

Loi M Bakani: Creating a favourable environment for innovative Credit Supplementation Institutions (CSI) in the Asian region

Keynote address by Mr Loi M Bakani, Deputy Governor of the Bank of Papua New Guinea, at the 16th Asian Credit Supplementation Institutions Training Programme, Port Moresby, 13-14 September 2006.

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Introduction

Distinguished guests, participants, observers, ladies and gentlemen, thank you for inviting me to address the 16th Asian Credit Supplementation Institutions Confederation Training Programme.

I am informed that it is the first time that such training is held in Papua New Guinea. I am thankful to the organisers for selecting Papua New Guinea as the host of this year's training programme, and it's a challenge for the Small Business Development Corporation (SBDC) to ensure a successful hosting of the training programme.

The programme comprising of lectures and workshops, will run for two (2) days. Most of you are in our country for the first time, and the organizers have been kind enough to include extra days for visits to the National Museum and the National Parliament. A special arrangement was made for the participants to see the popular Hiri Moale Festival and 31st Independence Anniversary celebrations. I extend our warmest welcome to you all and hope you will enjoy your stay in our capital city, Port Moresby and see some of our diverse cultures and traditions.

The training theme "Creating a Favourable Environment for Innovative Credit Supplementation Institutions in the Asian Region" is an exciting one. Under this main theme, the scope of the workshop has been broadened to include presenters to share their expert views and knowledge on related subject matters, including:

- Impact of Globalisation on Small and Medium Enterprises credit in the Asian Region;
- Innovative Policies and Practices of Credit Supplementation Institutions in the Asian Region; and
- Financing Small and Medium Enterprises through Credit Guarantee Schemes.

The above sub-themes of the workshop are included to provide an objective and comprehensive coverage of the global issues impacting on the growth of the small and medium enterprises in some parts of the Asia-Pacific region and lack of progress in the other parts of the region.

To start the discussions on the above sub-themes, let us look at a number of critical problems and issues affecting the advancement of small and medium enterprises in the wake of globalisation. These include, but are not limited to: small and medium enterprises policy and implementation; regulatory framework; entrepreneurial/managerial skills; finance; technology and information resources.

Impact of globalisation on small and medium enterprises credit in the Asian region

Globalisation can be simply understood as the way in which the world has become a small 'village' or 'community' as a result of faster transport, communication and technological advancement which in turn resulted in the reduction in the cost of international trade, investment and in doing business (time and space/distance) between places and people.

The Asia-Pacific region is part of this globalisation process, which has influenced the pace of growth and patterns in the region over the past decades. Today we see vibrant and strong economies that are in the forefront of influencing the globalisation process itself through increased world trading, capital transfers and investments, skilled labour movements, and technological innovations and their use.

There are many that argue, including those in our region, that globalisation has very limited impact on small and medium enterprises in the developing countries compared to those in the developed economies. There are also those who critically argue that globalisation has disadvantaged the small and medium enterprises in countries that do not have appropriate policy framework, regulations, entrepreneurial and managerial skills, finance and technology necessary for competition and survival.

Although this view has some merit, the reality about globalisation is that, among other positive changes, it eased capital transfers which provided for relatively easier access to funds by credit and supplementation institutions for on-lending to small and medium enterprises in the Asia-Pacific region. As international trade and investments increase, this trend is likely to continue and grow.

Innovative policies and practices of Credit Supplementation Institutions in the Asian region

One of the major challenges to foster growth and sustainability, particularly in the developing economies, is the design and implementation of appropriate policies on developing small and medium enterprises. In economies where sound policies are in place, the problem may be due to the failure by the government to seriously ensure that those policies are implemented. As most small and medium enterprises in the developing economies do not have comparative advantage compared to large established companies, any attempts to capture niche markets, domestic as well as international, would be difficult unless appropriate government policies are in place and are effectively implemented to provide relief, particularly in the 'infant' stages of their growth cycle.

Observations from other economies, including Japan, China and Republic of Korea showed that these countries have done very well because of their governments' policies and focus on encouraging small and medium enterprises to contribute towards economic growth. These are experiences worth noting and studying.

Regulation of small and medium enterprises

Small and medium enterprises in most countries do not have a specific legal framework to regulate their activities as most governments share the view that too much regulations and unnecessary interference may impact negatively on normal commercial operations. However, small and medium enterprises are expected to abide by all other relevant laws and regulations, including taxation law. This is a subject of contention and therefore I would rather leave it for you to exchange views on it.

Financing small and medium enterprises through credit guarantee schemes

Amidst all the constraints facing small and medium enterprises, lack of finance or access to finance appears to be one of the main drawbacks for growth and competitiveness. This is a global problem, and we see that in the Asia-Pacific region as well.

In some countries of our region, there have been initiatives to create avenues for small and medium enterprises to obtain credit without excessive scrutiny or discrimination by financiers or credit providers. This is done with the backing of governments by enabling the establishment of financial institutions that accommodate and target small and medium enterprises. In economies where the supply of credit is limited, linkage with banks and credit supplementation institutions is the solution. In the case of Papua New Guinea, there are relatively limited credit and supplementation institutions and financial institutions that are willing to provide credit to small and medium enterprises. The problem is even harder for the government-funded credit and supplementation institutions like the Rural Development Bank to meet these credit needs because of the limited annual appropriation in the budget for this purpose.

Management skills, information technology and information resources

Apart from finance and other constraints lack of or inadequate managerial skills of entrepreneurs/owners of small and medium enterprises can be a negative factor that can lead to their lack of competitiveness and operational sustainability. Financial institutions or credit and supplementation institutions may be willing to grant credit, but the risk associated with lack of knowledge and skills required to run a successful small and medium enterprises can be the influencing factor that prevents the extension of credit.

Further, lack of government support to institutions that are established to train and nurture aspiring businessmen and women are not being offered sufficient financial resources in the annual budget. In Papua New Guinea, the Small Business Development Corporation experiences the same problem. Hopefully, the success of this training workshop will be an eye opener for the government to

strengthen the capacity of the Corporation to take on more future challenges to assist small and medium enterprises in the country.

Technology and information resources

The globalisation process has made the world a 'smaller' place. We see the economies of the world becoming integrated more closely. Catalysts in the process, among others, are advancement of technology and hence availability of information resource that enables sound business decisions to be made across countries in a timely manner.

Every business manager knows that regardless of the size of your business, use of and reliance on technology to produce information upon which business decisions are made is a crucial part of operating a successful business, whether they are small and medium enterprises or a large corporation.

Papua New Guinea's experience

The Government of Papua New Guinea had developed a number of policy papers including, Small and Medium Enterprises Policy, *Medium Term Development Strategies (MTDS)*, the *National Dialog* and Microfinance Policy. In these policy papers, the Government had expressed the important roles of small and medium enterprises as contributors to the long-term sustainable development of the private sector and economic growth of the country.

Like in most countries, small and medium enterprises in Papua New Guinea are not regulated, however, they are required to operate in compliance with the relevant laws of the country including taxation requirements. In order for the small and medium enterprises to be successful, adequate government support through agencies tasked with this function need to be enhanced. This would ensure that the small & medium enterprises develop beyond their infant stages and reach self-sustainable levels.

Finance

There are relatively limited credit and supplementation institutions and financial institutions that are willing to provide credit to small and medium enterprises in the country. The problem is even harder for the Government-funded credit and supplementation institutions like the Rural Development Bank to meet their credit needs because of the limited annual budget appropriation. The development of the microfinance sector through the PNG-ADB Microfinance and Employment Project is an extension of the options that the government wanted to pursue, through the Microfinance Policy, to extend credit to those in the informal and semi-formal sectors.

Credit guarantee and facility schemes

Credit guarantee schemes seemed to have limited success in Papua New Guinea's situation, perhaps partly because such schemes are not fully appreciated and understood. The problem also extends to include the government or its institutions that provide guarantees to small and medium enterprises where in most cases such guarantees are not honoured, giving rise to other issues (e.g. Prudential Supervision).

Papua New Guinea's problem appears to do with perception and expectations. For instance, where a guarantee is provided based on political associations and constituency, those who benefit from the credit facility may feel less inclined to repay the credit because they perceive such service by the government or their political leaders as a compensatory factor in return for their votes. There are countless cases that can be shared from the experience of Papua New Guinea Banking Corporation – a former government-owned commercial bank and similar experiences in our Rural Development Bank.

Papua New Guinea also had experiences of other credit facilities, one of which was the "small Scale Business Credit Facility" funded by the SBDC, participating commercial banks and the Central Bank. The portion of funding (one-third) by commercial banks was fully guaranteed by the other participants. Due to high defaults the facility was closed several years ago. Another credit facility was the Global Loan Facility (GLF) of K12.0 million provided by the European Investment Bank (EIB) in 1991 that was

fully guaranteed by the PNG Government. Due to various problems including lengthy and stringent process to access credit, the facility was not fully utilised and the European Investment Bank withdrew the scheme in 1998.

Conclusion

To conclude, we all should remind ourselves that the accelerated pace at which the world is changing is presenting many challenges for small and medium enterprises in the Asia-Pacific region. Small and medium enterprises in our region, as well as in other parts of the world, have similar features and are confronted by similar problems such as the lack of:

- Finance;
- entrepreneurial/managerial skills;
- access to appropriate technology and information systems; and
- appropriate policy and guidelines.

As practitioners, you are all no doubt better placed to share your views and experiences on how to solve the problems that deny growth, fair competition and survival of small and medium enterprises in this new era of globalisation. However, it is better to embrace change and grow with it, and take advantage of globalisation and benefit from the positive impact it can have.

Finally, I trust that the training programme will be rewarding for you all as you share each other's knowledge and experiences, and endeavour to find answers to some of the constraints faced by small and medium enterprises problems in our region.

I wish you every success in your deliberations over the next 2 days. For our overseas participants, I hope that you will enjoy your stay with us and the fact that you are here during our 31st Independence day celebrations, when we display our rich cultural heritage and diverse traditions makes us very happy to be your host.

Thank you.