FOSTERING INDIGENOUS FIJIANS IN BUSINESS

Rethink “closing the gap”: which gap?

Look ahead: “where are the frontiers”

Look behind: why did ideas not become reality?

For the future: how to make ideas into reality: the challenges for decision makers?

Dr Wadan Narsey

[Keynote address: Indigenous Fijian Business Council, 30 March 2006]
Outline of this presentation

A  The Fiji economy: where are we coming from?
B  How have indigenous Fijians progressed: changing “gaps”
C  Where should Fiji (and indigenous Fijians), be going, in a world driven by the WTO?
D  The immense potential and inherent advantages for Fijians in such a WTO-compatible Fiji economy, only if ....
E  Some initiatives with potential: the current state of play
F  Why have ideas not become reality: a personal view
G  The challenges for Government, FTIB, FNPF, NLTB, IFBC, FDB
There is no written paper for this presentation, only this slide show and TLPF.

Many of my thoughts today, have already appeared in the media or at public forums, in very simple language for our ordinary people of Fiji.

Some of the ideas are in the book sent free to you: To Level the Playing Fields: development of our small people. Vanuavou Publications 2004.

You received TLPF courtesy of one of my golfing friends (Adish Naidu), who is an architect sharing some of my views (and disappointments) about Fiji’s architectural developments (a little on that later).

TLPF sells for $27 in Post Fiji shops and the USP Book Centre

But some copies are available from me at a discount price, if you want to give them as gifts to people you know. (hey: I am now in the private sector, no salary automatically coming in every month; I have to hustle like the rest of you in the private sector: a new state of mind for an academic)
Three resource documents not publicly available

1 Submission by Professor Wadan Narsey to the Cabinet Sub-Committee for Investment. May 2004 (attached to this presentation as an Annex).
Presenting potential for major investments in five areas:

(a) Suva Market and Bus-stand Complex
(b) SME Hotel Chain Project (for mostly Fijian enterprises)
(c) Retirement Homes Industry
(d) Call centres and data processing
(e) Timber processing

Some progress in some areas? But also major question marks ...

2 Financing Options for the FVB (September 2004). Report by Professor Wadan Narsey for the Ministry of Tourism, Fiji Government. (The Report has not been released to the public nor acted upon).

3 Report of the Fiscal Review Committee (September 2004).
The Committee: Josaia Mar (chairman), Nalin Patel, Professor Wadan Narsey, Richard Naidu, Mere Samisoni, Dixon Seeto, Aisake Casimira, Harvie Probert, and James Raman. (The Report has not been released to the public. Parts have been acted upon).
A: The Fiji economy: where are we coming from?

Over the last 35 five years, not done too badly, but not done well either

GDP has grown sporadically; with major set-backs (1987, 2000)

GDP pc has just barely kept ahead of our population growth

GDP per capita much lower if some 150,000 people had not emigrated

We have not invested as much as we should have, as much as we could have,

Major problem has been the lack of confidence of the private sector

And inability to encourage investment in appropriate areas.
Our lack of progress: compared to others?
(Data Source: World Bank Development Indicators 2005)
Don’t compare Fiji with the rich countries?
OK: some improvement for Fiji, but not great; compared to some others.
Compared to our starting points 25 years ago?
OK: we are just 20% better?
And why have we not grown?
Sheer lack of investment

After 1987: public sector investment (red line) rising; BUT private sector investment (blue line) falling, collapsed after 1987; rising again now

Fiji's Investment as % of GDP: (Desired level: 25%)
Relative to other countries’ investment ratios?
They also have had ups and downs: but > 20%:
And look at Singapore, Malaysia, Mauritius: > 25%
And Fiji? Isa.

Gross Capital Formation as % of GDP
(five year moving average)
How much investment do we need per year?

2005 GDP = $4,077 million

25% of GDP = $1,015 million annually.

Do we have savings of that order?

That can be made available for investment?

And where would be invest such sums?
Why has Fiji stagnated all these years?
The economic “shooting oneself in the foot”

Sugar industry has deep wounds- some self-inflicted; writing on the wall more than 10 years ago, that EU preferences would go (TLPF: page 30, 1995)

Manufacturing has depended on local protection: tariff duties, or licensing, etc which imposes great costs on our consumers, and has no future in the WTO world order; but we continue with the protection (TLPF: page 97, 2002)

Many of our successful businesses and “entrepreneurs” depend on government granted monopolies (TLPF, pages 100, 104, 107, 110) (no need to name them, is there?)

BUT these protected activities sooner or later WILL be deregulated under WTO pressure: not a question of IF, but WHEN

Q: How much longer will these special interests stifle Fiji’s growth and development?
And apart from our weakness in economic policy ..

Investment has been constrained (and profits continually exported) because of political instability: leaders preoccupied with “political control” issues; and special interests keep fighting for bigger shares of the same small cake, rather than making the cake grow.

The great emigration of skills and potential entrepreneurs

Our banking sector has been allowed to freely finance unproductive, speculative investments based on the property boom

Fijian institutions have not freed up Fijian resources for individual Fijians and their families to develop themselves as private enterprise

Some of our key “catalyst organisations” have been in their comfort zones for years, unable to “catalyse” because they cannot act outside of their old boxes

Civil Servants (understandably) have not been catalysts in the way required.
The political “shooting oneself in the foot”

“The costly coups”: TLPF page 179

“Tourism: 1987 and 2000: no bouncing back”: TLPF page 182

“Political instability, discount rate dragons and mahogany”: TLPF page 185

“Selling peace-keeping and the FMF”: TLPF: page 188

“Rebuilding a fractured nation: why political parties need each other” (but they say they don’t need each other) (TLPF: 179)

“Fiji’s population trends: defusing the political future”: TLPF page 176.
B: What has been happening to the ethnic “gap”?

Most strategies for indigenous Fijian development (like this meeting of the FIBC) call for “closing the gap” with the “others”. Implying Fijians in general are lagging behind the others; and “closing the gap” also implies moving towards “where the others are”. BUT

1. The most recent evidence is that 90% of Fijian households are better off than 90% of Indo-Fijians; the only gap is for the top 10% in the business sector (and even for that small group, there has been tremendous progress since 1991) (The Good News)

2. And Fijian entrepreneurs should not be trying to go where the other businesses are: because they are largely not WTO-compatible; Fijian entrepreneurs need to break New Frontiers into activities which are WTO-compatible, which are going to be immune to WTO pressures for the foreseeable future.
Start with the “Good News”
Latest results (with the permission of the FBS)

Results of the 2002-03 Fiji Household Income and Expenditure Survey indicate (results not published yet)

The average Fijian household income has grown far more than the average Indo-Fijian hh income between 1991 and 2002-03

The average Fijian hh income is now higher than for Indo-Fijians

i.e. the 1991 average total household income “gap” appears to have been reversed by 2002 in favour of indigenous Fijians.
The lines show the broad nature of the changes in income between 1991 and 2002-03 (in current prices)
Four qualifications to these numbers

1. The business community (top deciles) usually understate their incomes to FBS interviewers. And given that there are more wealthy “Indo-Fijians” and “Other” businesses, their average incomes are more likely to be relatively more under-reported. So the gap may be smaller, or even the other way. But the graph is generally accurate about the broad trends.

2. The 2002-03 survey was before the recent huge increase in remittance earnings to Fiji (more than $250 million in 2005?), especially those accruing to indigenous Fijians from security personnel and nurses abroad.

3. Fijian households’ incomes from business and shares are probably just as under-reported as for others (even if less in aggregate)

4. Because Fijian households are bigger, the gap between the ethnic groups is much narrower if you compare households on an income per capita basis.
More useful: what percent of each ethnic group is in the top 30% of households in the country?

Percent of Each Ethnic Group in the Top 30 percent of households in the country (ranked by hh incomes)

- Others
- Fijian
- Indo-F
And what percent of each ethnic group is in the Bottom 30% of the households in the country? good news for some, bad news for some
These last two graphs are reasonably accurate

Average hh incomes can be distorted, but overall distribution of hh within each ethnic group unlikely to suffer from major errors

A large part of the change in shares of the top30% of the distribution can be explained by the emigration of higher skilled and higher paid Indo-Fijian households; and replacement proportionately more by indigenous Fijian households.

The changes indicated above also have had their expected impact on the incidence of poverty amongst the different ethnic group- with the most in poverty being rural Indo-Fijians and rural Fijians (but those results and other fascinating stuff will come out at the next poverty summit)

This meeting is about the business sector; and the 2002-03 HIES also has some very good news for indigenous Fijians in business.
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<tr>
<td><strong>Own/Home Consumption</strong></td>
<td>81</td>
<td>82</td>
<td>+ 2%</td>
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<tr>
<td><strong>Wages</strong></td>
<td>44</td>
<td>49</td>
<td>+ 12%</td>
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<tr>
<td><strong>Agric. Business</strong></td>
<td>49</td>
<td>55</td>
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<tr>
<td><strong>Commercial Business</strong></td>
<td>9</td>
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<td><strong>Other Income</strong></td>
<td>54</td>
<td>50</td>
<td>- 7%</td>
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<tr>
<td><strong>Total HH Income</strong></td>
<td>45</td>
<td>51</td>
<td>+ 12%</td>
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So there has been substantial progress

For Fijian households in general: there is no “gap” there: the HIES indicates 90% of Fijian households are better off than 90% of Indo-Fijian households.

Any “gap” is only at the top 10% of the populations- nearly all due to the Commercial Business sector – where there has been great progress in the 10 years to 2003 (and more since).

And note also: the collective Fijian improvement is probably better than indicated in the table above: because the household income surveys do not pick up the large increases in collective asset holdings of provincial councils.

the recent phenomenal increase in capital value of the land held by mataqali all over Fiji (which is massive potential income- especially associated with tourism and housing development)
Q : what Govt. strategy for indigenous FIBs?

A  few general principles for solid pro-poor development

Need to focus on SMEs; a “pro-poor” strategy is always justifiable in any Affirmative Action program.

Help the largest number of enterprises possible, out of whom will grow the indigenous Fijian corporate giants of the future (not vice versa).

Focus on building the key bridges or foundations which individual entrepreneurs cannot build by themselves.

No “hand-outs” – but taxpayers’ assistance leveraged by own “hurt money”.

Recipients must sign an agreement that if they are unsuccessful at the venture (defined ex ante by mutual agreement), they will make way for other potential indigenous Fijian entrepreneurs (following proper compensation): the scheme must roll on.
What are the WTO-compatible frontiers for Fiji? What should indigenous entrepreneurs be targeting?

Economists talk of: “comparative advantage”

Export orientation: what does the world want that Fiji has in relative abundance that Fiji can add value to and earn good incomes from that Fiji can sell competitively in an environmentally sustainable and managed way
What are these key resource areas? You all know them:

Many are referred to in my articles in TLPF

Some of Fiji’s great success stories are not in TLPF (what? make a fortune exporting water to the world?)

But I’ll just speak about five ideas in TLPF where we have not done enough; where we have not worked fast enough

Where we could have and should have had major industries

Perhaps employing an additional 100,000 people already

Contributing to GDP, taxes, and FNPF.
Major industries potentially employing more than 100,000 in 10 years (see annex for more details of proposals)

1. Services that the developed world wants: retirement homes (TLPF: page 16) (20,000 jobs in ten years?)

2. Services that the developed world wants: call centre industries (TLPF: pages, 100, 104, 107) (30,000 jobs in ten years?)

3. Timber resources the hungry world wants: but as value added timber (TLPF: pages 24, 27) (10,000 jobs in ten years?)

4. Small-scale tourism enterprises, ON A LARGE SCALE, run by indigenous Fijians (TLPF: page 10, 13) (20,000 jobs in ten years?)

5. The Suva Market Complex: to provide the right environment for hundreds of entrepreneurs selling nutritious local food: developing our agriculture and rural development: (TLPF: pages 20, 38, 41, 45, 50, 53, 59) (50,000 jobs?)
And just for mention here (won’t be discussed)

A huge Fiji-wide golf industry (not just one course) using Vijay Singh branding (TLPF: pages 72, 76: 1998)

Entry into lucrative Super 12 (now 14) rugby industry (TLPF: pages 62, 66: 1999)

Major potential for remittance earnings from unskilled labour markets in Australia/NZ (if our foreign policy people could bargain the benefits): “PICTA, PACER, EPAs: where are we going?” Islands Business, April 2004.

Selling security services internationally (2004 paper for FMF)


Fijians making money from their land “Living with the land boom: bonanza or time bomb?” The Fiji Times, 29 June 2005.
1. The retirement homes industry (TLPF p 16: 1999)

Fiji’s incredible potential for this industry: location; climate; service oriented people
(now going all over the world); hugely employment intensive

A major Australian company PRIME interested, flew me to Melbourne conference on
housing for the elderly; convinced, ready to come; but stopped by the 2000 coup!

Connections given to the FTIB; who called for a feasibility study; offered contract to NZ
company (who wanted to invest themselves)

(FTIB rejected a joint tender by a well-known economist and a well known real estate
entrepreneur who is now “Rolleing” in the money in tourism developments in Natadola)

But NZ company embargoed its report; looked for land to invest in; found something in
the west; had trouble with land-owners; put project on hold? is it moving? nothing doing.

Civil servants asked for advice: I explained what was necessary to get such a project
going: land leases, specialist medical services for the elderly, training for the staff, etc;
but still not project.

Eventual outcome: some tax incentives in the 2006 Budget. But still no industry.
2. Call Centres industry (Southern Cross cable there from 1998)

Fiji’s great English-speaking human resources

Discouraged by continued monopoly pricing by FINTEL, Telecom, and ATH (FNPF)

FNPF protecting its short-term returns for excessive price paid for ATH shares, Govt continues to protect monopoly and high prices.

Short terms gains at the expense of major long term growth gains: imagine if extra 100,000 people were employed earning extra $1,000 million for the economy annually contributing extra $140 million each year to FNPF etc and extra $125 million in taxes to Government.

and wider multiplier benefits

Instead, ATH wants Call Centres to be on their property in Vatuwaqa.
While Fiji cries out for regional development

Most artificial attempts are costly, inefficient, require tax-payers’ subsidies
Double transport costs, higher utility prices, etc lack of skilled manpower
  e.g PAFCO in Levuka, garment factories too far from ports etc

But Call Centres ideal for decentralisation; just need good telecommunications

Can be anywhere in Fiji, where good English speaking persons can be found, staying cheaply in their own homes: Vanua Levu? Ba? Rakiraki?
Even resource-poor Rewa (where the smooth-talking people are?)

Where jobs are scarce for local people; land is cheap, rents are low;

But for ATH to try to force Call Centres to Suva on to its Vatuwaqa real estated: already over-populated; with problems of water, sewerage, schools, housing, and not to mention the long traffic lines: how stupid!
3. Development of value adding in timber

For years, everyone has known about the need to add value to mahogany (TLPF: pages 24).

In 2004, it was suggested that FTIB change its Exporter of the Year format to focus competition on value-added quality products that needed to be exported so that potential exporters could learn from best practice (TLPF: page 27).

Plus other recommendations to make the FTIB exporter of the year event really useful for our small budding entrepreneurs, instead of an event for the socialites to eat, drink, and be merry at a top resort.

But no change: still no competition to teach producers and potential exporters about the standards of quality products that they are required internationally.

And what is happening to mahogany value adding? There was a newspaper supplement about a good initiative taken with a forestry product development school but selling mahogany off-cuts as firewood?

Still no major value adding industry in timber.
4. **Chain** of small-scale standard tourism SMEs owned and run by Fijians (see my submission for details)

Tourism SMEs are happening, individually, on a small scale here and there.

Very successful by expatriates and other non-indigenous locals; with severe difficulty facing indigenous Fijians: problems of minimum standards and quality control, startup investment and building; training; and most important, booking (30% ripped out upfront as commission by tour agents etc).

My Report to the Ministry of Tourism had recommended that a small proportion of the $13m tax-payers’ grant to the FVB be used for marketing and quality control of such a scheme for our local SMEs in tourism- largely indigenous Fijian;

But FVB (and the large hotel interests who control the FVB) not interested, since the current major beneficiaries of FVB marketing drives are the large hotels; their lobby group is very powerful; $13 million of free taxpayers money is not to be sniffed at.

For FVB it probably is too much trouble to market and quality control the small Fijian SMEs (“not their job”); much easier to continue doing what they are doing.

If tax-payers cannot ask FVB to place a priority on marketing local (mostly Fijian-owned) SMEs whose quality they monitor, assess and certify, whose job is it?
5. Investment in Suva Market Complex

Since my 1996 maiden speech in Parliament as Shadow Finance Minister, this has been my pet development project, waiting to blossom. Can talk all day...

Just see my list of the development benefits (especially for indigenous Fijians) in the Annex to this paper.

I made a submission to Cabinet Sub-Committee on Investment in mid-2004; but there was no budgetary seed money either in the 2005 or 2006 budgets;

You can also read about the elected Councilors stopping the open tender design process “An act of architectural terrorism” The Fiji Times, 19 July 2005. Who was really responsible? Many people know, but not talking.

Quite understandable, since private entrepreneurs may be expected to expedite their financial interests – esp. in a $60 million project.

But why would civil servants not be able to get implemented such a beautiful public investment project, made in heaven for economists, politicians and the ordinary people alike? That has to be explained.
Total potential investments?

1. Retirement homes: $100 millions per year for ten years
   2000 jobs, building up to 20,000 jobs

2. Call centres: $20 millions per year
   3000 jobs per year, building up to 30,000 jobs

3. Mahogany (and other woods) value adding factories: $10 millions per year
   1,000 jobs building up to 10,000 jobs in ten years

4. Market complexes: $20 millions for three years (how many jobs?)

5. Tourism SMEs $100,000 to $200,000 each: how many, all over Fiji?
What does all that add up to?

Just these five areas: roughly $200 million per year?

Add all the 5 star investments that are coming in with govt’s tax incentives. Another $200 million?

Public sector investments in roads, electricity, water, sewerage, training schools: another $200 million per year?

And add up the investments of thousands of small private investors who would go ahead, if only they felt secure, if they felt they all belonged as “Fijians” – of whatever type: indigenous, Indo, Sino, Euro, Kailomo, or whatever.

Remember: what’s needed annually: 25% of GDP = $1,015 million annually.

Add up all the items above, we are almost there.

But why are we not there yet?
Do we have this kind of savings in the economy?
Tons around: but where do the savings go?

Usual cash cow: FNPF: how much extra do they have to invest every year?

Commercial and development banks; how much have they been lending? where?

Company profits (re-invested or exported?) (how much?)

Personal savings?

The huge hire purchase credit boom: how much?

We probably have more than $800 million available for investment each year.

And we have not even mentioned foreign investment.
So why the lack of progress in these directions? We can explain why private sector investors may be reluctant

Although the retirement homes industry can create far more jobs, it is far less profitable than normal tourism resorts; more head-aches (eg medical services)

Potential call centre operators: investors know Govt (and FINTEL) adamant on monopoly pricing and control.

The mahogany value adding industry: potential manufacturers fear lack of regular guaranteed supply so won’t invest; saw millers and Fijian owners find it easier just to export simply milled timber, without value adding;

Tourism SMEs: huge head-ache obtaining proper land leases, borrowing the funds, co-ordinating and training the hundreds of potential Fijian entrepreneurs, building the accommodation, organising the marketing, not to mention the supply of foods and other necessary inputs.

The market complex: no obvious profit to be made by any entrepreneur, except for the chosen architect who obtains the “inside track” by wheeling and dealing.
What if the PM asks his CEOs: why is the progress slow in this area or that? who among you is responsible?

There will be silence. Or fingers will point to everyone else.

Because no one individual in Government has been given executive responsibility to ensure that any one of these projects or any project at all develops quickly and efficiently.

Government just does not operate that way: all the civil servants have general bureaucratic responsibility; nothing specific.

I doubt if any other statutory body (FTIB or FNPF) has allocated specific responsibility to any individual officer to get any particular project off the ground.

We must ask: why is it that no civil servant or employee of a statutory authority dynamically gets projects like these off the ground?
Why lack of entrepreneurial spirit amongst civil servants?

no carrots, no sticks

No financial incentive: no extra salary, no bonuses; no commissions. no share in profits if a project is launched successfully;

No disincentives if investment does not take place; no pay cuts, no sacking: the monthly pay rolls in regardless of performance

Too much trouble: co-ordinating multiple agencies, to get them to do things on time; who may not share the same sense of urgency or priority for the project being pushed

Incentive not to act: subordinates fear superiors who may feel threatened by others’ initiative

Other calls on time: meeting after meeting (overseas if possible)

And honestly, would a real dynamic entrepreneur stay in the Civil Service, when they can make more money in the private sector?

Even a shop-keeper in Marks Street earns more money than a manager of Telecom.
FNPF is a private sector organisation, currently over-invested with Government; it must increase the proportion invested in the private sector

Cannot simply wait for private investors to come to FNPF – too often the carpet-baggers come;

or FNPF has to “make do” with whoever wants to borrow (usually governemnt), because they cannot just leave their funds idle.

Giving their funds to private fund-managers may help, but ultimately they face the same problem as FNPF’s current managers.

FNPF has to take the lead in initiating private sector investments (and entrepreneurship) which are going to be WTO compatible:

Problem: how to hire senior managers who are entrepreneurial?

And how encourage bureaucrats to get projects off the ground?
A personal experience: producing and selling books

USP professors earn more than Ministers; teaching, research, consultancies; no stress; no risks; unlimited travel; pay rolls in month after month

But the future for our children is in self-employment: but with no idea of what it took to succeed in the real private sector world, I resign, start a publishing company- a one man show; and in just one year, the children understood, as I also did, the challenges of the private sector, the potential rewards if you succeed, and the risks and costs of failing.

The easiest part was writing the material: no sweat. The tough bits: getting it all together: getting others to translate; the risky decisions on how many books to print (what if the books do not sell?); getting the right print quality; the tough retailers (who won’t pay you up-front); trying to sell books in a country where people will pay $80 for a bottle of Black Label and $30 for a night out at the movies, but not $25 for a book which is still with them a month later; and finding that any delay, means money gone forever.

Major problem: civil servants not responding fast enough to my requests: no money to be made by them if they act fast and nothing to lose if they don’t.

Book business: not worth it. See how many book stores have collapsed?
My proposal: can we convert ideas into reality: by giving bureaucrats the monetary incentives?

Our public agencies (Govt, FTIB, NLTB, FDB, FNPF, etc) appoint Project Leaders of “Project Catalyst Units”, with specific task of getting a particular project off the ground.

Who will be responsible for co-ordinating the partners in the project: shareholders, financiers, trainers, builders, suppliers (land, buildings, etc)

Carrot: once the project is off the ground, the Project Leader will be given leave from the Civil Service to be employed with the enterprise, at presumably much higher pay and prospects- if they want him/her.

Stick: sacked if he does not perform.

If proven himself, option of remaining with a negotiated bonus driven contract.

Ensure every Project Unit has a well-defined succession, to keep replacing Project Leaders (hopefully) as they move on and become entrepreneurs (which our economy desperately needs).
So what can the Indigenous Fijian Business Council do?

Sorry, I cannot advise you any further.

But you can hire me for further work (I am in the private sector now- heh heh heh)

Remember: free advice is seldom valued; you value what you pay for

But you have received a free presentation (FIBC claims they are too poor to pay “presenters fees” even though my time costs money)

You have also received a free book (courtesy of Adish Naidu).

Thank you

Questions and comments.