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Session 3: Fostering Private Sector Development

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Thank you, I am delighted to be back in the Pacific and to be in Samoa for the first time.

Across the Pacific small and medium businesses have the potential to be the engines of economic growth.

This is certainly the case in emerging markets around the world, with micro, small and medium size enterprises making up 85% of all businesses.

These firms are critical to creating jobs - jobs that provide workers with reliable incomes, allowing them to put food on the table and send their children to school.

Today, I'd like to challenge us further in how we together can help create opportunities for small and medium businesses to grow, create jobs and increase their incomes.

In doing so, I'd like to share the lessons we've learnt and explain how our approach has changed.

But firstly I'd like to explain who "we" are. IFC is a member of the World Bank Group. We are the largest global development institution focused exclusively on private sector development.

We advise and invest in private enterprises in emerging markets to create opportunity where it's needed most. To be honest, we have always been challenged in this region.

In the past, we have largely focused on helping to create a regulatory environment that fosters private sector development in the Pacific.

By working with our donor partners – Australia, New Zealand and Japan – and our client governments, which number 11 countries in the region, we have helped to pass 34 reforms relating to various aspects of business start-up, operations and alternative dispute resolution that make doing business easier across the Pacific.

While we are committed to working on developing an environment that supports local entrepreneurialism in the Pacific, our approach to stimulating private sector development has evolved beyond focusing solely on how we can improve the investment climate.

We've done this because we know that small and medium business owners are held back by other obstacles – namely, lack of business skills and inadequate access to finance and infrastructure.

In practical terms, what does this mean?

A Papua New Guinean vanilla bean exporter told me that his inability to get access to credit was preventing him from expanding his business – a business that supports 2,500 vanilla bean growers.

If he could access capital, he could start exporting coffee beans. In doing so, he would help 7,000 more farmers get their goods to market.

We acknowledge that addressing these problems is not easy.

As I said, we've had to change our course to tackle these issues, and, in doing so, we've made real progress in developing a model that **systematically supports micro, small and medium businesses to formalize and grow.**

Our approach has changed in three key ways:

- 1.) Firstly, we are directly supporting firms that can **transform the landscape for micro, small and medium businesses** by creating business opportunity, skills training and access to services, specifically financial services.
- 2.) Secondly, we are using **innovative approaches** to further partner with the private sector that leverage both the IFC's and our partners' strengths.
- 3.) Lastly, we are still committed to helping our client countries **improve the regulatory environment** because we recognize it is an important component to stimulating activity and encouraging private sector growth. However, we are doing this through a more targeted approach.

How does IFC's support of big business help transform the landscape for small and medium businesses?

Our approach is one where we look to work with lead firms that have an existing network, local knowledge and a strong on the ground presence.

By investing and providing advice to these companies we can **create opportunities for small and medium businesses, helping them grow, create more jobs and provide services.**

Our investment in telecommunications company Digicel is proof of this approach.

We helped the company enter the market in PNG, Fiji, Samoa, Tonga, and Vanuatu and brought reliable and affordable mobile phone services to millions of people.

In doing so, Digicel also created new jobs for some 30,000 people who sell Digicel prepaid airtime cards in PNG.

Seeing the opportunity to help these micro and small business owners develop further, our Advisory Services arm assisted Digicel to set up a business training program.

The program accredited trainers to go out to over 100 enterprises, many of them run by women, that sell mobile phone airtime credit to teach them business planning, sales, and customer service skills.

These skills are helping them expand their businesses, earn higher incomes and, in doing so, increase access to telecommunications for more people. It is soon to be rolled out more widely across the country.

Our partnership with Bank South Pacific or BSP is another example of this approach.

In PNG we saw the problem clearly: Three quarters of the 20,000 registered small businesses in PNG lack access to credit and banking services. In rural areas, over 90% of people lack access to financial services.

In BSP we saw the solution: by helping the bank utilize technology to extend their reach in a commercially sustainably way, we could help them provide small businesses and those living in rural areas with access to banking services.

Our advisory support to BSP's subsidiary, BSP Rural, has helped them to pilot mobile phone banking with farmers in East New Britain.

IFC is providing BSP Rural with financial support – via a performance based grant under the Pacific Microfinance Initiative in partnership with the Australian Government.

We are also providing technical support to develop a program that provides farmers, small scale producers and rural women with a way to save and transfer money via mobile phones and electronic funds transfer machines.

Local copra and cocoa farmers are, for first the first time, being paid on the spot for their produce by buyers via mobile phone banking.

Rather than receiving a cheque that can take up to two weeks to clear, the farmers now receive instantaneous transfers, allowing them to save their earnings in the bank or withdraw cash via BSP's new mobile money agents.

Once rolled out across PNG, this project can indeed have transformational outcomes.

As I have mentioned previously, we also have had to find innovative means of partnering with the private sector - ways that utilize our strengths and allow us to collaborate with our partners.

An example of where we have done this is our recent work with the World Bank and the PNG government to establish a program to help improve access to credit for small and medium enterprises.

IFC is providing a risk share facility that allows banks to move from collateral-based lending to cash-flow backed lending, by guaranteeing 50 percent of the portfolio of loans that participating banks extend to small and medium enterprises.

We expect the facility to support up to 150 million Papua New Guinea kina (around USD 61 million) in new financing to small and midsize businesses.

Bank South Pacific is the program's first participant. Loan applicants must be small and medium enterprises that employ at least three people, such as mechanical shops, carpenters, and trading stores, but it is open to any sector of the economy.

Just last month, BSP issued the first loan under the risk share facility. The loan will enable a PMV (public motor vehicle) operator to expand his business in Port Moresby.

In addition to the lending program, the World Bank with the Government of PNG expects to train 300 small businesses and mentor and coach 150 business owners and 300 women entrepreneurs over the next five years.

It's a partnership that works by:

Firstly, helping banks better understand the market and raise their comfort level in lending to small and medium enterprises using new products.

It also helps them extend loans by being able to access technical assistance for institutional strengthening, product development, process improvement and training.

Secondly, the World Bank's grant funding enables PNG's Ministry of Commerce and Industry to establish a training program for entrepreneurs, including special efforts to reach business women.

Women start small businesses because it often provides them with flexibility and security. They are often better able to shape their communities than their male counterparts – by reinvesting earnings in health, education, and family.

Thirdly, providing assistance to the Department of Commerce and Industry to monitor results, gather data on the small business sector, and update its policy and strategy to reduce regulatory constraints and encourage business growth.

IFC's effort with the government to improve the regulatory environment for SMEs compliments the program further.

Essentially, the program lowers the barriers to entry for banks who want to develop innovative services, reaching people who previously have never had access to banking services.

We expect other financial intermediaries to join BSP soon.

Partnering directly with lead firms and finding innovative ways to indirectly engage the major players to help flow on the local benefits are clearly delivering results. However, we recognize that improving the investment climate through targeted interventions is still an important component to solving the whole SME equation.

When governments, private sector and donor partners come together, real improvements in the business environment can be achieved, further spurring the growth of small and medium enterprises.

Again, I'll use PNG as an example. There we are starting work with the government to streamline tax procedures for small business.

We are also working with the PNG Investment Promotion Authority to make business registration easier and more cost effective.

We have also partnered with the Courts, where we have supported the establishment of mediation that provides business with an opportunity to swiftly resolve commercial disputes.

Here in Samoa, we have also just started a program to support the establishment of mediation.

So, what can each of you sitting out there take away from our lessons?

At the beginning of my talk I set a challenge for us to further think about how together we can help create opportunities for small and medium businesses.

I believe we can do this by considering **how each of us can partner with the private sector, be innovative and play a role by using what we all have to offer.**

For example, we know that increasing access to finance is not the most crucial issue facing SMEs everywhere in the Pacific.

In countries where the economy remains constrained and aid flows will be required for the foreseeable future, an answer might be assisting SMEs to seek government and donor procurement contracts for goods and services.

Several years ago, the World Bank conducted a major survey asking people what they wanted most in order to improve their lives.

The number one answer was “a job”. If we can broaden the opportunities to make this happen and find a way to measure it when it does happen, we can make a tangible impact.

We are already starting to explore ways we can broaden the opportunities from what we have done already, including looking at ways we can partner with the private sector to maximize the benefits from the agriculture, fisheries and energy sectors.

We are also exploring the feasibility of a Pacific wide SME risk share facility.

Many of us in the room today have worked hard to support and develop opportunities across the Pacific so let’s build on our success, and continue to innovate and take risks in driving private sector investment and creating jobs.

Thank you for the opportunity to contribute to this important forum.