

RESERVE BANK OF FIJI

“Leading Fiji to Economic Success”



PRESENTATION TO FIJI INDIGENOUS BUSINESS COUNCIL

“FIJIAN BUSINESS: ON THE EDGE”

BY SADA S REDDY
GOVERNOR
RESERVE BANK OF FIJI

Venue: Novotel Hotel, Suva
Date: 23th June, 2010



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The Chairman of the Fiji Indigenous Business Council,
Distinguished Guests,
Ladies and Gentlemen

Good Morning

I am very honoured to be invited to speak to you this morning. I have been requested to speak on the theme: “Fijian Business: On the Edge.”

Well, when I looked at the topic, a number of things came to my mind. First of all, what does a Fijian Business mean for instance; and secondly why “on the edge”

Let me first deal with what a “Fijian Business” means to me. I presume it means any business venture that the indigenous people of

Fiji own and operate as distinct from business ventures owned and operated by the rest of the people of Fiji, including foreign investors.

If my understanding is correct then I need to ask why is that you wish to distinguish Fijian Businesses from the rest of Fiji Businesses. I guess this is where the challenge comes.

For your council to form an association to represent the indigenous businesses itself shows that you have seen the need for such a body to address some of the opportunities and challenges you collectively feel need to be addressed.

So what are these challenges and needs? I have to confess I have not had the opportunity until today to discuss with anyone of you to really find out what exactly are the aims and objectives of the Fiji Indigenous Business Council. But I have closely followed, through various media, the activities of various business associations including your association, over the years and therefore have some idea about what these associations' aims and objectives are.

I guess one of the key issues your members have to deal with is how to grow and compete with existing businesses. This in itself is a very difficult and complex issue. When you look at some of the successful Fiji businesses, you will find that they have all had very humble and small beginnings. Some started off with corner grocery shop and over say two to three generations of hardwork, personal and family sacrifices, enormous discipline in managing money, building up

saving and making prudent business decisions, managing business risks, developing strategic business alliances, but more importantly having a passionate vision and working day and night to achieve that vision.

There is no short cut. Most of the successful businesses you see today did not get any government help in the initial years. It had to be sheer hardwork, discipline, both at personal and family level. Business acumen was inculcated from parents to children from a very young age.

In this modern business world, as well, there is no short cut. But in these days, you have to be well educated, and also smarter than the rest. Knowledge of the business world is critically important.

At this juncture, let me make one very important point in relation to indigenous business. I have had the opportunity to diagnose the failures of a number of indigenous businesses during my long career in the Reserve Bank of Fiji. One of the most challenging things I have noticed is the lack of financial discipline, lack of budgeting and anticipating and managing business and personal risks.

Ladies and gentlemen, the message I wish to leave with you today is that nobody owes anyone a living in this modern world. You have to be a survivor and learn to survive in this world of business. If you are successful, then there is no limit to your growth and well-being for you, your family, your employees and your community.

The second element of this Conference theme is “On the Edge”. Are indigenous businesses “on the edge”? I do not know how to respond to this question. However, what I can do is to analyse for your benefit the business environment that you will be faced with as we move forward. The business sector will then have to work out how they manage and remain and grow their business given the business environment you will be faced with.

Let me now turn to the business environment that we are all faced with.

Ladies and gentlemen, in fact, with what happened in the global economy as a result of the latest global financial crisis, many businesses have failed the world over. Direct and indirect effects of the crisis have also passed through to the Fijian economy. As a result, a number of local businesses were affected. While there may be several indigenous businesses in the list of affected companies, I am sure that they were not the only ones. Indeed, a number of companies both large and small were seriously affected because of the Global Financial Crisis.

Since I have touched on the global financial crisis, let me begin by giving you an overview of the **global economic conditions**. In line with today’s theme, I’m sure all of us will remember that not long ago the global economy was “on the edge”. However, after much concerted efforts and policy support, the global economy has managed to turn this situation around. The world economy is

improving and according to the International Monetary Fund (IMF), the global economy is expected to grow by 4.2 percent this year, following a contraction of 0.6% in 2009. Last year's performance of the global economy is actually regarded as the worst since the Great Depression of the 1930s. On a positive note though, a further growth of 4.3 percent is expected in 2011.

Ladies and gentlemen, except for Australia, all our trading partner economies contracted last year as a result of the global financial crisis. This significantly affected our exports and tourism last year. However, the worst is over now and all of these countries are expected to post a modest growth this year and continue this into 2011. This is good news for Fiji, as this means increased demand for our exports and tourism. In fact, we are already seeing the effects of these, especially in the tourism industry, where we see a strong recovery in visitor arrivals.

Amongst advanced countries, the US economy is doing better than Europe and Japan, while for emerging and developing economies, Asia is driving the recovery. In particular, China and India recorded high growth rates in 2009 and are expected to record similar growth in 2010.

As is the case in most developed and developing economies worldwide, it is the business/private sector that will drive these growth prospects. Having said that, indigenous businesses play an important and crucial role in the development of their economies. All

businesses, whether big or small, have a role to play in the development of the economy.

Before I return to this subject in more detail, let me share with you our expectations on the domestic economic outlook.

Economic Conditions

Ladies and gentlemen, let me now touch on Fiji's current economic conditions and prospects. Our economy has been contracting over the last 3 years. Last year our economy contracted by 2.2 percent. However, the economy is expected to regain some strength in 2010 and continue this performance into the next two years. For this year, we are expecting most sectors to show positive growth except for agriculture & forestry and health & social work sectors, which are projected to decline. The agriculture sector was badly hit by Cyclone Tomas, resulting in a downward revision of the overall growth rate for this year, which now stands at 1.8 percent. Looking ahead into the next two years, growth is also expected to be broad-based. Apart from an expected decline in the building and construction sector, the tourism industry is expected to lead the growth assisted by some growth in agriculture. A growth rate of around 1.7 and 1.9 percent is expected for 2011 and 2012, respectively.

While we are encouraged by the turnaround in the economy, we still have a number of fundamental issues in the economy which if not fixed will not allow us to fully realise our growth potential. We have

said on so many occasions in the past that our external position, or Fiji's balance of payments (BOP), remains vulnerable. The poor performance of our exports sector, coupled with our ever growing need for imports, continues to produce a widening trade and current account deficit. As long as we have a current account deficit, it will continue to put pressure on Fiji's foreign reserves. The challenge remains in raising exports and minimising imports to help reduce these imbalances and ease pressure on foreign reserves.

Unless we bring the current account deficit to below 5 percent of GDP, our macroeconomic policies will need to remain relatively tight. In light of this, Government will have to consolidate its fiscal position by aiming for a reduced fiscal budget. This is expected to be supported by relatively tight monetary conditions.

Now what does this mean for Fijian businesses? In the short-term, business conditions in Fiji may not be easy. A tight fiscal policy can mean fewer tax breaks and handouts to businesses. Tight monetary policies can mean that loans will be more expensive. Therefore, businesses should brace themselves to survive against challenges during these times.

So, how do you manage in such an environment?

I do not think I can give you any serious advice in this regard. But, I suppose I can make some general comments here.

Businesses should consider adjustments in their operations. You need to work smarter so that the limited resources you have gives you the maximum returns.

You can consider **product diversification** – look for new and perhaps, niche, business opportunities. Consider moving up the value chain by adding value to your current products. If you are currently providing tours for tourists, explore going into budget accommodation. If you are producing timber, consider converting them into furniture or other finished products. If the local market is saturated, consider exporting your goods and services.

In addition to these, businesses should also consider **staff capacity building** at the various training institutions we have, TPAF for instance, to improve productivity and dynamism of your workforce.

Most importantly, as I mentioned before, an important rule is that businesses operate according to certain principles – and those principles must be followed by **all** business people. There are no shortcuts to success or separate rules for different ethnic groups.

Given that Government will have to tighten its own belt would mean that there will be little of any support that the Government can give to businesses in the short to medium term.

Ladies and gentlemen, our economy is expected to recover slowly in the medium term. The structural reforms planned by the Government are expected to provide a more positive business environment in the

future. Reduced government expenditure is expected to provide space for private investment to take place and business conditions are expected to improve. Now the challenge for you is to find out how you, as a Fijian entrepreneur, can contribute to this economic development and nation building process.

By strengthening and consolidating your business base now, Fijian business will be better positioned to contribute to the growth process. I mentioned in some recent conferences and would like to reiterate here, that we live in a world of competition where many countries have low cost structures and high productivity. Therefore, unless we raise our productivity and do business in a smarter way, we will not be able to compete successfully against the rest of the world. Reliance on preferential access is now a thing of the past, and we must learn to stand on our own feet.

And remember, small businesses only remain small if they do not have a vision for getting bigger. I encourage you to form that vision – where do you want your business to be in 5 years and 10 years from now. And then follow the path that will take you there.

Like you, I am concerned about the pressing need to open the way for the advancement of indigenous businesses. I understand that this is something that previous Governments had attempted to do, but we may then ask the question - why have these policies not delivered as expected.

What is the RBF doing to assist Fijian Businesses?

The rising balance of payments deficit calls for concerted and decisive efforts by all stakeholders. At the Reserve Bank, we have embarked on various initiatives that can help cushion such economic deficiencies and we remain focused on proactively intervening through appropriate monetary policy action in the face of any external shocks to the macro economy.

The RBF has also played a wider and more proactive role in working closely with the Government on its various reform initiatives, particularly reforms in the export sector, import substitution and fiscal consolidation. Reforms in these sectors have been slow moving and greater action is still needed.

Now let me briefly highlight some of the work that the Reserve Bank is doing in the areas of small and micro enterprise development. Most of the work in this regard ties in with your Council's role in developing Fijian businesses.

In April 2009, we made some institutional reforms within the Reserve Bank which resulted in the establishment of a Group called the Financial Systems Development and Compliance (FSDC) Group. One of the major roles of this Group (amongst others) was to ensure the development and provision of microfinance services to the greater Fijian community. After a little more than a year of its establishment, we have witnessed a lot of exciting developments.

From 1st January 2010, we have issued a new Microfinance Policy which requires all commercial banks to establish internal microfinance divisions and units that will serve to cater for SMEs and the underserved. Most commercial banks have complied with this Policy and have begun to offer affordable products and services to their targeted customers.

On the same token, the Reserve Bank has, through the collaboration of various donor agencies and other players, set up a National Financial Inclusion Taskforce (NFIT) that will be responsible for driving and promoting microfinance and greater financial inclusion initiatives in Fiji. The establishment of the Taskforce will provide a platform for stakeholders to encourage and foster sustained and coordinated development of financial services to the poor and rural communities and more importantly expanding access to finance for small enterprises. Membership of this Taskforce includes representatives of the microfinance institutions, commercial banks, donor agencies and the RBF.

The RBF has recently introduced an Import Substitution Facility to try to assist large scale commercial agricultural businesses to obtain credit at concessional rates of interest. A total amount of \$20 million is available through the scheme. New and existing local businesses engaged in commercial agriculture may access funds from the facility at a fixed rate of 6.00 percent per annum. The facility is available for a maximum loan term of 5 years and is available through the

commercial banks, licensed credit institutions and the Fiji Development Bank (FDB).

The RBF has also offered a scholarship for Chef Training in Malaysia which should encourage the use of local foods in preparation of hotel menus. This is targeted at reducing our import bill and improving our balance of payments position, as well as encouraging local value adding.

Local businesses should try to seize the opportunities that are arising out of these initiatives I have just mentioned.

The Reserve Bank is also embarking on developing an effective and all-encompassing framework to guide community or village development. No doubt, there are abundant natural resources and manpower capacity in our rural areas. However, we continue to notice the lack of progress by successive authorities in developing our rural dwellers to become more economically active.

The rural area is home to about 52 percent of Fiji's population. More importantly, most of Fiji's key exports are rural based, providing the greatest potential for future development and prosperity, particularly in the tourism, agriculture, forestry and fisheries sectors. It is therefore important that a suitable development scheme or framework is put in place in our rural villages and communities.

Our policies do not discriminate between the nationalities of businesses. All of you have the same benefit from these policies as any other business in Fiji. You must seek these opportunities out.

Concluding remarks

In summary, ladies and gentlemen, we have seen that the global economy is recovering. This is good news for us – we can expect our exports and services, such as tourism, to pick up.

As I had just mentioned, the need for us to maintain a healthy BOP position means that we should expect relatively tight fiscal and monetary policies in the near-term.

I have also taken some time to highlight the areas that the Reserve Bank is working on to promote small and micro enterprise development, which is in line with the FIBC's role in developing Fijian businesses. It is in your Council's interest to ensure that indigenous businesses are aware of these initiatives and that they benefit from them.

I wish to once again underscore the importance of financial discipline and a culture of hard work and personal discipline which will ensure your success in business.

In conclusion ladies and gentlemen, I thank you again for the invitation to speak to you this morning. And I wish this symposium and your businesses all the best in the future.

Vinaka vakalevu.