

Inia Naiyaga: Growing the private sector – the micro, small to medium businesses

Address by Mr Inia Naiyaga, Deputy Governor of the Reserve Bank of Fiji, at the Fiji Indigenous Business Council 2014 Symposium “Indigenous businesses – creating our future”, Suva, 20 March 2014.

* * *

The President, Mr Ulai Taoi and office bearers of the Fiji Indigenous Business Council, Members of the Council, Distinguished Guests, Ladies and Gentlemen

Ni sa bula vinaka and a Very Good Morning to you all.

It is indeed a great pleasure for me to participate in today’s forum with the appropriate and topical theme “Indigenous businesses – Creating our future”. At the outset, let me commend the Fiji Indigenous Business Council for holding such an important forum and for looking at such a critical issue as a strategy for encouraging employment and commercial opportunities for our l’taukei.

I was asked to speak on the subject “Growing the private sector: the small to medium business”. I have taken the liberty to add Micro businesses as well in my speech today as this is not just a buzz word but a reality, as most, if not all, businesses start as a micro enterprise with Fiji’s well known large businesses being no exception.

My presentation today is divided into four parts.

- Firstly, I have taken this opportunity to provide an update on the current state of the Fiji economy;
- Secondly, I will highlight the importance of the Micro, Small & Medium Enterprises, or MSMEs to the economy;
- Thirdly, I wish to highlight some recent initiatives and incentives by Government and the RBF to the MSME sector; and
- Finally, share my thoughts on how the indigenous or we, the l’taukeis can increase our participation in business.

1. The current state of the Fiji economy

Ladies and gentleman, the recovery in the Fijian economy which started in 2010 has now gained a much firmer footing, despite the continued sluggishness in key trading partner economies during the same period.

The Fijian economy is estimated to have expanded by 3.6 percent last year following a 2.7 percent and 1.7 percent expansion in 2011 and 2012, respectively. We now have four years of consecutive growth not normally seen in our history. Last year, all sectors of the economy, with the exception of the mining and fishing sectors, contributed positively towards this growth.

This improved confidence can be attributed to a number of factors such as increased spending by Government in infrastructure development and social welfare and accommodative monetary policy by the Reserve Bank and the consequent easier access to credit and historical low interest rates. Furthermore, the concerted effort by Government towards an inclusive parliamentary democracy in 2014 has also been a major contributor to regained confidence amongst investors and consumers alike.

The improved confidence is well reflected in our major macroeconomic indicators. Consumer spending has been buoyant throughout 2013 underpinned by better labour market

conditions, increases in the income tax threshold and wages for Government workers, higher inward remittances and increased lending by financial institutions. Partial indicators such as Value Added Tax (VAT) collections, new consumption lending, new vehicle sales and imports of consumption goods have all noted annual increases in 2013.

Additionally, investment indicators showed continued resilience and growth last year as well. Total investment is estimated to have been around 28 percent of GDP last year as all partial indicators such as imports of investment goods, lending for investment, domestic cement sales and value of work-put-in-place registered annual increases.

The improved investment climate and confidence has translated well into the demand for labour. The Reserve Bank survey based recruitment measure showed that the number of job advertisements rose by 9.3 percent in 2013, driven by improved recruitment intentions in the community, social & personal services followed by the wholesale, retail trade, restaurants & hotels, construction and the manufacturing sectors.

The improved economic prospects are also a result of Government's expansionary fiscal policy stance in 2013. In an effort to stimulate economic growth and investment, a substantial amount was spent on capital works, particularly infrastructure development.

Inflationary pressures remained generally soft in 2013, mainly on account of stable food and oil prices. The year-end inflation rate stood at 3.4 percent compared to 2.5 percent at the end of 2012.

However, our external sector continued to face some challenges. Export performance has been unsatisfactory and data up to November 2013 reveal that total domestic exports declined by 2.7 percent. As alluded to earlier, imports continued to surge due to the pick-up in demand across the economy. As a result the trade deficit widened further last year, though this was supported to some extent by favourable inflows of tourism and remittances. Remittances performed exceptionally well last year and reached a new record of \$339 million. Nonetheless, our overall external position remained stable and foreign reserves was recorded at \$1.8 billion at the end of last year, sufficient to cover 4.9 months of retained imports of goods and non-factor services.

Ladies and gentleman, what is in store for us in 2014? Pre-2014 National Budget forecast for growth in 2014 was 3.0 percent. However, given the significant increase in Government expenditure on infrastructure, wages and salaries and social benefits such as free education as announced in the 2014 National Budget, growth is now forecast to surpass the projection and is currently being reviewed. Additionally, the surge in consumption and investment spending is expected to continue and can even be further boosted by the increased disposable income.

Confidence in the economy is expected to remain strong and is supported by sentiments expressed by retailers and businesses in RBF's business expectations and retail sales surveys which suggests a positive outlook for consumption and investment activity in 2014.

Macroeconomic fundamentals are poised to remain strong and conducive to growth in business in 2014. A growing economy should therefore augur well for the Micro, Small, and Medium Enterprises.

2. Importance of the Micro, Small & Medium Enterprises (MSMEs) to the Economy

We all recognise that micro, small and medium enterprises (MSMEs) play a vital role in economic development. They are an important engine of economic growth not only for less developed economies but also the advanced nations. I am sure you all know why MSMEs are important. I will therefore re-iterate these factors briefly:

- It Raises Economic Growth: In developing countries in Asia, SMEs make up the bulk of their economies, some as high as 60 percent of GDP. In Fiji, there are

approximately 4,200 registered MSMEs, mainly in the agriculture, fishing, manufacturing and retailing and tourism sectors. It is estimated that the MSMEs sector accounted for almost 12 percent of our GDP in 2013 valued at around \$800 million. However, total outstanding borrowing by this sector from the commercial banks was \$316 million as at the end of 2013 or just above 8 percent of the total loans portfolio. This shows that this sector is still largely untapped and there is a lot of potential to develop a strong MSME sector as this leads to job creation, empowering individuals, increase exports and investments and in turn economic activity.

- **It Raises Exports/Investment:** Small businesses do not always stay small; they grow. Many of our now large companies like Tappoos, Motibhais, Hotbread Kitchen and many others were once MSMEs. 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 thereby reducing our imports bill and narrowing the trade deficit.
- **It Creates 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 labour force is involved in various forms of businesses that fall under the heading of MSMEs.
- **It Combats Poverty:** MSMEs are also a way to combat poverty and can help us achieve our Millennium Development Goals. MSMEs 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.

3. Let me now move on to recent government and RBF policy initiatives to support the MSMEs

Over the years, the Government and the RBF has put in place various incentives and supportive policies to create a conducive environment for MSME activity.

As a way to increase the involvement of the financial sector and to enable greater access to finance by micro-entrepreneurs around the country, the RBF in 2010 required all commercial banks to set-up microfinance units at their branches. Commercial banks also established agents in rural areas using merchants and post office agents to facilitate finance activity. At the end of 2013, 81 agents were in operation providing basic banking services such as cash withdrawals, deposits and payments.

In addition, since 2010, a total of 17 Microfinance expos have been held. These expos bring together financial stakeholders that provide financial services, financial literacy training and create more awareness on microfinance activity to those in the surrounding vicinity of the expo.

The RBF's Import Substitution and Export Finance Facility (ISEFF) were set up to improve Fiji's BOP position by assisting exporters, renewable energy and import substitution businesses to obtain credit at concessional interest rates. Currently, the maximum interest rate charged on the facility is 5% p.a. The Bank, from July 2010 to 31 January 2014 approved around \$54 million under the Facility. Of this amount, \$44.7 million was approved for export finance, around \$5.7 million for import substitution businesses, \$4.0 million for energy projects. Of the total \$80 million allocated by the RBF for the Facility, approximately \$25.6 million still remains unutilised.

The Government also continues to support MSME development with various funding allocations and policies in its National Budgets.

To better monitor the development of the MSME sector, the RBF and Solicitor General's office will work together to put in place a legal framework for the governance of MFIs.

In 2012, the Government announced the SME Credit Guarantee Scheme. Under the scheme, the Government guarantees to pay 50 percent of the principal outstanding amount on defaulted SME loans, up to a limit of \$50,000 per business. Today, the total allocation for this scheme has increased to \$4 million with a total of 483 loans covered under the scheme at a value of \$28.6 million, to date.

Moreover, to support and facilitate economic activity, the Government has in recent years focused its funding on the development of infrastructure – particularly on roads and bridges and utilities – which will improve access and encourage MSME activity.

In 2013, the Reserve Bank introduced the first ever National Microfinance Awards with three categories the Best Microfinance Entrepreneur – Individual, the Best Microfinance Entrepreneur – Partnership and the Best Microfinance Service Provider to recognise the contribution of MSME's and micro-entrepreneurs in Fiji.

4. I now move on to some personal observations for us, the l'taukeis to succeed in business

- When I was invited by Mr Joe Taoi to deliver this presentation, my initial reaction was that I am not an authority on the subject matter as I do not have the experience of being in a private business. However, my background as an Accountant and my almost four decade experience as a central banker has taught me some lessons that I feel are important to share with you at this forum. My first advice to aspiring l'taukei businessmen and women is that revenue is NOT EQUAL to profit. A lot of businesses, including our l'taukei businesses fail because of this simple misconception.
- Secondly, to invest in a business, we first must learn to save. As l'taukeis our savings rate is much lower compared with others. If we do not save, we will not be able to start a business or use our saving as equity to borrow from the banks. Building up Savings and prudent management of our finances are very critical for us to succeed in businesses.
- One of the most challenging aspects of Financial and Business Management I have noticed with most l'taukei businesses is the lack of budgeting and lack of financial discipline. Financial and Business literacy is, in my review, the key to our success.
- One of the reasons many small businesses fail is because we sell goods on credit. Selling goods on credit means that your cash flow as a small business is affected resulting in the inability to restock or repay your loans. In most cases, such credit become bad debt and as a small business operating with narrow margins and low volumes, this can be disastrous. When you walk into a store owned by a non-l'taukei, you will see a notice prominently displayed which says "No Credit". We therefore must follow this same rule of "no kerekere" if we are to succeed in business.
- I often hear our own people saying that we the l'taukeis do not have it in us to succeed in business. I totally disagree as there are some of you here are a living testimony of businesses that have been successful. It is therefore important that we tell ourselves that We CAN succeed in business otherwise the battle will be lost before the contest begins.
- As I had highlighted earlier, the Government introduced a SME credit guarantee Scheme. In my view, this facility is well suited for the l'taukei to take advantage of as the interest rate on such loans does not exceed 10% p.a. and the Government guarantees to pay 50 percent or whichever is less, of the SME loans that go bad.

Our assessment is that very few l'taukei business people have accessed this Facility out of the 483 loans advanced to date. It is, therefore, important for us to take advantage of this Facility as well as the ISEFF which attracts a maximum interest rate of 5% p.a.

- While I am of the view that l'taukei businesses must be assisted, we must also be careful not to give too much handouts as it has the potential to create this “handout mentality with no responsibility and accountability as it is given free”. We must change this hand-out mentality.
- Talking of changing behaviours is easy but most importantly, how do we go about changing them? We all cannot be business people. However, we can create the right environment for our children and future generations to be successful in business. You may be aware that Financial Literacy is now being integrated into the school curriculum and taught in all primary and secondary schools in Fiji since 2013. A pilot program with 28 schools commenced in 2012. Starting early at primary school level will ensure that our citizens of tomorrow will not only be financially literate but more important we are instilling in our children some form of responsibility and financial discipline at an early age.
- Finally, Ladies and Gentlemen, we have some successful business people in this Council and in this room. You are important role models and mentors for upcoming l'taukei business entrepreneurs. If we look at the non l'taukeis we will note that the tricks of the trade are passed down from one generation to another. I therefore urge you as l'taukei business leaders to please continue to mentor our people who are thinking of starting a business or have just started one. There are no better role models than you to help them succeed.

I wish you every success.

May your business ventures continue to be a blessing to you, your families and our beloved Country, Fiji.

Vinaka vakalevu.