

Savenaca Narube: Microfinance, the economy and challenges in Fiji

Keynote address by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the National Micro, Small & Medium Enterprise (MSME) Forum, Lami, Suva, 22 May 2008.

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Ms. Banuve Kaumaitotoya, Permanent Secretary for Industry, Tourism, Trade & Communications;

Mr. Josefa Serulagilagi, Chairman, National Centre for Small & Micro Enterprise Development Board (and other Board members);

Mr. Savenaca Nacanitaba, CEO, National Centre
Ladies and Gentlemen

Introductory comments

It is indeed a great pleasure for me to participate in today's Forum. At the outset, let me commend the National Centre for Small and Micro Enterprise Development for holding such an important National Forum and for looking at such a critical issue as a National Strategy for growing sustainable Micro, Small & Medium Enterprises, or MSMEs. There is no doubt of the need for such a strategy. Today's forum is a very important means to again emphasise to the public the huge contribution MSMEs make, or can make, towards Fiji's economy and prospects. Such a forum also allows us to put together ideas on how best we can promote the development of such an important sector of our country.

I became closely involved in microfinance many years ago. We did a lot of preparatory and research work at the Reserve Bank. These ideas remained with me when I moved to the Ministry of Finance where we convened the first National Conference on Microfinance. This led to the establishment of the Microfinance Unit at the Ministry of Finance which was the forerunner of the National Centre.

The unit was guided by an Advisory Board made up of mostly practitioners in the field and the private sector. Our major objective was to develop a microfinance model that could be easily replicated across the country. One of the key issues that we had to answer was: What is the role of Government? Should it or its agency actually lend money directly to borrowers? Most of us felt that Government should resist this temptation and go through microfinance institutions or MFIs. I still prescribe to this view because MFIs are on the ground and know their customers. Governments seldom do.

When news of the establishment of this Microfinance Unit spread, I began to notice long lines outside their office. Rather unpleasantly we had to correct to them the misconception and that "No it's not a grant, but a loan". And not only that, the interest rate would be market based.

With enthusiasm we allocated \$3 million to this Unit. Unfortunately we only disbursed less than \$300,000 in that year. Of course a lot of water has gone under the bridge since then. Today we are covering more than microfinance, incorporating the whole MSMEs. But more of that later.

The current state of the economy and challenges

Let me now turn first to the focus of today's forum, in the context of the economy. I am sure no one can disagree that fostering the development of MSMEs is critical to boost growth, reduce unemployment and raise the living standards of our people. The potential here is huge, and this is even more vital for our economy at this critical point in time.

Last year the economy is expected to have contracted by 4.4%, investment fell, companies have closed down (I'm sure they were more in the small and micro enterprise category, or SMEs), jobs have been lost and business and consumer sentiment and confidence has been, and remains, weak.

Low growth rate

One of our major problems is that our growth rate has been too low. Even excluding last year's contraction, our growth rate has averaged only 2.8 percent over the previous years. Looking ahead, over the next three years, although the economy is forecast to grow, this growth is expected to be modest, averaging only 1.5 percent. I think it is obvious to all of us that we need to do more; for one thing it is insufficient to absorb many of our school leavers, which means a rise in unemployment.

I have highlighted this in several past speeches but I feel it is important to do so again: with a growth rate this low, we will double the size of our economy in about 50 years – that is half a century!; for some, it is a lifetime! However, if we could lift our growth rate to, say, 5 percent per year, we would double our economy in less than 20 years. If growth was even higher, say 8 percent per year, we would double in only 12 years. I think this example speaks for itself.

The question then, is, "What should we do to fix this? How can we grow better? How can we grow faster?" Obviously in order to grow faster we need to do many things, some of which are quite challenging to do, but we need to get started. I will highlight the two that I think are the most important.

We must raise investment

Firstly, we need to raise investment to over 25 percent of GDP. Unfortunately this ratio has fallen from around 18% of GDP in 2006 to around 15% last year, and there is little sign of a pickup so far. We need to turn this around. Attracting foreign investment is not easy for small nations like Fiji. Other countries, many of which are bigger and richer are competing fiercely to entice the same investment dollar that we are chasing. We are basically up against strong competition. We are the "small fish" in a very big sea. This makes our task even harder.

Let me clarify here that the credit ceiling that the Reserve Bank has imposed on commercial bank credit is not constraining investment. Commercial banks can seek approval on lending in excess of their ceilings for priority sectors, particularly investment and SMEs.

Exports must drive growth

Secondly, exports must be the key driver of growth. I am sure that we are all aware that our exports are not doing well. Sugar, garments and gold have declined substantially from earlier peaks by a collective \$400 million. It is therefore encouraging that gold production has recommenced. This will support growth into the medium term. I am optimistic that the reforms in the sugar industry will lift sugarcane production and boost Fiji's sugar exports in the future. I am also hopeful that the various measures that Government intends to implement, identified out of the national export strategy, will further help in this regard and bring about the desired results of higher exports in these areas. It is important that these measures are vigorously pursued.

Wide trade deficit

While there may be a few encouraging signs on the exports side, we cannot escape from the fact that our trade gap is too big. A large part of this is due to our huge imports bill, fuelled by the high oil prices, and more recently by high food prices. While we need our economy to be exports driven, at the same time we must reduce our huge imports bill, underpinned by the

strong credit growth of recent years. Added to this, Fiji's preferential market access is slowly but surely being eroded, further imposing pressures on our balance of payments.

At the Reserve Bank we have been tightening monetary policy since 2004 to rein in this credit growth in recent years, in order to bring down the huge growth in imports. Our assessment has been that this has been successful with imports (excluding aircraft) falling by over 7 percent last year, although of course some of this is likely to be also due to the weaker economy.

As around one-third of our imports bill is oil imports, it is clear that our efforts in exploring alternative sources of fuel must be progressed. We must invest in renewable energy and ethanol production in order to bring down Fiji's heavy dependence on imported oil and fuels, in the future.

The potential for micro, small & medium enterprises

The picture I have painted is not too bright, but the good news is that our MSMEs can help us address the challenges that I have just mentioned.

Raise growth

MSMEs can raise economic growth. While the contribution that medium sized enterprises play in our economy is easy to recognize, I think that our small and micro enterprises, our SMEs, don't get the recognition they deserve. But they, along with medium sized businesses, are critical to achieving our growth potential. In developing countries in Asia, SMEs make up the bulk of their economies, some as high as 60 percent of GDP. In Fiji, however, this sector is still largely untapped; they probably make up only about 10 percent of our economy. The potential for us in these small businesses is therefore huge.

Raise exports/investment

Small businesses do not always stay small; they grow. Many of our now large companies like Tappoos, Motibhais and many others were once SMEs. I am confident that as our small businesses grow they can help raise exports and investment in Fiji. They can also help in import-substitution by providing some of the products that we currently import, such as fruits and vegetables. What we need is a strategy that coordinates domestic supply of these goods. This will go a long way to reducing our imports bill and bringing down the trade gap.

Create employment

Small businesses are the answer to our unemployment problem. Our formal sector cannot absorb all our school leavers – this is the same in all developing countries. The employment growth required for our future can come from the small business sector. Rough estimates suggest that close to 60 percent of Fiji's labor force is involved in various forms of business that fall under the heading of SMEs.

Combat poverty

SMEs are also a way to combat poverty and can help us achieve our Millennium Development Goals. SMEs allow people to help themselves rise above poverty, by supplying the means to provide for basic needs such as education, food, shelter and clothing. SMEs give people the dignity of working for a living.

Theme: towards a national strategy for growing sustainable MSMEs

Promoting the development of MSMEs is vital to raise our future prospects and our standard of living. That is why forums such as this one today are so critical. Not only must we come together to discuss, share ideas, brain-storm and strategize ways to foster this development but we must also make the public in general fully aware of the importance of this sector and of their potential and needs. I am pleased to note that the objectives of the forum seek to address this.

I am also pleased to note that the National Centre intends for the forum to cover issues under the topics of financing, entrepreneurship, environment and exports as these are all very important issues as regards MSMEs. Let me now say a few words on environment.

Right environment is critical

I think it is clearly obvious to us all how critical it is to have in place the right environment, to allow the MSME sectors to grow. This environment must be created with sound policies and appropriate infrastructure and support services. It must be stable – politically, economically and socially.

As we have observed, if the environment is not conducive it scares away visitors, scares away investors, and businesses are amongst the first to feel the negative repercussions.

The phrase that we are a part of the “Global Village” remains highly applicable for us; if we don’t have the right environment in place, if we don’t nurture and feed such an environment, then we are swimming against the tide. If we don’t have the right environment in place, there are so many other countries that tourists and holiday-makers can go to instead of Fiji, and that investors can put their money into just as readily, if not easily, than in Fiji. We are already offering all kinds of enticements to lure tourists and investors to our shores: reduced hotel rates and airfares, tax breaks of various kinds for investors and so on. But these types of “carrots” won’t be effective if the environment is unstable.

Let me highlight other constraints that may be impeding the growth of MSMEs in Fiji.

Areas that need addressing

Statistics

The first is the lack of data or statistics on MSMEs. You heard me earlier say “SMEs *probably* make up only about 10 percent of our economy” and that “*Rough estimates* suggest that close to 60 percent of Fiji’s labor force is involved in various forms of business that fall under the heading of SMEs”. These statements show that we critically need data. We need to know more about these sectors if we want to plan for them, rather than using rough estimates and best guesses.

We need to know for example how much of our economy is made up of the SMEs sector, we should know how much is made up of medium sized businesses. We need to know how many people are employed by the various business-size categories and statistics on loans to the various categories of business-size, just to name a few, if we want to have proper, effective and informed planning, decision and policy making to promote growth of these sectors. This could be a role for the National Centre or perhaps the Bureau of Statistics. Having such a statistical database is critical in order to do any type of planning at all in regards to these sectors. This will therefore be a necessary input to any national strategy for MSMEs, and I hope that it will be an issue that will come up in your discussions.

At the Reserve Bank we are doing our part to collect statistics on bank loans. Since 2006, we have required commercial banks, credit institutions and the Fiji Development Bank to provide

us with data on how much is being lent to micro enterprises, to small businesses, to medium sized businesses and so on.

Access to finance

Another key issue on MSMEs is access to finance. Is access to finance a problem for MSMEs? I think it is, probably more so for small and micro businesses than perhaps for medium sized ones. If so, then we must identify and implement ways to extend this access to financial services to small and micro enterprises. We welcome the announcements by several commercial banks that they are putting greater attention in this area.

I am informed that the lending budget for the National Centre is usually not depleted. Does this imply that access to finance may not be the real issue? Perhaps it is the business line or the business structure that is the binding constraint. We obviously need to identify this and find the appropriate solutions.

I am pleased that the provision of rural banking services has been progressing well. This has been an initiative that the RBF has been actively encouraging. While much of the early business in this regard focused on savings, this has now progressed to small loans being given out. I commend the efforts of the bank that has been actively going out to the rural areas and outer lying islands to provide this service. Rural banking will be an excellent means for financial literacy outreach and education, as well as a strong medium for the delivery of credit for the development of SME activities and for promoting a savings culture.

The cost of this access to finance can also be a factor. Creditworthiness of enterprises is definitely an issue for financiers. So what can we do to help our SMEs be in a position to be eligible for loans? This is a tricky one to address and opens up the third issue, which may help in some way.

Training and education

This is the issue of training and education or of financial literacy in general; another key area. SME entrepreneurs need a lot of training, for example in basic book-keeping, marketing, business planning, feasibility assessments, even on how to fill in the many forms that may be necessary or provide the many, sometimes relatively complex, details needed in loan applications.

Again, here, the Reserve Bank has tried to do its part. We have discussed with commercial banks how we might work together to help small businesses, or to help the National Centre in its training programmes. We will continue to talk with the National Centre to see how the Reserve Bank can be of help. I think in moving towards a national strategy for growing sustainable MSMEs – which is the theme of today’s workshop – this will have to be an integral part: How can this basic training be provided? What other training would be needed at the different stages of the “life” of SMEs? and so forth.

I think also that in terms of training and education, the scope needs to be much broader to include financial literacy where we need to develop an enterprise culture, and this needs to begin at an early age; perhaps as part of curriculum in our schools. We need to incorporate entrepreneurship courses the earlier the better.

Another key to the success of SMEs is the MFIs themselves – the third leg of this stool.

While the commercial banks are fully established and regulated, other MFIs are not. It seems to me that we need to focus equally on these MFIs as we do the ultimate customers. Are these MFIs efficient? Is their governance transparent and effective? Do they have the capacity and the training? These are questions that I trust will be discussed in this forum today.

Remittances

And then, lastly, another issue is that of remittances. Personal remittances from abroad have risen very fast, growing from around \$50 million in 1999 to around \$322 million in 2006. Although remittances fell last year, to around \$256 million, it continues to be an important source of income in Fiji. The question, though, is, “What are these remittances being used for? What are they spent on?” I hope that they are not just being used only for everyday consumption. These remittances need to be spent in a more useful manner, for example they can be used to start up small businesses, which would provide an income stream in the long term, thereby lengthening the benefits. We are examining ways in which we can set up financial facilities to support a more productive use of these remittances. Charges are also important in encouraging remittances and I encourage everyone, particularly financial institutions, to work with us to reduce these charges.

The way forward

Let me conclude on two practical notes. First, do we need to re-examine the model of our delivery of SMEs in all its phases? Is the structure appropriate? Is the level of Government involvement relevant? Can we identify how we can roll out SMEs quickly across the country?

Second, this forum is not the first to discuss SMEs. Nor will it be the last. While developing a plan is essential, it is not sufficient. We must put the plan to work. Based on experience, unfortunately, we spend too much time planning and not enough time executing them. I therefore hope that this forum will lead to some action with definite time frames.

For such action to happen we need a few things. The first is a Vision and I have a sense that we have this already. Perhaps it needs clarity with some clear targets. The second is commitment or passion. I want to believe that we who are here today have this commitment – that is why we are here in the first place. The third is resources and capacity. I hope that the National Centre is fully resourced to carry out our plan. The final issue is our combined support. We can make a difference. We play different roles in support of SMEs. The commercial banks and the FDB have a lending role. The Government has an important role in building and maintaining an enabling environment and a support structure. The private sector can help in mentoring and advice. We in the RBF also play a part. I am confident that if we make a clear pledge today that we will pull together in support of SMEs, we will see significant differences in the next few years – for the betterment of everyone in Fiji.

Finally, I note some very interesting topics in the sessions you will be having today, and a very impressive lineup of speakers – I wish you well in these deliberations.

Thank you.