criteria that could be used mostly qualitatively to assess the performance of MFIs, as shown in Figure 2.

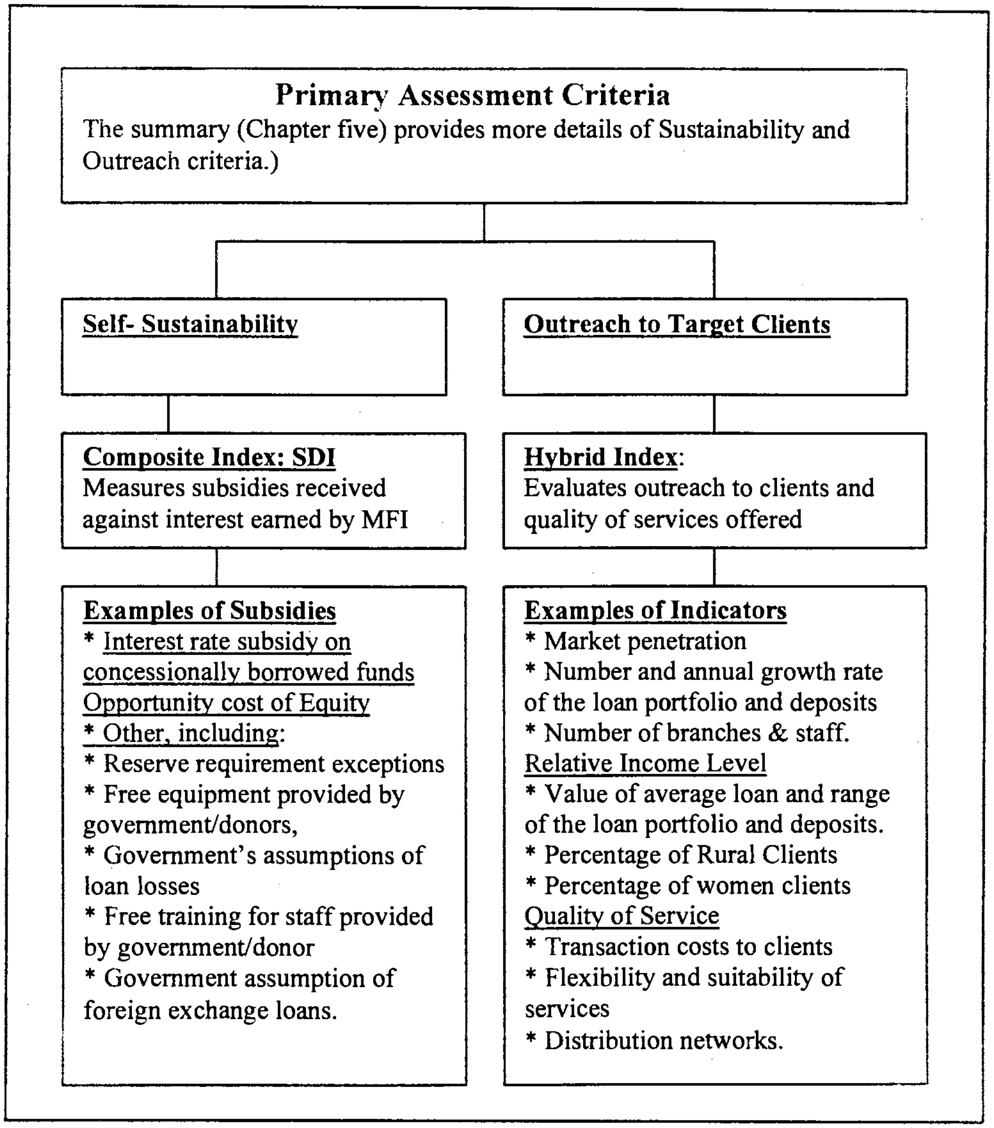

Figure 2. General microfinance assessment criteria. From "Rural finance: Issues, design, and best practices," J. Yaron, 1997, p. 106. Adapted with permission.

Although appropriate, Yaron's framework limited the analyst to only a few criteria. As such, a complete picture could not be portrayed on how well an MFI was meeting the dual challenges of outreach and sustainability.

Theoretical Perspectives on MFIs.

The framework adapted and presented previously was based on basic concepts, ideas, and assumptions that were contributions toward a theory that explained the recent (1980s to 1990s) microfinance phenomenon. Hence, the following is a discussion of essential characteristics of recent MFIs.

The universal goal of microcredit was to use small loans to improve the standard of living of economically disadvantaged (or poor) people in the world. MFIs were related to the basic needs approach, in the sense that clients were financed to meet their basic needs such as: paying for better sanitation, housing, and household goods. Such universal appeal of microcredit was amplified through the microcredit summit in February 1997, in Washington, D.C. The event in Washington rallied thousands of stakeholders worldwide to contribute about $20 billion, enabling microcredit to reach 100 million of the poorest people in the world by the year 2005 (Results Educational Fund, 1997).

The first question to guide this process was whether microcredit was the best alternative to reaching the poor or economically disadvantaged The answer to that question would require longitudinal studies and the employment of control groups engaged in various alternative projects. The impacts would need to be measured in terms of similar standard of living indicators (Von Pischke & Adam, 1980). Studies to determine with and without microcredit projects, and before and after projects have been done based on the single criteria of income. Such studies using control groups, showed that microcredit provided evidence of positive impact in terms of increased income (Gibbons, 1997; GMST, 1993; and Todd, 1996).

The second question was whether group loans reached the poorest better than individual loans. Empirical research in Bolivia and Bangladesh showed that group loans were more effective than individual loans (Navajas et al, 1999).

Third, was the question of whether women borrowers were better at repaying microloans than men The case of the Grameen Bank offered significant evidence that women were more conscientious at repaying loans than men. This was especially evident because there seemed to be a positive correlation between high repayment rate and the number of women borrowers (GMST, 1993). Nevertheless, further controlled experiments on projects with men only and women only would need to be carried out to scientifically establish the reasons for this phenomenon.

Other general aspects and questions of a theory of microcredit could include demographics of a typical successful borrower and unsuccessful borrower, the most suitable socio – economic and physical environment and organizational characteristics of a typical successful microcredit institution are subjects for further studies.

It would suffice to use commercial banks as an example to put some of the above contentions into perspective. Commercial banks used statistically based customer profiles to determine which clients were most likely to successfully repay loans. One major criterion is the percentage or ratio of physical collateral to the loan amount sought. Some of the people who would not qualify under most commercial bank categories were highly successful loanees under microcredit. One main reason in Grameen Bank Approach’s

(GBA) case was the use of abstract collateral such as socio-cultural values. These were values generally referred to as peer cooperation or pressure. Through a group liability arrangement, a defaulter created a burden for the whole group who were expected to cover a loss by a member. In many cases defaulters were subjected to community sanctions, which for the beneficiaries, was just as serious as any threat of legal action for commercial clients. Such a situation redefined the concept of risk, alien to the formal financial sector, but steadily gained respect as very practical, amongst the practitioners and other stakeholders of microfinance institutions.

Nevertheless, since this case study involved the performance of an MFI, the critical concepts of outreach and sustainability were the subjects of focus. One approach was through the theory of social welfare and project analysis. First was sustainability, which was assumed to be a project/institution that was consistently producing positive outcomes. The related assumption was that the social and economic costs of unsustainability would exceed the benefits of sustainability within the life of the MFI project (Rhyne & Otero,1994).

However, sustainability was dependent on outreach, which was the derived social value of loans of an MFI. Outreach had six aspects. One was depth, which could be the net gain of a $1.00 that was worth more to a poor person than a rich person, as perceived by society. As such, when more poor people received $1.00, society perceived that there was a gain in social welfare through society's economically less fortunate members.

Next, was the worth of outreach to a user that was related to the theoretical willingness of a borrower to pay for a loan. The worth to the user was evident when the net gain is obvious. However, worth to user was not easily quantified. Hence, indirect worth to a user could be manifested in terms of profit, increased cash flow, and liquidity or an increase in purchased physical household assets or goods.

Third, was cost to users in practice. Such costs included the time it took to secure a loan, travel expenses, document costs, food and loss of income in an alternative activity and had to be accepted before receiving a loan. Net gain was the difference between the willingness to pay and what was actually paid. Thus, an user would forfeit a loan if the actual cost exceeded his willingness to pay, which was the worth to the user.

Fourth, was breadth of outreach, which included the population of users. Outreach to a large number of people was important for society because of the large number of poor people compared to the limited supply of microcredit products and services available.

Fifth, scope of outreach was the number of types of financial products offered to clients. This was related to diversification of products beyond credit, such as individual savings deposits, group savings, mutual funds and many others. In the process, risks were minimized and physical collateral base and opportunities to invest in diversified portfolio and sustainability were increased.

Sixth, length was the time frame in which an MFI produced loans. Length mattered, because society normally believed it was important that the net gains (as indicated from other five aspects of outreach) must be prolonged. Hence, the rationale was society would maximize its gain. Length was critical to maintain confidence and willingness of clients to maintain a high demand for MFI services. Length was also imperative, though not necessary, for sustainability or permanence to be maintained.

Therefore, a clear perception of the balance between all six outreach criteria and sustainability was essential to the survival of an MFI. Disturbance of this balance could upset stakeholders' confidence and undermine a sense of permanence that was essential for continued operation of MFIs. For instance, a very high interest rate could create a net loss between worth to users and cost to users. Such a situation could easily lead to clients seeking alternative ways to maximize their social welfare. MFIs would have to meet such expectations to be the major intervention tool for poverty alleviation.

Three Successful Microfinance Institutions of Asia

The objective of this section of literature was to highlight the successes and constraints of three Microfinance institution (MFI) models in three different countries in the Asian region. Thus, the purpose was to introduce the role of microfinance institutions and provide a rationale that has made MFIs acceptable rural development projects. First was a co-operative model, the Bank for Agriculture and Agricultural Cooperatives (BAAC) of Thailand. The second model was the Village Banks (Unit Desa, BRI-UD) of Bank Rakyat Indonesia (BRI). Third, was the Grameen Bank (GB) of Bangladesh, which is a mixture of bank, non-government model and self-help group (SHG) model. Those three models' performance proved to be successful in terms of self-sustainability and outreach. The discussion of the three models was based on the 1995 figures to highlight the later developments (Yaron, 1997).

Background Information

The goals of the microfinance institutions studied, varied. BAAC was established in 1966, and aimed to provide financial assistance to agricultural producers.

BRI-UD, a SHG model, was established in 1983, and attempted to make credit and savings facilities available to the rural poor for rural household's income generating activities (IGAs). BRI-UD was an attempt to get usually agriculture dependent farmers to diversify their production and income base. GB, started in 1983, embraced the above concepts, but also included the targeting of women as the primary recipients or agents of change, and introduced group - based loans (Yaron, 1997).

All three institutions were owned by the state except for GB, which was eight percent owned by the state and 92 percent by the borrowers. GB was a model relatively different from the other two. In the third model, the state had a smaller role, thus a sense of privatization and genuine market approach was introduced to the role of MFIs. That was one reason for the increased interest in MFIs. MFIs were normally viewed as another government subsidy program that was perceived as not self-sufficient. Another critical reason for the special interest in GB was, its targeting of the "poorest of the poor" through a special intervention program in health, education, and nutrition to assist clients in transforming increased income into an increased standard of living (Yaron, 1997).

By the mid 1990s, those institutions had achieved their objectives of phenomenal outreach and respectable sustainability. As highlighted in figure 1, the three MFIs had reached level two. Thus, BRI-UD had reached 14.5 million, BAAC, 4.5 million and GB, 2.06 million clients. Such levels were achieved with loan repayment rates of BRI-UD with 95%, BAAC with 90% and GB with 98.2% respectively. Hence, a new phenomenon in microfinancing brought attention to an untapped financial market niche that had been neglected. Such negligence was based on the myth that it was not profitable to bank with the poor strata of society. GB's clients were technically the "poorest of the poor," that meant higher costs of accessibility, but the other two models' clients could be referred to as "the richer of the poor"(Yaron, 1997, p. 165).

Self-Sustainability

One critical factor that differentiated successful MFIs from less successful ones was the level of self-sufficiency. Sustainability for MFIs can be perceived as reached when the "return on equity, net of any subsidy received, equals or exceeds the opportunity costs of funds," (Yaron, 1994 as quoted in Schneider, 1997, p. 18).

A useful measure of self-sustainability was the monitoring of subsidy dependence by calculating the subsidy dependence index (SDI). SDI can be used to monitor progress toward subsidy independence, which is financial and operational self-sufficiency. A negative percentage would indicate profitability. The Grameen Bank, through its objective of providing other non-financial products and its emphasis on increased rate of outreach fared low on SDI at 130% in 1989. Thus, to be self-sufficient required doubling the lending rate from 12.0% to 27.6% in 1989. Nevertheless, GB decreased its subsidy dependence from 180% to 130% by 1995 (Yaron, 1994 in Schneider, 1997).

Furthermore, GB's rates of success in outreach and a consistent loan repayment rate above 90%, have attracted funding from both private and public financial sources. Comparatively, GB has invested more in its outreach programs. One primary reason was, the higher costs of depth of GBs outreach by targeting the "poorest of the poor" (World Bank, 1999, p. 19-21).

Table 1, as provided below highlighted the major performance indicators of the three successful Asian microfinance institutions. A few significant indicators were:

Grameen Bank (GB) had the least flexible arrears definition, but had a 98.8% on time loan collection. GB had no collateral initially, but had compulsory savings tied to the loans and had group liability when one member defaulted.

Table 1

Performance of Three Successful Asian MFIs

Performance Criteria	BRI-UD	BAAC	GB
Definition of Arrears	Last installment not paid on due date	Last installment paid on due date	One year over due over maturity date
Annual Loan Collection Rate	1995: 98.9%	Est. 90%	98.6% on-time loan collection
Mis	Well developed	Well developed	Well developed
Character References	Yes-Local residents, other borrowers	Yes-Group lending	Yes-Group lending
Collateral Requirements	100% but no cost effective option of foreclosure	100% on individual loans (None for groups)	No, but compulsory savings tied to loans
Group Joint Liability	No	Yes	Yes
Individual No Joint Liability	Yes	Yes	Yes
Future Loan Eligibility	None if in default	None for entire group	None for entire group
Client Incentives/ Penal Ties	Incentive: rebate of 0.5% pm on original loan amount for prompt payment	Penalty: 3% per year on arrears	No
Staff Incentives	Yes	Yes	Yes

Note. From "Rural finance: Issues, design, and best practices," J. Yaron, 1997, p. 151. Adapted with permission.

Ironically, outreach criteria applied by Grameen Bank (GB) attracted large-scale donor funding that enabled a high level of outreach in the medium term, but sustainability remains a long-term goal. In Figure 1, GB reached level 2. Thus, one measure to improve viability, included cost covering measures such as: the costs of inflation through lending rates and fees beyond the market commercial limits. Another was offering of attractive deposit interest rates to build a good source of loanable funds. Third, was controlling costs through a continual search for more efficient means of doing business (Yaron, 1994 as noted in Schneider, 1997, p. 18).

All three models, GB, BRI-UD and BAAC started as supply led financial institutions. Their emphasis was on credit delivery rather than addressing the demand for savings and deposit services. However, other factors have assisted. For instance, a 1995 evaluation of the three models indicated that their low operating costs were what set them aside from all the other 38 models studied. The Grameen Bank recorded the highest operating expenditure at 18% among the three models, ahead of other 38 MFIs that recorded 33% (Gibbons, 1997).

The other obvious reason for the minimization of operating costs, was the economy of scale factor. The GB mode, for instance, had one field staff servicing an average of 276 clients in 1995. Comparatively, the Association for Social Advancement (ASA) another Grameen Bank model from Bangladesh was servicing many less. The actual figure was not reported, but with a client base of 400,000 the logical assumption was ASA had higher operational cost than GB with over two million clients. Despite that, the three MFI models paid their staff well, compared with other MFIs. For instance, GB pays its staff 6.5 times above the Bangladeshi GDP per capita (Gibbons, 1997, p. 30). As such, the critical difference in production level per GB worker was extremely high. The 1995 ratio was US$32,081 per worker to ASA's US$7,319 for their field assistants. Perhaps, further qualitative research will uncover further answers.

Repayments of loans were found to be the highest amongst the three MFI models. The average repayment for all three MFI models was 94.8%, while the other 38 MFIs studied in 1995 had an average figure of 87.6%. This was consistent with the 2% default rate experienced by the three MFI models (Gibbons, 1997, p. 29).

The savings mobilization amongst the MFIs differed between countries, depending on the macroeconomic policies of respective governments. However, the 1995 figure for the three exemplary MFIs averaged higher at 87.6%. The other MFIs studied in 1995, averaged 64%. Such savings were essential for any healthy financial institution to defray the costs of funds and minimize risks. (Gibbons, 1997, p. 31).

Outreach Amongst the MFIs

Traditionally, most MFIs or sometimes referred to as Rural Finance Institutions (RFIs) were established because governments used them as an intervention tool to create agricultural development. Such a situation contributed to the notion that MFIs were another form of government subsidy to the unstable agriculture sector. Therefore, a lack of success in self- sustainability and high level of outreach has proven the critics right over the last five decades (Yaron, 1997, p. 1).

One critical aspect of an MFI's (especially GB) outreach operation was to identify or differentiate their clients in order to provide services tailored to their needs. Some simple cost effective criteria involved the amount of property owned. Those included less than three acres of land, less than three farm animals, and a housing quality index, based on size, physical condition and roofing materials. These measurement criteria were applied within five to ten minutes to the context of the local situation to identify the target clients within the target population. MFIs were not meant for the economically stable in rural economies. Thus, services rendered to the less needy were considered as opportunity cost to the advancement of the genuinely poor (Gibbons, 1997, p. 14-15).

The Grameen Bank has been the most successful in pursuing the objective of outreach through sustainable methods. GB realized that poor women, for various cultural and social reasons, emerged as the most in need and responsive to their programs. Women who were targeted have proven to be the most reliable clients in terms of loan repayments. The multiplier effect of enhancing the women's ability to generate income also had a greater potential for positive, social impact on the families in the targeted communities as well (Gibbons, 1997; Pitt & Khandker, 1996).

A few key indicators of outreach were the numbers of borrowers, population serviced, village and town posts, and number of staff. In a "BankPoor" study on the success rate of outreach in terms of genuinely poor (poorest of the poor) populations reached, only 5.1 million people were reached by MFIs in the Asia- Pacific region. That was reported as a dismal 2.5% of 200 million poor households in the Asia - Pacific region (Gibbons, 1997). He also reported that GB reached 2.5 million households.

Table 2, below, highlighted a few outreach indicators of the three successful Asian microfinance institutions. The headings (underlined) were applied from theory of outreach as advocated by Navajas et al., 1999.

Table 2

<u>Key Outreach Indicators</u>

Indicator	BRI-UD	BAAC	GB
<u>Length of Outreach</u> (No. of years to 1995)	1984 to 1995 11 years	1966 to 1995 29 years	1983 to 1995 12 years
<u>Breadth</u> (Population of active clients)	14.5 million	4.3 million	March 1996: 2.06 million
<u>Scope</u> (Number of type of financial products & services)	Loans and Savings deposits	Loans and Savings Deposits	Loans and (compulsory) savings deposits
Number of Loans (all types) per staff member	134	270	245
<u>Other services</u>:	Payment of school fees and electrical bills	Marketing services; technical assistance/ advice (e.g., fertilizers).	Social action & training on issues (e.g.. Dowry, sanitation/ education & nutrition).
<u>Cost to Users</u> Loan size: Minimum - Maximum –	Rp 25,000 Rp 25 million ($11,364)	Not applicable B 60,000 to B 5 million ($2,425 to $202,00)	Not applicable Tk 15,000 ($372)
Average Outstanding Loan Size	Rp 1,247,673 ($567)	Indiv. Farmers: B 31,800 ($1,285)	Tk 958,428 ($23,812)
<u>Worth of Outreach</u> (Theoretical – willingness to pay)	(Figure not available)	(Figure not available)	(Figure not available)
<u>Depth</u> Savings outreach: (Annual average volume of savings)	Rp 5,624 billion ($2,556 million)	B 68.8 billion ($2,780.9 million)	Tk 5,366 million (133.3 million)
Value of Average Savings Account	Rp 388,383,383 ($177)	B 22,389 ($905)	Tk 437,374 ($10,866)

<u>Note.</u> From "Rural finance: Issues, design and best practices," J. Yaron, 1997, p.159-161 and "Center for social development," Navajas, et al., 1999. Adapted with permission.

The Balancing of Outreach and Self-Sustainability

In a 1995 study Gibbons (1997) reported that; "Most MFIs studied were nowhere near operational, let alone fully, financially self-sufficient. Overall, on average they made an unsustainable loss of 24% in 1995. The choice before them was stark: either improve their financial management substantially, along the lines of the model MFIs or go under. There can be a productive compromise between providing products and services to large numbers of poor households and achieving organizational financial sustainability. However, it is not easy to achieve, because it required a financially strong and sustainable institution, as well as a chief executive and staff dedicated to maximizing outreach to the poor. That was the challenge faced by the MFIs of the world.

Aside from savings deposits that all three models provided, the Grameen Bank had a more comprehensive program that extended to social awareness, education, and health programs. Such programs were aimed at supplementing the objective of improving the economic condition of the rural poor and emphasized rural development rather than agriculture development. According to Rodigo Chaves of the World Bank, emphasis on rural development produced better social outcomes. Thus he contended that the best practice in rural financial markets should be aimed at increasing financial services to all sectors /industries of rural areas and not merely providing credit for agriculture development. Emphasis on agriculture tended to minimize opportunities for rural participants to diversify their efforts at income generation. The result of such an approach made the rural sector very dependent on commodity prices and were very fragile and unstable (Schneider, 1997, p. 12).

Grameen Bank targeted cultural practices such as dowry payments that led to opportunity costs of productive investments for appropriate change. Dowry was the exchange of gifts during marriage ceremonies. The problem with such a practice was the financial demands drained poor, rural people of whatever little economic resources they had (World Bank, 1999, p. 75).

Furthermore, GB model organized its borrowers in an interesting way. These borrowers were put into small homogeneous groups of five (usually women) individuals. Such a group was regarded as a 2:2:1 unit, which meant that the two poorest, as determined by means testing of members received their loans first. After successful repayment for a specified period of time, the next two would get their loans. The leader of the group would receive her loan last. A group that organized in such a manner created social cohesion and minimized individual risks. For instance, group liability could coerce the other group members to assist a defaulting member to meet her repayment obligation. In essence, the other members of the group could not receive loans until the outstanding payment was made. The optimal size of the group also allowed for productive communication to occur amongst its members, who in most cases shared similar interests. Thus, credit discipline could be achieved through peer pressure and group solidarity (Unpublished Handouts, 1997).

The repayment of loans was organized with the clients' income generating activity and their particular needs in mind. Hence, it required very close supervision and getting to know the clients on a personal basis before a loan was made. For instance, a borrower's character was also part of the risk assessment and minimization system. Thus, a good reference by those with higher status in the community such as a chief, enhanced the chances of receiving a loan (Schneider, 1997, p. 12).

However, MFIs cannot control all variables at the micro level of operations. One example is the fact that, the modern macro economy is very interdependent, and what happened in other markets will have an impact on rural financial markets as well. Governments were usually responsible, due to their ability to apply policy interventions either directly or indirectly to influence favorable market forces. A few major ones included, ensuring macroeconomic stability and removing urban-biased policies.

For instance, a decrease in the price of an agriculture commodity would immediately affect the ability of a borrower to repay a loan. The obvious consequences could be, defaults on loans and the viability of the MFIs were compromised. Such incidences were caused by external forces and often were beyond the control of any one government. Another example was, a situation where the rural areas would be hurt more if the exchange currency was over valued and therefore, export commodities from that country become less attractive. Such situations clearly highlighted the need for less agriculture dependent approaches in favor of diversification. Grameen Bank and BRI-UD of Indonesia, to a certain extent, were models that encouraged non-agricultural income generating activities. Thus, the promotions of other innovative approaches to counter such uncontrolled economic forces were essential for MFIs to remain viable and self-sufficient.

Furthermore, a government pursuing rapid industrialization can hurt the rural economies. The eight commonly occurring policy problems according to Yaron, (1997, p. 55) were:

1. Overvalued rate of exchange,

2. Low, controlled, and seasonally invariant prices for agriculture products,
3. High effective rates of protection for domestic industry, the output of which are used as agriculture inputs,
4. Disproportionately high budgetary allocations for urban rather than rural infrastructure (roads, electricity water supply),
5. Disproportionately high investment in human resources in urban rather than rural areas (health and education),
6. Usury interest rate laws (which rule out the loans typical in rural areas: small risky and high cost loans),
7. Undeveloped legal/regulatory provisions regarding land tilting and collateral for typical rural assets (land, crops and farm implements) relative to urban assets (cars, durables and homes), and
8. Excessive taxes on agricultural exports.

The challenge for third world governments to develop the rural areas was to remove such policies or change them so that they do not unnecessarily victimize rural areas.

Despite all the excellent ideas about the role of MFIs, the President of Uganda, Museveni, reminded participants at the Microcredit conference in February 2 - 5 1997, that fundamental environmental barriers remained prevalent in many countries. In his words: "I hear a lot about Microcredit at this conference but how can you give credit when there is no road and bridges to facilitate these activities. In my country I know this problem is a big one." This statement drove home the point that rural areas still lacked the basic infrastructure, which other economic activities depended on to increase production levels and create economic growth and development. Thus, host governments of MFIs should be partners in this process by building the roads and bridges that would support the microfinance activities (Unpublished Handouts, February 2-5 1997).

Model Comparison Summary

The most common measures of success of microfinance institutions were their interdependent characteristics of self-sustainability and outreach. The Subsidy Dependency Index was used to measure self-sustainability. Variables such as number of clients; costs of loans, willingness to pay by loanees, type of products and clients were used to measure the quality and quantity of outreach. The balancing of these variables was critical for the viable operations of MFIs. The successful models like GB, BRI-UD and BAAC tended to expand their operations vertically, (demand driven) thus they were not highly dependent on subsidy. Ostensibly, the two MFIs made sure one branch is financially sound before starting more branches. However, BAAC and BRI-UD tended to reach the "richer of the poor," thus their transaction and operational costs were lower than GB's.

The GB model/s tended to expand horizontally (supply driven) in their drive to reach as many of the "poorest of the poor" as possible, working through women. Even if they were subsidy dependent in the short term, due to a large influx of funds to support their emphasis on outreach, the long-term prospect for less dependence on subsidy is promising. Their system has been the subject of much attention, because unlike other models, their financial soundness has not been unnecessarily compromised.

This literary analysis indicated that replication of these models was possible. Microfinancing was no longer just a government subsidy or welfare program, but a market driven economic program, that offered much promise for all stakeholders. The GB model has been replicated in many countries in the world and recommended as probably the best model for a more holistic development in rural areas of particularly developing countries.

Finally, even if agriculture was the basis for development in rural areas, it was not the only area of income generation. Hence, as exemplified by the three models studied, innovative approaches to diversification of income generating activities would create more economic stability and improved standard of living in the long term for the genuinely poor in the world.

Potential for Sustainability and Outreach of MFIs in Papua New Guinea and other Pacific Island Countries

This section highlights the emergence, constraints and lessons of recent MFIs, in the Pacific context. First, the background of the pacific MFIs, which includes the rationale for the need for MFIs in the Pacific is discussed. Second, the framework of analyses and theoretical concepts, as presented in section 2, is applied to this literary analysis as well. Third, six major constraints of MFIs in the pacific, as perceived by the analyst are discussed. Fourth, the indicators of sustainability and outreach of the three GB replication models in the Pacific, are summarized. Finally, a summary of the discussion is presented. The underlying purpose was to introduce Goroka Microcredit Trust, along with relevant information.

Background

Prototype Microfinance Institutions (MFI's) have existed since the 1950s and 1960s in Papua New Guinea (PNG) and Pacific Island countries, (PICs) which include Fiji, Solomon Islands, Vanuatu, Western Samoa, Tonga, Kiribati, Cook Islands and Tuvalu. One example was the revolving fund schemes, usually managed by a local government or women's group. Unfortunately, repayment problems forced them into dormancy (Getubig et al., 1997, p. 114). However, what was new with the 1980s and 1990s MFI models were their high repayment rates, market interest rates and savings and risk aversion products. These are being achieved with the rate and depth of outreach to previously considered as "unbankable people" has been phenomenal (Yaron, 1997, p. 36). Therefore, this paper's aim was to highlight a few strategic constraints and lessons to meet the challenge of providing microfinancial services to approximately 70% to 80% of PNG's 4.5 million and PIC's 2 million low–income (poor) populations into the next millennium (Getubig et al., 1997, p. 112).

The Need for MFIs in PNG and the Pacific

The first reason that exposed the need for MFIs in the Pacific region was the successive United Nations - Human Development Index (HDI) figures. These figures were based on quality of life indicators such as average life expectancy; access to education, and purchasing power of their income signified that poverty existed. The United Nation's 1999 rankings from highest to lowest were Fiji 61, Western Samoa 70, Vanuatu 116, Solomon Islands 118, and PNG got the lowest ranking at 129 out of 174 countries. Furthermore, PICs, such as Vanuatu, Solomon Islands, and PNG, being listed in the bottom of the middle-income scale reflects poorly on the distributive capacity of key service delivery institutions. These institutions included health, education, infrastructure development, communication and financial services.

However, there was a second specific reason that was based on the critical role of financial institutions as a medium of wealth creation that generally led to higher standards of living. The reason was a majority of PIC's rural and low-income populations do not have adequate access to financial institutions. Thus, using PNG as a specific example, and based on Papua New Guinea Banking Corporations' (PNGBC's) figures, the following can be noted. During a period of 10 years, between 1985 and 1995, commercial banks' networks and agencies declined by 55% from 305 to 138. Moreover, only 30% of PNG's population deposited accounts and less than 1% had loans with commercial banks. There was an obvious gap in participation from the bottom of approximately 50% to 80% of PNG's mostly rural population in its financial system. Appendix H also highlighted this situation (LDAT, 1998, p. 2).

Five Major Constraints of MFIs in PNG and the Pacific

First, is the practical cost of accessibility due to geographic isolation and sparse population densities. This can be illustrated by comparing the population densities of two PICs against two countries in Asia, which have relatively successful MFI operations. These are PNG - 9 people per square kilometer; Fiji - 48 people per square kilometer contrasted against Bangladesh - 800 people per square kilometer and Malaysia - 400 people per square kilometer. Thus, it can be deduced that GB worked well in many Asian countries, because of affordable access to a lot of clients. Hence, the recommended ratio of 1 Field Assistant (FA) to 300 clients is possible for Asia but problematic for the Pacific region (Getubig et al., 1997).

Due to such a consideration, PNG's Goroka Microcredit Savings Trust had strategically selected Goroka. The obvious reasons were due to a good road network, transport system, a low crime rate and relatively high population density. Despite these advantages, a ratio of about 1 FA to 100 clients is the average. This was based on the fact that a center had a capacity for 6 groups, or 1 FA visits 30 participants and 4 centers every week for 50 weeks of a loan cycle. The PICs with scattered island communities, such as Tonga and Kiribati or isolated jungle hamlets in PNG face higher costs of accessibility (GMST, 1993).

Second, is the cultural constraint of limitations of the women's role in formal productive activities. Women in most PICs ensure the survival of the family unit, but their traditional role is rarely enhanced beyond their subsistence productivity. One of the critical aspects of Grameen Bank is the recognition of the productivity of women. There are practical reasons for targeting women. One is women tend to have time for activities that support the well being of the family. Thus, supporting women was the same as supporting the family unit. Consequently, multiplier effects including better nutrition; health and education of children would be impacted positively. The outcome was to change the traditional role of women to be a "breadwinner" in a formal sense.

The third constraint was the direct involvement of government. Unfortunately, most MFI's that were set up by government with good intentions turn out to be less successful. The case of Wewak, Simbu and PNG government's Meri Dinao Association highlight this shortcoming. Such a misgiving was related to the lack of proper targeting procedures and manifested in the "handout mentality" practiced by political institutions in especially PNG and many PICs. The shortsighted nature of political interests compared to the long-term interest of the institutions also plays a role in the demise of these institutions. A UN study team on PNG Microfinance Institutions in 1993 highlighted problems such as loans given to wives of public servants, individual loans were given for less productive purposes, lack of loan supervision and application of lower non-market interest rates (GMST, 1993).

This dilemma can be addressed with a structure representative of a private organization. A good example is the non-political or (lack of a better word) quasi – Non Government Organization (NGO) structure of Goroka Microcredit Savings Trust. The PNG government's involvement is indirect through Papua New Guinea Banking Corporation (state-owned commercial bank) and the department of village services on the board of directors. The PNG government has its input through these institutions, in terms of funding and decision making of the microfinance project. A complete list of NGO board members includes, Foundation for Law and Order and United Nations Development Program. Such a structure has an added advantage of attracting funds from bilateral or multilateral organizations that are reluctant to lend directly to government institutions given their poor record of project implementation. Solomon Islands Credit Union League (SICUL) also has a similar structure (Getubig et al., 1997).

A fourth constraint is capacity building and appropriate training. Most other MFI's normally get seed funds but not training or trained personnel. Most do not see the need to train their disadvantaged low-income clients. On the contrary, such financial institutions require people who have specialized skills.

Goroka Microcredit Savings Trust does training on two different fronts. First, GMST's structure allows for the employment of a technical assistant, provided and paid for by UNDP as its contribution to the project. That specialist was responsible for training of branch managers and FAs and the person also does monitoring and evaluates work for the project. Second, the Field Assistants were trained to provide a 7-day training to microcredit clients (LDAT, Project document, 1993).

The fifth constraint is vertical expansion as opposed to horizontal expansion. In many earlier cases, MFI's in the Pacific responded naïvely to the success stories of MFI's such as the Grameen Bank. There was also political pressure to expand quickly to meet the high demand of needy clients. Thus, there was pressure to put the system to work without proper and prudent planning. Consequently, many projects failed because they expanded vertically too soon (supply-driven). The cases of Simbu Womens, East Sepik Women's, and Eastern Highlands credit schemes experienced sustainability and outreach problems due to consequences of this syndrome (GMST project Document, 1993).

However, there have been exceptions such as the two other GBA models that included Solomon Islands Credit Union League (SICUL) of Solomon Islands and WOSED of Fiji. SICUL started in 1991 and reached a population of 6,802 by December 1995. Womens' Social and Economic Development (WOSED) of Fiji that worked in close collaboration with the agriculture extension service of the government is also worthy of emulation. Goroka Microcredit Savings Trust in contrast started in 1994 and has been successful in resisting political pressure to expand quickly. Thus, by 1998 GMST had only reached a population of about 1,000 clients between its branches of Goroka and Kainantu. This meant its rate of expansion has been slower than planned but the operating branches are relatively viable and sustainable (Getbig et al., 1997).

Evidently, GMST's approach was a measured learning experiment. Hence, based on its successes and mistakes it is poised to accelerate its rate of expansion. GMST has successfully applied for and has been given a financial institutional license to operate under the trade name of "Village Bank" in PNG in 1999 (LDAT, 1998).

A sixth major constraint of Pacific MFIs is what can be referred to as "cultural handicaps" which will need educational intervention. A few of these are the bride price payments, funeral feasts, and compensation payments. These cultural practices, though of significant value to community life, has become a financial burden to rural populations struggling to live with minimal cash incomes. As such, the opportunity costs of limited funds into such activities have greatly limited savings mobilization and thus investment potential of the rural populations. One way to deal with such constraint was to include education programs to highlight the need for change to the clients of MFIs. Grameen Bank of Bangladesh did this through its educational program of discouraging dowry payments (payment for marital rights usually by the groom's family) that was similar to "Bride Price" in PNG. From the three Grammen Bank replications, GMST and WOSED have undertaken such programs to a limited extent. GMST provided a 7-day training program and WOSED got assistance from the Fiji government extension services. However, much more needed to be done, especially in the case of GMST.

Nevertheless, the answer lies somewhere in between sustainability and outreach but each MFI will have to decide based on their own optimal estimations on how best to approach this issue. Various economic analysis tools are available like optimization procedures through the use of Microsoft Excel. Grameen Bank had such mathematical tools (in Lotus format) to assist project managers to make prudent financial and economic decisions on viability and expansion. In any case, these are only guidelines, as other qualitative factors must also be considered, such as the ones discussed here.

<u>Efforts to Balance Sustainability and Outreach in the Pacific</u>

As noted in Tables 3 and 4, there had been some evidence of measurements of sustainability and outreach of the three Grameen Bank type projects in the Pacific Islands countries. Table 3 showed estimates of operational and financial self-sufficiency, which indicated that WOSED had the best operational and financial sustainability estimated at 1.3 %, and a figure closest to zero would indicate a higher level of self-sufficiency. Table 4, when applying Navajas et al., theory of outreach (headings underlined), indicated that SICUL had the best record of length of outreach having been in operation for five years and breadth of outreach with over 6,000 clients. WOSED had the best scope of outreach with links to the Fijian government extension services, which was related to its high level of self-sufficiency as noted in Table 3.

Table 3

Estimates of Operational and Financial Sustainability of Pacific MFIs

Criteria (1995)	GMST (PNG) %	WOSED (FIJI) %	SICUL (SI) %
Operational Sustainability	18.2	1.3 (est)	35.4 (est)
Financial Sustainability	16.9	1.3 (est)	10.4 (est)
SDI	Not known	Not known	Not known

Note. 1) Operational self-sufficiency measured as income from the program, as a percentage of operational expenses (i.e. administrative costs and loan losses); 2) Financial self-sufficiency measured as income from the program, as a percentage of financial expenses (ie. Administrative costs, loan losses and financial costs at non subsidized interest rates); 3) The measure of financial self-sufficiency is not relevant to SICUL, because it does not directly make loans. From "Creating the vision: Microfinancing the poor in Asia and Pacific – issues, constraints and capacity building," Getubig et al., 1997, p, 118. Adapted with permission.

Table 4

Evidence of Outreach Potential

Criteria	GMST (PNG)	WOSED (FIJI)	SICUL (SI)
Length (up to 1996)	1994 to 1996 2 years	1993 to 1996 3 years	1991 to 1996 5 years
Breadth (1996 client population)	334 clients	137 clients	6,802 clients
Scope	Loans and Savings	Loans and Savings	Loans and Savings
Other Services	Contractual Savings 7-day training	Training for clients Agriculture Extension support	None

Note. From "Creating the vision: Microfinancing the poor in Asia and Pacific – issues, constraints and capacity building," Getubig et al., 1997, p. 118. Adapted with permission.

Summary: Potential for GBA in PNG and PICs

In summary, there was evidence that Pacific Island governments continued to address both directly and indirectly what the founder of Grameen Bank, Professor Yunus described as a "human right" of their rural and economically disadvantaged populations to financial services. Despite initial lack of success due to various constraints, there was evidence of phenomenal successes from the application of GB in the pacific context. One was the outreach record of 6,802 clients by 1995 by SICUL of Solomon Islands. Second was the financially and operationally self-sufficient GMST of PNG. Third, the close collaboration of WOSED of Fiji with the agriculture extension program of the government was a very positive development (Getubig et al., 1997).

However, the challenge to learn valuable lessons from existing MFIs and to continue to improve remains illusive. As such, it would be prudent to heed the advice of professor Yunus.

> This can be achieved by going through an intensive dialogue and exposure program in the existing units. All the people who would be responsible for implementation of the replication program of GB must go through such a dialogue and exposure program . . . (GMST, 1993, p. 33)

Finally, as expressed, there was need for further studies to determine best practices for MFIs. This literature review has indicated a need for MFIs to move to level 4 as reflected in Figure 1, where they would be financially sound and have the capacity to achieve maximum outreach.

CHAPTER III

METHODOLOGY OF THE STUDY

Introduction

The purpose of this case study was to evaluate the performance of a four-year-old microfinance project in Goroka, Eastern Highlands Province (EHP) of Papua New Guinea (PNG). The study's aim was to identify performance needs that could contribute to financial and operational sustainability and increased quality and quantity of outreach. Hence, to specifically achieve the three research objectives, data was collected using three methods, which sought information from three critical stakeholder groups. This was intended as a triangulation approach. The specific data collection techniques included three different stakeholder questionnaires, passive participant observation of critical activities, and relevant document review. The stakeholder groups were the field assistants (FAs), the women participants and the management of the project – Goroka Microcredit Savings Trust (GMST).

Institutional Review Board Approval

The Oklahoma State University (OSU) policy, based on United States federal research regulations, required approval of all research studies involving human subjects. Hence, necessary documents were submitted to OSU's Institutional Review Board (IRB).

Requirements were met and the study was approved as indicated by approval number AG-98-030, attached as Appendix A. During the research process, IRB expectations were adhered to as indicated in Appendix B, which was a letter seeking consent of individual participants before information was sought from them.

Instrument Preparation and Data Collection

The first stakeholder group that information was sought from was the field assistants (FA) of the project. The total population of FAs was twelve. From that population, seven were males and five females. There were two trainee FAs who could not respond to the questions due to their limited experience. The primary data was collected through respondents answering questionnaire # 1 (Appendix C). The instrument was aimed at discovering operational needs of respondents. The questionnaire was in English because most respondents were educated to grade 10 level and had competent understanding of the English language. Questionnaire #1, was tested with one field worker before being applied to 10 out of 10 eligible respondents or 100% of FAs population.

The second group of respondents was the project's beneficiaries. Collection of primary data through questionnaire # 2 (Appendix D) involved more resources in terms of time and money, due to a population of about 734 clients. Those clients were scattered over an approximately 20 –30 square kilometer geographical area, as portrayed in the map in Appendix I. In order to cover an even geographic area, and also collect a representative sample of the population, cluster sampling was applied. Details of the sampling technique will be discussed subsequently.

Three techniques of data gathering were applied. First, questionnaire #2 was applied as an interview guide. All questionnaires were prepared initially in English. This was done in close consultation with my thesis adviser. However, before implementation of questionnaire # 2 further translation was required. The major reason was most clients of the project (respondents) could not read, write, nor understand the English language. Thus, the instrument had to be translated into "pidgin," a common language that most respondents understood. A copy of the English version is attached as Appendix D. This questionnaire was translated with the help of Mr. Elias Kawas – a language expert, into pidgin the local language. Questionnaire # 2 was field - tested for content validity at one center and revisions were made before being applied to the sampled population. Eleven research assistants who were secondary school student teachers were trained on proper interview techniques and ethics before applying the instruments. To minimize the problem of inter- rater validity, the principal researcher was available when information was sought from respondents. Hence, the researcher was able to answer questions whenever necessary, throughout most of the interviewing process. A further communication problem of translating to the local dialect was solved through the assistance of GMST Field assistants and two research assistants (students) who were first language speakers of the local dialect. They translated pidgin into the local dialect when the need was eminent.

The second technique of data gathering was participant observation. Hence, after gaining formal permission of the technical assistant, field assistants and women clients, the three stakeholder groups were observed and their activities recorded through written form, audio and video taping. Some of the activities recorded included center meetings, loan repayments, compulsory training, motivation meetings, and many others to be elaborated on subsequently.

The third technique involved document review. That involved studying documents such as passbook accounts, loan applications of participants' business plans and records of some participants' entrepreneurial or income generating activities (IGAs). On the part of clients, it was the absence of written records that was obvious because most participants were illiterate. For instance, beneficiary loan applications were prepared on roughly written sheets of papers or verbally explained to the FAs.

The third stakeholder group of respondents was the management or decision-makers. The three specific data collection techniques applied were participant observation of management activities, questionnaire # 3, and records and operational documents made available to the researcher. There were three individual participants in this group of stakeholders. They were the Goroka branch manager, the United Nations Development Program's technical consultant and the Project Manager (or senior field assistant) of Goroka Microcredit Savings Trust.

The primary data was collected from the same persons who responded to a questionnaire as attached in Appendix E. The instrument was tested with the branch manager (BM) before being applied to the technical assistant (TA) and project manager (PM). The PM responded with valuable project information on performance data (Appendix H) that added to the findings of the study.

Furthermore, to complement the previous two methods other records, including a list of total participants, loan defaulters, project portfolio, balance sheets, and deposit taking records were studied. Additional document review included, field assistant's field guidelines, training manuals, daily schedules, meeting minutes, cash flow analysis and maps of operational areas. These were studied in detail with the purpose of identifying the operational capacity, weaknesses, strengths, and opportunities for improvement.

In the participant observation phase of the research, the researcher was a passive observer of the Field Assistants (FAs) as they performed their field activities. These were strategic activities performed by FAs and included motivational meetings, center meetings, 7-day training and testing sessions for clients and staff activities at the main office. Records of events as they unfolded involved written anecdotal notes of what was observed, as well as through audio and video recordings.

Population and Sampling Method

The application of questionnaire # 1 and # 3 involved the total population, as such no sampling was necessary. However, questionnaire 2, involved a larger population of about 734 project beneficiaries and required a sampling strategy. Hence, cluster sampling was used to select the centers. That was done by randomly selecting a sample from a list of all locations within Goroka Microcredit Savings Trust's area of operation in the Goroka area. Due to practical limitations such as schedule changes and cultural expectations – whereby it was not culturally appropriate for the researcher (as a stranger) to accompany a woman field assistant, absolute randomness would be a hindrance to the process. As such a certain degree of convenience was exercised, whereby the researcher had to accompany a male field assistant and most times such a center had been randomly selected already. Nevertheless, the outcome, as the map in Appendix I indicated, showed that information was collected from a reasonably fair geographic distribution of 14 or 38%

out of possible 37 centers. Once a center was selected, proportional sampling was applied, where at least one member within the established group of five was interviewed. This ensured that views of all groups in a center were represented in the sample. The aim of such an approach was to ensure that as fair as possible representative sample of member beneficiaries of the operational area of GMST was covered. A map of the Goroka area, with various centers dispersed around the vicinity of the town area and GMST headquarters is attached as Appendix I. A map also indicated the centers where information was collected in the study.

Such a sampling approach was to take into account the effects of various influential environmental factors, such as road conditions, Christian churches around Goroka, and to ensure a representative social profile of project beneficiaries was met. Essentially, the effects of such factors could be accounted for and explained accordingly when required. Therefore, the centers, groups and clients selected for interview were assumed to be representative of the total population. Such a sampling process was imperative to ensure validity and reliability of data collected also.

Data Analysis

The description of the findings was primarily qualitative in nature. However, descriptive statistical data was used to answer the three research questions. Qualitative data analysis involved detailed and tacit descriptions of operational and financial activities that occurred within the centers and the Goroka branch head office. Findings were drawn from various sources, the first being the audio, video and written anecdotal notes of activities observed by the researcher. Some of these activities included field level activities such as projection meetings, 7-day client training sessions, means testing, and group acceptance. Second, critical and useful responses from relevant questionnaire items were either quoted or explained where necessary. Third, relevant insights based on the review of operational records and documents were also described.

Quantitative data analysis was primarily descriptive in nature. The responses from the three questionnaires applied as interview schedules involved the taking of frequencies and conversion to percentages of similar responses. The presentation of information was based on percentages. The second technique involved an analysis of financial performance results to establish a trend of GMST's progress from September 1995 to August 1997. Some of those data included measurement of repayment rate, savings rate, ratio of loans to Savings, and several others.

CHAPTER IV

FINDINGS, PRESENTATION, AND ANALYSIS OF DATA

Introduction

The three questionnaires (Appendixes C, D, and E), responded to in written form and documented as interview responses, sought to assess the performance level and needs of three GMST stakeholder groups' activities. These were perceptions of activities that could have an impact on the degree of sustainability, quality, and quantity of outreach of Goroka Microcredit Savings Trust (GMST). First, Table 5 presents results of the survey that were discussed to establish field assistant's (FA's) views on critical tasks that affected their job satisfaction and productivity. Second, Table 6, 7, and 8 present the responses of the women clients (micro-borrowers) that were discussed to determine strategic activities that affected participation. Third, Tables 9, 10, 11, and 12 and related descriptions from document review on past performance, from the management were presented. Last, findings from field observations and document review were presented in Table 13 and discussed under the headings of the fifteen strategic operational activities of Goroka Microcredit Savings Trust.

Survey Results: Field Assistants' Perceptions of Their Performance and Training Needs

Background of Field Assistants (FAs)

GMST's FAs performed roles such as extension (mobile) bank tellers who visited clients in common meeting places called "Centers." The FAs specialized in performing about fifteen critical tasks that ensured the operational and financial sustainability of GMST. This was discussed in detail to ascertain the operational sustainability of these tasks. When the interview was performed at the Goroka branch, there were 10 fully trained FAs plus 2 still undergoing training. Most of them were between the ages of 20 - 30. Eight of the FA's were educated to grade 10 level. The branch manager (BM) - a senior FA had additional training as a sales person. The field-training officer - was an agriculture college graduate. The project's technical advisor (TA) trained all FAs, coordinated, and evaluated their job performance continuously. The TA was a United Nations Development Program (UNDP) employee assigned to the project.

Table 5 provides information based on a survey seeking the perceptions of field assistants or workers of Goroka Microcredit Savings Trust (GMST) on their performance and training needs.

Discussion of Findings

First, (item # 1) all or 100% of FAs responded in the affirmative (yes) to monitoring how loans were used. Participant observation confirmed that loan checks were frequently

Table 5

Field Assistant's Perception of Their Needs

#	Question Item and Response	Frequency	%
1	Were Loans Used for Specific Purposes?		
	- Yes	10	100
	- No	0	0
2	Would You Need Further Training?		
	- Yes	10	100
	- No	0	0
	The Type of Training Needed by FAs.		
	- Bookkeeping	3	30
	- Accounting	3	30
	- Study tour of Grameen replication overseas	2	20
	- Management training	2	20
3	Do Center Chiefs (CCs) Need Training?		
	- Yes	10	100
	- No	0	0
	Type of Training Perceived as Needed by CCs.		
	- Business supervision training	6	60
	- Bookkeeping skills	4	40
4	Do Beneficiaries Need Training?		
	- Yes	10	100
	- No	0	0
	Type of Training Needed by Beneficiaries.		
	- Chicken rearing	4	40
	- Bee farming	2	20
	- Vegetable farming	4	40
5	Do FAs Prefer "Village Bank" Concept?		
	- Yes	10	100
	- No	0	0
6	Motivation to Do Job Well.		
	- Better transportation arrangements	6	60
	- Higher pay	2	20
	- Housing	2	20

carried out by the FAs to ensure investment of loaned funds had occurred. This was a critical indication of the effective performance of a key function of a field assistant's role.

Second, 100% of FAs expressed the need for their own training. The type of training FAs believed they needed was business management skills, as expressed by 80% of respondents. The skills included bookkeeping, 30%, accounting, 30%, study tour of Grameen replication overseas, 20%, and 20% management training.

Next, 100% of FAs expressed the need for center chiefs (CCs) to be trained as well. The type of skills FAs suggested that CCs be trained for were 60% in business supervision, and 40% in bookkeeping skills. Most of the respondents also commented that CCs should be paid an allowance if their responsibilities were increased.

The fourth response indicated that, 100% of FAs agreed that clients of the project needed training beyond the 7-day compulsory orientation training. The type of training suggested were chicken rearing, bee and vegetable farming. FAs also expressed that government agencies such as Department of Primary Industries (DPI) and Small Business Development Corporation (SBDC) were supposed to provide complimentary training to their clients. Many field assistants mentioned GMST policy did not allow for training of clients. United Nations Development Program (UNDP) Microcredit project document (1993) also confirmed that the original plan relied on input from the organizations mentioned above. Participant observation and informal interviews also indicated that such services were non-existent. However, it was interesting to note that GMST did have an agriculture extension worker attached. The person was hired as a training officer, but in practice she assisted with routine office duties.

The fifth item received a response of 100% that expressed preference for the "Village Bank" concept. The main reason expressed was because the FAs thought their work conditions were much better than the current experience with GMST. They specifically mentioned better transportation arrangement, with 60%, salaries, 20%, and housing, 20%.

The last question asked about job satisfaction or factors that would motivate FAs to increase their job satisfaction. Interestingly, 60% of field assistants indicated better transport arrangements as the most motivating factor. Twenty percent each indicated both higher pay, and better housing as other motivating factors.

Survey Results: Beneficiaries' Perceptions of Selected Aspects of Their Activities

Background of Women Participants

The participants of the project were women in the neighboring areas around Goroka. A map attached in Appendix I, indicated the location of various centers and roads that linked the areas. A center was a common place where the women met with the FAs on a weekly basis, for a 50-week loan cycle. Members of the centers were women from households closest to the center. There were a total of 734 women in the Goroka project area who were targeted by the interview survey. A sampled population of 12% was achieved.

Table 6 indicated a personal profile of the type of clients. Table 7 showed perceptions on strategic aspects of financial management of GMST operations. Table 8 displayed the clients' income generating activities. Financial aspect was defined as GMST activities that dealt directly with money, credit and capital management.

Table 6

Perceptions of Beneficiaries Concerning Personal Information

#	Question Item and Response (86 Clients)	Frequency	%
1	Age Range of Respondents		
	- 15-20	1	1.2
	- 20-30	36	4.8
	- 30-40	26	30.2
	- 40-50	8	9.3
	- 50+	14	16.3
2	Marital Status		
	- Married	76	88.3
	- Single	1	1.2
	- Second Wife	3	3.5
	- Widow	1	1.1
	- Divorced	5	5.8
3	Religion		
	- Seventh Day Adventists (SDAs)	36	41.9
	- Lutheran	14	16.3
	- No religious affiliation	8	9.3
	- Evangelical Bible Church (EBC)	7	8.1
	- New Life	5	5.8
	- Pentecost	3	3.5
	- Catholic, Nazarene	2,2	2.2
	- CLC, United (Methodist), Four Square, Baptist	1,1,1,1	1.16
4	Level of Education		
	- Illiterate women (No formal school)	49	56.9
	- Grade 8	5	5.6
	- Grades 1,2,3 & 10	3,3,3,3	3.5
	- Grades 4, 7 & 9	1,1,1	1.2
	- Literacy/Tokples Schools	2	2.3
	- Grade 6	15	13.6

Discussion of Findings: Part I – Personal Information

First, 72.0% of women were 20 – 40 years of age and 88.3% of women were married. Next, 41% were Seventh Day Adventist church members and 16.3% were Lutheran. The other churches made up the rest of the percentage. The fourth result indicated that 56.9% of the women had no formal schooling and were illiterate. The other percentages of respondents had some formal schooling ranging from grades 1 to 10. Out of the remaining percentages, 13.9% left school at grade 6 and 5%, after grade 8. This was consistent with the drop out points in the PNG school system.

Discussion of Findings: Part II – Financial Information

First, 66.3% favored the fixed 20% interest rate on the repayment of loans. The remaining 33.7% did not favor the interest rate. Such preference was troubling because almost a third of the clients did not like the interest rate. Hence, further investigation was needed because the result could be influenced by a high rate of inflation experienced within the general economy at the time of study. Furthermore, there was a natural disaster in the form of a drought that plagued the country in 1997. The drought had caused agriculture-related activities, which many of the clients relied on such as vegetable farming, to be replaced by other income generating activities. Ironically, this was a positive outcome because beneficiaries were forced to diversify their income–earning activities from an agriculture-centered one.

Next, there was almost an equal division between clients who favored weekly payments and others who wanted to pay at their own pace. The fact that some wanted to pay at the non-Grameen Bank recommended pace required further investigation. This was especially because paying at their own pace would be problematic for two reasons. One, interest would tend to build up and payments later then one week would become too high for most clients. For instance, 20% monthly interest payment for a K100.00 loan paid at K5.00 each week is affordable to most beneficiaries compared to K20.00 after a month. The other problem was payments could be made quickly for the sake of a higher loan without going through the learning process of credit discipline and savings. Such a situation would lower the profit margin of the loan product. Another potential problem of members illegally selling borrowed funds for profit could also emerge, though not evident during the time of the study.

The third question was meant to find out if black market money operations existed. Most or 73% were not aware of illegal money operations but 23% knew such operations existed. Even if a low percentage, this confirmed that illegal money market operations existed in some communities. Those money schemes actually provided a type of competition to GMST's operations. However, even if not encountered during the research process, possible problems like GMST clients borrowing money to lend again through illegal money schemes could occur.

The fourth response indicated that 55% of clients had alternative sources of investment and seasonal income sources through ownership of small holder coffee tree plots. In fact, most participants found coffee season, as very helpful to their repayment efforts. Nevertheless, the 44.2% of clients did not own coffee plots. This was a concern and dispelled the notion that most women owned small holder coffee tree blocks.

Ownership was such that an extended family of twenty might claim ownership over one coffee tree plot.

Fifth, a traditional form of investment was the ownership of pigs that 53.5% owned. However, since most (41.6%) of the respondents were practicing Seventh Day Adventist's, they could not own pigs. Most of them owned goats instead which church laws allowed. Pigs and goats were forms of investment, which could be easily transformed into cash, given the relatively high demand for meat during traditional ceremonies. Nevertheless, frequently those animals were used as informal exchanges and no cash exchanged hands so they cannot be relied on as a type of collateral for a loanee.

The sixth finding that 84.9% of respondents did not know what profit was, was very significant. It confirmed a previous study's finding by a United Nations mission to study micro credit schemes in Papua New Guinea (GMST, 1993). The study found that most micro credit clients did not know what profit was. Such a lack of knowledge meant most respondents operated income-generating activities without the profit motive. Thus, their ability to conduct viable activities in order to sustain operations of GMST was severely handicapped.

Table 7

Perceptions of Beneficiaries Concerning Financial Information

#	Question Item and Response (86 Clients)	Frequency	%
1	Degree of Preference for Interest RAte		
	- Favor	57	66.3
	- Not Favor	29	33.7
2	Repayment Schedule Preferred		
	- Weekly payment	42	48.8
	- Pay at own pace	44	51.2
3	Knowledge of Other Credit Schemes		
	- Yes	23	26.7
	- No	63	73.3
4	Alternative Sources of Income as Coffee:		
	- Yes	48	55.8
	- No	38	44.2
5	Alternative Sources of Income as Pigs or Goats		
	- Yes	46	53.5
	- No	40	46.5
6	Knowledge of Profit		
	- Yes	13	15.1
	- No	73	84.9

Discussion of Findings: Part III - Income Generating Activities

The first item sought to determine the income generating activities Goroka Microcredit Savings Trust's clients were engaged in. The figures from the survey confirmed what GMST's records indicated (see Table 8). The activities included were, Bettlenut, 38.4%, Poultry 36.0%, Food 25.6%, Vegetable gardens 20.9%, and cigarette hawking 19.8%. The only major difference between the figures and GMST's records was the decline of vegetable gardening a previous popular activity. The most likely explanation for the decline was the severe drought that forced many women away from vegetable gardening. Furthermore, most women were engaged in activities that brought immediate returns. This was imperative because loan repayments started a week after the individuals received the loan. Thus, seasonal activities such as poultry, coffee buying, and vegetable gardening were normally given a smaller complementary loan. Such a supportive activity enabled the clients to repay the loan while waiting for poultry birds or vegetable gardens to be ready for sale. The sale of bettlenut was a popular transitional income generating activity (IGA) as the results indicated. Bettlenut is a local nut, chewed for pleasure such as tobacco chewing in the United States.

Second, a third finding was, 56.9% of women indicated that their husbands assisted them with their IGAs. Such a result dispelled the myth that men were normally not supportive of their wives. Furthermore, 27% of the women said they worked alone and 11% said other relatives provided assistance especially in terms of labor.

The third question asked if the respondents knew the critical reason for borrowing within their groups. Most, 61.62% expressed either directly or indirectly that they did not fully understand why they borrowed within groups. However, 33% percent said they understood the reasons, which the respondents expressed were as a "form of security for the loan" and to "help each other." This was a reflection that the 7-day training did not enlighten the concept to the women adequately. The reasons will be discussed subsequently.

Table 8

Perceptions of Beneficiaries Concerning Income Generating Activities (IGAs)

#	Question Item and Response (86 Clients)	Frequency	%
1	Income Generating Activities		
	- Bettlenut	33	38.4
	- Poultry	31	36.0
	- Food	22	25.6
	- Vegetable garden	18	20.9
	- Loose Cigarettes	17	19.8
	- T-Store	14	16.3
	- Furniture, Coffee buyer	3,3	3.5
	- Kerosene	2	2.3
	- Sewing, Seedlings, Bilum strings, Firewood	1,1,1,1	1.2
2	Provision of Extra Labor		
	- Husband	49	56.9
	- Self	24	27.9
	- Other relatives	10	11.6
	- GSMT	3	3.4
	- Center Chief	1	1.2
3	Know Reason for Group Borrowing		
	- No	53	61.6
	- Yes	33	33.0
4	Technical Assistance Needed for IGAs		
	- Do not understand question	27	31.4
	- No help	12	13.9
	- Transport	9	10.5
	- More capital inputs	8	9.3
	- Subsidy	5	5.8
	- Marketing, more finance, help from center chief	4,4,4	4.7
	- Another employment or source of income	3	3.5
5	Biggest Barrier for IGAs		
	- Natural risks (dependi8ng on type of product)	29	33.7
	- High prices (inflation)	13	15.1
	- Social wastage	10	11.6
	- Oversupply	10	11.6
	- Lack of markets & transport	8	9.3
	- Do not know	5	5.8
	- Debts	3	3.5
	-Theft Shortage, changed priority, under supply	2,2,2,2	2.3
6	Biggest Advantage of IGAs		
	- Good market	43	50.0
	- Do not know	17	19.8
	- Diversified income	13	15.1
	- Extra labor	9	10.5
	- Good transport	2	2.3
	-Advise from GMST	1	1.2

Table 8 - Continued

#	Question Item and Response (86 Clients)	Frequency	%
7	Have Previous Employment		
	- Yes	76	88.4
	- No	10	11.6
8	Are You Employed Elsewhere		
	- Yes	2	2.3
	- No	84	97.7
9	Husband's Employment		
	- Self-employed (subsistence farmer)	39	45.3
	- Employed formally	25	29.1
	- Unemployed with some formal skill	17	19.8
	- Died, Divorced	1,1	1.2
10	Husband Assist to Repay Loan		
	- Yes	56	65.1
	- No	30	34.9
11	In Receipt of Previous Loan		
	- Yes	11	12.8
	- No	75	87.2
12	Consumption Choice from IGA's Income		
	- Household goods for family	56	65.1
	- School fees	16	18.6
	- Reinvest in income earning activity	9	10.4
	- Saved	5	5.8
13	Favorability Level of GMST Activities		
	- High	50	58.1
	- Medium	29	33.7
	- Low	7	8.1
14	Major Reasons from Favoring GMST Activities		
	- Positive impact on living standard	43	50.0
	- Increase in income/spending power	24	27.9
	- Assist to pay school, hospital fees, etc.	6	6.9
	- Finance to start and maintain business	6	6.9
	- Self-employment	4	4.7
	- Financial Independence	3	3.5

Next, 33.7% of women indicated that natural calamities were the major barrier to their IGAs. Such a response was understandable because most of them were involved in agriculture related activities and had just emerged from a severe drought situation in 1997. Furthermore, 15.1% mentioned high prices and inflation as a barrier. Inflation was especially bad as profitability of most of the small projects were reduced. However, due to lack of market information, most women beneficiaries continued to pay for goods such as bettlenut and poultry at a higher price. They then sold their goods at prices that did not allow profits to be made. Appendix F provided a specific example of the case of bettlenut that illustrated this problem. The problem was further complicated by a lack of knowledge of basic business concepts such as profit, which most clients lacked.

The fifth question asked about the biggest advantage for the beneficiaries' IGAs. Interestingly, 50% of women indicated good markets, which was related to the fact that most of IGAs were traditional high consumption goods as given in response to the first question in this section. A troubling 19.8% did not know, but this could be a problem of lack of education as literacy levels of women clients were very low. Nevertheless, 15.1% mentioned diversified income base and 10.5% mentioned extra labor as advantages. Such a response was consistent with the fact that many of them had coffee plots (item 1), and some had husbands who helped to repay loans and or provided extra labor (item 8).

A majority or 88.4% of respondents, who responded to question eight, indicated that they had never been employed in the past and were self-employed in their current activities. However, 11.2% had been employed in the past. Such a result was indicative a of a very good screening system, especially the means testing method to identify clients who were in genuine need of micro credit services.

Seventh, 97% of respondents were not employed anywhere. Once again such a response reflected on a very good means testing system employed by GMST through its field assistants.

The eighth question asked if husbands of respondents were employed. A combined percentage of 67.4% had husbands who were not employed. However, there was still a troubling 29.1% who had husbands who were employed in the formal economy. Unlike the previous two responses, such a result signaled a situation that more women with employed husbands were allowed to join. This could be due to the close proximity of the project area to the town or means testing not seeking such information from the women.

However, the response to the ninth question, further consolidated the fact that husbands were very supportive of their wives. This was because 65.1% agreed that their husbands assisted them in repaying their loans. Nevertheless, given the preceding result, it was easy to conceive that the women's husbands who were employed made up half of that percentage.

Question ten, similarly supported the notion that means testing was good. The women respondents indicated that, 75% of them had never received a loan in their lives. Grameen Bank practitioners perceived such a situation positively because such clients tended to be more diligent and prudent with using the money and repaying their loans.

Eleventh, looked at how an increase in income was used or consumed. The data reported that 65.1% spent money on household goods for the family. Such spending directly related to increasing the standard of living of clients. The next category of response was 18.6 % for school fees, which was followed by 10.5% that indicated reinvesting. However, it was significant that only 5.8% indicated saving some of the income. That meant women needed some advise and input on how to manage an increase in cash flow. Obviously, not all the money was profit and some effort had to be made to educate those women beneficiaries to manage their finances in a prudent manner also.

The thirteenth question asked women beneficiaries about the degree of favorability of GMST's operations. Results indicated that 58.1% favored GMST activities highly. The other 33.7% expressed medium favorability. Only a low percentage of 8.1% disliked (low favorability) GMST activities.

Finally, the fourteenth question asked clients reasons for their ratings for the thirteenth question. 50% indicated a positive impact on the standard of living of their families. The women mentioned that they were able to buy household items that they could not afford in the past. Another 27.9% of the women mentioned an increase in spending or purchasing power, but did not specify how they spent their money. The other respondents mentioned the reasons for the specific ratings, ranging from, assistance to pay fees, finance to start business, and financial independence. Generally, most beneficiaries experienced a positive impact on their livelihood, by being loan recipients of Goroka Microcredit Savings Trust.

Survey Results: Management Perceptions on Selected Performance Aspects of GMST Operations

Background Information on Management

The responses from management were based on the interview guide. However, information to answer the specific questions was drawn from various sources. The sources included direct interview responses, document review and anecdotal field notes from participant observation. The rest of the information came from participant observation and collection of anecdotal information.

The management of Goroka Microcredit Savings Trust was composed of a board of trustees. That board was comprised of domestic and international organizations that governed the micro credit project by virtue of the fact that they were the major contributors or shareholders. Included in the board were the Department of Villages services and Provincial Affairs, Foundation for Law Order and Justice, United Nations Development Program (UNDP), Papua New Guinea Banking Corporation (PNGBC) and Australian Aid (AusAid).

The board employed a management team, who were respondents in the research study. The management team included the managing director, who was employed by PNGBC, one technical advisor employed by UNDP, and one branch manager paid directly from the operational funds of GMST. Those interviewed were the Branch Manager, Technical Assistant, Field Training Officer, and the Project Manager. The Management responses were reported as an aggregate below in the form of descriptions, lists and when appropriate in tables.

Part I – Professional Information

The first part of the interview guide asked members of the management to provide professional information. Table 9 below contained their first responses, which provided the person's position and included title, the number of people, the funding agency, and the roles and responsibilities of the concerned position.

Discussion of Findings

The management personnel were asked to explain their roles and responsibilities. The Project Manager (PM) was responsible for the overall management of the project. Another critical role was to manage information on the project's performance, advise stakeholders and create strategies to enable Goroka Microcredit Project to meet its goals (to be specified in the next section) and obligations to its stakeholders. The PM position was funded by the state-owned commercial bank, Papua New Guinea Banking Corporation (PNGBC). The United Nations Development Program (UNDP), as a contributor to the project, funded the technical advisor's (TA's) position. The TA's

Table 9

Professional Information

Title of Position	#	Funding Agency	Responsibility
Project Manager	1	Papua New Guinea Banking Corporation	Manage project & audits the GMST financial performance
Technical Assistant	1	United Nations Development Program	Advise on Grameen Bank approach Trains field assistance Monitors & evaluates project
Branch Manager	1	GMST	Manages routine activities
Field Training Officer	1	GMST	Provide agriculture extension service to beneficiaries of the project

primary responsibility was to advise the project stakeholders on the Grameen Bank approach, train Field Assistants (FAs) and to continuously monitor and evaluate the project worker's performance. The Branch Manager was responsible for organizing the daily routine activities of the FAs and the field-extension officer was responsible for training of beneficiaries on agriculture related activities.

Part II – Social/Organizational Information

The following were the objectives as specified in the GMST project document. The first objective was to institutionalize GMST as a specialized financial institution that would cater for the credit needs of disadvantaged women in the informal sector by following the Grameen Bank approach. The second objective was to assist GMST in establishing and implementing a specialized microcredit and savings scheme specifically targeted at the disadvantaged women, that followed the Grameen Bank approach.

1. *Organization of Clients When Applying for a Loan* – Clients were organized into groups of five. Loans were given on a basis of 2:2:1. This meant two of the poorest in the group as determined by the means test received their loans first. After about six weeks of successful repayment, the next two individuals became eligible to apply for loans. The group leader was the last to get her loan, because she helped to ensure her group members paid their loans so she can become eligible for a loan. The women clients were responsible for forming their own group and electing their group leaders.

2. *Use of Collateral as Risk Aversion* – The responses from the concerned members of the management were summarized as follows. Due to the nature of the clients as economically disadvantaged or poor, no physical collateral was involved. The concept of collateral was embedded in the group liability concept. Ostensibly, if one member of the group defaulted, the whole group's responsible was to assist the concerned member repay the outstanding amount. A defaulting group member does not only let herself down by defaulting, but also the whole group. Nevertheless, a lack of collateral was a temporary condition. This was because, as soon a member started to repay the loan, they also began compulsory savings and contribute to a group and mutual fund. Such strategies assisted to build a collateral base that did not exist in the first place. The loan was the incentive to make that possible, not the other way around. The outcome was a productive mobilization of local financial resources.

3. *Number of Staff Employed by GMST* – There were 17 staff employed by Goroka Microcredit Savings Trust (GMST) either directly, where they were paid by the project, or indirectly through other sources. The staff included a branch manager, technical advisor, agriculture training officer, senior field assistants, and ten field assistants.

4. *Rating of Paid Staff's Work Performance* – The rating was "good" on a scale of poor to very good. The type of training recommended was management. The response was limited in this category. It was possible that more information was not offered, because the Grameen Bank approach had a comprehensive training program for Field officers.

5. *Number of Volunteers Assisting GMST* – Management did not view center chiefs as volunteers.

6. *Problems Preventing Repayment of Loans* – In response to this question, a list of problems that the management perceived as responsible for preventing loan repayment included the following:

a) Excessive gambling;

b) Misuse of loan money by husbands;

c) Failure of income generating activities; and

d) Consideration of loan as a grant by loan recipients.

7. *Reasons for Major Successes* – The reasons mentioned as responsible for the major successes by the project beneficiaries were:

a) Most women were independent and used the money for intended purposes.

b) Most women showed willingness and seemed capable to manage their own income generating activities.

Part III – Financial Information

1. Organizations Which Gave Most Seed Capital –

a) Village Services & Provincial Affairs – K100, 000 (US$77,900)

b) Foundation for Law, Order & Justice K29, 000 ($US 22,461)

c) Technical Assistance from UNDP (including salary of Technical Advisor) and K18, 200 ($US14, 180) for purchase of vehicle

d) AusAid – K195, 000 ($US151, 900) with the first allocation of K100, 000 ($US 77,900.00) received in May 1996.

2. Applications for further resource inputs to GMST.

a) Yes, GMST submitted an application for a "village bank" license to the central bank of PNG. The proposal was designed to merge GMST's operations with Papua New Guinea Banking Corporation's (PNGBC). Such a change would provide funding base for GMST, and it was anticipated that, that would create confidence for other donor agencies to contribute also.

b) The requested capital input from PNGBC into the project was 1 million Kina.

Discussion of Table Ten

Table 10, produced by the management, indicated that vegetable cultivation, poultry and bettlenut vending were the most common IGAs. The result was similar to the one produced by the survey, which could be noted on Table 8, item 1. Nevertheless, the results indicated that beneficiaries were concentrating on very common or traditional activities. Table 10 also confirmed a similar response by clients that indicated what the most common IGAs were. Nevertheless, the management's list was out of date, because vegetable cultivation had actually dropped as indicated in the client survey. The downward trend of vegetable farming was due to the drought that had affected agriculture projects. However, bettlenut vending and poultry still remained popular IGAs. The questions of how viable those IGAs were to a respondent's livelihood was discussed earlier.

Table 10

Purposes of Loans (From GMST Records)

Loan Purpose	Percentage
Vegetable cultivation	21.6
Poultry	20.7
Bettlenut vending	20.0
Coffee buying	8.3
Baking scones	7.0
Trade store operations	6.3
Sale of cooked rice and stew	5.7
Sewing, fencing of gardens	1.7, 1.7
Sale of second hand clothes, sale of eggs, sale of ice blocks	1.3, 1.3, 1.3
Sale of kerosene	1.0
Dairy farming, goat husbandry, snooker table, bilum making	0.3, 0.3, 0.3, 0.3

Discussion of Table Eleven

Table 11 highlighted one of the latest achievements of GMST, the new branch of Kainantu. Although the actual amount of voluntary savings (different from compulsory savings) is small but the frequency is very high. For instance, about 110 people have savings between K50 to K150.00. Such amounts might seem small but to women with very low incomes, it is phenomenal. If maintained, such resource mobilization could have a meaningful impact on the standard of living of the concerned women.

Table 11

Frequency of Personal Savings

Range of Amount	Frequency	Cumulative %
Less that K50	58	46.0
K50 to less than K100	32	71.4
K100 to less than K150	20	87.3
K150 to less than K200	3	89.7
K200 to less than K250	2	91.3
K250 to less than K300	2	92.9
K350 to less than K400	2	96.0
K400 to less than K450	1	96.8
K450 to less than K500	0	96.0
K500 or more	4	100.00

Discussion of Table Twelve

Table 12 showed the latest default rate at the Goroka Branch. Thus, if the default rate is at 95%, meant that the repayment rate is 91.5%. This represented about 5% increase from a low of about 90% during the drought period. The management also attributed the increase to the rehabilitation program, which was reviving old centers and involving old and defaulting members.

It should be noted that it was not easy to interview defaulters as most of them had left their villages. Anecdotal information suggested that women peer pressure and the loss of face could have been the cause. This was because a defaulter would normally make every body in her group liable for the default. Also those remaining members would not be qualified to get loans anymore.

Table 12

Goroka Branch Default Rate as of April 1, 1998

Total Members of Goroka & Kianantu Branch (June, 1997)	Total Number of Defaulters	Percentage of Defaulters (Default Rate)
998	95	9.5

Discussion of Table Thirteen

Table 13, which contained performance data indicated that Goroka Microcredit Savings project's (GMST's) performance, since it started operations in 1994 to August of 1997. Such data proved how effective GMST was keeping in monitoring its progress, and in essence it was strategic information that could be used to assess GMST's performance from the analyst's perspective. The first significant result to be noted was the high ratio of total loans to savings ratio. That ratio was maintained consistently at a savings ratio of 3 or 4 times the amount of loan and sometimes above since GMST started operations in 1994. Such a ratio belonged in the realm of commercial banks and was an outstanding outcome. The result confirmed that GMST was maintaining a desirable scope of outreach or quality of products. A significant social outcome worth mentioning was GMST's influence on low-income clients that enabled many to move into a culture of high

Table 13

Performance Result: Goroka Microcredit Savings Trust (GMST)

Item	Sep 94	Oct 94	Nov 94	Dec 94	Jan 95	Feb 95	Mar 95	Apr 95	May 95	Jun 95	Jul 95	Aug 95
No of Groups	7	8	17	18	21	24	27	31	33	36	36	37
No of Active Groups	7	8	17	18	21	24	27	31	33	36	36	37
No of Centers	4	5	5	5	6	7	8	8	9	10	10	11
No of Active Centers	4	5	5	5	6	7	8	8	9	10	10	11
No of Members	35	40	80	90	105	119	135	155	165	180	180	185
No of Active Members	35	40	80	90	105	119	135	155	165	180	180	185
Savings K												
Group Fund	78	347	1,057	1,818	2,337	2,511	2,953	3,446	4,256	4,989	5,692	6,341
Mutual Aid Fund		4	27	83	153	230	319	392	485	607	723	841
Default Fund		6	30	84	147	217	298	365	448	556	663	771
Personal Savings							17	410	1,358	1,960	2,049	3,008
Total Savings	78	357	1,114	1,985	2,637	2,958	3,587	4,613	6,547	8,112	9,127	10,961
Group Fund Loans												
No of Loans						6	9	12	12	12	12	12
Amount of Loans						326	456	566	566	566	566	566
Loans Outstanding							449	524	513	469	394	387
Project Loans												
No of loans 1st Rnd	2	16	50	77	92	99	107	125	148	157	167	175
No of Loans 2nd Rnd												
Total No of Loans	2	16	50	77	92	99	107	125	148	157	167	175
Amt of Loans 1st Rnd	171	2,474	9,851	16,546	20,241	21,712	23,206	27,122	33,064	34,139	36,154	38,164
Amt of Loans 2nd Rnd												
Total Amt of Loans	171	2474	9,851	16,546	20,241	21,712	23,206	27,122	33,064	34,139	36,154	38,164
Loan Recovery (All)												
Amount Due		78	514	1,636	3,184	4,721	6,941	8,510	10,508	13,390	16,220	19,482
Amount Recovered		78	514	1,636	3,184	4,721	6,941	8,510	10,410	13,033	15,580	18,515
Recovery Rate(All)		100.00%	100	100	100	100	100	100	99.07	97.33	96.05	95.04
Loans Outstanding	171	2,396	9,337	14,902	16,757	16,690	16,208	18,550	21,653	21,106	20,574	19,648
Ratio;Savings:Loans	2	7	9	8	8	7	6	6	5	4	4	3

Table 13 – Continued

Item	Sep 95	Oct 95	Nov 95	Dec 95	Jan 96	Feb 96	Mar 96	Apr 96	May 96	Jun 96	Jul 96	Aug 96
No of Groups	40	43	45	47	48	49	56	62	65	67	67	71
No of Active Groups	36	36	38	40	41	42	49	55	58	60	60	64
No of Centers	11	11	11	11	11	12	15	18	18	18	18	19
No of Active Centers	11	9	9	9	9	10	13	16	16	16	16	17
No of Members	200	215	225	235	240	245	279	309	324	334	334	354
No of Active Member	180	180	190	200	205	210	244	274	289	299	299	319
Savings K												
Group Fund	6,769	7,206	7,486	6,928	7,176	7,367	7,793	8,952	9,878	11,018	12,106	12,986
Mutual Aid Fund	949	1,040	1,134	1,210	1,293	1,356	1,425	1,534	1,687	1,844	2,043	2,229
Default Fund	870	952	1,033	1,101	1,174	1,228	1,289	1,370	1,479	1,589	1,738	1,873
Personal Savings	2,678	2,896	12,226	4,518	3,781	3,378	4,092	5,577	7,497	10,460	13,432	16,423
Total Savings	11,266	12,094	12,879	13,757	13,424	13,329	14,599	17,433	20,541	24,911	29,319	33,511
Group Fund Loans												
No of Loans	26	30	32	34	34	35	40	40	41	42	43	47
Amount of Loans	892	997	1,147	1,177	1,177	1,217	1,527	1,527	1,567	1,607	1,627	1,792
Loans Outstanding	599	611	708	652	632	617	819	788	745	641	615	711
Project Loans												
No of loans 1st Rnd	182	192	207	216	226	228	241	263	287	310	329	344
No of Loans 2nd Rnd							8	21	24	28	31	31
Total No of Loans	182	192	207	216	226	228	249	284	311	338	360	375
Amt of Loans 1st Rnd	39,831	41,940	45,230	47,151	49,734	50,324	53,327	58,372	64,248	69,687	74,370	77,956
Amt of Loans 2nd Rnd							3,749	10,284	10,918	12,520	13,923	13,923
Total Amt of Loans	39,831	41,940	45,230	47,151	49,734	50,324	57,076	68,656	75,166	82,207	88,293	91,879
Loan Recovery (All)												
Amount Due	22,121	24,270	26,559	28,829	31,196	33,336	35,695	38,690	42,584	46,734	51,734	56,435
Amount Recovered	20,969	22,968	24,982	26,775	28,764	30,626	32,748	35,499	39,042	42,792	47,280	51,560
Recovery Rate(All)	94.79	94.64	94.06	92.88	92.2	91.87	91.74	91.75	91.68	91.57	91.39	91.36
Loans Outstanding	18,862	18,972	20,248	20,376	20,971	19,698	24,328	33,157	36,124	39,416	40,933	40,239
Ratio;Savings:Loan	4	3	4	3	4	4	4	4	4	3	3	3

Table 13 – Continued

Item	Sep 96	Oct 96	Nov 96	Dec 96	Jan 97	Feb 97	Mar 97	Apr 97	May 97	Jun 97	Jul 97	Aug 97
No of Groups	79	95	97	102	105	109	119	123	129	133	143	151
No of Active Groups	71	86	75	78	81	85	95	98	104	127	134	142
No of Centers	23	27	27	28	29	30	37	39	42	44	45	46
No of Active Centers	21	25	25	26	27	28	35	37	39	41	42	43
No of Members	393	473	483	508	522	542	592	612	642	662	697	737
No of Active Members	355	430	375	390	405	425	475	490	520	540	575	615
Savings K												
Group Fund	13,953	15,778	17,108	18,674	19,453	20,791	21,629	23,161	25,395	26,770	28,342	29,519
Mutual Aid Fund	2,409	2,656	2,882	3,125	3,372	3,585	3,782	4,022	4,276	4,536	4,834	5,122
Default Fund	2,007	2,187	2,354	2,544	2,741	2,911	3,067	3,255	3,455	3,661	3,890	4,113
Personal Savings	14,783	12,562	11,818	11,638	9,936	9,412	9,617	12,375	19,494	26,079	31,073	35,084
Total Savings	33,152	33,183	34,162	35,981	35,502	36,699	38,095	42,813	52,620	61,046	68,139	73,838
Group Fund Loans												
No of Loans	48	49	51	53	57	57	65	71	74	79	82	89
Amount of Loans	1,892	1,932	2,012	2,112	2,392	2,392	2,677	2,958	3,218	3,480	3,610	3,840
Loans Outstanding	749	761	833	869	1,086	1,086	1,307	1,316	1,352	4,945	6,450	6,625
Project Loans												
No of loans 1st Rnd	371	412	440	483	503	523	547	587	623	653	683	699
No of Loans 2nd Rnd	32	32	33	33	33	33	35	41	44	48	53	56
Total No of Loans	403	444	473	516	536	556	582	628	667	701	736	755
Amt of Loans 1st Rnd	84,522	94,717	102,125	112,566	117,623	122,672	128,609	137,594	145,970	153,157	160,798	164,717
Amt of Loans 2nd Rn	14,416	14,416	14,974	14,974	14,974	14,974	15,349	18,380	20,027	21,888	24,497	25,888
Total Amt of Loans	98,938	109,133	117,099	127,540	132,597	137,646	143,958	155,974	165,997	175,045	185,295	190,605
Loan Recovery (All)												
Amount Due	60,715	66,515	72,216	78,933	85,854	92,082	97,383	103,821	111,667	118,557	126,034	133,092
Amount Recovered	55,364	60,548	65,621	71,484	78,027	83,416	88,035	93,667	100,722	106,914	114,010	120,702
Recovery Rate(All)	91.19	91.03	90.87	90.56	90.88	90.59	90.4	90.22	90.2	90.18	90.46	90.69
Loans Outstanding	43,514	48,504	51,398	55,976	56,998	57,338	59,031	65,416	73,165	75,139	90.46	77,558
Ratio,Savings:Loan	3	3	3	4	4	4	4	4	3	3	3	3

propensity to save. Such savings would assist GMST maintain its sustainability and allow clients to invest more in their own standard of living. This was a unique and commendable outcome.

The second significant outcome was the loan recovery rate being maintained at above 90%. Although, a positive result, 90% was a rather precarious level and would need to be increased. Hopefully, the client rehabilitation program GMST initiated would assist to increase the loan recovery rate or reduce the default rate, which was about 10% in recent periods.

Other results on outreach could also be noted showing the growth of GMST in various aspects of its outreach program. The breadth of outreach, which was the number of active members that had grown steadily to 615 as shown, and about 734 by the period of the study. This was a significantly weak performance given the potential numbers of clients of at least 100,000 women in need according to the 1990 Papua New Guinea population census. In general the performance results as presented, indicated a respectable level of sustainability, but a rather limited outreach effort.

Discussion of Management Interviews, Participant Observation and Document Review

First, the management of Goroka Microcredit Savings Trust (GMST) operated within an organizational structure that allowed them to exercise their roles and responsibilities within the context of a market situation. The management was answerable to the board of trustees, who were government and non-government institutions. GMST was a non-profit, non-government organization. Nevertheless, as noted, some government institutions were represented as contributors and were members on the board of trustees.

Second, two major goals of GMST, were achieved. The Grameen Bank Approach was adopted successfully, but only in the Eastern Highlands on a relatively limited basis. The expressed goal of GMST was to have 12 branches by 1996. However, by 1997, as noted by this study, there were only two branches, Goroka and Kainantu in the Eastern Highlands province (EHP). At the period of study two other branches at Asaroka and Yonki, both in EHP were in the process of being set up. Expansion outside of EHP had not occurred yet.

Furthermore, the third objective of having 6,189 loans by 1996, which was GMST's outreach goal, was not met. By August of 1997, only 755 loans and 734 women were reached. In essence, after almost four years of operation, only 12% of the stated objective of breadth of outreach had been achieved.

Fourth, the GBA specified that the group cohesion, cooperation, collaboration, and solidarity, acted as collateral. In this case, the collateral was a psychological obligation to assist one another when the need arose for the good of each member. In practice, the group liability concept worked well. That was one reason for GB to target women as its primary gender based beneficiary group. Men were involved indirectly as supporting husbands, brothers or other close relatives.

Fifth, GMST employed about 17 staff. However, at its Goroka branch, they had a staff of 12 personnel. There were 10 active Field Assistants to a client population of 734, by August 1997; the ratio was about 1: 73. When compared to a ratio of Asian Grameen

Bank's of one FA to 300 clients, on average means GMST's operation was not very cost effective.

The sixth question was about the paid staff's work performance, which was considered as "good," on a scale of poor, good, very good, and excellent. Management was mentioned as an area in need of training. Such a rating was rather broad, given the fact that FAs performed specialized tasks. On the contrary, FAs responses in questionnaire # 2, indicated specific areas of training.

Next, the management was not specific about who they regarded as volunteers. FAs differed and mentioned center chiefs as critical volunteers that needed to be engaged on a professional level compensated adequately. Such a suggestion had deeper implications such as further empowerment of centers that need to establish a sense of ownership of the Grameen Bank process.

Eighth, the management viewed that the major problems to repayment of loans were; excessive gambling, misuse of money by husbands, problems with Income Generating Activities (IGAs) and treatment of loans as grants by clients. The people caused most of the problems mentioned above. However, both the people and natural disasters caused problems with agriculture based IGAs. In fact the drought experience just before the time of this study was a natural disaster, that caused agriculture production to decline.

The capability of women to be independent from the imposed will of husbands was another response indicated as an asset by the management. Women clients were often willing to proceed despite many barriers to their efforts as noted in their previous responses. The findings from beneficiaries indicated that men were very supportive of their income generating activities.

The answer to the tenth question indicated that both government and non-government organizations contributed to efforts of Goroka Microcredit Savings Trust (GMST). The amounts given was as noted. Nevertheless, it did not seem as if GMST had received sufficient funds after that, especially to assist its outreach efforts. It was obvious that GMST was not profitable in the short term, thus GMST could not increase its rate of expansion. Nevertheless, such a structure indicated a high degree of cooperation between the government and non-government sector.

The eleventh response came in the form of a proposal of a restructure under the concept of a Village Bank. Under the new plan, GMST could become a specialized institution of the state-owned commercial bank, Papua New Guinea Banking Corporation (PNGBC) targeting clients that PNGBC could not reach. In most cases, those targeted would be clients who had a low collateral base and could not access loans from PNGBC. Furthermore, it was perceived that PNGBC could provide funds such as the one million kina proposed to enable GMST to expand its rate of outreach beyond the current levels.

Discussion of Findings Based on Participant Observation And Anecdotal Information

Introduction

The results discussed below were based on fifteen strategic activities critical to the operational and financial sustainability of Goroka Microcredit Savings Trust (GMST). The descriptions were based on field observations by the author as recorded through writing, audio, and video taping activities of the GMST at the Goroka branch. Recordings of these activities occurred between the months of late April to June 1998. The recordings were done using audio, video and through anecdotal notes. Field assistants performed critical roles as mobile bank officers. The researcher accompanied various FAs on approximately two days a week, for five weeks. In most cases, the researcher was a passive observer of activities as they happened. Suggestions for improvement was offered by the analyst whenever appropriate.

Area Projection and Site Selection

Area projection and site selection activity involved FAs visiting villages to assess the potential of a particular area to be meaningfully involved in the micro credit project. Some of the critical criteria were reasonable number of poor households, a good road system, and basic investment climate such as the level of law and order problems in the community. It was also observed that, there were some cases where the women were already organized for other activities such as women's clubs and church activity groups. However, in most cases there were already cultural or lineage patterns of organizations in concerned villages.

More so, in terms of investment climate for micro credit schemes, the Goroka area of Eastern Highlands Province enjoyed several competitive advantages. One was an extensive road network that was complemented by an effective public transport system. This can be noted in the map of the project area (Appendix I). Second, the Goroka area also enjoyed a reputation as having a low crime rate in Papua New Guinea. For instance, GMST activities never experienced robbery over the last four years of their operations. Nevertheless, there was a lot of evidence of poverty amongst the participants of the project. For example: houses made from low cost or less permanent materials were prevalent throughout the project area. Due to the above factors, the choice for Goroka as an ideal area to implement the micro credit project has proven its value in terms of unfettered operations.

Motivation Work

The second main task performed by the field assistants (FAs) was to do motivation work. Such a task involved an FA visiting the households to educate potential clients of the benefits of GMST's operations. An activity of such a nature was usually done on a personal basis and lasts approximately about one to two weeks. The task usually required the FAs to establish some rapport with the potential clients to gain their trust. The aim was to create interest and motivate concerned women to make informed choices about the services and products of GMST to enhance income-earning activities and improve their standard of living.

In performing this activity FAs were patient and allowed women to ask questions, which they endeavored to answer to the best of their abilities. It was observed that, usually FAs who spoke the local language had an advantage in quickly establishing trust and creating the willingness of women to get involved. In other cases, it was more effective to use established groups, such as church fellowship groups and women's clubs to secure the women's interest.

A suggestion to improve the effectiveness of this activity was to ask successful participants from established centers to provide testimonial statements from their perspective as to how the project had benefitted and impacted their livelihood. The use of testimonials had the potential to be very convincing to undecided, potential clients who needed the services the most to get involved in the micro credit project. Such a strategy would assist in the process of acquiring depth of outreach.

Projection Meeting

After motivation work, a projection meeting was held at a central location of the village or settlement. During such meetings, potential members and other members (including village elders and husbands) of the village were normally invited to attend. At this meeting, the project manager or branch manager addressed the villagers, and explained the history and role of GMST. The conclusion of such a meeting involved discussions, answering of questions, and clarification of issues concerning GMST's operations. This meeting was a part of the process of formalizing relations between potential clients and the management of the microcredit project. Such an approach enabled the potential customers to build up confidence in the MFI as a future reliable custodian of their investment and wealth which was also legally recognized.

A suggestion for projection meeting was to involve a village court magistrate as a legal officer, or a government official who should speak on the legal validity of the operations of GMST. A government representation would essentially confirm that GMST had the legal and administrative mandate. Such an input to a projection meeting would minimize the potential of illegal operations to emerge outside of such parameters of formal recognition.

Group Formation

After the projection meeting, interested women were given time to form groups of five. The FA responsible for the center collected the list to establish formal records of the group members. Women were then given the opportunity to form the core group of five by themselves with no interference or input from the FA in charge. Group formation encapsulated the heart of the whole project, because due to a lack of physical collateral, it encompassed the creation of psychological collateral. Such psychological collateral is a trademark of the Grameen Bank Approach that was based on group solidarity, cooperation and group liability propelled the success of an individual through a dynamic group approach. The group formation stage enabled women to elect their group leaders and secretaries within their group of five. Center chiefs were also elected at this time to be the leader of the center and liaise between the FA and other members. For instance, the center chief is normally responsible to organize the weekly meetings. The election process highlighted another Grameen Bank trademark, which was the democratic process. At the end of the group formation, a list of group members was passed on to the FA concerned.

Means Testing

Based on the list, the Field Assistant conducted a means test to verify the economic status of the women concerned. Means testing involved verifying the economic status of women to ensure they were in the target group. Hence, women were classified based on their housing index, income index, and household assets index. Then the FA conducted a physical inspection. Women who did not score highly in this test were disqualified. The remaining group members had to ask other women to join their group, if this occurred.

Group Acceptance

The FA responsible then accepted the group members as members of their center and GMST's operations. The FA then prepared the group for their compulsory 7-day training. This often meant finding a suitable place that was used as a classroom for the duration of training. For the next seven days the program was also explained to new members.

Compulsory Group Training

Compulsory training was conducted an hour a day for seven days. The FA concerned spent an hour every day training group members to be effective members of GMST. Topics covered included, history of the Grameen system, rules and regulations, advantages of savings and credit discipline, and the GMST pledge of loyalty. Women who were illiterate were taught how to sign their names, in preparation for when they had to sign to receive loans.

Certain aspects of training were observed and would be commented on. First, the method of training of mostly illiterate women clients was taught traditionally through a formal oral presentation approach with little interaction. Thus, as observed, the FAs translated to pidgin what was written in English in the training manual. Alternative approaches such as demonstration and coaching were not used. There was a need for training of the trainers, which the management would need to consider as would be elaborated on later.

Second, training was done in the common pidgin language. Such a situation was further complicated by the fact that the manual was written in English, so the FA had to do instant translation. This led to errors in expressing critical concepts effectively. As such, there were obvious indications that many women clients could not fully comprehend Pidgin. Hence, at the test sessions, women who were seated facing a FA could not respond or shied away from answering. FAs tended to answer the question themselves.

Third, there was a general lack of basic awareness in good business practice regardless of what type of business the women were involved in. An example was the agriculture farming techniques and selling of seedlings. At a certain village, women requested a meeting with the researcher to find out how to improve management of a vegetable nursery project they had started from their own initiative. The researcher wisely brought along a colleague who was a soil scientist to the meeting. The women asked during the tour of their project, "Why their nursery was dying?" When told that they needed to burn the soil to get rid of soil rust, the women were incredulous. It was obvious no one had given them this information in the past. Such incidences indicated that agriculture extension was needed but lacking in the project area.

Fourth, most women needed training in very basic aspects of business such as knowledge of profit. A specific example of a lack of such knowledge was in the case of a poultry project where the women were obviously making losses. However, when prodded as to why they did not raise their prices, the women were worried about not being able to sell the chicken at higher prices. They were actually making losses but to those women some return was better than no return. Another example was the case of bettlenut vending. Just like in the poultry case women were making a loss, as indicated in by the bettlenut hawking cash flow in Appendix F. The women continued with the activity out of fear of not making any money at all.

Fifth, from informal conversations, FA's expressed a general desire to see center chiefs who performed as volunteers get allowances for their assistance. For instance, center chiefs collected loan repayments for the week before FAs arrived; assisted FAs by organizing the meetings, leading prayers and acted as leader for the center.

The center chief's role as observed though informal and voluntary was critical to the operations of the centers. Many FA's commented that this was because CC's roles were complimentary and even supplementary to their roles in various ways. For instance, effective CC's generally collected and recorded loan repayments and greatly reduced the amount of time FAs spent at a particular center by about 30 to 40 minutes. FAs spent an average of 1½ to 2 hours at a center meeting. Such an amount of time was beyond the recommended one hour meeting period. In an eight hour working day FAs covered an average of two centers, one in the morning from about 10 to 12 noon and the second was visited between 1-3 p.m. One-hour travel time by public transport was normal in a typical FA's schedule.

However, it was not GMST policy to provide training for the beneficiaries. Suggestions offered were that such training should be provided by government agencies such as the Department of Agriculture & Livestock (DAL) and Small Business Development Corporation (SBDC). Unfortunately, such services were not evident in field observations even if project documents as undertaken by UNDP in 1993 highlighted the need for such services to compliment the operations of GMST (GMST, 1993).

Group Recognition Test

After seven consecutive days of compulsory one hour training the BM conducted a test to ensure most individual members understood what they had been taught. The branch manager through oral questions and responses from the women carried out the test. The tests were done within a period of 60 minutes. As discussed under training sub topic, there was room for improvement in the method of delivery the training. Once the new members of GMST had passed their test, they would lament their pledge and were inducted as members of GMST.

Loan Disbursement

Loans are normally distributed at the branch or in this case the headquarters office. All five members of the group and the center chief would be present at loan disbursements. The loanees recited their pledge or made a promise in front of their peers and the FAs before receiving their loans. Such occasions were very joyous because smiles on women's faces told a story of how GMST trusted them enough to give many of them loans for the first time in their lives. There was one occasion when the BM took the loans out to the center to disperse it. But as noted and mentioned by the BM, this was an exceptional case, because it was risky to take large amounts of money out of the field.

Center Meetings

Field assistants (FAs) visited each of the 37 centers on a weekly basis. Center meetings began with a pledge by members to uphold the principles of credit discipline and with a prayer. The FA then conducted his business such as collecting loan repayments, compulsory savings and mutual fund contributions. Members' passbooks were updated and money was counted to ensure accuracy of receipts. Other discussions followed pertaining to the progress of the IGAs and other related activities. The meetings normally closed with a prayer.

Some suggestions to consider in an effort to increase the quantity of centers covered were offered as follows. One is a personalized transportation system such as a bicycle, motorbike, or FAs being dropped off by GMST vehicles. Another is the increased efficiency of CC's to allow FA's to maximize their time in any particular center. However, the senior FA tended to organize an allocation of FA's to visit centers in close proximity to each other. This allowed a FA to arrive in a particular geographical area and visit all centers in the area. Nevertheless, this was not always possible because of other factors. One major factor was the allocation of FA's to areas where they share common languages with clients. However, this had to be balanced against the client's desire to have certain FA's to be allocated to their area and the senior FA in appreciating the value of a good working relationship tended to comply.

One advantage of spending less time at centers was the opportunity cost in terms of time for women who needed to sell or work on their income generating activities. For instance, two hours spent banking each week was a loss of eight hours or equivalent of one working day per month. This was an area that needed further studies employing the integer programming through General Algorithm modeling (GAMS) or Microsoft excel to determine how to optimize costs of transportation and location.

Loan Utilization Check

Field observations indicated that in most cases loans were used for the purpose as applied for. First, most FA's clearly indicated that they insisted on evidence of how the money was spent. There were cases where a purchase was made rather informally such as bettlenut. In such cases, FAs visited the house of the concerned client to verify the items were purchased.

The second reason was the reliance on the center chief who often vouched for the members of the center. For instance, in one center the center chief gave a tour for the researcher and a FA to see the accomplishments of her center's members. Third, due to group liability, other members of the group also ensured that the loan was used for the intended purpose. As such, group members ensured through their own social interactions that members in their group used the loans as initially applied for.

Follow Up and Supervision

The FA s frequently checked the progress of income generating activities of loanees during centers meetings. Advice was provided within the capacity of FA's knowledge. The FA also ensured the money was used for the purpose of the loan on a regular basis. This was one major area of weaknesses for GMST's operations. Most clients lacked knowledge of basic business concepts as in the case of poultry and bettlenut vending (Appendix F), where the women operated at a loss, without knowing or felt helpless to do anything about it. Such a situation could be helped if an educational program was also merged with GMST's activities. This would be used to highlight basic business concepts for the good of sustainability of the client's mini- projects that would positively impact GMST.

Weekly Installments

The loan repayment period is 50 weeks and the rate is 20% over a 50 –week period. The loan repayment is based on the following formula:

Loan amount/50 weeks + Annual Interest/50 weeks = Weekly Loan Installment.

Example: A loan of K100.00

K100.00/50 + K20.00/50 = K2.40

Savings

GMST operated three (3) types of compulsory and one optional savings scheme for their members.

1. Group Fund Savings – Members save K1.00 every week toward their group fund. Members borrowed from the fund in times of personal need.
2. Default Fund – This fund was established to help savers who had repayment problems. This center fund required that every borrower contributed K0.20 each week. If there was no default, it became savings for borrowers.

3. Mutual Aid Fund (MAF) – The purpose of the MAF was to act as an insurance premium on the life of a member. Hence, in the event of a member's death, this fund was used to provide some relief for the member's family. Members contributed 5% of the total loan amount, which was collected for a 50-week period.

   Example: A loan of K100.00

   K100.00 * 5% = K5.00/ 50 weeks = K0.10

4. Personal Savings – This was a regular savings account at the discretion of an individual member. An individual could deposit and withdraw at any time, which in practice was during center meetings every week. The project paid interest on minimum balances.

It was observed that Kainantu branch (though not visited) from its savings record indicated more emphasis on savings. This seemed to have a positive effect on their repayment rate, which was running at 100%.

Rehabilitation

Rehabilitation was a new initiative that involved revisiting centers where members had previously defaulted and were abandoned. The old and new members were put through a 7-day training program again and new members received loans. Then previously defaulting members were given second loans. In the past, legal action was taken against defaulters. Recently, this approach has been changed, whereby defaulters were given a second chance. The second chance involved another loan of up to a K200.00. The beneficiaries were instructed to use the new loan to generate income to repay the current loan as well as the one they defaulted on. The centers visited under this program were doing very well and members who were given a second chance were in the process of repaying their old loans.

Most FAs expressed the problem of dealing with defaulters. Most (80%) as noted from the defaulter list left the village. Hence, a defaulter not only misused the trust of GMST, but also the other four members of her group and inevitably the whole village. The rehabilitation program assisted many defaulters to be given a second chance, which assisted to revitalize many old members and centers in the Goroka area.

How to Deal with Successful Clients

Another situation observed while accompanying the FAs was the ironic situation of what to do with the successful clients. Those were clients who usually had accessed loans beyond the three times for K600, already. For instance, there was a case where the client had used the loan to set up a major business operation. The activities included owning a snooker house, trade store, and a small truck. The dilemma was the client had achieved economic mobility beyond the targeted population's status (see operational guidelines), but she was still loyal to GMST and wanted to maintain banking services with them. Nevertheless, according to GMST policy, it could not extend loans exceeding K1,000. However, in the proposed merger with Papua New Guinea Banking corporation (state-owned bank), such a client would be referred to PNGBC for a higher level of service.

General Work Environment

FAs felt they performed a very critical role for the organization. Many of them (both male & female) liked the job they performed for reasons as fundamental as assisting unemployed and less educated women improve their economic livelihood. The successes of some of their clients brought FAs much joy and job satisfaction.

However, most FAs expressed a need for a better compensation package and support for better living conditions. Most of them lived in their own villages and came to work every morning. A very reliable bus/transport system helped them to arrive at work between 8.30 and 9.00 a.m. every morning. However, FAs expressed a need for GMST to organize personalized transportation for them as expressed in their formal responses. In fact, there was a strong preference to be dropped off and picked up from their center visits. FAs felt this would save time.

The office headquarters at Goroka was provided by the provincial government owned "Yanepa Haus" rent-free. The office was usually a busy place. The FAs displayed a very good work ethic and were very time conscious and always had something to do. They were always striving to gain the extra bonuses at the end of the month. Generally, the GMST work environment resembles an organization that is profit oriented, and conscious of the bottom line outcome.

CHAPTER V

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

The summary describes significant findings, based on perspectives of the three stakeholder groups, as described by the three objectives of the study. Hence, field assistants', beneficiaries', and managements' views on performance needs of Goroka Microcredit Trust (GMST) that have potential to contribute to increasing the goals of sustainable operations and high quality and quantity of outreach are described under appropriate specific headings.

Summary of Findings

Field Assistants' Perspectives

Field assistants (FAs) were the key implementers of Goroka Microcredit Savings Trust's (GMST's) operations. They visited the clients in the field on an intensive schedule of 50 weeks loan cycle per client. The performance of their duties has a significant impact on the sustainability and outreach efforts of GMST.

It was important to note that 100% of the field assistants expressed a desire for more training. This suggested that the type of training they had received needed to be upgraded, including bookkeeping, accounting, and management training.

Another significant finding was the response by 100% of field assistants that center chiefs were valuable partners at the center level and also needed further training in the areas of business supervision and bookkeeping skills. Anecdotal information from informal interviews with several FAs also indicated a desire to see center chiefs compensated if their responsibilities were increased and formalized.

According to all field assistants, beneficiaries needed training beyond the 7-day initial compulsory training. The types of training suggested were chicken rearing, bee farming and vegetable farming. It was interesting to note that these were specialized agricultural skills. However, anecdotal and field observations confirmed that there was no evidence of training to meet such needs. Many FAs explained that they do not offer such training to the clients. The GMST project document (1993) mentioned that extension services to compliment the services and products they offered was expected from the government extension services. Such input was never available in the life of the project (1994-1998) as mentioned by the branch manager (Senior FA).

All 10 FAs favored the village bank concept, which was a proposed merger of GMST activities with the state-owned bank, Papua New Guinea Banking Corporation. Anecdotal information from FAs suggested that their reasons were based on anticipated improvement in working conditions such as housing and transportation that the merger could bring.

The last but probably the most sensitive issue for the FAs was transport arrangements to and from their work environment. The FAs perception was a GMST organized transport system was more efficient and cost effective than the current system of using the public transportation. Field observation, found the public transport system to be reliable but the fact that FAs were transporting large sums of cash repayments from clients to the branch office through the public transport system was highly risky.

Beneficiaries' Perspectives

The beneficiaries were the key recipients of the scope of outreach or the types goods and services of the microcredit project. As such, their perception of the activities of Goroka Microcredit Savings Trust was critical to the success of the project's efforts to provide increased breadth of outreach or goods and services to a larger population of women with appropriate social needs. A summary of the significant findings of the perceptions of beneficiaries was provided in Tables 6, 7, and 8, which was the source of the following summary remarks.

Part I - Demographic Information – The first significant finding was 88% of clients were married women. Nevertheless, women who were not married because they were widows, divorced, second wives or remained single faced even tougher challenges. Hence, it was important to note that there were approximately 10% who composed women in such social category. However, if there were more in the communities, they would be the ones who really needed GMST's assistance because they could score highly on means testing.

Most of the clients (42%) in the project area were practicing Seventh Day Adventists (SDA). The other significant group was Lutheran at 16.27%. Such demographic results validated the representative nature of the sample selected for the study. It was common knowledge that most people in the Goroka area were SDAs and the other large group was Lutheran.

Probably the most significant profile of the beneficiaries was that 56.9% were illiterate. This was what the study assumed and resulted in translation of the questionnaire #2, which was applied as an interview schedule. Such an outcome confirmed that an appropriate strategy as described in the methodology was applied when collecting data from the same clients. Furthermore, such a result also indicated the need for GMST to tailor its programs and activities to meet the needs of clients who were mostly illiterate. Specific strategies will be discussed under training needs of clients.

<u>Part II – Financial Information</u> – One of the most significant findings for financial information sought from clients was 66% of them favored the 20% flat interest rate. However, the other 34% did not like the interest rate. This was also a significant response because a negative response by 34% of the clients could cause major default problems for GMST's efforts to operate in a sustainable and viable manner.

Another important finding was the even split on the schedule of payment, with 42% preferring weekly payments and 44% to pay at their own pace. There were advantages and disadvantages for either option. Nevertheless, in practice GMST policy had relaxed from a fixed 50-week cycle scheduled approach to a relatively flexible approach. In practice each client's situation was treated on a case-by-case basis and both options were observed in the field. One FA's comment on a field visit offered clarification for the change in policy whereby clients preferred paying their dues during coffee season when they had extra cash from the sale of coffee berries. Coffee was the most common cash crop activity in the project area of Goroka.

Even if 63% indicated that they had no knowledge of other credit schemes in the area, the 23% percent who did were referring to illegal money market operations. The activities of such money markets that provided cash for interest rates ranging from 100 – 200% were a type of competition to the activities of GMST and was a significant finding.

Interestingly, 55.8% indicated coffee, a cash crop as an alternative source of income. Also, the fact that 44% did not own coffee trees was valuable indication that such clients needed other sources of income earning activities.

Finally in this category, a critical finding was established that almost 85% of women clients did not know what profit was. This was also confirmed through participant observation and document review of client's income generating activities. As such, without the profit motive and knowledge, the potential for realistic participation by the clients could not be sustained in the long-term.

Part III: Income Generating Activities (IGAs) – The types of income generating activities (IGA) clients received loans to develop were similar to the ones contained in Table 8. The staff of Goroka Microcredit Savings Trust collected the data in Table 8. Such similarities also validated the data collected as quite accurate as sourced from a representative sample or 12% of the 734 population of clients. Bettlenut, poultry and vegetable gardening were the most common activities. In fact, many clients operated more than one activity. The reason was related to the situation where clients were expected to repay a loan the week after they received the first major loan. Since some activities such as vegetable gardening and poultry take time to mature or be ready for harvest and sale, a transitional income generating activity was necessary. As such, many women clients relied on selling of cooked food items and bettlenut to maintain their repayment schedules.

Furthermore, the significant finding in item 2 was 56.9% indicated that their husbands assisted them. This was a very encouraging finding because GMST only involved women, and men were indirectly involved through their wives or women relatives. However, 27.9% of women indicated that they were independently involved. Such finding was also good because it showed women were empowered to help themselves.

Unfortunately, the response that 61.6% did not know the reason for group borrowing, reflected poorly on the initial 7-day compulsory training. Also, women did not understand and therefore were in danger of not practicing an essential aspect of the Grameen Bank Approach.

The biggest barrier for IGAs mentioned by clients was natural risks. Approximately 15% of clients also complained about high prices, which was caused by macro economic factors such as increased government spending due to a natural disaster of a drought that caused the inflation rate to run at about 12% during the period of the study.

Interestingly, 50% mentioned good markets as an advantage. Such a response was due to marketing of popular goods such as bettlenut that were also indicated in item one. Those activities were engaged in primarily because good markets existed.

Furthermore, Table 8 items 7 – if clients had previous employment, 8 – if clients were employed elsewhere, and 9 – if client's husbands were employed were all related to assessing the outcome of means testing prior to when clients were selected. The results indicated means testing was successful. The exception was item 9, where 29% indicated that the husbands were employed formally.

Additionally, item 10, which indicated that 65% were assisted by their husbands to repay loans, was problematic. It was good in the sense that husbands were very supportive. However, it was bad because 29% of the clients had husbands who were working and were able to provide additional cash and could be regarded as richer people in the community. The Grameen Bank Approach required targeting women who were the poorest in their community. Unfortunately, women whose husbands were formally employed represented opportunity costs to women who were in genuine need.

Finally, questions 12 – consumption choices from income generating activities, 13 – favorability level of GMST activities and 14 – major reasons for favoring GMST activities were aimed at getting a snap shot of the impact of GMST activities on the clients' standard of living. The responses were 65% invested in household goods, 58% had high favorability and 50% mentioned a positive impact on living standard. This indicated that GMST had a positive impact from the perception of the clients.

Managements' Perspectives

The management of GMST held the power to make decisions that could make or break the institution's efforts to provide sustainable quality and quantity of outreach at affordable costs to needy clients. Hence, the significant findings from the management's perspective are presented below.

First, a professional profile of the management included four persons; project manager (PM), technical assistant (TA), Branch Manager (BM), and training officer (TO). The PM and TA positions were contributions from PNGBC and United Nations Development program (UNDP) respectively and their salaries from those organizations represented subsidies to the project. The BM and TO were recruited locally and paid for by GMST funds.

Furthermore, it was important to note that the TO was recruited as an agriculture extension officer. However, anecdotal information confirmed that the person assisted with office duties and rarely undertook field visits to assist clients with agriculture related information. However, it should be noted that the person did make an effort to teach the concept of profit to women in one center, after being informed of the lack of such knowledge by a majority of clients. It was interesting to observe that the person needed further training skills.

Next, questionnaire responses and document review indicated that GMST had original objectives when it started operation in 1994. One of those was to institute the Grameen Bank project, which had been accomplished in general. However, GMST's outreach goals for a higher rate of expansion at approximately one branch a year was not met. The study noted the rate at approximately one branch in three years.

Management viewed management training as critical for all personnel in the organization, which included the field assistants. This was also one of field assistant's responses. Management did rate field assistant's performance as "good," but did not specify reasons for their rating.

However, unlike FAs, management did not view the center chief's role any different from the current practice of acting as a volunteer leader for the centers.

Causes for repayment problems offered by management were husbands misusing wives money, gambling, and the obvious failure of the income generating activities.

Nevertheless, the major reasons for successes were due to the independence of the women to act alone, according to the management.

Financial Information

Aside from initial overseas donor funds from Australian aid and UNDP, Goroka Microcredit Savings Trust had not attracted increased funding from external sources after almost four years in operation.

As such, the village bank proposal was initiated and would get a domestic injection of funds from Papua New Guinea Banking Corporation (PNGBC). Such an arrangement would eventuate, once a financial license was obtained from the central bank of Papua New Guinea. However, the acceptance of this fund would mean accepting an offer to be a specialized lending institution for the state-owned PNGBC.

Conclusions

After considering the major findings, the following were some of the specific conclusions. First are conclusions from the field assistant's (FAs) perspective:

Field Assistant Perceptions

1. Field assistants were very enthusiastic about receiving more training in order to improve their performance.
2. Furthermore, FAs had a high regard for the role played by center chiefs and suggested increasing their responsibilities and compensating them.
3. FAs expressed that clients needed additional training asisde from the 7-day compulsory train, in agriculture related activities such as vegetable gardening, bee farming and poultry.
4. The FAs welcomed the village bank concept because they perceived that better work conditions could eventuate.
5. Transportation was a sensitive issue for the field assistants who expressed a desire for management to organize a better system of transportation for them.

Beneficiary Perceptions

Part I – Demographic Information – The two most significant demographic conclusions from clients were that all of them were women and over half were illiterate.

Part II – Financial Information –

1. Most beneficiaries favored the interest rate, which was charged at a flat rate of 20%.

2. The preference for repayment schedule was almost evenly divided with about half wanting to pay at their own pace and half wanting to continue the normal schedule of weekly payments.

3. The fact that a quarter of clients indicated the existence of alternative money schemes meant that there was illegal competition to GMST's activities in the project area.

4. When asked about major alternative sources of income, a majority indicated coffee as the alternative source of cash income.

5. Most of the women could not describe the concept of profit, which meant they did not understand what profit was.

6. Three major income-earning activities of the clients were vegetable gardening, poultry, and bettlenut.

7. Over half of women clients indicated that their husbands assisted them with their IGAs.

8. When asked if the y know why they borrowed in-groups, over half did not know the reason. That implied that the 7-day compulsory training did not equip them with that knowledge.

Part III – Income Generating Activities (IGAs) –

1. The biggest barrier for client's IGA was natural risks, which meant that most activities were agriculturally based such as bettlenut and poultry. This finding also meant that there was need for diversification of income earning activities to minimize such risks.

2. Good markets were mentioned as the logical reason for most clients to undertake the income generating activity.
3. Means testing applied by Goroka Microcredit project was very accurate.
4. Unfortunately, the 29% who indicated that their husbands were employed served as opportunity costs for those whose husbands had no employment and could not become members.
5. Finally, in this section, question 12, 13 and 14 were aimed at getting an assessment of the impact of GMST activities on the clients. The responses that 65% invested in household goods, 58% mentioned high favorability and 50% mentioning that GMST activities had a positive impact on their standard of living indicated highlights the benefit to the household, the community and society that activities of GMST can achieve.

<u>The Management of GMST</u>

<u>Part I – Professional Profile</u> –

1. Two management positions were externally funded and represented subsidy costs to the project and two were locally funded by the GMST.
2. An agriculture extension specialist was employed but not used for that purpose.
3. GMST was originally established with two project objectives. The first was the objective of replicating a Grameen Bank, which had been achieved, but the objective to expand with six branches in two years had been partly fulfilled (GMST, 1993).

4. Training was perceived by management as important, but only indicated "management training" as a possible topic.
5. Management viewed the role of center chiefs as non-paid voluntary work as expected in the Grameen Bank model.
6. Management was aware that practical issues, such as cases for repayment problems, which they contended, was due to the negative influences from husbands and gambling problems.
7. In terms of reasons for the successes of women, the management perceived it as an empowerment issue, mentioning that the successful women prepared to act alone and be independent.

<u>Part II – Financial Information</u> –

1. GMST had not attracted any funds from overseas donors lately. However, an application for an institutional license indicated that GMST was pursing a merger with Papua New Guinea Banking Corporation a state –owned bank. This meant GMST could lose status as a private institution.
2. Management provided further financial performance data (Appendix H) which showed the operational and financial development of GMST since 1994. That data indicated a high credit to savings ratio of 1 to 3, and a repayment rate of above 90% in most quarters.

Recommendations

Objective 1

Identify and describe the performance needs of Goroka Microcredit Savings Trust's (GMST) field Assistants (FAs), as perceived by those field assistants that have potential to contribute to the goals of increasing sustainability and quality and quantity of outreach beyond the current levels:

1. Training for field assistants should be organized in areas such as accounting and bookkeeping.
2. The role performed by center chiefs should be supported as much as possible.
3. Clients need additional skills-based training for agricultural related activities.
4. Transport arrangement of FAs should be reviewed with respect to addressing concerns of field assistants.
5. The schedule of payment should be dealt with on a case-by-case basis as was the current practice.
6. The basic ratio of about 1 FA to 70 clients visited in a week should be increased to lower transaction costs.

Objective 2

Identify and describe the performance needs of GMST's beneficiaries as perceived by those beneficiaries, that have potential to contribute to increasing sustainability and quality and quantity of outreach:

1. Since 57% of women were illiterate, GMST should network with relevant organizations to provide literacy programs for clients.
2. Clients' repayment schedules should be treated on a case-by-case basis.
3. The interest rate should be maintained as 66% of clients favored it.
4. GMST should be wary of the illegal competition and discourage its clients from getting involved in such schemes.
5. GMST must initiate a training program to teach women about basic business concepts such as knowledge of profit and how to manage a cash flow.
6. Markets for various goods that GMST's clients were involved with should be organized with the help of GMST.
7. The methods and ways of providing the 7-day training for clients should be improved.
8. GMST should encourage their clients to diversify their income earning activities.
9. Means testing should be continued but must be conscious of the opportunity costs of not reaching the target clients in genuine need.

Objective 3

Identify and describe the performance needs of GMST as perceived by the management of Goroka Microcredit Project that can contribute to increasing sustainability and quality and quantity of outreach:

1. A local branch manager needs to be trained. A senior field assistant was acting as a branch manager. He would need to be trained further and given more responsibility.
2. The training officer (agriculture extension officer) should provide field services to clients on a consistent basis.
3. GMST needs to set new operational targets/objectives, if it has not done so yet.
4. Management should organize training for all personnel in the department.
5. Management must not trivialize the role of center chiefs as local leaders of the women at the center level.
6. GMST needs to establish networks with all organizations that might want to complement the services it provides.
7. The merger with PNGBC must be treated with caution, because it might increase political influence on GMST's fragile activities.
8. Management must maintain and continue the high level of management successes such as high repayment rates, high staff morale, high savings ratio, and the excellent maintenance of records.

Implications for Further Research

1. A study into the reasons women defaulted would prove very useful to the management of Goroka Microcredit Savings Trust.
2. After about 5 years in operation a major impact study on past and present clients of GMST in the project area would provide useful information.
3. Economic analysis studies using optimization models of location and transport would provide useful information on decisions to locate future branches and centers.

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APPENDIXES

APPENDIX A

INSTITUTIONAL REVIEW BOARD

APPROVAL FORM

OKLAHOMA STATE UNIVERSITY
INSTITUTIONAL REVIEW BOARD
HUMAN SUBJECTS REVIEW

Date: March 6, 1998 **IRB #: AG-98-030**

Proposal Title: TRAINING NEEDS ANALYSIS OF WOMEN'S MICROCREDIT PROJECTS IN THE HIGHLANDS REGION OF PAPUA NEW GUINEA

Principal Investigator(s): James P. Key, Felix G. Bablis

Reviewed and Processed as: Exempt

Approval Status Recommended by Reviewer(s): Approved

ALL APPROVALS MAY BE SUBJECT TO REVIEW BY FULL INSTITUTIONAL REVIEW BOARD AT NEXT MEETING, AS WELL AS ARE SUBJECT TO MONITORING AT ANY TIME DURING THE APPROVAL PERIOD.
APPROVAL STATUS PERIOD VALID FOR DATA COLLECTION FOR A ONE CALENDAR YEAR PERIOD AFTER WHICH A CONTINUATION OR RENEWAL REQUEST IS REQUIRED TO BE SUBMITTED FOR BOARD APPROVAL.
ANY MODIFICATIONS TO APPROVED PROJECT MUST ALSO BE SUBMITTED FOR APPROVAL.

Comments, Modifications/Conditions for Approval or Disapproval are as follows:

Signature: *John H. Wycliffe*
Chair of Institutional Review Board

Date: March 6, 1998

cc: Felix G. Bablis

APPENDIX B

SURVEY SUBJECT CONSENT COVER LETTER

OKLAHOMA STATE UNIVERSITY

OSU

Graduate College
202 Whitehurst
Stillwater, Oklahoma 74078-1019
405-744-6368, 1-800-227-GRAD (U.S. ONLY)
FAX 405-744-6244
Email grad-i@okway.okstate.edu

Man/Meri husat i givim tok bek long ,
Komunity Laip na Liklik Dinao Wok Painim Aut.

April 27 th 1998

Dia Meri/Man blong givim tokbek , :

Re : Komunity Laip na Liklik Dinau wok Painim Aut

Dispela wok painim aut em wanpela Papua Niugini sumatin i skul long wok blong komunity divelopmen long Amerika i redim. Dispela wok painim aut em tu i kamap aninit long nem blong Univesti blong Goroka. Dispela wok painim aut bai stat long namba 19 de blong mun Aprill 1998 na bai go nap long mun Jun 1998.

Wanpela bikpela as tingting blong dispela wok painim aut em long luk save long ol tingting blong yu long ol wok divelopment i kamap long komunity blong yu. Namba tu em ol tok bekim yu givim bai helpim long strongim wok blong ol Liklik Dinau projek long komunity blong yu o long helpim long kamapim wanpela.

Ol tok bekim blong yu bai stap hait. Man i wokim wok painim aut tasol bai save long tingting blong yu na em bai usim long wok painim aut tasol. Em bai no nap kolim nem blong wanpela wanpela man o meri long bikpela ripot blong em.

Man blong wok painim aut wantaim ol saveman/ tisa blong em ol i sekim dispela wok na painim olsem nogat asua na hevi i nap long kamap long dispela wok. Olsem na wok long tanim dispela toktok igo long tok pisin tu em Elias Kawas, blong Univesti blong Goroka, husait i wanpela saveman blong ol tokples yet i bin sekim dispela tanim tok na em i givim tok orait.

Sapos yu gat sampela askim yu ken salim igo long mi yet long, Univesti blong Goroka o Gay Clarkson, Oklahoma State University , Institutional Review Board executive secretary , 305 Whitehurst, OSU, Stillwater, OK 74075. Telepon em, (405) 7445700 o fax # (405) 744-6451.

Bikpela tenkyu tru long helpim blong yu long dispela wokpainm aut.

Bablis · Felix

Felix G Bablis
(Sumatin wokim wok painim aut)

Docta. J. Key
(Tisa / Saveman)

APPENDIX C

QUESTIONNAIRE #1 – GMST FIELD

ASSISTANTS SURVEY

GMST Q.1- Interview Guide Code...........

Field Assistants of GMST

As indicated in the introductory letter, the information provided here is highly confidential. Nevertheless, your precise responses are critical to identifying those needs please do not hesitate to ask the researchers/s for clarification.

1. (a)Are you sure loans are used for their intended purposes? Yes...No...

2. (a) Do you think you need further Training? Yes...No...

   (b) If yes, indicate what type of training you need?

3. (a) Do you think Center chiefs should be trained? Yes...No...

   (b) If, Yes, indicate what type of training they would need?

4. (a) Do you think beneficiaries would need training? Yes...No...

   (b) If, Yes, indicate what type of training they would need?

5. What do you feel will motivate you to do your job well (List form most desirable).

6. Please give any other suggestions/ideas you feel would make a difference in the future success of Goroka Micro Credit Savings Trust.

   Thank you for your answers! (F. Bablis/Researcher).

APPENDIX D

QUESTIONNAIRE #2 – GMST WOMEN

CLIENTS SURVEY

GMST Q.2- Interview Guide Code...........

Women Clients of GMST

As indicated in the introductory letter, the information provided here is highly confidential. Nevertheless, your precise responses are critical to identifying those needs please do not hesitate to ask the researchers/s for clarification.

Part A: Personal Information

1. What is your age range? (15-20)...(21-30)...(30-40)...(40-50)...(50+)...
2. Are you married? Yes...or No...If Yes, What is your marital status? ...
3. Are you a member of a church? If yes, What is the name of your church?...
4. Did you attend formal school or not? (a) Yes...No...

   (b) If yes, What was the last grade you attended? ...

Part B: Financial Information

1. What is the degree of your preference for the interest rate? Favor.... or Not favor...
2. What schedule do you prefer? Weekly.......Pay at your own pace.......
3. Do you know of other credit schemes or money markets in your neighborhood?

   Yes...No...
4. Do you gain income from a coffee plot ? Yes...No...
5. Do you own pigs ...or goats....? Yes....No....
6. Explain what profit is ?..

Part C: Income Generating Activities (IGA)

1.What type of income generating activity are you involved in?............................

2. Who assisted the most in your IGA ?...

3. Do you understand why you needed to borrow within a group of 5 people ?

   Yes...No...

4. What is the biggest barrier for your IGA ?...

5. What is the biggest advantage of your IGA? ....

6. Do you have previous employment? Yes......No..........

7. Are you employed somewhere else at this point in time? Yes.......... No...........

8. How is your husband employed?...

9. Does you husband assist to repay your loan? Yes..........No...........

10. Did you or your husband receive a loan from another source in the past?

    Yes........No........

11. How is income from IGA consumed?..

....

....

....

12. What is your degree of preference of GMST? High...Medium...Low...

13. What are your major reason/s for favoring GMST activities?.............................

....

....

....

....

Thank you for your answers! (F. Bablis/Researcher).

APPENDIX E

QUESTIONNAIRE #3 – GMST MANAGEMENT

SURVEY

GMST Q.3- Interview Guide Code...........

Management of GMST

As indicated in the introductory letter, the information provided here is highly confidential. Nevertheless, your precise responses are critical to identifying those needs please do not hesitate to ask the researchers/s for clarification.

Part I: Personal Information

1. What is the title of your management post in GMST?
2. Explain what your roles and responsibilities?

Part II: Social/Organizational Information

1. What are the major goals of GMST?
2. How are your clients organized when applying for a loan?
3. Explain what would constitute collateral for the above clients.
4. How many staff are employed by GMST?
5. (a) How would you rate your paid staff's work performance?

Excellent.........Very Good.........Good........Poor........

(b) What type of training do you think they need ?

6. (a) How many volunteers are assisting GMST with no pay?

(b) How would you rate your volunteers' performance?

(c) What training do you think they need?

7. What do you perceive as the major problem, preventing repayment of loans. Please indicate problems and explain.

8. What are some of the major successes are experienced with your successful clients?

Part III: Financial Information

1. a) Which organizations contributed to the formation of GMST? and

   b) How much did each of them contribute in cash or kind?

2. (a) Has GMST applied for more assistance? Yes...No....

   (b) If yes, which organizations have been approached? And

   (c) What is the amount requested for?

3. List (in order of most to least common) the most common entrepreneurial activity your clients are involved.

4. What is the frequency of savings from GMST?

5. What is the trend of default rate or repayment rate since GMST was established in 1994?

6. What is the annual drop out rate?

7. Please provide some performance data of GMST that would indicate its successes so far in terms of sustainability and outreach?

Thank you for your time and responses! Felix G Bablis (Researcher)

APPENDIX F

EXAMPLE OF NON-VIABILITY OF

BETTLENUT VENDING

Example of Non-Viability of Bettlenut Vending

K130- 1 @ Wholesale purchase of a Bag

K30- 1 @ Mustard Bag

K20.00- 1 @ Transport Cost

K180.00 = Total Cost

K160.00- @ Sale of Bettlenut (takes 1 week to sell but labor cost –assumed to be zero and not included)

K20.00 (loss)

APPENDIX H

MAP AND BASIC FACTS OF PAPUA,

NEW GUINEA

Papua New Guinea

http://www.papua-new-guinea.com/right.htm

Location:	Southeastern Asia, group of islands including the eastern half of the island of New Guinea between the Coral Sea and the South Pacific Ocean, east of Indonesia
Time:	GMT +10
Climate:	tropical; northwest monsoon (December to March), southeast monsoon (May to October); slight seasonal temperature variation
Weather:	4-day forecast- Intellicast 3-day forecast- Weather Channel
Population:	4,599,785 (July 1998 est.)
Currency:	1 Papua New Guinea Kina (PGK) Exchange rates and converter

Papua New Guinea is bordered on the north by the Bismarck Sea, on the east by the Solomon Sea, on the south by the Coral Sea, the Gulf of Papua, and the Torres Strait, and on the west by the Indonesian province of Irian Jaya. Its other nearest neighbours are the Solomon Islands, Australia and Vanuatu to the south, Micronesia to the east and Malaysia, Singapore and the Philippines to the north.
Papua New Guinea is a parliamentary democracy and a member of the British Commonwealth. The country consists of the eastern half of New Guinea Island, the Bismarck Archipelago, the D'Entrecasteaux Islands, the Louisiade Archipelago, and the islands of Buka and Bougainville. The country is divided into 20 provinces. The eastern half of the island of New Guinea, called the mainland, accounts for more than 80 per cent of the total land area of 462,840 sq km (178,704 sq mi). It has a population of 4,394,537 (1996, official estimate). Tourist facilities exist in the capital of Port Moresby and in major towns such as Lae and Madang. The standards of the facilities vary and may be below U.S. standards, particularly in remote areas.

Geographic coordinates: 6 00 S, 147 00 E

Map references: Oceania

Area:
total: 462,840 sq km
land: 452,860 sq km
water: 9,980 sq km

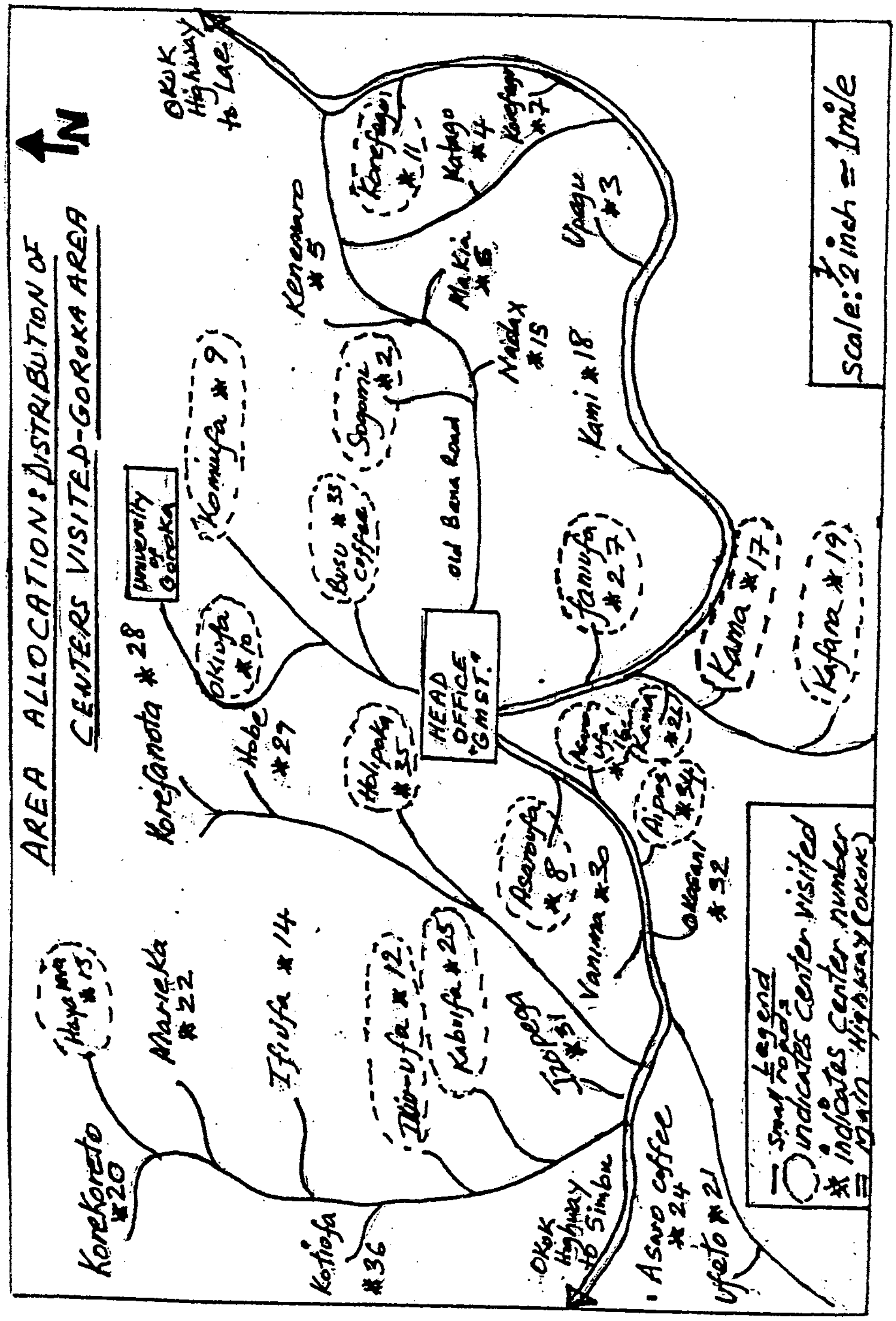
Area—comparative: slightly larger than California

Land boundaries:
total: 820 km
border countries: Indonesia 820 km

APPENDIX I

GMST OPERATIONAL MAP AROUND

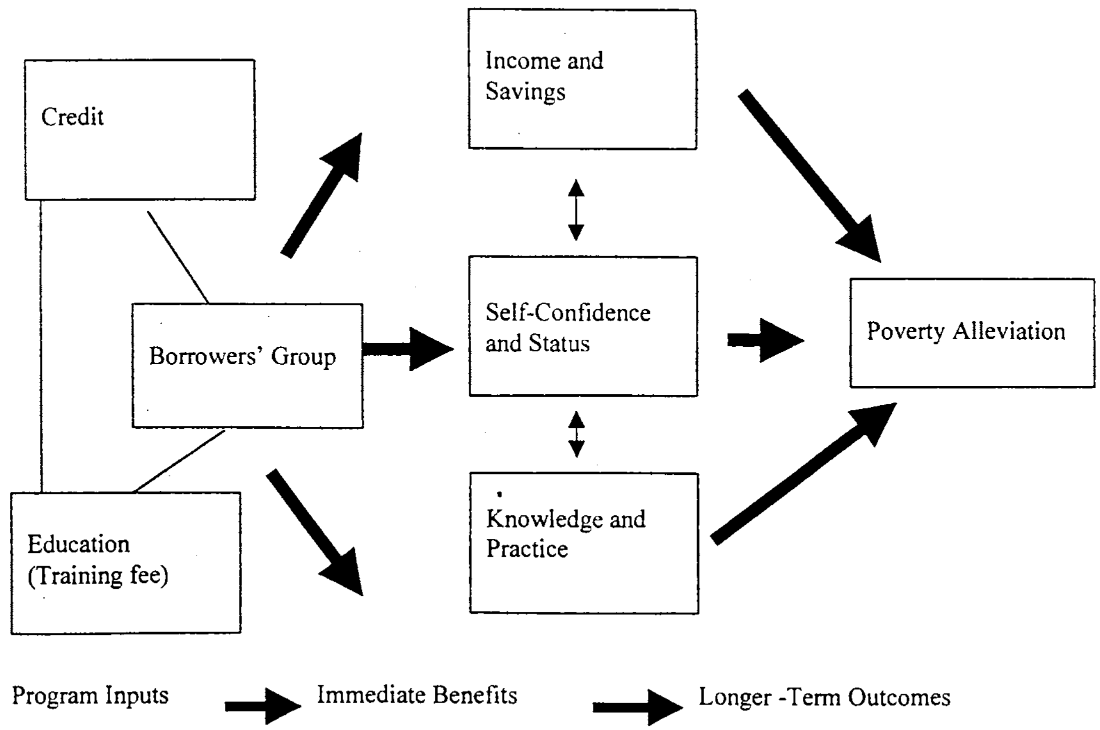
GOROKA TOWN AREA


AREA ALLOCATION: DISTRIBUTION OF CENTERS VISITED-GOROKA AREA
N
KoreKoreto *20
Hayamna *13
Marieka *22
Ifiufa *14
Kotiofa *36
Ikiro-ufa *12
Kabiufa *25
Izopega *31
OKoK Highway to Simbu
Asaro coffee *24
Ufeto *21
Korefanota *28
University of Goroka
Hobe *27
Holipaka *35
Asarovfa *8
Vanima *30
Okasani *32
Aipos *34
Kama *22
Okiufa *10
Komiufa *9
Busu *33 coffee
Sogomi *2
HEAD OFFICE "GMST."
old Bena Road
faniufa *27
Kama *17
Kafana *19
Kenemaro *5
Makia *6
Naidax *15
Kami *18
Upagu *3
Korefagu *11
Katago *4
Korefagu *7
OKoK Highway to Lae
Legend
— Small roads
○ indicates center visited
* indicates center number
= Main Highway (OKOK)
Scale: 1/2 inch = 1mile

APPENDIX J

CREDIT WITH EDUCATION MODEL

Credit with Education Benefit Process



VITA

Felix Gregory Bablis

Candidate for the Degree of

Doctor of Philosophy

Thesis: PERFORMANCE ANALYSIS OF "GOROKA MICROCREDIT SAVINGS TRUST": A MICROFINANCE INSTITUTION IN PAPUA NEW GUINEA

Major Field: Agricultural Education

Biographical:

Personal Data: Born in Dagua, Papua New Guinea, June 5 1961. Married to Meriba Mauli, with three children Jerald, Greg and Jessica.

Education: Received degrees on following dates: Bachelors degree in Education, University of Papua New Guinea, PNG, in February 1989; Master of Philosophy degree in Development Studies, Massey University, New Zealand in 1993. Completed requirements for Doctor of Philosophy degree in Agricultural Education at Oklahoma State University in May, 2000.

Experience: From 1983 to 1987, High School teacher at high schools in Papua New Guinea; 1989-1993 & 1993 to 1995; performed duties as Lecturer & Head of Department, Researcher and Extension Agent; University of Goroka, 1995 to present undertaking doctoral studies at Oklahoma State University, Stillwater, Oklahoma.

Professional Memberships: Fulbright Association of Oklahoma, Association for International Agricultural and Extension Education, Microcredit Summit Institutions Committee.

Award: 1991 – 1992, recipient of New Zealand Overseas Development Assistance two-year scholarship; 1993, recipient of 6 weeks United States Information Agency Study Tour of the USA; 1995 – 1999, Fulbright Scholar for a five year doctoral studies at Oklahoma State University, Stillwater, Oklahoma, USA.