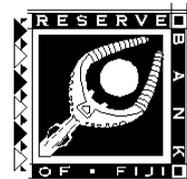


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KEYNOTE ADDRESS BY

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**At the “Regional Conference on Small Business Development and
Entrepreneurship in the South Pacific Islands”
16 – 17 September, 2010 Marine Lecture Theatre, Lower Campus, USP,
Suva, Fiji**

The Honourable Prime Minister, Commodore Voreqe Bainimarama;

The Vice Chancellor, Professor Rajesh Chandra;

Small business representatives; NGOs;

Dean of Schools; Professors and Academics;

Distinguished Guests;

Ladies and Gentlemen

INTRODUCTORY REMARKS

On behalf of the Reserve Bank and the Governor, let me congratulate the organizers for this very timely forum and commend them for bringing to the forefront of discussions a very appropriate topic for our Pacific Island nations. Forums like this will allow us to share ideas that can promote the development of small businesses or SMEs in our regional member countries. It also provides the opportunity to highlight the huge potential and contribution that SMEs can make towards better economic growth and prospects. This I hope

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to emphasize in my presentation titled – “Small Business as the Engine of Growth”.

It is indeed a pleasure for me to be here today to address my alma mater. I had the privilege of studying at USP back in the late 1980s. Looking around I can see that a lot of changes have taken place over the years, the campus infrastructure and student numbers have grown tremendously.

One thing I’m sure that has not changed is that as students we are, always looking for the extra cash for the extracurricular social activities which probably explains why the student meal allowances never lasted to the end of the semester.

But then - when you are hungry your mind is sharper and more alert. Back then I quickly recognized the opportunities of free trade and enterprise. In between my studies I was diligently collecting empty soft drink bottles and would stack them up in my room on campus. At the end of the semester I would collect more bottles from the empty rooms, hire a carrier and take my prized collection to the Coca Cola Factory in Lami and was rewarded a handsome return for my efforts.

I guess that it is such kind of entrepreneurial spirit that drives many individuals to start up and run their own business and realize their dreams.



In today's world, small businesses are seen more than ever as a vehicle for entrepreneurship contributing not just to employment and social stability, but also to innovation and economic growth.

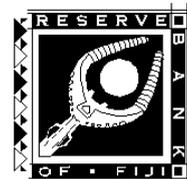
Studies have confirmed that there is a positive and statistically robust link between these sectors.

Confronted with rising concerns about employment, job creation, economic growth and international competitiveness in global markets, policy makers have responded with promoting the creation of small businesses, that is, entrepreneurship.

In his 1992 study on small business economics, Acs claimed that small firms play an important role in the economy serving as agents of change by their entrepreneurial activity, being the source of considerable innovative activity, stimulating industry evolution and creating an important share of the newly generated jobs.

The recent global financial crisis revealed that countries in Asia like India, China and Bangladesh withstood the crisis on the back of the resilience of their small and micro businesses. **Are there lessons there for the region?** Given our susceptibility to natural disasters and exogenous shocks, perhaps

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our answer lies in developing the small and micro enterprises (SMEs). They can be a force for development and growth both during the good and the trying times.

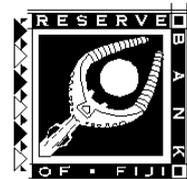
Talking about the crisis, this may be an opportune time for me to discuss briefly our economic performance. May I say at the outset that the small island economies in our region were not spared from the impact of the global crisis.

In Fiji's case, our growth performance was hit, not only by the crisis, but by the adverse forces of nature as well. We contracted by 2.1 percent in 2009 as a result.

A forecast growth of 1.8 percent is expected this year. Well, that was before the current devastating drought in the Western division was upon us. This may see slight revisions to our growth forecast for this year given its likely impact on agriculture and the sugar industry in particular with spillover effects to the manufacturing sector also expected.

These challenges are never ending, but so must our creativity and our strategic thinking to unravel other sources of growth in order to endure.

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We are banking on the tourism sector to carry us through during these challenging periods. Fortunately for us, visitor arrivals has maintained its strong performance from the beginning of the year increasing by almost 22 percent in the first 5 months of this year when compared to the same period last year.

Remittances have also increased, again due to recovery in the source markets. Latest data also reveal a pick-up in consumer spending and gold production, fish exports and electricity generation.

However, the performance in the sugar industry remains a challenge. Serious measures are being taken to reform this industry to make it more sustainable. A good number of Fiji's population of around 200,000 depend directly and indirectly on this sector. The industry's sustainable performance is therefore critical for us.

Investment is expected to pick-up over the next 6-12 months in line with positive sentiments in the Business Expectations Survey and the expected increase in the utilisation rate of Government capital expenditure. However, there is still some catching up to do to get to the investment level target of 25 percent of GDP that we desire.

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Foreign reserves has held up well at around F\$1.2 billion whilst inflation dropped further to 1.2 percent in August, a significant decline from the 5.4 percent in July.

On the external sector, in the first 5 months, we have seen lower imports and higher exports. As a result, the merchandise trade deficit narrowed significantly cumulative to May by around 13 percent to \$597 million. Various initiatives and measures have been taken by government to address the gaping trade and current account deficits that we have. Improved performance in the agriculture sector and concerted efforts in using renewable energy and reducing fuel imports will greatly support our external accounts.

It is certain that we have to grow our exports and investment to achieve a sustainable growth path. Government has embarked and has planned targeted reforms to ensure this both in the short and in the medium term.

Let me now return to another engine of growth - the small businesses.

In this respect, I pose the question – **Given the above scenario, is there a role for small businesses?** Certainly, SMEs can help overcome some of the challenges I have discussed above.



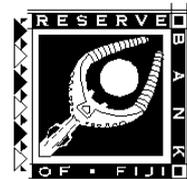
THE POTENTIAL

SMEs can raise economic growth. There is the need to recognize the contribution that micro and small businesses can do in our economies. Most of the time, they may be neglected because of their size. Combined, they can become a formidable force. 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. This is clearly visible when you travel to Asia. If you walk the roadsides, surely you would buy something from the numerous hawkers that line the roads.

In Fiji, however, this sector is still largely untapped; they probably make up only about 10-12 percent of our economy. The potential for us in these small businesses is therefore huge. We are beginning to see small businesses start-up all over the place. This includes business activities ranging from the BBQ and peanut sellers, shoeshine and wheel barrow boys in our urban centers, tailors and eateries, the village or corner store, internet, DVD shops and more sophisticated businesses selling ICT, medical and other professional services and products. This is encouraging.

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SMEs can also raise exports and investment. I am always fascinated and motivated by the stories of how businesses like Motibhais, Vinod Patel and Tappoos developed from their humble beginnings. They were once SMEs and grew through vision, dedication, commitment, sacrifices, financial prudence and discipline. These are critical values for small businesses. Failing this, it can be like a turbulent ride.

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. This will go a long way to reducing our imports bill and bringing down the trade gap.

According to the 2004 OECD Report, SME enterprises can account for more than 90 percent of all firms outside the agriculture sector; they create jobs and generate significant domestic and export revenue for the countries in which they operate.

Small businesses also create employment. The number of graduates from our tertiary institutions is increasing every year. Competition is intense for the limited jobs in the market as our formal sector cannot absorb all the school leavers. I am sure it is the same in other PICs. The employment growth required for our future can come from the small business sector. Rough

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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. In the US for example, small businesses have created 64 percent of private sector jobs over the past 15 years. The Obama administration and Congress have supported small business because they realise that they would be an essential part of their recovery. Today, more than half of Americans who work – either own or work for a small business.

SMEs can help eradicate poverty. Achieving the Millennium Development Goals has been elusive for most countries. Lately, the emphasis on microfinance and small business set-ups has paved the way for combating poverty. This has been proven globally and is the reason donors and international organizations have taken an interest. Through these initiatives, un-bankable and poor segments of society have been given the opportunity to become entrepreneurs and rise above poverty, by supplying the means to provide for basic needs such as education, food, shelter and clothing. It has produced the results. And we are keen to also see that this is realized in Fiji and the Pacific Islands.

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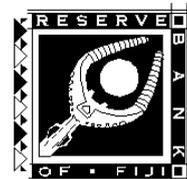


Let me now turn to some common elements needed to support the development of SMEs to be competitive and contribute to growth.

Firstly, as you all may be aware, small businesses rely on access to bank credit much more than large business do. A lack of sufficient finance and access to credit are often cited as major handicaps to the development of SMEs. This is also true in Fiji. Whether it is the security requirements or fees and charges or unreasonable terms, small businesses have expressed these difficulties with financing at various forums. I am certain that it will come up again during this meeting. The small businesses need the credit to grow and create jobs.

This is always a contentious issue though. Whilst the unsecured lending based on cashflow projections is an attractive concept to borrowers, it is difficult and costly for lenders to apply in practice, particularly to new businesses without much of a track record.

It is obvious that initiatives on the part of both banks and small businesses aimed at increasing the level of financial knowledge available and the creation of more friendly conditions and standardized loan documentation for use by small businesses is needed. This is the intention of the financial literacy campaigns that the Reserve Bank has been promoting recently in partnership with the banks and other stakeholders.



Secondly, a stable and predictable macroeconomic environment is crucial to allow the SME sector to grow. This could be characterized by tight inflation control and competitive exchange rates. Similarly, the environment must be created with sound policies and appropriate infrastructure and support services. If the environment is not conducive, businesses will feel the negative repercussions.

Thirdly, an efficient and cost-competitive infrastructure for enterprise development with respect to air and sea cargo, telecommunications, internet infrastructure and electricity would facilitate small business operations. Depending on local circumstances, some specialist infrastructure schemes for SMEs, for example, industrial estates and reduced internet charges might be appropriate.

Fourthly, relates to the need for streamlining of bureaucratic procedures and regulations affecting small business start-up, operation, importing and exporting including business registration.

Increased training at SME level is the **fifth** common element. This can include information campaigns to educate SMEs about the benefits of training, tax breaks for training and specialist entrepreneur courses at existing universities. SME entrepreneurs need a lot of training, for example in basic book-keeping,

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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.

Last but definitely not the least, is the issue of mentoring. Some of the best advice a small business owner can get comes from someone who has been in their shoes. The holding of hands at the initial stages can be the difference between the success or failure of an entrepreneurship initiative. Schemes should be developed where successful businesses not only mentor the small ones, but provide a life line in terms of market for their products or services. Large corporations could also be encouraged to adopt SMEs as their vendors, supporting them through transfer of technology and design capabilities.

RBF INITIATIVES

I now wish to end by highlighting some key initiatives undertaken by the RBF to promote small businesses.

A restructure in the Bank in April last year saw the establishment of a new Department, the Financial Systems Development and Compliance Group. The responsibilities of the Group include the areas of microfinance, financial literacy, remittances, complaints management, capital markets development and settlements and payment systems or FijiCLEAR.

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To further develop microfinance in Fiji, we issued a policy in January this year tasking all the banks to establish microfinance units in their branches to service this important sector. The banks have complied and have been aggressively marketing their microfinance products. We hope to see this grow in the near future.

In February this year the RBF facilitated and has taken a lead role in the establishment of the National Financial Inclusion Taskforce – an apex body of stakeholders from the public, private sectors and civil society in implementing targeted strategies to promote greater financial inclusion through microfinance, financial literacy and establishing a baseline database. These related activities will no doubt provide an enabling environment for partnerships and dialogue to further SME development in Fiji.

We have also been vocal in the need to increase local value adding and import substitution where necessary, particularly with fruits and vegetables. We sponsored a Chef for 2 months training in a 5 star hotel in Malaysia to study the use of local produce in hotel menus. Training sessions will be conducted to pass on the skills acquired from this attachment.

The RBF has conducted 2 microfinance and financial literacy expos so far to create awareness and improve understanding of the types of financial services

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available in the market and tips on savings, credit, investments and entrepreneurship for the public at the 2 venues. On both the occasions, in Ba and in Suva during the Hibiscus Festival, we partnered with the banks, NGOs, microfinance institutions and entrepreneurs, finance companies and the NCSMED to name a few. These events were a success.

We have not forgotten the North. So, we will be having a 2-day Expo next week in Labasa. I urge the community in Labasa and surrounding areas to be on the lookout for this event. The Chef that we sponsored to Malaysia will also be conducting his first scheduled training at this expo.

The RBF has also rationalized its facilities on Import Substitution and Export Finance. The new facility, which is a merger of the two facilities called the *Import Substitution and Export Finance Facility (ISEFF)* now has a cap of \$40 million, and is available from any commercial bank as well as the Fiji Development Bank. The maximum interest rate that is charged is 6 percent.

Under the new facility, there are reduced administrative requirements, streamlined approvals process and no minimum eligibility funding amounts. As of 13 September 2010, only \$1.95 million has been utilized with financing through the FDB.

CONCLUSION

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Let me wrap up by saying that the development and strengthening of small and micro enterprises are possible strategies for improving economic performance, resilience and stability of our Pacific island nations. To nurture a resilient and productive SME sector requires the concerted efforts of stakeholders in the public, private sector and civil society groups.

Our combined support can move mountains. Together, we can make a difference. We play different roles in support of SMEs. The commercial banks and the financial institutions 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. Central banks like us also play a part.

I am confident that your deliberations over the next 2 days, on the many interesting topics by the very capable speakers, will result in practical strategies and steps that can be taken in support of small businesses unleashing their potential to be the engine of growth in our economies. The challenge for us is not so much in the planning, but in the implementing. I hope that the outcomes of this conference will be actionable and indeed actioned.

I started my speech with my bottle settling entrepreneurship whilst at USP. Let me close with the extended version. In fact, the instinct started during my

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primary school days when I sold Fiji Times and Sun early in the morning before school. The proceeds helped pay my fees through school. The bottle collection continued when I joined the RBF. And, like the story of Tappoos and Motibhai, my entrepreneurial adventure has not remained small but has grown though not at a big scale like them. I am now selling root crops and vegetables as a farmer. Focus is on the domestic market for the moment with eyes on the international market in the not too distant future. A few months ago I sold a tractor (almost without an engine). So you see, as you grow in this business field, your marketing skills become perfected as well.

With these words, I wish you well in your deliberations on **Small Business Development and Entrepreneurship in the South Pacific Islands.**

VINAKA