

RESERVE BANK OF FIJI



KEY NOTE ADDRESS AT THE FIJI DEVELOPMENT BANK 2006 SMALL BUSINESS AWARDS BY GOVERNOR OF THE RESERVE BANK OF FIJI, MR SAVENACA NARUBE, ON 23rd NOVEMBER, 2006

Mr. Tukana Bovoro, Chief Executive Officer, Fiji Development Bank;

Fellow Sponsors;

Small Business Owners;

Ladies and Gentlemen.

It is a pleasure for me to participate in today's Awards. I have a dual role to play this evening. The first is as a sponsor and this is perhaps the role that I would prefer to have. The other is as the guest speaker and here I will be brief.

Introductory Comments

At the outset, let me commend the Fiji Development Bank for this excellent initiative, which acknowledges the outstanding achievements of small business owners in Fiji. This is a good opportunity to recognise your efforts and your contributions to the economy.

I understand that FDB has run the small Business Awards competition for 3 years now. I like this year's theme: "*Bisinisi lailai – paisa accha*", "*Small business – good money.*"

It may be useful to recall the objectives of the Awards which are:

- To promote small and micro enterprise development;
- To recognize successful, innovative and creative entrepreneurs for national development;
- To encourage self-employment;
- To encourage supply chain linkages to bigger manufacturing businesses; and

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- To encourage the use and value adding of local resources.

These are laudable objectives. But good sounding objectives aside, to me, I would like to translate them into a simpler interpretation: *“Improving our lives and those of our families”* and I would like to make this the theme of my address this evening.

The Fiji Economy and Challenges

Let me firstly put this theme in the context of the economy.

This year, Fiji is expected to record its sixth successive year of economic growth. Investment is growing. Inflation is low. Foreign reserves are adequate. Our financial system is sound. Our debt is moderate by international standards.

But we face several challenges. Let me mention three now:

- The biggest challenge is that our growth rate has been too low. Our growth rate has averaged 2.4 percent over the past 5 years and is expected to be around the same level in the next 3 years. This growth rate is not enough to absorb many of our school leavers. At this rate of growth, we will double our economy in 50 years and that is a half of a century. This is too long. If we lift our growth rate to say 5 percent per year we will double the size of our economy in 20 years and that is a huge 30 year difference. If we can even grow by 8 percent per year, we can do the same in only 12 years. So the difference can be a lifetime.
- The second challenge is that we need to raise our investment to over 25 percent of GDP. That ratio currently stands at 18 percent of GDP. Attracting foreign investment is not easy for small nations like Fiji. Other countries some of which are big and richer are competing fiercely for the same investment dollar. So our task is cut out for us. We can however be more successful if we also try to incite our local people to invest more in Fiji.

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- The third challenge is that we need to narrow the widening gap between our exports and our imports. We can do this in two ways. We can increase our exports which are not doing too well. We can also decrease imports which are rising fuelled by the increase in oil prices.

To raise exports Government is implementing a new national export strategy. But this will take time. In the meantime, we must try to slow down the growth of imports. The Reserve Bank has therefore raised interest rates. The National Budget has also introduced new revenue measures that will help reduce the rate of import growth.

Potential for Small Businesses and Micro Enterprises

The good news is that small and micro businesses can help address all the three challenges that I have mentioned.

They can help the country raise its growth rate. In developing countries in Asia, small and micro businesses make up the bulk of their economies, some as high as 60 percent of GDP. For those of us that have visited some of these countries in Asia, we can attest to the roadsides crowded with hawkers selling all kinds of wares. In Fiji we are beginning to see small businesses springing up all over the place. This is very encouraging. But it is not enough and well below our true potential.

In Fiji we will be struggling for small businesses to make up 10 percent of the economy. The potential in these small businesses for us is therefore huge. This sector is the answer to our jobs that the formal sector cannot provide enough of. Rough estimates put close to 60 percent of Fiji's labour force as being involved in various forms of business that fall under the heading of small and micro enterprises.

Small businesses do not always stay small. They can grow into medium and big businesses. Many of our large companies like Tappoos and Motibhais started from very humble beginnings. This brings hope to everyone. The key is hard work,

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perseverance and prudence. When these small businesses grow they can look at the export market and also add to investment.

Small businesses can directly help in import substitution. We can use more of our natural resources to fulfil our basic needs. They are not only cheap they are healthy.

Constraints

Let me pose this question: What are the constraints to starting and operating small businesses? Some of the more common answers are difficult access to finance, lack of skills and lack of access to markets.

On finance, I am glad that the Fiji Development Bank is putting its money where its mouth is. The National Centre for Small and Micro Enterprise Development is also a financing option. The Reserve Bank is currently examining ways that can facilitate access to financing for small businesses.

Still on this issue of finance, we have been amazed at the increase in personal remittances from abroad which have provided us with much needed foreign exchange. One of the issues that we are encouraging is for us to spend these remittances in a more useful manner. One of the best ways of doing this is to use these remittances to start small businesses. The benefits will last for a long time. The Reserve Bank is also looking at ways in which we can help facilitate this.

We are also talking with commercial banks on how we can work together to help small businesses. One of the issues that I am hopeful that we can collaborate on is the provision of training on how to plan and successfully run small businesses.

Debt

The National Budget was voted on in the House yesterday. Let me say a few things on this topical issue.

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Another of our major challenges is to reduce our rising debt level. I am encouraged that the Government has addressed this challenge in the 2007 Budget. It has made the commitment to lower the fiscal deficit to 2 percent of GDP in 2007 and to maintain this level over the next five years. This is expected to bring government debt back down to 45 percent of GDP by 2011.

The other aspect of the Budget that was encouraging is the implementation of the Government's Policy Support Program. It will be important that this Program is heavy on reforms in the key areas of the civil service, public enterprise and public financial management.

Budget Strategy supports Monetary Policy

It was also important to see that fiscal policy is complementing monetary policy. Government's reduction in deficit, as well as the higher fiscal and excise duties on certain commodities are expected to dampen import demand. As the largest component of our imports is that of mineral fuels, the consideration of alternative sources of energy is also an important step. These measures will assist in bringing about improvements in the balance of payments.

VAT & the Poor

Finally, on the Budget, a brief comment on VAT. As we all know, public debate on the Budget has been centered on the increase in VAT. This measure was put in place to help reduce the debt and at the same time help fund government development plan and social obligations.

The way the debate raged, one can be forgiven in believing that VAT was the target and not poverty reduction. The arguments seem to suggest that lowering VAT will solve the problems of poverty. We all know that this is not true. Poverty is a wide ranging issue and solutions are complex and comprehensive. VAT is of course paid

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by everybody including the poor. While the mitigating factors that the Government has introduced will alleviate the burden on the poor, the more relevant question to me is: “What is the most effective way to reduce poverty in Fiji?” And there are bound to be more than one solution. It would have to be a package.

One of the most effective components of this package should be to provide income earnings opportunity to the unemployed and the poor. In this manner, they can walk out from poverty for good and more importantly they will do so with dignity and pride. This is where small businesses have their greatest impact. Starting a small business will provide basic needs such as education, food, shelter and clothing. Government can then use the revenue from VAT to provide access to clean water, power, sanitation and roads. This is a most effective partnership to reduce poverty.

At the same time, we can do a lot to avoid paying VAT. We can encourage our people to better use the resources around us like land and the sea to provide food for our families. I know from my own experience, that leisure appears to be more important than work in many of our villages. As the small business owners have shown, hard work can provide lasting answers to addressing poverty and this should be stressed as well.

The importance of the SME Sector

Tonight, I am of course talking to the converted, either to those who already are in business or to us supporters. For small business owners that are here today, you have created your own income stream on your own initiative and carved out a livelihood for you and your families. You are also providing for the livelihood of many others by giving them jobs.

Right Environment is Critical

As I said at the beginning, my key message today is that small business is the answer to raising our living standards and reducing poverty. However, it is important that we

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build the right environment to allow this sector to grow. This environment must be created with sound policies and appropriate infrastructure and support services. It must be stable--politically, economically and socially.

Any threat to this stable environment will scare away visitors and investors from coming to Fiji. We have all heard the phrase: *“The World is a Global Village”*. We should take this as a warning that, if we don’t have the right environment in place, there are many countries that tourists can go to and investors can start their businesses in, instead of Fiji.

In this regard, the current political uncertainty is already having negative repercussions on tourism which has been our only star performer in the last six years. It threatens the hard work that we have put in to raise growth and investment.

Standard & Poors

The political situation has had disastrous consequences on the international perception of Fiji. Standard & Poors has already downgraded Fiji’s credit rating.

I can understand the concern S&P had regarding the political stand-off. However, I was disappointed on the error they made on Fiji’s reserves position which they said in their press release was 400 million Fiji dollars when it was nearly twice that level. Realising their mistake, S&P silently changed the Fiji dollar sign to US dollars on their website, without the fanfare that accompanied the earlier release. At the same time, they said that foreign reserves had further weakened while in fact it has remained the same or perhaps increased since they first rated Fiji in September. This is extremely unprofessional for a reputable rating agency like S&P.

This error appears to have added fuel to many of our local soothsayers, who the press loves to solicit views from. I welcome the views of these theorists. But from reading our daily newspapers, they seem to be problem driven, talking about the obvious and shooting from the hip. I envy their position where they can simply shoot off their

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opinions but are not accountable for any policy implementation. These theorists seldom propose solutions except to speculate on the currency.

Let me therefore clarify my position on devaluation. I believe that devaluation is not the answer given the nature of our problems on the export front. In my view, devaluation will only raise prices and is unlikely to help our balance of payments or raise economic growth. There is therefore no need for devaluation. Fiji's external reserves remain at comfortable levels. In fact, at the end of September, Fiji's reserves stood at \$817 million, rising at the end of October to \$840 million, which is equivalent to 3.4 months of imports.

The Way Forward

I cannot conclude without saying something on the future economic scenario that we can look forward to. Economic growth will continue in the next three years but at the same level as we have seen in the last five years. I therefore very much hope that the program of reform that the Government has announced will be smartly implemented. I also hope that the national export strategy becomes a reality sooner rather than later. If we lift exports at least to their potential and accelerate reforms, we can look forward to a higher rate of growth in the next five years.

Let me add though that we cannot just keep on talking about these issues, or writing reports analysing the same problems that I have talked about today. We do not need new reports to tell us the same things that we already know. I have only three words on what we need to do now: Implementation, Implementation, Implementation.

However, right now the political uncertainty looms menacingly over everything else that we do. It is already damaging the only industry that has carried the nation so far. The ramifications of this political climate continuing are too dire. We pray for a speedy resolution.

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Concluding Remarks

I conclude by saying:

To my fellow sponsors:

I would like to thank you for your support and look forward to your continuing assistance to small businesses.

To the small business owners:

Very soon we will know the decisions of the judges for the various award categories. In my book you are all winners. You should all be proud both of your efforts and of your contribution to Fiji's economy.

I wish you the very best tonight and every success with your business plans and ambitions in the future.

Thank you.