



FINANCING SMALL TO MEDIUM ENTERPRISES THROUGH CREDIT SCHEMES:

In an attempt to provide promising entrepreneurs and their enterprises with access to formal credit, government as well as non-government agencies (NGO's) and private enterprises in most third world and developing countries have made use of credit schemes. The perceived belief is that credit schemes can address several barriers to loan access by small and medium enterprises. Said barriers include:

- The high transaction cost of small loans
- Perceived high risk associated with lending to Small / Medium Enterprises (SME's) and
- Lack of tangible collateral demanded by mainstream financial institutions.

In Papua New Guinea (PNG) two distinct economies exist side by side, the formal and informal sectors. The formal sector is a small component of the economy and is predominantly urban. The informal sector supports 80% of the total population of PNG of 6.1million¹. That means 4,880,000 Papua New Guineans are one way or another involved in informal sector. The rural areas are characterized by communal land tenure and very limited or no assets that are of value to the mainstream financial institutions. Therefore, the best possible avenue for the rural majority to have access to credit and possibly improve their livelihood is through such credit schemes.

THE NDB LTD EXPERIENCE:

The National Development Bank Ltd has been lending to the rural sector specifically towards small and medium enterprises since 06th July 1967 when the Bank opened for business. Over the years the Bank has extended millions of kina to various sectors of the economy in line with the governments objective of eradicating poverty and improving the economies and livelihood of the rural majority. With the support of the Government of PNG, Agriculture Bank of PNG (as known in those days) lent K10m under the Small Holder Agriculture Credit Scheme (SACS) starting in 1996.

The scheme operated well for just a few years then repayment problems crept in. It has now come to a stage where all these SACS loans are treated as non performing or bad loans by the Bank. However; the Bank's collection effort continues against all delinquent borrowers. Lessons learnt from this must be bourn in mind. Borrowers need to be aware that if they do not honour their loan payments then the pool of funds for on lending is depleted thereby jeopardizing other applicant's chances of getting a loan.

Today NDB administers a number of credit schemes ranging from Commodity Schemes such as the Village Oil Palm Credit Scheme, Fishing Scheme such as the Fisheries Credit Facility, various District Credit Schemes funded by the Joint District Planning & Budget Priorities Committees and Agriculture Credit Schemes sponsored by the DAL through the National Agriculture Development Plan.

The sponsors instigate these schemes. The Banks and the sponsors enter into a Memorandum of Agreement that stipulates the parties' responsibilities as well as the operational aspects of the scheme. All applicants who want to participate in any credit scheme loans must have a good credit history to be considered. Any with existing unpaid loans are ineligible. NDB expects all borrowers both past and current to honor their loan commitments so that the funds can be revolved to all economically active Papua New Guineans with demonstrated good borrowing track record and serviceability.

¹ AS per projection by NSO based on a growth rate of 2.8%

The National Development Bank currently has the following categories of Credit Schemes:

- Small Agricultural Credit Schemes (SAC)
- Rural Housing Scheme
- Agricultural Credit Scheme
- Village Oil Palm (VOP)
- District Credit Scheme

For additional information please contact NDB Lending Division on 3247500.