



A comparative study of the financial problems faced by micro, small and medium enterprises in the manufacturing sector of Fiji and Tonga

Financial
problems faced
by MSMEs

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Abstract

Purpose – Globally, there is an increased recognition of the important role played by micro, small and medium enterprises (MSMEs) in the economic development of a country. Similarly, in the South Pacific region, MSMEs is the main engine behind the economic growth. In particular, MSMEs is one of the biggest contributors to GDP, employment and plays a core role in the supply chain of large businesses. One of the major problems faced by MSMEs in South Pacific Island countries is a lack of finance to advance business growth. Against this backdrop, the purpose of this paper will be to examine the financial obstacles faced by MSMEs.

Design/methodology/approach – The main objective of this study is to explore the financial obstacles faced by MSMEs in the manufacturing sector of Fiji and Tonga. In particular, this research tries to evaluate the severity of the impact of each of the financial obstacles on the growth and survival of MSMEs in Fiji and Tonga.

Findings – The research involved conducting a survey of 200 MSMEs in Fiji and Tonga. The study concluded that financial problems faced by the MSMEs could be divided into three broad categories: financing problems; operational and administrative problems; and sales and debtors problems. The 19 financial obstacles tested in this research falls under these broad categories.

Originality/value – This research is original and highly value to a wide range of readers. Scholars, practitioners, aid donors are widely interested to understand the status of MSMEs in Fiji and Tonga. Research of this nature has never been conducted in Fiji.

Keywords Fiji, Tonga, Small to medium-sized enterprises, Business development, Public policy, Capability transfer, Area studies, Business-government relations, Financing development, Post crisis, Finance, Financial obstacles, Development banks, Regulatory policies

Paper type Research paper

1. Introduction

Micro, small and medium enterprises (MSMEs) in the manufacturing sector of Fiji are mainly export oriented and include industries such as textiles, garments, footwear, sugar, food processing, beverages (including mineral water) and wood-based industries. The manufacturing sector of Tonga mainly provides its output to the local Tongan economy. The manufacturing sector has been one of the major contributors to gross domestic product (GDP), employment and foreign exchange earnings. Particularly, the MSMEs in the manufacturing sector of Fiji and Tonga have made remarkable contributions to economic growth, employment, innovation, competition and poverty reduction (Browne and Scott, 1989; Coley, 1993; Fiji Bureau of Statistics, 2011). Financing the MSMEs is one of the major problems faced by contemporary



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owners/managers of MSMEs in the manufacturing sector of Fiji and Tonga. Problems include: an inability to obtain external financing; inability to obtain internal financing; insufficient capital, heavy start-up costs; expensive raw materials; high wholesale price; large losses due to scrap rate, sabotage, breakage and crime; decline in sales volume; bad debts and write offs; heavy equipment and maintenance costs; high government tax, VAT and customs duty; heavy advertising and promotional costs; high payroll, rent and utilities; high transportation and petrol costs; high interest rates on loans; inability to meet financial obligation; high training and development costs; and high insurance costs and delay in account receivables payment.

In this context, this paper aims to examine these financial obstacles based on three important themes such as:

- (1) financing problems;
- (2) operational and administrative problems; and
- (3) sales and debtors problems (Huang and Brown, 1999; Cromie, 2009; Gitman and McDaniel, 2009).

The paper will also provide some important recommendations for owners/managers of MSMEs and government policy makers so that the growth and survival of MSMEs in the manufacturing sector of Fiji could be secured.

2. Background of the MSMEs in the manufacturing sector of Fiji and Tonga

2.1 Overview of MSMEs in the manufacturing sector of Fiji

The Fiji islands belong to the island group of Oceania in the South Pacific and have a total land area of 18,270 km². Notably, the Fijian archipelago constitutes 322 islands of which only 110 are inhabited. The arable land area of the Fiji islands is 10.95 percent of the total land area (Central Intelligence Agency, 2009). The GDP at factor cost in 2008 was FJ\$4,861.4 million and in 2009 it was FJ\$4,761.1 million. The annual growth rate of GDP at factor cost in 2008 was 4.6 percent, and in 2009 it was negative 2.1 percent. Importantly, the manufacturing sector of Fiji has made significant contributions to Fiji's economy. The GDP at constant prices of 2005 of the manufacturing sector at factor cost was FJ\$606,697,000 in 2008 and FJ\$594,526,000 in 2009. In 2005 the manufacturing sector provided employment to 15,492 males and 10,035 females. Out of this, 22,852 were wage earners and 2,657 were salary earners (Fiji Bureau of Statistics, 2011). According to the Commonwealth Secretariat's definitions of MSMEs, small island states tag a limit between one and ten employees ($1 \geq n \leq 10$) as micro enterprises, 11-50 employees ($11 \geq n \leq 50$) as small enterprises and 51-200 employees ($51 \geq n \leq 200$) as medium-sized enterprises. Table I shows the number of MSME establishments in Fiji.

No.	Category of business	Total number of employees	Frequency	Percentage
1	Micro enterprises	1-10	449	54
2	Small enterprises	11-50	266	32
3	Medium enterprises	51-200	116	14
	Total		831	100

Table I.
MSMEs in Fiji

Source: Fiji Bureau of Statistics (2011)

Table I shows that there are 449 (54 percent) micro enterprises, 266 (32 percent) small enterprises and 116 (14 percent) medium enterprises in the manufacturing sector of Fiji.

2.2 Overview of the MSMEs in the manufacturing sector of Tonga

Tonga is an archipelago in Oceania that has a total area of 748 km² (land is 718 km² and sea is 30 km²). The culture of Tonga is very conservative and the Tongans still follow indigenous governance. In 1845, the archipelagos of “The Friendly North Islands” were united into a Polynesian Kingdom. Further, in 1875, Tonga became the constitutional and, in 1970, it became a British Protectorate. Tonga is the only Monarchy in the Pacific Island Countries (Central Intelligence Agency, 2009). Over the last six years the Tongan economy has been subject to fluctuations. During 2006-2007 Tonga’s economy contracted by 1.2 percent and it expanded by 2 percent during 2007-2008 in real terms and later during 2008-2009 it again contracted by 0.4 percent. Over the last eight years the real growth rate of the Tongan economy has averaged around 0.9 percent per annum. During the period 2008-2009 the estimated GDP at constant prices was T\$378.3 million (Tonga Department of Statistics, 2010a). The manufacturing sector of Tonga has played a key role in the development of the Tongan economy in terms of providing employment, earning foreign exchange earnings and contribution to GDP. Table II shows the summary of the contribution of the manufacturing sector to the Tongan economy in 2006.

Table II shows that there are 120 registered manufacturing companies in Tonga. These companies are mainly involved in manufacturing activities such as food products and beverages, publishing and printing, chemicals and chemical products, non-metallic mineral products, fabricated metal products, manufacture of furniture and other manufacturing industries. The manufacturing industry in Tonga provides employment to 1,267 Tongans, pays T\$5,663,000 in wages and salaries and the output

No.	Manufacturing production	Number of establishments	Employment	Wages and salaries T\$(‘000)	Average production per establishment T\$(‘000)
1	Food products and beverages	58	710	2,954	283
2	Publishing and printing	4	81	162	318
3	Chemicals and chemical products	4	73	645	786
4	Non-metallic mineral products	10	97	307	276
5	Fabricated metal products	7	48	189	43
6	Furniture	13	93	614	126
7	Other manufacturing industries	24	165	801	79
8	Total	120	1,267	5,663	228

Source: Tonga Department of Statistics (2010b)

Table II.
Summary of the contribution of the manufacturing sector to the Tongan economy in 2006

per company is T\$228,000. Table II shows the number of MSMEs in the manufacturing sector of Tonga.

Table III shows that there are 44 (37 percent) micro enterprises and 76 (63 percent) small enterprises in the manufacturing sector of Tonga.

3. Literature review

Small businesses have been the pillars of economic growth and development both in developed and developing countries. Notably, in many countries small businesses have surpassed their large counterparts in terms of innovation, creativity and job creation. Recently, there have been various debates concerning the importance of small businesses and the various constraints faced by MSMEs. Apparently, such debates have been polarised by Edmister (1972), Schworm (1980), Pettit and Singer (1985), Fazzari *et al.* (1988), Yusuf (1995), Berger and Udell (1995), Baldacchino (1995, 1999), Rajan and Zingales (1998), Rue and Ibrahim (1998), Carpenter and Petersen (2002), Lownes-Jackson *et al.* (2003), Palliam (2005), Scott (2007), Simens (2007), Wonglimpiyarat (2007), Wu *et al.* (2008), Giroux (2009), Datta (2010) and Pandaram and Amosa (2010). These studies are both quantitative and qualitative in nature. In this section we will provide a brief overview of selected studies related to our study.

One of the most prominent studies conducted by Lownes-Jackson *et al.* (2003) emphasised 11 financial obstacles faced by African-American entrepreneurs. These financial variables are, namely: inability to obtain outside financing; insufficient capital; heavy operating expenses; poor money management; large losses due to crime; meeting the payroll; inability to obtain trade credit; insufficient profit; ability to meet financial obligations; and health insurance costs and cost of workers' compensation. Apparently, the inability of small businesses to obtain internal and external financing has been continuously emphasised by academics and practitioners in the extant literature (Pettit and Singer, 1985). Keeping all the other variables such as creditworthiness constant, Blacks are twice likely to be denied credit. Statistical evidence on short-term business loans suggest that Blacks are approved loans 62 percent of the time, Hispanics are approved loans 87 percent of the time followed by 90 percent for Whites and 96 percent for Asians (Marable, 2000; Cavalluzzo, 2002; House-Sorekemun, 2002; Giloth, 2007). The African-American business owners believe that their capital needs cannot be entirely met by the banking system (Blanchflower *et al.*, 1998; Bates, 1993; Coleman, 2002). According to Berger and Udell (1998, 2002) banking crisis, capital shortfalls and regulatory difficulties have caused drastic reductions in banks providing credit to MSMEs in countries such as Japan, Korea the Scandinavian countries, the USA and the others. Further the banking crisis is followed by periods of recession and reduced

No.	Category of business	Total number of employees	Frequency	Percentage
1	Micro enterprises	1-10	44	37
2	Small enterprises	11-50	76	63
3	Medium enterprises	51-200	0	0
	Total		120	100

Table III.
MSMEs in Tonga

Source: Tonga Department of Statistics (2010b)

economic growth, hence this contributes to increasing interest rates on loans by the banks to the MSMEs (Radelet and Sachs, 2001; Hoelscher and Quintyn, 2003).

Evidently, Chow and Fung (2000) conducted a study on liquidity constraints in financing small business development in the manufacturing sector of Shanghai. The research findings from this study contribute to the existing debate on small business finance literature, hence emphasising that external finance is more expensive to small business as compared with internal finance. Notably, factors such as transaction costs, agency problem and asymmetric information have created such constraints for small businesses in China (Tsang, 1994; Winn, 1994; Watson *et al.*, 1998; Huang and Brown, 1999; Berger *et al.*, 2001; Bracker *et al.*, 2006; Wu *et al.*, 2008; Datta, 2010). Building onto these studies, Wang (2004) highlighted that small and medium enterprises are playing a vital role in China's economic reform and development. However, the small and medium enterprises in China are facing difficulties such as lagging in the banking system, inadequate financial structure and lack of a guarantee system. Similar research findings are also obvious in Thailand. Contemporary studies conducted by Abe (1999), Somboonsuke and Shivakoti (2000) and Ngamkroekjoti and Johri (2003) highlighted that the 1997 Economic Crisis in the South East Asian countries posed a highly turbulent and changing economic environment; hence SMEs in Thailand were facing difficulties in obtaining internal and external finance. One of the most prominent studies was conducted by Peterson and Shulman (1987), who provided international evidence that formal financing to SMEs by banks could be divided into four stages of development; namely, start-up, survival, growth, and establishment. The main research findings from this study highlighted that at the start-up stage of business development, 91 percent of SMEs in West Germany had bank loans, 56 percent in Canada, 21 percent in Japan and 32 percent in The Netherlands. Notably, at the survival stage of business development 87 percent of SMEs in West Germany had bank loans, 73 percent in Canada, 61 percent in Japan and 60 percent in The Netherlands. Further, at the growth stage of business development 84 percent of SMEs in West Germany had bank loans, 77 percent in Canada, 84 percent in Japan and 71 percent in The Netherlands. Finally, at the survival stage of business development 86 percent of SMEs in West Germany had bank loans, 67 percent in Canada, 81 percent in Japan and 67 percent in The Netherlands.

Apparently the debate amongst academics and practitioners in the contemporary literature emphasizes that financial constraints faced by SMEs in India, Sri Lanka, Indonesia and Malaysia are significantly higher than marketing or management constraints (Levy, 1993; Tambunan, 2008). Bandari and Bajpai's (2005) study concluded that SMEs in India are more likely to have debt burdens as compared with their large counterparts. This financial situation arises because SMEs are not able to compete with their large counterparts. Thevaruban (2009) examined small-scale industries and their financial problems in Sri Lanka. He underscored that MSMEs of small-scale industries in Sri Lanka find it extremely difficult to get outside credit because the cash inflow and savings of the MSMEs in the small-scale sector is significantly low (Ganesan, 1982, 2000; Gunatilaka, 1997; Laxmi and Kumar, 1999). Hence, bank and non-bank financial institutions do not place much emphasis on credit lending for the development of the MSMEs in the small-scale sector in Sri Lanka. Studies conducted in Indonesia by Bolnick (1982, 1983), Patten and Rosengard (1991), McLeod and Bouman (1994) and Sim (1999) underscored that the role of the formal

finance is to complement but not to supplant the informal sector. These studies affirm that Indonesia's financial policy in the 1970s and 1980s was mainly directed to repress informal finance, boosting the formal sector and financial repression. Building onto these studies, Indarti and Langenberg (2004) conducted a survey of 100 SMEs in Indonesia. This study disclosed that some of the critical success factors of SMEs in Indonesia are marketing, technology and capital access. Out of these, the most significant factor that determines the success of small businesses in Indonesia is capital access. Similar research findings are also evident in Malaysia. According to Chee (1986), many Malaysian SME owners find difficulty in obtaining loans because of lack of capital. Other studies such as Boocok and Wahab (1999), Ede *et al.* (2000) and Rose *et al.* (2006) highlighted that SME owners in Malaysia face financial constraints because they do not have specific competency in the area of finance.

In the context of South Pacific Island countries, studies have been conducted by Yusuf (1995), Baldacchino (1995, 1999) and Pandaram and Amosa (2010) on the financial problems faced by SMEs. Essentially, Yusuf's (1995) study surveyed 220 entrepreneurs from Melanesian Papua New Guinea (PNG), Vanuatu, Polynesian Western Samoa, the Micronesian state of Marshall Islands and Fiji. This study concluded that indigenous and non-indigenous entrepreneurs had different views on the critical success factors of their businesses. The non-indigenous entrepreneurs viewed access to capital as a much less critical factor because they have a network of business contacts, good reputation, and significant control of prime business locations. Indigenous South Pacific entrepreneurs stated that they lack the capacity to access the lending facilities of the bank and non-bank financial institutions because of the strict requirements imposed by formal and institutional capital sources. Baldacchino (1995, 1999) highlighted that small island states such as Fiji, as compared with its counterparts, lack the investment capital that can be permeated into the development of MSMEs. Building onto these studies, Pandaram and Amosa (2010) examined opinions from family business entrepreneurs concerning the impact of family and business factors in the general operations of their businesses. Particularly, the business factors of great importance to family business entrepreneurs were corporate taxes, customer pricing demands, political stability and increasing costs of labour and materials. Notably, the family factors of significant importance to the family business entrepreneurs were succession planning and the risk of the firm being in-grown (Rogers, 2003; Pinson and Jinnett, 2006; Strauss, 2008; Fredrick and Kuratko, 2010).

To conclude, there is a large degree of consensus in the studies that financial obstacles are one of the key exploratory determinants of the growth and survival of small businesses.

4. Research methodology

The main objective of this study is to explore the financial obstacles faced by MSMEs in the manufacturing sector of Fiji and Tonga. In particular, this research tries to evaluate the severity of the impact of each of the financial obstacles on the growth and survival of MSMEs in Fiji and Tonga. According to the Commonwealth Secretariat (2009), the definition of MSMEs is combination of indicators, namely, employee numbers and financial criteria (revenue, asset base, capital, etc.). The Commonwealth Secretariat tags a limit between one and ten employees ($1 \geq n \leq 10$) as micro enterprises, 11-50 employees ($11 \geq n \leq 50$) as small enterprises and 51-200 employees ($51 \geq n \leq 200$) as medium-sized enterprises. This definition of MSMEs was used for tabulating and analysing the size

distribution of the sample. After conducting the literature review and preliminary interviews with owners/managers of MSMEs in Fiji and Tonga, a self-administered questionnaire was designed and delivered to the owners/managers of MSMEs in the manufacturing sector of Fiji and Tonga. The 19 financial obstacles that were tested in the study were derived from literature reviews and preliminary interviews with owners/managers of MSMEs in Fiji and Tonga. Self-responsibility was taken in the delivery and assortment of the questionnaire because the response rate seems higher than it is for straightforward mail surveys (Corbetta, 2003; Babbie, 2010; Blaikie, 2010). The owners/managers were asked to use their experiences in their business to rate the questions on a five-point Likert scale where (1) signified not important and (5) signified extremely important (Brace, 2008; Kumar, 2008). The questionnaire was developed using the previous questionnaires developed by Lownes-Jackson (1997), Lownes-Jackson *et al.* (2003) and Reynolds (1998) for their studies. The questionnaires used for these studies were further modified to reflect the South Pacific context. The questionnaire was pre-tested with 40 owners/managers of MSMEs in the manufacturing sector of Fiji and Tonga. The owners/managers comments were gathered and the questions were revised accordingly. The revised version of the questionnaire was delivered to 370 owners/managers of MSMEs in the manufacturing sector of Fiji and Tonga.

Evidently, out of 370 questionnaires distributed in Fiji and Tonga, 200 (54.1 percent) owners/managers returned usable questionnaires. Table IV shows the demographic

Demographic characteristics	Demographic variables	Fiji		Tonga		Total	
		n = 100	%	n = 100	%	n = 200	%
Category of business	Micro	55	55	31	31	86	43
	Small	25	25	69	69	94	47
	Medium	20	20	0	0	20	10
Gender	Male	84	84	97	97	181	90.5
	Female	16	16	3	3	19	9.5
Ethnicity	Ethnic Fijians	21	21	0	0	21	10.5
	Indo Fijians	51	51	0	0	51	25.5
	Chinese	23	23	0	0	23	11.5
	Part Europeans	5	5	6	6	11	5.5
Age	Tongans	0	0	94	94	94	47
	Less than 20 years	0	0	0	0	0	0
	20-30 years	43	43	29	29	72	36
	31-40 years	47	47	55	55	102	51
Working experience	More than 40 years	10	10	16	16	26	13
	None	9	9	16	16	25	12.5
	1-5 years	32	32	26	26	58	29
	6-10 years	38	38	50	50	88	44
Education level	More than 10 years	21	21	8	8	29	14.5
	Primary school	36	36	51	51	87	43.5
	High school	44	44	28	28	72	36
	Vocational diploma	15	15	19	19	34	17
	Tertiary studies	5	5	2	2	7	3.5

Source: Created by Authors (2011)

Table IV.
Demographic
characteristics of the
owners/managers in Fiji
and Tonga

characteristics of the owners/managers of MSMEs in Fiji and Tonga. The demographic indicators considered were gender, ethnicity, age, working experience, years of entrepreneur experience and education level. Out of the 200 manufacturing enterprises studied, 86 (43 percent) were micro businesses, 94 (47 percent) were small businesses and 20 (10 percent) were medium enterprises. There were 181 (90.5 percent) males and 19 (9.5 percent) females. Of the 200 respondents to the ethnicity item, 21 (10.5 percent) were Ethnic Fijians, 51 (25.5 percent) were Indo Fijians, 23 (11.5 percent) were Chinese, 11 (5.5 percent) were Part Europeans and 94 (47 percent) were Tongans. The distribution of the age item is as follows: 72 (36 percent) were between 20 and 30 years of age, 102 (51 percent) were between 31 and 40 years and 26 (13 percent) were more than 40 years old. A vast majority of the owners/managers working experience concentrated between six and ten years (88 owners/managers; 44 percent) followed by one to five years (58 owners/managers; 29 percent), more than ten years (29 owners/managers; 14.5 percent) and no working experience (25 owners/managers; 12.5 percent). With 200 total respondents, the distribution of the highest education level is as follows: 87 (43.5 percent) had primary school education, 72 (36 percent) had high school education, 34 (17 percent) had vocational diploma, 7 (3.5 percent) had graduate degree.

5. Analysis and discussion

The 200 owners/managers of the manufacturing sector of Fiji and Tonga emphasised many financial problems that they were facing in the contemporary dynamic business environment. Some of the common financial problems faced by MSMEs are, namely: inability to obtain external financing; inability to obtain internal financing; insufficient capital, start-up costs; expensive raw materials; high wholesale price; large losses due to scrap rate, sabotage, breakage and crime; decline in sales volume; bad debts and write offs; heavy equipment and maintenance costs; government tax, VAT and customs duty; payroll, rent and utilities; transportation and petrol costs; high interest rates on loans; ability to meet financial obligation; and insurance costs and delay in account receivables payment. These financial problems can be categorised into various themes such as:

- (1) financing problems;
- (2) operational and administrative problems; and
- (3) sales and debtors problems (Huang and Brown, 1999; Cromie, 2009; Gitman and McDaniel, 2009).

The financial problems faced by MSMEs are discussed under these three important categories. Table VI shows the mean values and the *t*-values of the financial obstacles faced by owners/managers of MSMEs in Fiji and Tonga.

5.1 Financing problems

The literature review revealed that one of the most significant problems faced by owners/managers of small businesses is financing problems. Essentially, this study is not an exception to this. Table V shows that financing problems, namely, inability to obtain external ($\overline{FJ} = 4.58, t = 19.30, p < 0.01; \overline{TG} = 4.89, t = 60.10, p < 0.01$) and internal financing ($\overline{FJ} = 4.55, t = 19.19, p < 0.01; \overline{TG} = 4.83, t = 48.47, p < 0.01$), insufficient working capital ($\overline{FJ} = 4.1, t = 11, p < 0.05; \overline{TG} = 4.25, t = 28.72, p < 0.01$), high start-up costs ($\overline{FJ} = 4.84, t = 49.95, p < 0.01; \overline{TG} = 4.89,$

No.	Financial obstacles	Fiji		Tonga		Total	
		\overline{FJ}	t -value	\overline{TG}	t -value	\overline{T}	t -value
F1	Inability to obtain external financing	4.58	19.30**	4.89	60.10**	4.74	38.47**
F2	Inability to obtain internal financing	4.55	19.19**	4.83	48.47**	4.69	37.20**
F3	Insufficient working capital	4.10	11.00*	4.25	28.72**	4.18	21.50*
F4	High start-up costs	4.84	49.95**	4.89	60.1**	4.87	76.99**
F5	Expensive raw materials	4.80	44.77**	4.85	51.56**	4.83	67.76**
F6	High wholesale price	4.77	41.85**	4.82	47.14**	4.80	62.72**
F7	Large losses due to scrap rate, sabotage, breakage and crime	1.90	-36.48	1.91	-37.90	1.91	-52.68
F8	Decline in sales volume	4.55	31.00**	4.25	28.72**	4.40	40.31**
F9	High bad debts and write offs	4.10	11.00*	4.79	43.72**	4.45	24.42**
F10	Heavy equipment maintenance costs	2.90	-1.00	2.75	-5.74	2.83	-3.20
F11	Heavy government tax, VAT and customs duty	4.78	42.75**	4.73	38.77**	4.76	57.56**
F12	Heavy advertising and promotional costs	1.45	-31.00	1.44	-31.27	1.45	-44.14
F13	High payroll, rent and utilities	4.10	11.00*	4.25	28.72**	4.18	21.50**
F14	High transportation and petrol costs	4.55	31.00**	4.70	36.91	4.63	47.35**
F15	High interest rates on loans	4.68	35.83**	4.25	28.72**	4.47	41.43**
F16	Inability to meet financial obligation	2.92	-2.93	4.77	41.85**	3.85	12.04
F17	High training and development costs	2.45	-11.00	1.81	-30.18	2.13	-22.92
F18	High insurance costs	2.87	-3.846	2.83	-4.50	2.85	-5.93
F19	Delays in account receivables payment	4.83	48.47**	4.85	51.55**	4.84	70.80**

Note: Significant at: * $p < 0.05$ and ** $p < 0.01$

Source: Created by Authors (2011)

Table V.
Simple statistics of the financial obstacles faced by owners/managers in the manufacturing sector of Fiji and Tonga

$t = 60.10$, $p < 0.01$); high interest rates on loans ($\overline{FJ} = 4.68$, $t = 35.83$, $p < 0.01$; $\overline{TG} = 4.25$, $t = 28.72$, $p < 0.01$) and inability to meet financial obligation ($\overline{FJ} = 2.92$, $t = -2.93$, $p > 0.05$; $\overline{TG} = 4.77$, $t = 41.85$, $p < 0.01$) had high mean values and significant p -values. The mean and p -values of financial obstacles such as inability to obtain external and internal financing, insufficient working capital, high start-up costs and inability to meet financial obligation are greater for Tonga as compared with Fiji because the Tongan economy is largely subsistence-oriented and small, hence the owners/managers in the manufacturing sector in Tonga face more problems in securing loans. During the start-up stage of a MSME, the owners/managers will have to depend on both formal and informal channels of financing (Longenecker *et al.*, 2006; Bianchi and Bivona, 2000). MSMEs are faced with heavy start-up costs because they need to secure enough finance for purchase of assets and meeting daily operational expenses (Lumme *et al.*, 1998; Levy *et al.*, 1999). The need for finance by the MSME fluctuates due to the MSME's stage of maturity in the pecuniary life cycle (Read, 1998; Organisation for Economic Cooperation and Development, 1999). Owners/managers of MSMEs will distinctively rely on internal and external sources of funds to finance their businesses (Baron and Shane, 2008; Mises, 2002). MSMEs in the manufacturing sector of Fiji and Tonga find that debt financing is necessary. Particularly, internal sources of finance for the owners/managers of MSMEs include personal savings and loans from family and friends. When the internal financing is insufficient then the owners/managers of MSMEs will resort to external sources of funds. The external sources of financing for owners/managers in the manufacturing sector of Fiji and

Tonga include banks, business suppliers and asset-based lenders. Table VI shows interest rates on MSME loans charged by banks in Fiji and Tonga.

Table VI shows that ANZ in Fiji charges 10.95 percent, Fiji Development Bank charges 6.5 to 9.6 percent, Westpac Banking Corporation in Fiji charges 9.99 percent, Baroda in Fiji charges 11 percent, ANZ in Tonga charges 10.95 percent, Westpac Banking Corporation in Tonga charges 9.99 percent and Tonga Development Bank charges 6.0 to 9.4 percent. These interest rate charges of the banks in Fiji and Tonga are very high for the owners/managers of MSMEs.

5.2 Operational and administrative problems

Government financial regulation on MSMEs has significantly disadvantaged the MSMEs as compared with their large counterparts. Specifically, the financial regulations imposed on MSMEs such as government tax, VAT and customs duty has various implications on the success and survival of small business. More importantly, government has provided enormous tax breaks to large employers who operate in tax-free jurisdictions-tax-free zones. Owners/managers of MSMEs in the manufacturing sector in Fiji and Tonga usually have the political clout to enjoy such tax-free advantages however, the idea of MSMEs tax-free zones have not yet been implemented in Fiji and Tonga. For instance, in Fiji the owners/managers of the manufacturing sector are charged 31 percent income tax on their profits and 12.5 percent VAT, and, particularly in 2011, the VAT charges will increase to 15 percent (Interview with Taxation Officer, 2010). In Tonga, the owners/managers of the manufacturing sector are charged 25 percent income tax on their profits and 15 percent VAT (Tonga Customs, 2011). This is clearly evident from the high mean and *p*-values for government income tax, VAT and customs duty from owners/managers from the manufacturing sector of Fiji ($FJ = 4.78, t = 42.75, p < 0.01$; $TG = 4.73, t = 38.77, p < 0.01$).

MSMEs in the manufacturing sector of Fiji and Tonga are handicapped with low echelon of process automation and elevated cost of importing better technology. The imported technologies and the software solutions are not customised and further the cost of customisation is exorbitant. More importantly, the maintenance is expensive and time consuming. In particular, the manufacturing sector in Fiji and Tonga is also faced with large losses due to scrap rate, sabotage, breakage and crime. Simultaneously, MSMEs have to develop an insurance plan for their business. MSMEs in the manufacturing sector of Fiji and Tonga often insure for property and liability insurance. Of greater significance is the fact that having a property

No.	Region	Name of bank	Interest rate on MSME loans p.a. (%)
1	Fiji	ANZ in Fiji	10.95
2		Fiji Development Bank	6.5-9.6
3		Westpac Banking Corporation in Fiji	9.99
4		Baroda in Fiji	11
5	Tonga	ANZ in Tonga	10.95
6		Westpac Banking Corporation in Tonga	9.99
7		Tonga Development Bank	6.0-9.4

Source: Interview with Loans Officers (2010, 2011)

Table VI.
Interest rates on MSME
loans charged by banks
in Fiji and Tonga

and liability insurance cover for MSMEs helps in securing good customers. This is clearly evident from low mean and p -values for heavy equipment and maintenance costs ($\overline{FJ} = 2.9, t = -1.00, p > 0.05$; $\overline{TG} = 2.75, t = -5.74, p > 0.05$), large losses due to scrap rate, sabotage, breakage and crime ($\overline{FJ} = 1.90, t = -36.48, p > 0.05$; $\overline{TG} = 1.91, t = -37.90, p > 0.05$) and insurance costs ($\overline{FJ} = 2.87, t = -3.846, p > 0.05$; $\overline{TG} = 2.83, t = -4.50, p > 0.05$), heavy advertising and promotional costs ($\overline{FJ} = 1.45, t = -31, p > 0.05$; $\overline{TG} = 1.44, t = -31.27, p > 0.05$) and training and development costs ($\overline{FJ} = 2.45, t = -11, p > 0.05$; $\overline{TG} = 1.81, t = -30.18, p > 0.05$). Apparently, expensive raw materials ($\overline{FJ} = 4.80, t = 44.77, p < 0.01$; $\overline{TG} = 4.85, t = 51.56, p < 0.01$), high wholesale price ($\overline{FJ} = 4.77, t = 41.85, p < 0.01$; $\overline{TG} = 4.82, t = 47.14, p < 0.01$), payroll, rent and utilities ($\overline{FJ} = 4.1, t = 11, p < 0.05$; $\overline{TG} = 4.25, t = 28.72, p < 0.01$), and transportation and petrol costs ($\overline{FJ} = 4.55, t = 31, p < 0.01$; $\overline{TG} = 4.7, t = 36.91, p < 0.01$) had high mean and p -values. This simply indicates that MSMEs' primary goal is to survive in the contracting economic environment of Fiji and Tonga.

5.3 Sales and debtors problems

Managing sales and debtors in small businesses is one of the most crucial problems faced by MSMEs in the manufacturing sector of Fiji and Tonga. According to one of the owners of a MSME in Tonga:

[...] the sales over the past few years have been going down and the debtors are also delaying in making payments on time. Even though we send several reminders for them to pay they are still asking us to give them some more time. I do not know how my business is going to survive if the debtors are going to delay their payments [...]

Statistical evidence suggests that, in 2009, Fiji's economy contracted by an estimated 2.5 percent (Government of the Fiji Islands, 2010) and Tonga's economy contracted by 0.4 percent (Tonga Department of Statistics, 2010a). Apparently, this contraction in the economy has resulted in declining sales volume ($\overline{FJ} = 4.55, t = 31, p < 0.01$; $\overline{TG} = 4.25, t = 28.72, p < 0.01$), delays in accounts receivable payments ($\overline{FJ} = 4.83, t = 48.47, p < 0.01$; $\overline{TG} = 4.85, t = 51.55, p < 0.01$) and high bad debts and write offs ($\overline{FJ} = 4.1, t = 11, p < 0.05$; $\overline{TG} = 4.79, t = 43.72, p < 0.01$).

6. Recommendations

6.1 Minimum government regulation and tax

Notably, one of the serious complaints from owners/managers of MSME is the impact of regulation on MSMEs and particularly the disproportionate impact of government regulations on MSMEs in Fiji and Tonga. The disproportionate impact of the government regulation and taxation system hinders the growth and survival of MSMEs in Fiji and Tonga and might otherwise drive out some of these MSMEs who make a substantial contribution to the economy (Price, 1999; Pinson and Jinnett, 2006). Essentially, from the public policy perspective, both the direct cost of regulation and the cost of compliance of the regulation should be reduced. For instance, in Fiji on January 1, 2006 an income tax incentive scheme was introduced by the government to support the establishment of MSMEs in sectors such as agriculture, fishing projects, supportive projects to tourism industry, tourism projects and social services. This tax incentive scheme required that the income derived from agriculture, fisheries or

tourism activities of the relevant SMEs that have gross sales not exceeding FJ\$300,000 per annum be exempt from tax. This tax incentive scheme should be expanded to include other industries such as apparel, jewellery, bakery and logging (Fiji Islands Revenue and Customs Authority, 2010).

6.2 Better access to finance

Commercial markets work extremely well in providing financial services to the MSMEs. Apart from the obvious banking services, more specialist services such as term loans, factoring, invoice financing, leasing and venture capital are offered by firms which rigorously compete with one another to maximise their profits. Also part of this competition, MSMEs find it difficult to compete with their large counterparts and access the services on offer. This constrains their growth and survival. It is essential for policy makers to recognise that there need to be a cohesive and precise public policy targeted at MSMEs that will ensure that they are well protected in this dynamic and competitive environment. This recognises the need for an extensive range of diverse and well-targeted programmes such as (Bragg and Burton, 2006; Cohen, 2006):

- loan guarantee programmes;
- regulating the interest rate charged on MSME loans by the commercial markets;
- establishment of a well-established venture capital market;
- establishment of markets for private placements and initial public offerings of varying sizes;
- government-sponsored programs for delivering credit and equity funds of small business units;
- creating good awareness of the financial programs available to small businesses; and
- ensuring that MSMEs keep proper financial records.

6.3 Proper cash and credit management practices

MSME owners/managers need to realise that the real success of a business is based on its ability to keep close control over cash flows, avoiding holding excessive stocks and collecting debts on time. Many MSMEs in Fiji have failed because the owners/managers focused more on technical matters and forgot about cash flow. MSMEs still believe that delivering a quality service ensures timely payment however, owners and managers of MSMEs in Fiji and Tonga need to recognise that they need to do something positive to ensure timely payment from debtors. Owners/managers of MSMEs have to ensure that they send timely invoices to their customers. Overdue credit accounts avert further sales to the slow paying customer. This overdue account ties up seller's working capital and can also lead to losses from bad debts. There are four key items that the MSMEs need to tightly manage (Tuller, 1997; Rogers, 2003):

- (1) annual profit growth percentage, to equal or exceed sales growth percentage;
- (2) cash flow effectiveness to minimise external debt;
- (3) efficient use of assets that are as slim as possible to achieve sales; and
- (4) interest avoidance since the cost is a drain on profits.

7. Conclusion

This study analysed the importance of 19 financial obstacles facing owners/managers of MSMEs. Financial obstacles of great concern to owners/managers of MSMEs are as follows: inability to obtain external financing; inability to obtain internal financing; insufficient capital; start-up costs; expensive raw materials; high wholesale price; large losses due to scrap rate, sabotage, breakage and crime; decline in sales volume; bad debts and write offs; heavy equipment and maintenance costs; government tax, VAT and customs duty; payroll, rent and utilities; transportation and petrol costs; high interest rates on loans; ability to meet financial obligation; and insurance costs and delay in account receivables payment. Financial obstacles that are of less significance to the owners/managers are heavy advertising and promotional costs; and training and development costs. These financial problems have been categorised into various themes such as:

- financing problems;
- operational and administrative problems; and
- sales and debtors problems and have been discussed accordingly.

It is envisaged that this research will provide an explicit picture to both the academic and policy community with regard to the financial obstacles faced by owners/managers of MSMEs in Fiji and Tonga. It should assist the policy makers in designing and implementing specific and well-targeted policies for the overall benefit of MSMEs in the South Pacific region. Importantly, this research will also help the aid agencies to make informed choices about the financial sector development in the South Pacific region.

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