

# **Micro-Traders: A Case Study of Micro-Finance on Yap Proper, Federated States of Micronesia**

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## **Abstract**

This research is part of an on-going project focusing on Micro-Traders, a micro-finance project on Yap proper, the Federated States of Micronesia. Yap proper is the economic core of Yap State, linking the Ulithi Atoll and other outer islands of Yap State with modern economic exchange opportunities. The primary objective of this study is to identify ways in which Micro-Traders has successfully integrated members' traditional economic relations with the modern economy found on Yap proper. Analysis focuses on micro-finance as a successful form of community-level development. Access to capital and market resources are primary issues relevant to the study which include savings groups, micro-credit, local market development, consumerism, cash-crop production, farm development, income-generating activities, and project incomes. What follows is an analysis on Micro-Traders.

## **Introduction**

Micro-Traders is an economic development project designed to generate income and employment through access to capital and market resources. It is a community-based project, and targets those who do not have collateral to borrow from large lending institutions. Primary income-generation is through crop cultivation although some animal husbandry, food processing and handicraft production were reported by respondents. Vital aspects of Micro-Traders' design include the People's Market, loan groups, micro-credit and loan committees.

The People's Market falls under the umbrella of Micro-Traders. Both were started in June 2000 from seed money of USD 8,000.00 (individual private donor). Micro-Traders and the People's Market were designed to increase members' access to capital and market resources through micro-credit and the development of small-scale markets such as the People's Market. Micro-Trader's members sell their crops to the community at the People's Market which meets twice a month, Fridays from 7:30 a.m. - 3:00 p.m.



Figure 1: Market Day at the People's Market, Colonia, Yap proper  
Photo by: A. Ames 2008

Micro-Traders and the People's Market are housed in Yap's Small Business Development Center (SBDC), in Colonia, the island's main town center. The SBDC is made possible through the strategic partnership of the Yap State Department of Resource and Development, in partnership with the U.S. Small Business Administration (USSBA). The USSBA is a sponsor of the University of Guam's Pacific Island's Small Business Development Center Network (PISBDCN). Micro-Traders' design and staff training were developed and implemented through PISBDCN at the University of Guam.

There are two components to Micro-Traders design. The first is access to capital through loan groups, micro-credit and loan committees. Loan groups are formed by three participating Micro-Traders' members. Each loan group member has their own individual savings but the individual savings are all kept in one loan group account. Members pay an annual fee of USD 30.00. (\$25.00 of the annual membership fee goes into members' savings account and \$5.00 goes towards the Business License for members purchased through Micro-Traders). Participants pay USD 12.00 each market day (\$5.00 – members' savings account and \$7.00 – administration fund to pay for management and promotion). Members must save \$200.00 before they are eligible to borrow from the account. Interest on savings is compounded each month at an annual rate of 5%. If a member resigns, they must wait six months before closing their account.

Next is the micro-credit component. Members may apply for small loans to help build small-scale businesses and generate incomes. For example, loans might be used to buy extra materials (gardening hoses, seeds), hire extra help (to cultivate crops), and for other uses that may help members generate incomes, such as buying gasoline for transport from the outer villages to Colonia on market day. There was no formal mechanism in place which tracked what

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the loans were used for other than the People's Market Records on quantity of crops and incomes earned. All three members in the loan group are responsible for each other's loan. Members of Micro-Traders can borrow from their savings account only after two other loan group members co-sign. Co-signers are responsible for repayment should the borrower not repay and members must have the amount in their savings accounts to borrow. Members can borrow as much as is in their accounts as long as the loan groups maintain a \$200.00 balance. There is no interest charge attached to the loan.

Staff members of Micro-Traders make up the loan committee. The loan committee decides which members receive loans. The decision is based on the purpose of the loan, how much is in the loan fund, and previous repayment records of members. All loans are collateral free, allowing those who do not have access to formal bank loans an opportunity to increase business resources and generate incomes. Small loans are applied for during market day. Once administered, the loan is to be paid back the next market day.

The second component to the Micro-Traders design is access to market resources. Access to market resources is seen through the micro-credit component as well as through the People's Market, consumerism and cash-crop production. Traditional crops are the main bulk of the produce sold at the People's Market. The most readily available traditional crops are the ones that are in the greatest demand for local purchase. When placed within the framework of the economic history of Micronesia, it becomes very evident that most store bought items are not produced in Micronesia, but are imported in. In response, the People's Market has opened up local access to market relations through the production of traditional crops, a turn in events and a benefit to local producers who were already cultivating these crops.

The growing, cultivating and collecting of mono-crops demonstrates the continued shift away from family subsistence economies to cash-crop cultivation. Shifts to cash-crop production are not as evident in my work on Falalop or Fais, both outer islands in Yap State. The contemporary economic structure found on Yap proper is best described as a "mixed economy" (Nicholas, Chopil and Sabak's 2003:96). It is the transformation of the Yapese economy from one that was subsistence oriented to one that is now also cash-crop, commodity, and market-oriented. Access to market resources is designed to allow marginalized groups access to Yap's mixed economy.

### **Research Question**

The research question was designed to measure the well-being of members as a result of their participation in Micro-Traders. In what ways is micro-finance, as a strategy of community development impacting project members and what are the limitations to the model? Do innovative strategies, like Micro-Traders, hinder economic relations of participants or allow them access to capital and market resources which contribute to the economic well-being of members?

### **Methodology**

A case study of Micro-Traders was employed systematically, providing interview data, empirical observations and GPS plotting. The objective of first-hand data collection was to have the key unit of analyses be individuals in a group, in other words, stakeholders of Micro-Traders. The survey instrument focused on Micro-Traders members' involvement in the case study.

Economic well-being of members was measured through increases in access to capital and market resources.

There were seven members at the time of interviews. Six out of the seven members were interviewed at the Small Business Development Center in Colonia and at their farms, primarily in Gagil/Tomil municipalities. Four of the seven members – Maria, Joseph, Rose and Jesse became key informants, especially in terms of types of crops cultivated and levels of income.

The sampling approach for the study utilized quota sampling for comparative analyses of the conceptual framework discussed above. Working under the guidelines of Singleton, Straits and Straits (1993), quota sampling was utilized by breaking down respondents into strata relevant to the research design (Singleton 1993:161). Relevant stratum included geographical region, community-based micro-development projects and project participation.

In total, 21 informants, including project members, the chairman, vice-chairman, director, market manager, loan committee members, and business counselors were formally interviewed. Informal interviews took place with various stakeholders in the development field including scholars, project planners, government and NGO workers and various members of the College of Micronesia – FSM's agricultural extension projects. The majority of interviews, discussions and observations took place in various villages, primarily at members' farms, project centers, village community centers and the People's Market.

Empirical observations took place at 4 different project sites. Empirical observational and GPS plotting data were used to measure farm size and identify crops currently being produced on small and medium-sized farms involved in cash-crop production and micro-finance. Stakeholders input, observational findings and GPS mapping were used to assess cash-crop production of local producers.

Final analyses were based on formal and informal interviews, GPS mapping and observational data. Secondary analyses of the People's Market Records on quantity of crops sold and amounts of income-generated were used to substantiate first hand interview data and observations. Conclusions were based on the economic situations identified by members as a result of their participation in the micro-finance project studied, based on members' current economic well-being at the time of the interviews.

### **Significance of the Study**

Overall, the significance of this study lies in its contribution to the already existing body of knowledge on micro-finance. In particular, the study contributes knowledge to an area of research not yet adequately represented, micro-finance in Micronesia. Results address the ways in which micro-finance impacts economic relations of members working within their own island economies.

### **Savings Groups and Micro-Credit as Access to Capital**

When conducting an economic assessment of the micro-finance model, it is vital to look at respondents' access to capital after joining the project. Results indicate that micro-finance has created significant change in agricultural and farm-based cash-crop producers' access to capital on Yap proper through savings groups and micro-credit. It is the reallocation of capital through savings groups and micro-credit which develops and maintains micro-businesses on Yap.

Reported savings ranged from a low of USD100.00 to a high of USD 800.00++. Reported credit amounts ranged from a low of USD 100.00 to a high of USD 500.00. Two respondents had

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not yet borrowed money from Micro-Traders. Reported loan usages included purchasing tools and seeds for backyard gardens, meeting family basic needs such as food (can goods) and fuel (gas and batteries), paying family utility bills (water), and to help out with Christmas purchases. Although not all loans were used specifically for business expansion, the majority of loans were still used for their intended purpose, which was to improve the economic well-being of project members. At the time of the interviews, only one member had not repaid their loan as scheduled. The Loan Committee granted an extension, as reasoning for not paying back the loan on time was linked to a private family matter. The only micro-finance project I have studied to date which has such a successful payback rate was the P4K/III in Pekanbaru, Indonesia. When asked why Micro-Traders has such a good record, it was reported that the savings group design, where other members are responsible for paying back the loan, is the incentive needed to insure members pay back the money borrowed. A similar design was evident in the P4K/III model. Keep in mind micro-loans made through Micro Traders are small-scale, ranging from \$100.00 to \$500.00. The loan committee purposely kept the loans small, to further insure higher payback rates.

Significant reallocations of economic resources were evident in greater access to capital, which in turn generated income-generating opportunities for a social group which did not have access to non-collateral loans before. As one respondent said, Micro-Traders is the "...only place to get a loan without collateral." Non-collateral and interest free loans reach economically marginalized groups, as it is the "...only project where I [project member] can earn an income, pay my expenses and purchase my needs." Members' abilities to build income-generating activities through Micro-Traders have created stronger economic roles for members.

### **The People's Market Income-Generating Activities and Market Development as Market Resources**

Income-generating activities and market development were evident at the People's Market. Every other Friday, several different groups would be selling bananas, ging-gong, star fruit, passion fruit, taro, coconuts, snake beans and betel nut. Members preferred to sit on the concrete floor, although chairs and tables had at one point been donated. For the most part cash-crops were sold "as is", although some members incorporated value-added packaging, such as the woven baskets seen in Figure 2.



Figure 2: Members Incorporating Value-added Packaging  
Photo by: A. Ames 2008

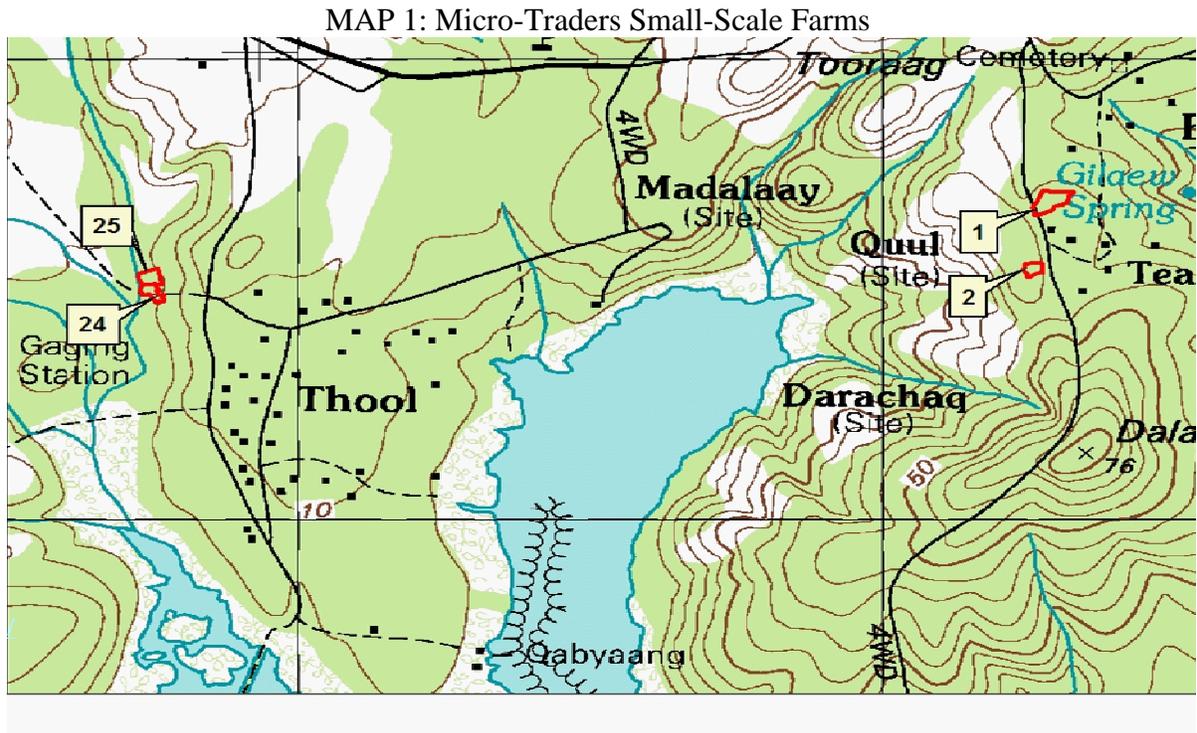
Reciprocity (the exchange of food and services within a specific group) and bartering (exchange of goods) were not evident at the People's Market; the selling of cash-crops (exchanging crops for money) dominated the exchange. Prices appear similar across the board, and there was a real sense of collective community involvement as members often talked about helping those who do not have transportation bring in their crops to sell during market day. Members often knew, personally, their customers. Customers call members days in advance, to request specific varieties of taro and other crops needed for specific ceremonies and family celebrations.

The benefits of income-generating activities and market expansion were evident throughout the interview process. Economic benefits were reiterated by more than one member. Micro-Traders "...employs women and helps others who can not grow to have local produce." The People's Market helps us generate incomes and "...income is the best thing about the project." It is a successful project because it "...creates a market because in a small island population, there are not too many buyers." There was not evidence that Micro-Traders and the People's Market hindered the economic relations of participants. Results indicate that the

development of market resources like income-generating activities, market access and farm development significantly contribute to respondents' economic well-being.

### Micro-Traders' Small and Medium-Sized Farms Market Resources and Economic Well-Being

The plotting of small-scale economic activities taking place on small and medium-sized farms on Yap proper has been a primary component of this study. Map 1 represents the GPS plotting done on respondents Maria and Joseph's small-sized farms in the village of Thool, Tomil municipality located in the southern portion of Gagil/Tomil Island, northeast of Colonia and south of Maap Island.



Map Source: <http://hbmp.hawaii.edu/website/pacific/guam>  
GPS Plotting: H. Manner 2009

As the map demonstrates, Maria and Joseph are working four separate plots of land (plots 1 & 2 and 24 & 25). These traditional and highly sustainable agro-forest ecosystems produce subsistence as well as cash-crops for the People's Market. Table 1 below represents the types of crops grown on plots 1 and 2 on the above map. Again, crops grown here include pineapples, bananas, Honolulu taro, betel nut, yams, and sweet potatoes. As the yellow highlights on Table 1 indicate, these crops are grown for subsistence, as well as for selling at the Peoples Market.

Table 1: Crop Usages: Maria and Joseph’s Garden

Local name	English name	Usage					
		C	S	M	D	R	O
Ngoongoor	Pineapple	*	*				
Dinaey	Banana	*	*				
Aibika	Edible hibiscus		*				
La’iy	Am. Taro (Yautia)	*	*				
Buw	Betel nut	*	*				
Dal, Du’og	Yam	*	*				
	Chili pepper		*				
Mal	Taro	*	*				
Kamuut	Sweet potato	*	*				
	Malabar spinach		*				
Riich					*	*	
Mangal’wag	Noni (Hwn)			*			
Gachuug	Croton						*
Kokoreig	White ginger						*
Guchol	Tumeric						*

Key: C=Cash-crop; S=Subsistence; M= Medicine; D=Decoration or Ornamental; R= Ritual; O= Other

Source: H. Manner 2009

As indicated in Table 1, respondents are growing subsistence crops on their family plots, as well as now growing the same types of crops as participating members of the micro-finance project. As one members pointed out, Micro-Traders “helps us to have an income and encourages other people in the village to farm and improve their farms.” Members linked their participation with the micro-finance project with growing crops to sell, as well as improving and expanding upon their family farms. With this came the idea of Micro-Traders having a significant impact on farm development.

With successful farm development comes surplus. One of the negative aspects to farm development reported were the surplus of crops but respondents did not report the surplus as having a negative impact on their economic well-being. Instead data represented the need for further market expansion. As noted by one respondent:

Sometimes, products are not sold and we have no other place to sell the products. And we only meet once within two weeks, so, some of the product is given out free. And others are returned to the village. We have to eat what we do not sell. We check around

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other outlets but most of the time they are all ready full or we do not have time to go and try to sell.

Small markets are the biggest challenge faced by most Micronesian economies isolated in the way that Yap proper is. Supply can easily outweigh demand, especially when consumers either grow their own crops or do not have the means to purchase crops.

Consumers at the People's Market were for the most part local, very few tourists were reported. The market's biggest buyers were female government workers<sup>i</sup>. It was reported that customers were primarily working women who did not have time to work an eight-hour day and then return home to work in their gardens. These women do, however, have the means to purchase local produce. As one respondent noted, the emergence of female consumer patterns is an indicator of cultural and economic change:

Our cultural economy is changing. In the past, making money was not part of our cultural economy. We lived off the land. We still value land but now we value money too. Women are saying they don't have time to work in taro patches anymore. Now women are working in shops for money and are not off till 4:00pm, so they do not have time to care for the taro or generate food crops for family consumption.

Respondents reported a loss of traditional knowledge and skills in agricultural practices, especially among the younger generations, as well as an increase in consumption of non-traditional food such as rice and canned goods. Loss of traditional knowledge and skills in agricultural practices increases dependency on store bought goods, while decreases in food production and cultivation demonstrates further shifts away from family subsistence economies. The People's Market consumer base is partially made up of those who no longer grow crops for family consumption. Respondents linked their involvement in Micro-Traders with resurgence in traditional farming and farm development in which traditional knowledge and skills could be retained by involving younger generations in the project.

### **Change in Income Levels Economic Well-Being**

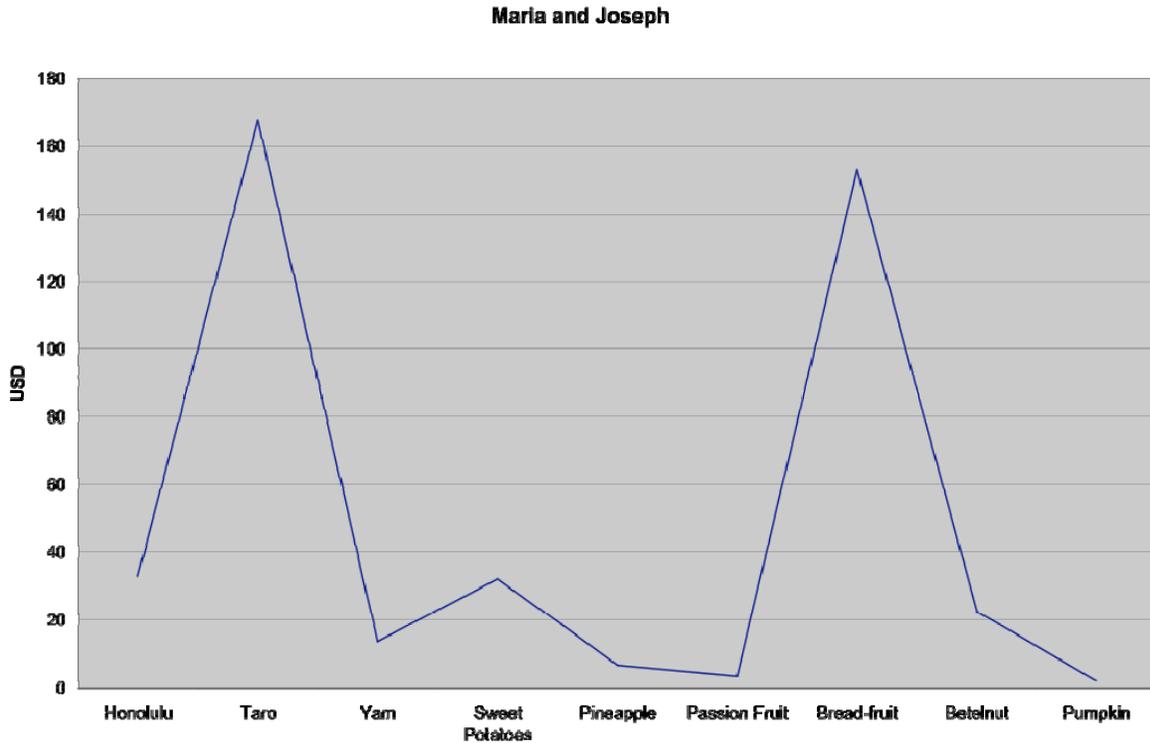
Changes in family income were also evident. All respondents reported an increase in income after joining the project. Reported market day (7.5 hours) incomes ranged from a low of USD 16.00 to a high of USD 291.10. Average market day income reported was USD 98.58 while median market day income reported was USD 63.82. Members' income-generating activities were organized within a traditional family economic structure most notably, mothers and daughters as well as wives and husbands. Extended family member participation was not reported, an indicator of a more individualistic economy where members are no longer producing and selling as a collective group. This also means there are not extended family members contributing the economy of the group as a whole, hence, continued development of other outlets, such as the People's Market, are needed to generate an income. Being able to combine the old with the new was a very interesting recurring theme found in the reported benefits of joining Micro-Traders:

Micro-Traders combines the old culture, the traditional role of looking after one another, with the new culture. I like the changes. The older culture benefits from change.

The idea of combining the old with the new is a common thread seen throughout my work on micro-finance. The most successful micro-finance projects are the ones that do not try to change the existing economic structure or economic activities of project members. As demonstrated in Table 1, subsistence farming is one such activity that members, most of which were 45 years or older, were skilled in. New skills such as bookkeeping were learned through the project and when combined with older skills, such as slash and burn techniques and the cultivation of traditional crops, members' business skills improved and there was a reported increase in incomes. An increase in income was the single most reoccurring theme found in the reported benefits of joining Micro-Traders. Increases in incomes were linked to contemporary and traditional skills, a combination which successfully integrates members into the monetary economy.

Contemporary and traditional skills plus the rising demand to purchase traditional crops for family consumption has resulted in Micro Traders members marketing local crops cultivated in traditional ways. This fact sets forth yet another example of older cultural economies adapting to social and economic change in ways that benefit producers and consumers alike. Results indicate a clear link between access to capital and families meeting their monetary needs in a changing economy through participation in micro-finance. An increase in the access to capital and market resources, access to non-collateral loans, small and medium-sized farm development, the production of local produce, local market development, and increases in income levels were all linked to Micro-Traders. Chart 1 demonstrates traditional crops' linkages to cash-crop production and income-generation.

CHART 1: Reported Income by Cash-Crop

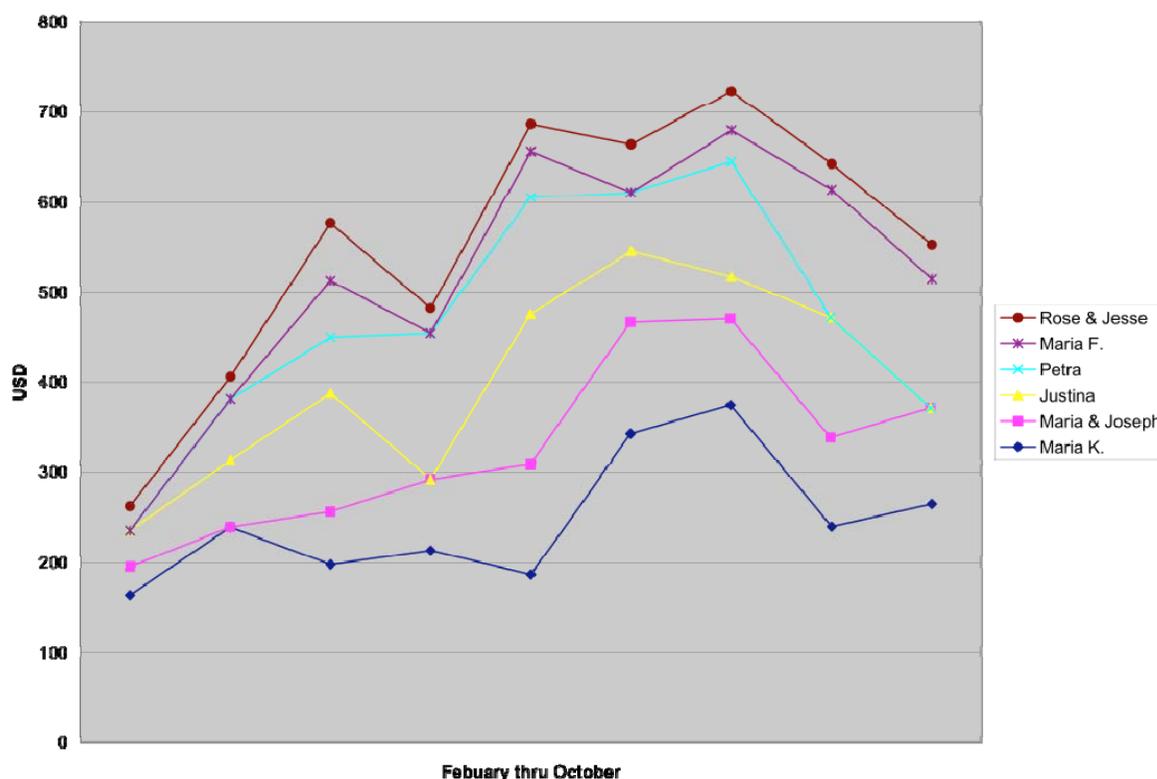


Source: Interviews

Chart 1 represents Maria and Joseph’s reported income earned at the People’s Market over a five-month period. Taro and breadfruit are the highest earning cash-crops, earning an estimated USD 170.00 to USD 150.00 respectively. The highest selling crops were also considered very traditional subsistence crops in Micronesia.

Chart 2 represents the reported incomes of all respondents. Whereas Maria and Joseph’s (Chart 1) incomes fall within the average range, Rose and Jesse’s (Chart 2) reported income was overall, higher than all other respondents. Hence, a secondary question becomes, what are the factors which contribute to Rose and Jesse’s higher monthly incomes from the People’s Market.

Chart 2: Reported Incomes by Nine Month Period



Source: Interviews

Rose and Jesse represent a family working a medium-sized farm; cultivating larger areas of land than families working on small-sized farms. Obviously the amount of land Micro-Traders members had use of would have a significant impact on their family incomes. Respondents who were working on medium-sized farms, plus who had other family members working with them, tended to also have higher incomes. One unique indicator of higher income was the relative location of individual plots. As in Maria and Joseph’s case (see Map 1), time and energy were needed to walk to plots 24 and 25 from plots 1 and 2, whereas Rose and Jesse, who reported the highest income, had only one, medium-sized plot to cultivate.

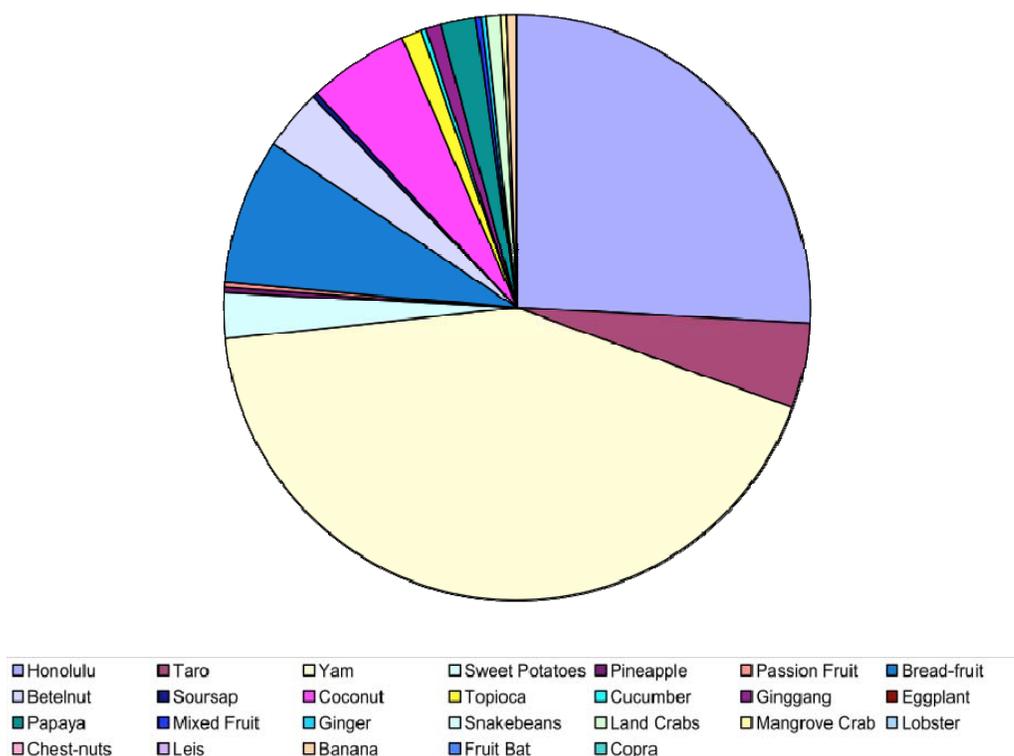
Rose and Jesse equated access to knowledge and transportation with an increase in their incomes. As noted during the interview process:

Before, could not learn a thing because we could not travel but now cars and telephones, people are able to talk with one another and trade knowledge. This is a good thing. People are more mobile.

Knowledge, transportation, and dense land holdings seem to cause a division in income earnings among members. None of the respondents reported buying land as a result of joining the project; all land had been inherited which helps explain why most respondents’ land were spread out over 2 to 4 plots. Although most respondents reported growing similar traditional crops, the types of crops grown on Rose and Jesse’s medium-sized farm and marketed at the People’s

Market are represented in Chart 3, and demonstrate how selling non-traditional crops resulted in a higher income for Rose and Jesse. Rose and Jesse also reported selling fruit bats, land crabs, mangrove crabs, and lobster.

Chart 3. Types of Crops Marketed by Rose and Jesse



Source: Interviews

While most members like Rose and Jesse reported the majority of their sales coming from traditional crops such as taro, breadfruit, yams and sweet potatoes, Rose and Jesse have increasingly been growing and selling non-traditional crops such as cucumber, tomato, eggplant, green peppers, and beans. Of interest here is that the non-traditional crops needed to be watered. Because of the need to pay for hoses and the water utility bill, some members said they did not want to start to grow non-traditional crops even if the selling of these crops resulted in a higher income for the family.

Non-traditional crops were more likely to be sold to hotels, restaurants, and local community stores. Along with growing non-traditional crops, Rose and Jesse reported collecting crops along private and common road and walkways. Using micro-credit loans and income earned at The People’s Market to develop their farm, plus marketing a larger variety of crops resulted in an increase in income to a much larger extent than the other respondents. Maria F. (Chart 2), who reported the second highest income, also reported selling traditional and non-traditional crops, cultivating one, medium-sized plot, developing her farm utilizing micro-loans and having transportation to the People’s Market. It should be noted that having transportation

was not a result of joining Micro-Traders. Both cases already had cars, however, incomes earned through Micro-Traders was used to purchase gasoline.

### **Conclusions**

The overall situation in Micronesia, and specifically the shifts that have occurred in economic activities to wage labor, increasing reliance on purchased food stuffs, and a decrease in subsistence activities have all created a situation that has caused a rising demand to purchase traditional crops for family consumption. This has resulted in the creation of market opportunities for local producers like the members of Micro-Traders. The move to fill this market demand has resulted in significant changes for the members of Micro-Traders as seen in access to capital through savings groups and micro-credit. An increase in incomes for members was due to access to capital and market resources which in turn led to the usage of loans to expand existing agricultural activities, increased quantities of produce to be sold, an expansion of income-generating activities through the People's Market and development of contemporary/traditional skills. Findings indicated that participation in loan groups significantly contributed to the project's overall success as well. It is concluded that Micro-Traders contributed to the economic development of families, creating a positive change in the economic relations of members of the micro-finance project.

The economic well-being of members as a result of their participation in Micro-Traders has improved despite limitations to the model. Limited were the reallocations of other sources of income (i.e. land ownership and private transportation for respondents). Micro-finance generates subsistence incomes only, the accumulation of wealth was not evident.

It is concluded that innovative strategies, like Micro-Traders and the People's Market, do not hinder economic relations of participants but allows them access to capital, resources, and income-generating activities which contribute to the overall well-being of members. Next in terms of research is the sustainability of micro-finance in contributing to the overall well-being of members. This research has given insight into the current economic structure found in Micro-Traders and the success farmers reported as they participate in community development strategies.

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### **Notes**

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<sup>1</sup> For a similar analysis on consumer profiles in Palau, see C. Yuping (2012) "The Emergence of Local Entrepreneurs in Palau," in *Pacific Asia Inquiry, Volume 3, Number 1, Fall 2012*, University of Guam.