Comparison of PNG and Japan Monetary System and how best it can support the local Entrepreneurs.

UPNG and Japanese Embassy  August 9, 2017.
The University of Papua New Guinea, Waigani Campus, Port Moresby

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Kyoto university
Motivation

- Development of mSME and start-up companies is urgent issue of PNG.

- Society with a large gap between rich and poor.
Motivation

- Honda, SONY ... Beginning from one person.

- Purpose is development of mSME from Banks.
Key concept

mSME・Start-up companies → Good company
General Concept for Good Economy

Good banks

mSMe

Educational growth
Japan

Mega Bank

Regional Bank
I. DAIICHI CHI GIN
II. DAINI CHI GIN

Cooperative Bank
I. SHINKIN BANK
II. COOPERATIVE BANK

Competitive Growth-up OK
Structure of Japan banks

- World Mega bank
- Whole Japan Mega bank
- Prefecture
- Regional bank
- City Shinkin bank
Location of Shinkin Banks in Japan
Characteristics of Shinkin Banks

- Regionality
  They serve a limited business territory.

- mSME-centricity
  They serve primarily mSME in their business territories.

- Mutual-aid principle
  They provide funding to members predicated on non-profit and mutual-aid principles.
Ryoan-ji
Ginkaku-ji
Loans share 2012
Whole Japan and Kyoto Prefecture

- Mega Bank
- Shinkin Bank
- Shinkumi Bank
- Agricultural cooperative
- Regional bank I
- Regional bank II
- Labour Bank

Japan:
- 40.1%
- 31.9%
- 11.8%

Kyoto pref:
- 19.0%
- 34.5%
- 39.0%
Banking Act  Chapter I General Provisions

(Purpose)  Article 1 (1)
The purpose of this Act is, in view of the public nature of the business of banks and for the purpose of maintaining its credibility, securing the protection of Depositors, etc. and facilitating smooth functioning of financial services, to ensure sound and appropriate operations of the business of banks, thereby contributing to the sound development of the national economy.
Shinkin Bank Act: Article

(Purpose) 1
The purpose of this law is to establish the Shinkin Bank System based on cooperative organization for the purpose of promoting increased savings and smooth financing for the general public, and taking into account the public nature of financial operations to provide proper supervision to maintain trust and to protect depositors.
## The Main Differences Between “Shinkin Banks,” “Credit Cooperatives” and “Commercial Banks"

<table>
<thead>
<tr>
<th>Category</th>
<th>Shinkin Banks</th>
<th>Credit Cooperatives</th>
<th>Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Foundation</td>
<td>Shinkin Bank Act</td>
<td>(1) Law for Cooperatives of Small Business (2) Law Concerning Cooperative Financial Businesses</td>
<td>Banking Act</td>
</tr>
<tr>
<td>Purpose for Establishment</td>
<td>To promote increased savings and smooth financing for the general public</td>
<td>To provide mutual support for their members and to promote their economic well-being</td>
<td>To promote smooth financing for the general public</td>
</tr>
<tr>
<td>Organization</td>
<td>Non-profit cooperative organization financed by its members</td>
<td>Non-profit cooperative organization financed by its members</td>
<td>For-profit joint stock corporations</td>
</tr>
</tbody>
</table>
# The Main Differences Between “Shinkin Banks,” “Credit Cooperatives” and “Commercial Banks"

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<tr>
<td>Membership Qualifications</td>
<td>(1) Those who have an address or location in the region</td>
<td>(1) Those who have an address or location in the region</td>
<td>None</td>
</tr>
<tr>
<td>(Regional)</td>
<td>(2) Those who have a business office in the region</td>
<td>(2) Those who perform small-scale business in the region</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3) Those who work in the region</td>
<td>(3) Those who work in the region</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(4) Executive officers of companies that have a business office in the region</td>
<td>(4) Executive officers of small-scale businesses that conduct business in the region</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Businesses with no more than 300 employees or with less than 900 million yen in capital</td>
<td>(In the case of businesses) Businesses with no more than 300 employees or 300 million yen in capital (100 employees or 100 million yen for wholesalers, 50 employees or 50 million yen for retailers, and 100 employees or 50 million yen for service businesses)</td>
<td></td>
</tr>
</tbody>
</table>
Information asymmetry

• Kenneth Joseph Arrow [1963]
  • “Uncertainty and the Welfare Economics of Medical Care”

• George Arthur Akerlof [1970]
  • “The Market for Lemons: Quality Uncertainty and the Market Mechanism”
What Heroic episode of Japanese banker?

• - I decided the first loan for this company.

• - I helped this company out of deep slump.

    ...not so much making big profit
An example of building relationship between banks and customer: three years Installment Savings.

- Visit client to collect monthly installment money for three years: regular contact with money holder in the company In three years, -- the company accumulate some fund.
An example of building relationship between banks and customer: three years Installment Savings.

-- the company proves they can pay regular saving => this can be expected to be future repayment track record.
-- the banks and the company can build human relationship so that the bank can trust the client to finance.
-- by that time, the bank can consider to finance about three times of the accumulated fund by the company.
How to develop the relationship?

- cover a narrow area with high density service (gather integrated information)

- bankers can also grow up by handling variety of industries and difficult-to-pay-back clients
PDCA model

Plan

Do

Action

Check
Information Banks obtained directly from customers

- History, History of target establishment, Home Visit, Personality of Spouse, Condition of House Entrance and Toilet, Car used, Attitude towards life, gambling habits, personal relationships, membership in social circles, attitude towards service of employee, employee complaints, absence or presence of a business office, reputation, foresight, civic-mindedness, morality, cleanliness of shops or factory, tidiness, weekly changes, origin of name, heir, presence or absence of labor unions, manager’s career history, sample entry in the office calendar, keiretsu, university alma mater, relatives, seasonal visits, daily visits
Financial education in Japan

- In the website of the Japanese Bankers Association, one can download educational materials about money and the economy that can be utilized in the classroom.

- We proceed to the efforts of the national Association of Shinkin Banks.

- Credit cards are “not Doraemon pockets.”

- By the time students have graduated from high school, they are expected to have a certain amount of knowledge about finance.
1975 – 2017

y: SME Sales Ordinary Income Ratio
x: Lending attitude of Banks Diffusion index (DI)
1975 – 2017
y:SME Sales Ordinary Income Ratio
x:Lending attitude of Banks Diffusion index (DI)

\[ y = 0.0685x + 2.9443 \]

\[ R^2 = 0.9094 \]
PNG Financial Organization Concept Map

- Commercial banks
- Licensed financial institution
- Saving and Loan Societies
- Onetoku Lending
- Black market
List of authorized or licensed financial institution in Papua New Guinea 31 December 2016

a) Commercial banks  Total 4
b) Licensed financial institution  Total 12

1. Australia and New Zealand Banking Group (PNG) Limited
2. Bank South Pacific Limited
3. Kina Bank Limited
4. Westpac Bank PNG Limited
5. Credit Corporation Finance Limited
6. First Investment Finance Limited
7. Finance Corporation Limited
8. Haduru Moni (Moni Plus) Limited
9. Resource & Investment Finance Limited
10. BSP Finance (PNG) Limited
11. Papua Finance Limited
12. PNG Microfinance limited (PML)
13. Nationwide Micrebank Limited
14. Kada Poroman Microfinance Limited
15. People’s Micro Bank Limited (PMBL)
16. Women’s Micro Bank limited

3) Saving and Loan Societies  Total 22

1. alekano Savings & Loan Society Limited
2. Air Nugini Savings & Loan Society Limited
3. CBO Savings & Loan Society Limited
4. east New Britain Savings & Loan Society Limited
5. Finance & Private sector Savings & Loan Society Limited
6. Lae city Council Employees Savings & Loan Society Limited
7. Manus Savings & Loan Society Limited
8. Nasfund Contributior Savings & Loan Society Limited
9. Niu Allan Savings & Loan Society Limited
10. Minig & Peroleum Savings & Loan Society Limited
11. Nambawan Savings & Loan Society Limited
12. PNG Power Savings & Loan Society Limited
13. PNG Ports Corporation Savings & Loan Society Limited
14. PNG University of Technology Staff Savings & Loan Society Limited
15. Police & State Services Savings & Loan Society Limited
16. PTP Savings & Loan Society Limited
17. Rural Development Bank Savings & Loan Society Limited
18. Sepik Savings & Loan Society Limited
19. Teachers Savings & Loan Society Limited
20. PNG waterboard Staff Savings & Loan Society Limited
21. PNG National Farmers Savings & Loan Society Limited
22. Federation of Savings & Loan Society Limited
Figure 5.1  The financial system structure

**Banking Institutions**
- Bank of Papua New Guinea
  - Commercial Banks
  - Finance Companies
  - Microfinance Companies
  - Savings and Loan Societies

**Non-Bank Financial Institutions**
- Investment and Pension Funds
- Insurance Companies and Brokers
- Stockbrokers
- Rural Development Bank

**Financial Markets**
- Bank of Papua New Guinea
- Securities Commission
  - Registrar of Companies
- Money Market and Foreign Exchange
- PNG Government Securities
  - Stock Exchange
NEW YEAR = NEW RATE
TERM DEPOSITS ONLY

6%* = 6 MONTHS

Telephone: 323 2399 ext 215 or call nearest FinCorp Branch
Other rates applicable on application. (min amount K5,000)

Port Moresby, Lae, Kokopo, Goroka, Mt Hagen

Handwritten notes:
- 500 - loan amount
- 150 - 30%
- 50 - admin fee
- \[ \times 700 \]
- \[ \frac{140}{7} \text{ for week} \]
- \[ \times 5 \]
Which is higher risk?
**Woklain Dinau**

For a fast and efficient loan, our Woklain Dinau is designed to meet the urgent financial needs with no equity requirements.

- **Interest**: 36% flat per annum
- **Fee**: 5% of the loan amount up-front
- **Loan Amount**: K300-K20,000
- **Loan Term**: 12 months

**Fishing Credit**

You can now access finance for fishing through PML and National Fisheries Authority Credit Scheme partnership.

- **Interest**: 24% on reducing balance
- **Age group**: Above 18 years and below 65 years
- **Loan Amount**: K1,000-K500,000
- **Loan Term**: 36 months
- **Repayment**: Monthly

**Wanbel Loan**

Wanbel Dinau support groups of women who want to start up small scale business through group borrowing.

- **Interest**: 36% per annum flat
- **Fee**: K70
- **Loan Amount**: K300 to K1,500
- **Loan Term**: 12 months
- **Cash Collateral**: 50%

**Micro Loan**

This loan product targets the informal sector especially women who are engaged in small business activities to sustain their living.

- **Interest**: 30% per annum
- **Loan Amount**: K1,000-K10,000
- **Loan Term**: 12 months
- **Repayment**: Monthly
So rich, why so poor?

- Cause and result
- Ignorance and monopoly
- PNG should learn own country Finance and Banking.
<table>
<thead>
<tr>
<th></th>
<th>“One talk” lending</th>
<th>Bleak market lending</th>
<th>Bank lending</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>merit</strong></td>
<td>No interest rate required, sometimes repayment of principal is unnecessary.</td>
<td>Easy to borrow.</td>
<td>Interest rate is about 15% per year</td>
</tr>
<tr>
<td><strong>Demerit</strong></td>
<td>It is difficult to refuse the request, but on the contrary it cannot be decided if there is a request for future borrowing.</td>
<td>Violent collections rampant on money consumption lending contracts. 150% interest rate in two weeks, borrow 100 kina and return 150 kina after two weeks. Extension will double that amount.</td>
<td>Many documents required for borrowing applications are high, and hurdles are high.</td>
</tr>
<tr>
<td><strong>form</strong></td>
<td>Wangtok (WANTOKU) One talk Meaning derived from Pidgin and speaking the same language. Mutual assistant companion to help each other when in trouble. Behavior style like an awning in urban areas is difficult to refuse requests. Those with incomes take care of urban areas. Utility is also seen in business.</td>
<td>Township is not limited to justice</td>
<td>Bank loan</td>
</tr>
<tr>
<td><strong>guarantee</strong></td>
<td>There is also unsecured</td>
<td>Cash card or ID card. There is a repayment due date twice a month.</td>
<td>There is also unsecured but sometimes collateral is also required.</td>
</tr>
<tr>
<td>Tranquilla period of 1 year</td>
<td>Bank Papua Guinea Bill</td>
<td>New Bank Pacific</td>
<td>South</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------------------</td>
<td>-----------------</td>
<td>-------</td>
</tr>
<tr>
<td>7.79%</td>
<td>2%</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th></th>
<th>Brochure in newspaper</th>
<th>Posted on The National on February 1, 2017</th>
<th>Posted in branch brochure Newspaper</th>
<th>Brochure newspaper</th>
</tr>
</thead>
</table>

| Use gold profit           | 6.50%                  | An average of 10%                         | About 24% to 36%                   | About 18% to 36%  |

| National Development Bank | Estimated financial statements | Brochure newspaper | PML Lending Product Summary news |
BSP Time series analysis of settlement

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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>1083281</td>
<td>947509</td>
<td>798977</td>
<td>743145</td>
<td>672781</td>
</tr>
<tr>
<td>Interest expense</td>
<td>93098</td>
<td>65540</td>
<td>55476</td>
<td>61619</td>
<td>75330</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>501282</td>
<td>266773</td>
<td>261028</td>
<td>281426</td>
<td>198386</td>
</tr>
<tr>
<td>Other Income</td>
<td>200425</td>
<td>312477</td>
<td>400311</td>
<td>273849</td>
<td>228378</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>14248296</td>
<td>12804338</td>
<td>12296226</td>
<td>10920691</td>
<td>9445389</td>
</tr>
<tr>
<td>Loan, advance and other receivables from customers</td>
<td>8181227</td>
<td>6699147</td>
<td>5244188</td>
<td>4750799</td>
<td>4235974</td>
</tr>
<tr>
<td>Treasury &amp; Central Bank bills</td>
<td>2501256</td>
<td>2189237</td>
<td>3265432</td>
<td>3287517</td>
<td>3316210</td>
</tr>
<tr>
<td>Interest expenses Customer deposits</td>
<td>12140</td>
<td>14831</td>
<td>31378</td>
<td>44693</td>
<td>64069</td>
</tr>
<tr>
<td>Interest Loan, advance and other receivables from customers</td>
<td>763984</td>
<td>638776</td>
<td>568392</td>
<td>497047</td>
<td>448712</td>
</tr>
<tr>
<td>Interest Income Treasury bills</td>
<td>88966</td>
<td>67992</td>
<td>47176</td>
<td>53759</td>
<td>na</td>
</tr>
<tr>
<td>Interest Income Central bank bills</td>
<td>8289</td>
<td>18544</td>
<td>27850</td>
<td>56095</td>
<td>na</td>
</tr>
</tbody>
</table>

|                        | 0.09%      | 0.12%      | 0.26%      | 0.41%      | 0.68%      |
| Estimated Deposit rate | 0.09%      | 0.12%      | 0.26%      | 0.41%      | 0.68%      |
| Estimated lending rate | 9.34%      | 9.85%      | 10.84%     | 10.46%     | 10.59%     |
| Estimated Treasury & Central Bank bills rate | 3.86% | 3.94% | 2.28% | 3.39% | VALUE! |

<p>|                        | 86213      | 84755      | 45770      | 84935      | 24005      |
| Fee electronic banking income | 86213 | 84755 | 45770 | 84935 | 24005 |
| Fee Agency commission expenses | 874  | 733  | 590  | 920  | 1906  |
| Fee electronic banking expenses/Interest income | 7.96% | 8.95% | 5.89% | 4.64% | 3.57% |
| Fee Agency commission expenses/Interest income | 0.03% | 0.08% | 0.09% | 0.12% | 0.28% |</p>
<table>
<thead>
<tr>
<th>year 2011</th>
<th>Year 2012</th>
<th>Year 2013</th>
<th>Year 2014</th>
<th>Year 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.59%</td>
<td>1.49%</td>
<td>1.38%</td>
<td>1.29%</td>
<td>1.21%</td>
</tr>
</tbody>
</table>
We got a questionnaire from 35 students majoring in banking at UPNG (22 males, 13 females).
1. Merger of Regional Financial Institutions

- Minimum size: Unit of city or prefecture
- Creating a competitive environment
2. Examine of mSME

- mSME assets
- Owner assets
- Owner character
3. Desirable Shift of Banks Objective

- Support regional companies
- Develop regional economic
- Develop Banks
4. General Evaluation of Bank

**Good**
- Regional contribution
- mSME support

**Bad**
- Big scale
- Big Income
Step to Transfer Management
Know-hows of Japanese system

Activity study of Japanese system in those days.

1. We focus on the relationship between the banks and mSME.

Financial study of transfer PNG

1. Check the financial category that is targeted to the mSME
2. Financial Law, Financial Education, financial system

Dispatch person

1. Experienced person
2. Sample practiced
How will financial institutions help companies grow?

If don't have

Borrowed contract only

If have

Borrowed contract contribute,support,

Just selection

significant influence

Good company

Bad company

company

company
Thank you for attention.  Kiyotsugu Yoshihara : ky11april@gmail.com