



Submission to the Senate Foreign Affairs, Defence and Trade Committee's Inquiry into the economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific

Credit Union Foundation Australia (CUFA) is a not for profit organisation that develops community access to affordable financial services in the Asia Pacific region. We work at two levels: at a grassroots level to increase savings mobilisation and build capacity within microfinance institutions; and through promoting national credit union networks that can provide quality services, support and regulation.

Introduction

Thank you for the opportunity to provide a submission to the Committee's Inquiry into the economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific.

Credit Union Foundation Australia (CUFA) can add most value to the Committee's Inquiry by addressing the sections relating to the major economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific (ii) how the Australian Government can, in practical and concrete ways, assist these countries to meet challenges and (b) (ii) barriers to trade, foreign investment, economic infrastructure, land ownership and private sector development.

CUFA notes the *Partnership for Development* signed recently between the Australian and PNG governments, which "seeks more rapid progress towards poverty reduction and the other Millennium Development Goals by 2015."¹ We believe these goals can be achieved in part through our recommendations below.

CUFA recommendations

Law and Justice

1. The Australian Government encourages a regulatory environment in the Pacific that supports the development of community based financial organisations.
2. The Australian Government works with community based organisations and Pacific Law makers in the development of Pacific law that integrates custom into the regulatory framework and prudential standards.

Governance and Accountability

1. The Australian Government to encourage the strengthening of civil society organisations such as credit unions to hold governments to account and improve the ability of the public service to work with civil society organisations to meet their needs.

Development of Civil Society

1. The Australian Government to establish an aid program to help community based organisations improve:
 - a. Access to financial services – both savings and credit products
 - b. Access to financial literacy education.

These recommendations are underpinned by three factors: Sustainability, Social Capital and Serving the Underserved.

Sustainability

Credit unions and other financial cooperatives are democratic, grassroots organisations built on community foundations and the resourcefulness of the volunteers that run these institutions. As the World Bank has observed, 'Credit Cooperatives that mobilise savings deposits are less dependent on external sources and increase the borrowers' incentive to repay.'²

¹ Partnership for Development between the Governments of Australia and Papua New Guinea, 20 August 2008

² Huppi, Monika & Feder, Gershon, *The World Bank Research Observer*, vol. 5, no. 2 (July 1990) p. 187.

Social Capital

Credit unions tend to build social capital as a by-product of their emergence within communities. By providing access to credit and savings products, credit unions are able to build confidence and trust with communities and encourage community development. Credit unions also help sustain a volunteering culture and retain wealth in local communities.³ This social capital is in turn used by Governments and international development agencies to promote their social objectives.

Serving the Underserved

Credit unions play a key role in addressing the lack of access to financial services for remote communities and the poor. In the Pacific region the largest challenge in servicing remote communities are poor infrastructure (roads and bridges) and the economics of serving dispersed populations. In addition to this, poor people are considered low value clients to commercial banks. Credit unions or financial cooperatives are a more suitable option to serve the underserved as they are not profit motivated and have minimum operational cost base. Additionally, this organisational structure allows these institutions to quickly become financially sustainable.

Impact of PNG savings and loans societies

Michael Koisen, the President of the PNG Federation of Savings & Loan Societies Ltd, recently commented on these economic and social impacts:

“The financial services offered by savings and loan societies contribute to the socio-economic well being of many average Papua New Guineans ... [f]or a village based member, the society’s service may be the only accessible financial alternative in light of the stringent requirements of the established Banks and financial institutions that are only in urban areas. Apart from payment of personal and other social needs, the society’s financial service has enable a lot of village based entrepreneurial members to set up small transport, cash crop, retail, fast food and clothing businesses.

“A mobilization of the Savings culture is needed in PNG because apart from its economic importance, it also has a social relevance for the younger generation because it can positively influence their attitude ... Savings & Loan Societies can assist other government programs in improving the social attitude and well being of people if it increases its outreach. It is evident that members of Savings & Loan societies have a more responsible attitude towards the preservation of the society’s assets and other private and public properties as well.”

Challenges

Credit unions are able to provide solutions to financial inclusion to people in remote and sparsely populated areas. Credit unions are also able to address the issues of trust and build social cohesion.

But as these institutions move from volunteer based organisations to more formal institutions they require technical assistance so that they can offer a broader range of products and services to meet more sophisticated needs. These organisations require assistance to develop products and services that address not only a maturing market but also to meet the needs of members with rising financial

³ Hume, John, Credit Union, an International Model of Social Inclusion, University of Glasgow, Bert Mullen Inaugural Lecture, 20 October, 2005

literacy. Additionally, there is a need to assist these organisations to move from the informal economy to the formal economy.

While CUFA assists credit unions and their associated federations or leagues, we also work closely with government institutions to ensure that the regulatory framework keeps pace with the maturation of the financial cooperative movement. This includes ensuring prudential standards are of a quality to protect members' savings.

CUFA has assisted a large number of credit union movements in the Pacific region to professionalise to serve poor and remote communities with products and services that improve health, educational and economic opportunities.

Some of the financial challenges facing PNG and the island states of the Pacific are:

- a lack of sound regulatory frameworks for credit unions;
- a lack of robust judicial systems;
- a lack of responsive and accountable government agencies and departments; and
- a lack of recognition by AusAID and other Australian Government Departments and Agencies that access to financial services can be a tool for poverty alleviation.

Conclusion

Credit unions and other financial cooperatives are essential tool to financial inclusion and the alleviation of poverty. Credit unions offer a mechanism to alleviate poverty through access to savings and loan products. Some credit unions also offer micro-insurance products to help address unexpected life occurrences such as crop failure and breadwinner death.

By offering affordable financial services credit unions also provide a mechanism to build social inclusion with communities provided a focus through which they can come together and build social capital through affordable financial services.

Credit unions have been demonstrated to be most effective where there is community participation accompanied by bottom up institutional development and training at the grassroots level.⁴

CUFA encourages the Senate Standing Committee on Foreign Affairs, Defence and Trade to consider the recommendations outlined in this submission to assist in addressing some of the economic challenges facing Papua New Guinea and the islands states of the southwest Pacific.

Please find attached further information on CUFA and its activities. If you require further information, please contact me on 02 8299 9059 or at pmason@cuscal.com.au.

Yours sincerely,

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Executive Officer

⁴ Huppi, Monika & Feder, Gershon, The World Bank Research Observer, vol. 5, no. 2 (July 1990) p. 202.

Appendix

CUFA background

CUFA is principally funded by Australian credit union and mutual building society contributions and AusAID. CUFA also receives support from individuals and business through private donation and sponsorships.

CUFA is AusAID accredited and our development philosophy is framed by an adherence to Australian Government Guidelines, International Credit Union Operating Principles, and the Millennium Development Goals.

CUFA is a not for profit organisation and works through the International Credit Union Operating Principles of open and non discriminatory membership, democratic member owned institutions, services to the community and the provision of affordable financial services to those denied access to larger banking institutions.

Under the cooperative model members own their financial institution, all funds are reinvested into the organisation, and there is greater member involvement and participation leading to greater community benefit.

The cooperative model relies on savings mobilisation to fund member loans. Studies have shown that this is a more sustainable form of microfinance as members are taught good savings habits and there is less chance of loan default due to the mutual bonds that are formed. In developing countries these low interest loans are very small scale and are used to fund micro enterprise, such as buying livestock or to pay for a child's school fees for the year.

CUFA works with other like-minded development agencies such as the World Council of Credit Unions (WOCCU) that includes membership of 46,367 credit unions with a total of 172 million members globally. CUFA also works with the Canadian Cooperative Association and the Asian Confederation of Credit Unions.

CUFA's Work

CUFA's key international focus is poverty alleviation in the Asia Pacific. CUFA is currently involved in projects in Cambodia, Sri Lanka, Tuvalu, Tonga, Timor Leste, Fiji and the Solomon Islands. CUFA also runs secondary programming through the Pacific Technical Congress for Papua New Guinea, Samoa, Vanuatu, and Kiribati. Our overseas projects include: Children's Financial Literacy programs teaching children good savings habits from a young age; building institutional capacity in microfinance institutions in sustainable management practices; providing technical assistance and training to Credit Union Leagues and their member credit unions and microfinance rural resource centres.

CUFA's work in the Pacific

CUFA currently undertakes a number of programs in the Pacific. A recent successful initiative was the CUFA Young Women's Leadership Program, held in the Solomon Islands and funded by Australian credit unions and the Commonwealth Government's Office of Women. The workshops involved local mentors, financial literacy training and personal development activities that aimed to equip participants with the skills and confidence to become actively involved in micro enterprise and social development within their communities.

<http://cufa.com.au/introduction/Projects/SolomonIslands/WomensLeadership/index.jsp>

In September 2008 CUFA in partnership with the Fiji Savings and Credit Union League and the World Council of Credit Unions held the inaugural Pacific Technical Congress. The meeting brought together Credit Union leagues, federations, credit unions and financial regulators from around the Pacific meet to share information and to undertake a certification program.

<http://cufa.com.au/introduction/Projects/PacificCongress/index.jsp>

Between 1993 and 2000, CUFA collaborated intensively with Hanns Seidel Foundation (HSF) to provide technical assistance support for nine South Pacific CU movements. CUFA's work in the South Pacific region was underpinned by funding from HSF as well as the work of Development Educator volunteers supported by CUFA resources and funding. CUFA has contributed to numerous training programmes in the Pacific. These include skills-transfer workshops covering areas such as facilitation; Credit union operations; administrative systems; leadership and compliance, helping to develop various operational manuals and raising awareness among the region's Governments.

Solomon Islands

CUFA has also been working with the Solomon Islands Central Bank to revise the Credit Union Act, which will see a more rigorous and sustainable regulatory framework for credit unions in that country. CUFA is also working directly with Solomon Islands credit unions and the League to strengthen their governance and operational performance.

<http://cufa.com.au/introduction/Projects/SolomonIslands/index.jsp>

Tonga

CUFA also undertook a project to assist the Kingdom of Tonga - Ministry of Labour, Commerce & Industries (MLCI) by way of conducting a feasibility study on the establishment of a Credit Union Bank in Tonga. The main objective of the project was to establish a financial entity to specifically cater for the financial needs of its members.

The feasibility study was conducted by a team of experts from Credit Union Foundation Australia (CUFA). The study found it viable to establish a Credit Union Bank in Tonga with support of key stakeholders in the country to cater for the financial needs of the low income groups, thus encouraging savings and investments and contributing to poverty alleviation in the country.

The team subsequent moved into the second phase of the project resulting in the development of a business plan for the proposed CUB in Tonga. CUFA was supported in this project by the Commonwealth Secretariat's Commonwealth Service Abroad Programme (CSAP).

<http://cufa.com.au/introduction/Projects/Tonga/index.jsp>

Tuvalu

CUFA in partnership with the Maritime Workers Union of Australia, facilitated the development of the Tuvalu Maritime Credit Union in 1997. CUFA and the Maritime Workers of Australia Credit Union have a mentoring relationship with the credit union in Tuvalu and funds monitoring visits to audit the Credit Union accounts, to identify operating risks, to report on the impact of the Credit Union on members, to assess the viability of the Credit Union and to audit the Seamen's Union (TOSU) accounts.

<http://cufa.com.au/introduction/Projects/Tuvalu/index.jsp>

Bougainville, PNG

The Bougainville Microfinance Project commenced in 1996 in the Northern, Central and Southern regions of Bougainville, Papua New Guinea. It aimed to provide intensive, short-term technical assistance to build the capacities of Regional Coordinators, District Trainers and Volunteer Trainers from Bougainville Microfinance Inc (BHM) and Grassroots Microfinance Institutions (GMFIs), in the lead-up to the launch of an AusAID/ADB/EU Microbank. It also aimed to provide oversight of BHM trainers to implement a schedule of GMFI audits and reviews, aimed at strengthening the ongoing viability and eventual sustainability of a village-based GMFI network.

Credit Unions in Papua New Guinea and Southwest Pacific

Papua New Guinea Credit Union Data (2007)⁵

Credit Unions: 21
Members: 209,045
Penetration Rate*: 6.00%
Savings (US\$): 96,705,984
Loans (US\$): 58,021,033
Reserves (US\$): 13,538,837
Assets (US\$): 221,280,702



Solomon Islands National Credit Union Data (2007)⁶

Credit Unions: 11
Members: 9,012
Penetration Rate*: 2.74%
Savings (US\$): 4,713,767
Loans (US\$): 3,763,606
Reserves (US\$): 266,568
Assets (US\$): 5,056,302



[View International Credit Union System Data](#)

Tonga National Credit Union Data (2007)⁷

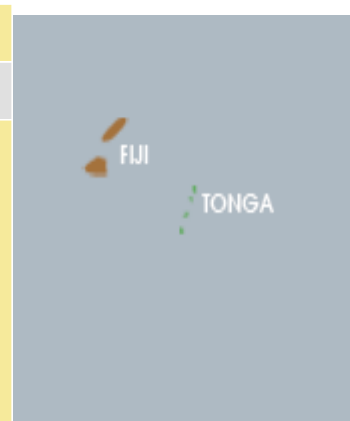
Credit Unions: 59
Members: 2,465
Penetration Rate*: 3.34%
Savings (US\$): 890,323

⁵ World Council of Credit Unions 2007 Statistical Report

⁶ World Council of Credit Unions 2007 Statistical Report

⁷ World Council of Credit Unions 2007 Statistical Report

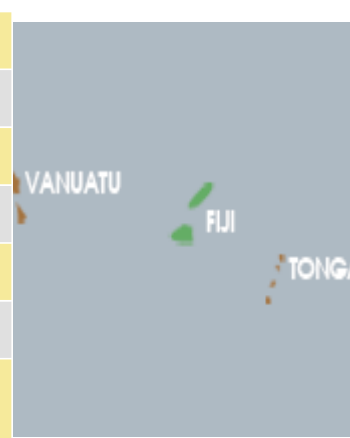
Loans (US\$): 358,001
Reserves (US\$): 24,545
Assets (US\$): 920,073



[View International Credit Union System Data](#)

Fiji National Credit Union Data (2007)⁸

Credit Unions: 36
Members: 16,758
Penetration Rate*: 2.78%
Savings (US\$): 21,978,781
Loans (US\$): 23,894,988
Reserves (US\$): 3,478,386
Assets (US\$): 29,265,022



[View International Credit Union System Data](#)

Worldwide Credit Union Movement

The global credit union sector reported significant growth in 2007, according to survey results collected in World Council of Credit Union's (WOCCU's) *2007 Statistical Report*. This year, WOCCU surveyed 96 countries to measure credit union growth and member service trends worldwide. Results show that **49,134 credit unions** serve an estimated **177 million members** within those countries.

This year's report used seven indicators to measure credit unions' impact on countries participating in the study. The number of credit unions, members served and market penetration indicate the movement's social impact in a particular country, while savings and loan activities helped measure the degree to which those credit unions are serving members. The reserves and assets statistics help outline the relative stability of the institutions and their capacity to grow in member service. The statistics within provide a useful snapshot of a dynamic, changing environment.

The numbers clearly indicate that on a global scale credit unions continue to increase in their influence and grow in service to members.⁹

⁸ World Council of Credit Unions 2007 Statistical Report

⁹ World Council of Credit Unions 2007 Statistical Report