

Remarks by Mr. Gane Simbe, deputy Governor of the Central Bank of Solomon Islands at the launching of Mini Small and Medium Enterprises Business Loan Guarantee Scheme and the SME Policy 2016, Kitano Mendana Hotel, 28th November 2016

Introduction

I am honoured to say a few remarks on the occasion of the launching of the Micro, Small and Medium Enterprises Business Loan Scheme (scheme) as a partner and agent of the Government, in the administration and operation of this credit guarantee scheme.

A story to highlight plights of Solomon Islander Entrepreneurs

Ladies and gentlemen, let me begin by telling you a story. About two weeks ago, I met a former work colleague; ex-employees of Brewers Agriculture Limited here in Honiara. This friend has been on a horticulture business, growing and selling flower nurseries to residents in and around Honiara to beautify their homes.

But when I asked him about how his business was going, he told me that he no longer sells plant nurseries. He has now gone into Custom Clearing Service, working with another business partner who happens to be another Solomon Islander. He then told me about some of the key challenges that he and his business partner are facing in trying to operate their business in Honiara; one of which is to find an office space to work from.

He told me that rental market for office spaces in Honiara is prohibitive for a mini small business enterprise like his. And finding an office space at a reasonable price is a difficult challenge. Furthermore, to secure a plot of land to build an office is at best, only a dream for mini business-owners like him. He told me that he and his partner have to operate their business through mobile phones to serve their clients, but said this was not easy!

This story illustrates one of the many challenges that our indigenous people face in trying to participate and become successful business citizens in our beloved country, Solomon Islands.

Identifying these challenges faced by our people and finding workable solutions to address on ways to facilitate the national goals of economic participation of Solomon Islanders through the encouragement and promotion of mini and small and medium enterprises developments remains a challenge for all of us involved in policy making.

There are 4 thoughts that I want to share in my remarks this morning.

First is the demonstration of commitment by the Government to assist Solomon Islanders to participate in businesses through the provision of this loan guarantee scheme.

On this note I would like to congratulate the DCC Government on its policy objective to encourage Solomon Islands indigenous enterprises to become active businesses and economic citizens through income generation activities in urban and rural areas, through the provision of additional funds under the loan guarantee scheme.

This policy objective complements the National Financial Inclusion objective that we in the CBSI chair, to improve financial services delivery to the MSME sector; for without creating the additional funding opportunities for MSMEs, it would be pointless to talk about financial services delivery to a non-existing MSME sector.

The Central Bank's involvement in the administration of the guarantee scheme goes a long way back to 1983 when it first introduced the Small Loans Guarantee

Scheme [SLGS] to address the difficulties (particularly, the lack of security) to access credit by Solomon Islanders.

Over the years, several revisions have been made to the scheme and in 2007, the scheme was revived with a seed funding of \$10 million from the Government after it remained inactive for about ten years following the ethnic tension. But with the additional \$2.5 million now deposited to the fund, the scheme now has been widened to cover mini enterprises, instead of just small and medium enterprises.

I understand the maximum guarantee is 90% of unsecured portion of qualified loans and minimum loan is set at 20 thousand dollars and maximum loan eligible is one million dollars. [Details of the scheme is available in the information pamphlet with Ministry of commerce Industries Labour and Immigration and the Banking department of the Central Bank.]

The Small Business Finance scheme has been a source of startup capital for many Solomon Islander owned businesses in past that are now operating in the country. I hope the additional capital and the inclusion of mini business enterprises to the financing scheme will encourage more Solomon Islanders to become successful business and economic citizens.

Secondly let me dispel the idea that this additional funding to increase the amount to support commercial loans offered to our mini, small and medium enterprises is a free money.

Let all be informed that the fund deposited in the loan scheme is not a free money scheme. It is tax payers' money made available to facilitate risk sharing between the Government, the borrower and the participating commercial banks to enable sound business proposals from individuals or micro, small and medium business enterprises can get the financial support to grow their business and in turn contribute to the economic activities in Solomon Islands.

I am told that there are about 5000 MSMEs that are currently registered with the Ministry of Commerce Industries Labour and Immigrations. However, our report card for nominations under the guarantee scheme in the last 9 years, show only 64 applications came through the banks for consideration under the credit guarantee scheme – that’s about 7 nominations per year. You can do the math but what the statistics reveal is that a majority of MSMEs are still finding it difficult to access financing support from Banks for one reason or another.

Of course there are many reasons for this but using the commercial banks to assess the loan applications requires that the borrower’s application must be tested against the commercial banks’ lending criteria, such as Know Your Customer requirements, good business proposals that is believable, and provision of supporting audited financial history to support the application. If your application is approved you have passed the credit worthy test of the commercial banks!

Which leads me to my third point.

The Government should be encouraged to go beyond just providing the loan funding if Solomon Islanders are to become active economic and business citizens in the country.

For examples the need to address spaces both in terms of physical location and in terms of policies to ring fence business opportunities that Solomon Islanders can participate in, are critical policy areas. At the same time the ongoing efforts to train our people on business management skills training and financial literacy and protecting and identifying opportunities in business value chains for our indigenous Solomon Islanders, must be actively pursued.

In this regard, I am not advocating protectionism, but only to remind the legislators and policy makers that that prioritizing our citizens to participate in the businesses and economic development must remain a priority area for any government of the day, since this can encourage employment and participation of Solomon Islanders as economic citizens and can lead building good relationships with other businesses and service providers in our country.

Finally, is the need for the government through the Ministry of Commerce Industries Labour and Immigration and CBSI, through the Solomon Islands National Financial Inclusion Taskforce members to work together to understand and improve financial services delivery to the MSME sector.

Specifically, Objective 2 in the National Financial Inclusion strategy 2016-2020 has the goal of improving financial services delivery to the MSME sector. It states that over the planned period we plan to:

1. Continue testing approaches to strengthening links between demand and supply in MSME finance.
2. Create a common platform and ongoing coordination between all stakeholders committed to MSME financing and entrepreneurial skills.
3. Target MSMEs in strategic rural value chains for financial awareness and deeper integration into the financial system.
4. Build understanding of MSME needs and provide training to build entrepreneurial and financial management skills, especially of young adults and female entrepreneurs.

I also see the government and the regulator developing strategies to finance the MSME sector through perhaps regulatory reforms and new funding schemes. For the banks, the advent of technological innovations provide the opportunity to introduce new banking solutions in the digitalized future. Under the Financial Inclusion agenda, therefore, I see strong and positive linkages in economic

growth, financial stability and financial reforms, going forward for our MSME sector.

We would agree that encouraging growth of our MSMEs access to financial services can create jobs in our urban and rural areas, ensure steady income flows, reduce vulnerability because of proper risk management tools and increase investments in human capital.

Ignoring this sector would have negative consequences resulting in greater disparities that lead to wider economic and social gaps in our communities.

With regards to this present scheme, I would urge the participating banks through their mini, small and medium businesses enterprise lending divisions to assist Solomon Islanders to make use of this facility without compromising of course, your credit decision making framework. Accessing and success in the use of this facility is really in your hands.

Conclusion

Ladies and gentlemen, the fact that the DCC government has contributed an additional two and half million dollars towards this guarantee fund shows the commitments of the government to address the financing needs for indigenous Solomon Islands businesses.

The Ministry of Commerce Industries Labour and Immigration, the CBSI and its National Financial Inclusion Taskforce partners must work together to ensure that Mini, Small and Medium Enterprises can grow and encourage more Solomon Islanders to become successful business and economic citizens in their country.