



MSMEs IN FOCUS

Insights on how MSMEs in Fiji are affected by extreme weather events and their readiness for disaster risk financing

Introduction and Challenge

Pacific Small Island Developing States (PSIDS), such as Fiji, are highly vulnerable to natural hazards, including earthquakes, volcanic eruptions, tsunamis, tropical cyclones, storm surges, droughts, and other weather events. Additionally, the frequency and severity of natural disasters in the South Pacific region are accelerating due to climate change, resulting in economic and social progress being increasingly disrupted, and development gains negated over the years. Natural hazard-induced disaster events compound pre-existing challenges for PSIDS, such as location, lack of resources, a narrow export base, vulnerability to economic shocks and slow or stagnant economic growth. PSIDS also have small populations that are largely geographically dispersed, resulting in low population densities. These issues contribute to the obstacles for businesses in reaching economies of scale and limiting their expansion throughout these countries. Due to these factors, micro, small, and medium-sized enterprises (MSMEs) play an essential role in the economies of PSIDS. For instance, MSMEs provide around 60 percent of employment across all sectors in Fiji.

Fiji's agriculture and fisheries industries and MSMEs are particularly vulnerable to damage caused by natural hazards. These sectors are critical sources of livelihood for a large proportion of the population since 36 percent of all employment is in agriculture, and half of all rural households have some involvement in subsistence fishing.

This publication is brought to you by the Pacific Insurance and Climate Adaptation Programme (PICAP).

PICAP is jointly administered by the UN Capital Development Fund (UNCDF), the UN Development Programme (UNDP) and the UN University Institute for Environment and Human Security (UNU-EHS).

The Programme is supported by the Governments of New Zealand, Australia and Luxembourg. The Fiji component receives additional support from the India-UN Development Partnership fund administered by the UN Office for South-South Cooperation (UNOSSC).

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Acknowledgements: The team would like to extend special thanks to Reginald Singh, Shelveen Kumar, Akata Taito, Emele Lasaga, Minal Narayan and Marianne Tabuaciri from PICAP for conducting the interviews with MSMEs that this note is based on, for cleaning the data and for the initial analyses of the collected data.

October 2022

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[1] <https://www.mitt.gov.fj/wp-content/uploads/2020/02/MSME-Fiji-Policy-Statement-approved20325.pdf>

MSMEs are generally underserved because the financial sector, including insurance companies, and regulators often overlook their access to financial services. It is rare for insurance products to be tailored to the specific needs of the smallest businesses. Nevertheless, more innovative financial protection is necessary because of the crucial role of MSMEs in Fiji's economy and its exposure to natural hazards. PSIDS often have limited capacity to effectively manage the risks and overcome the significant economic losses caused by extreme weather events. Preparing and coping with these events usually requires significant budget reallocation of funds from other important health, education and economic development programmes. With several innovative ex-ante climate and disaster risk finance (CDRF) tools and instruments emerging, there are opportunities to introduce, test and scale market-based CDRF instruments with different target groups from individuals, businesses and institutions to the state level. By enabling and empowering MSMEs to take preventive measures through CDRF coverage, the financial burden on the government can be eased and the economy is able to bounce back faster after a disaster event.

This evidence note focuses on how MSMEs in Fiji are affected by extreme weather events and their access to and usage of financial services, their perception towards disaster risk financing and the possibility of developing and offering CDRF instruments to meet their unique needs. The note draws on data from a survey of MSMEs in urban and rural areas in Fiji, conducted by the Pacific Insurance and Climate Adaptation Programme (PICAP) (see box below). The survey responses primarily reflect the perspectives of various types of MSMEs, ranging from agricultural businesses and manufacturers to retailers. This note focuses on six main aspects: (i) characteristics of interviewed MSMEs; (ii) business interruption caused by extreme weather events; (iii) financial services preferences and accessibility; (iv) perspective on and appetite for climate disaster risk financing and insurance (CDRFI) solutions; (v) willingness to pay for CDRFI solutions and (vi) gender-related differences in the results.

Pacific Insurance and Climate Adaptation Programme

The Pacific Insurance and Climate Adaptation Programme (PICAP) aims to improve the financial preparedness and resilience of Pacific Islanders against climate change and natural hazards through the development and implementation of market-based meso- and microinsurance schemes. Since its inception in December 2020, the multi-year programme has facilitated the introduction of the first parametric micro-insurance products in Fiji and the Pacific. PICAP works with governments, the private sector and other relevant stakeholders to develop customised climate and disaster risk financing strategies to support the most vulnerable segments, including fishing and farming communities, households, social welfare beneficiaries and MSMEs.

Characteristics of MSMEs Interviewed

The research team interviewed business owners of 466 MSMEs in Fiji between April and June 2022. The interviewed businesses have their registered offices in various parts of the country and majority operate at the same location of the registered their business. Approximately 56 percent of the respondents are in the retail and wholesale sector, as the survey took place in urban areas, whereas eight percent were farmers. The remaining businesses are active in a variety of other fields. Around 93 percent of respondents were² willing to disclose their annual turnover so that their business size could be classified to offer more financial context. Among those, 71 percent could be classified as micro businesses. The average number of employees among the interviewed businesses was around³ three. In terms of gender distribution, 34 percent of businesses are women-led and 54 percent of their employees are on average female. The highest female employment rates can be found in accommodation-related businesses. Most of the employees (84%) of interviewed businesses are engaged on a full-time basis.

Business Interruption Caused by Extreme Weather Events

Almost 80 percent of interviewed MSMEs stated that their businesses were at least affected once a year by different types of hazards such as cyclones (mentioned by 58%) and flooding (cited by 46%) (Figure 1). Natural hazards affect businesses in various ways. The most common impacts come from road closures, representing around 50 percent, followed by direct damage to buildings and assets, taking up about 46%. (Figure 2).

[2] In Fiji, businesses are classified as micro businesses if they have a turnover of less than \$50,000 Fijian Dollar (FJD), as small businesses if they have a turnover between \$50,000 and \$300,000 FJD and as medium-sized businesses if they have a turnover between 300,000 and 1,250,000 FJD.

[3] An MSME is defined as men- or women-led if more than 50% of the management team consists of male or female members respectively.

Business Interruption Caused by Extreme Weather Events

Moreover, approximately 29 percent of MSMEs indicated the inability of employees to travel to work as another consequence of extreme weather events. These adverse impacts also seem to affect customer numbers. Approximately 19 percent of interviewed business owners experienced customer loss when disasters has struck in the past.

Figure 1: Natural hazards affecting MSMEs (n=435, multiple responses)

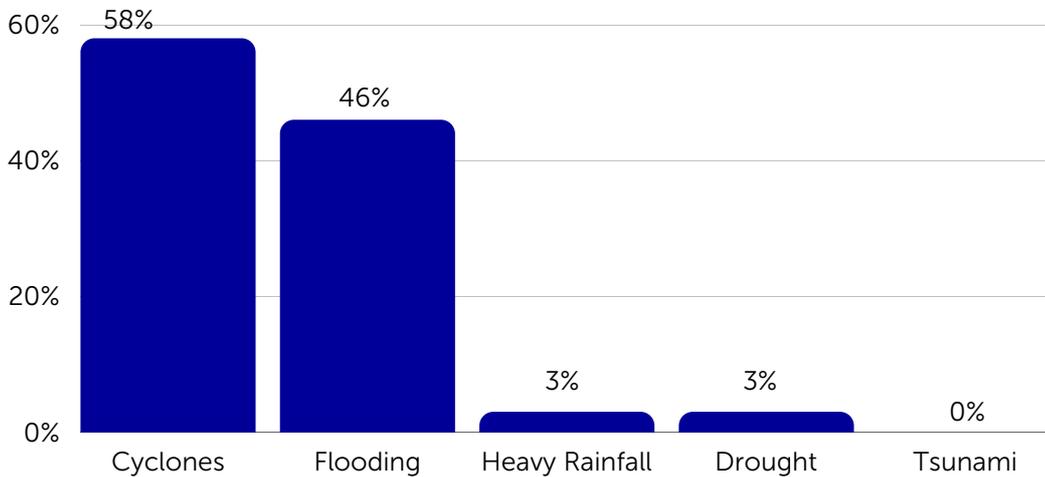
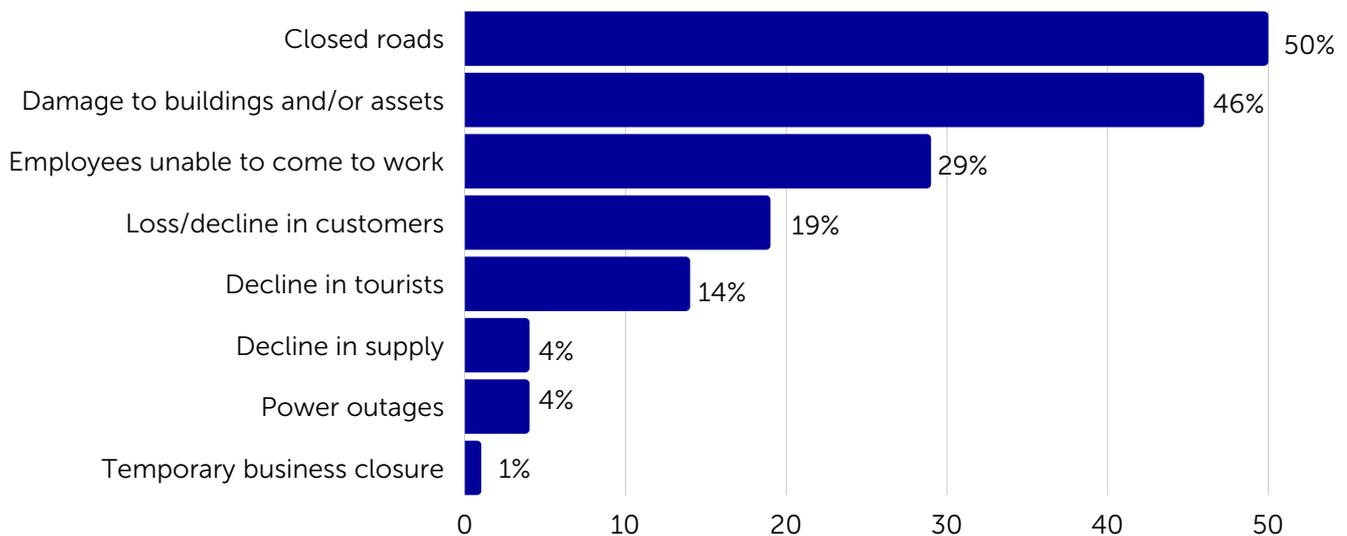


Figure 2: Consequences of extreme weather events affecting MSMEs (n=466, multiple responses)



The survey also investigated the financial coping mechanisms of businesses and their employees during and after natural disasters. When asked whether business owners have a savings fund to rebuild during and after disasters, almost half of the owners claimed that they did for that purpose. The rest did not have such a fund. Besides business interruption, employees' income is also affected. The survey showed that 63 percent of MSME employees rely on their savings to manage the impact of natural hazards. About 30 percent of employees receive support from family and friends and only a few resorted to financial instruments such as loans and insurance. The numbers are insignificant regarding institutional support, such as the government and non-governmental organisations. The results reflect that the government can provide more work, such as social protection measures in collaboration with civil society organisations and the private sector, whether pre-disaster or post-disaster, to manage the impact of natural hazards on individuals and businesses.

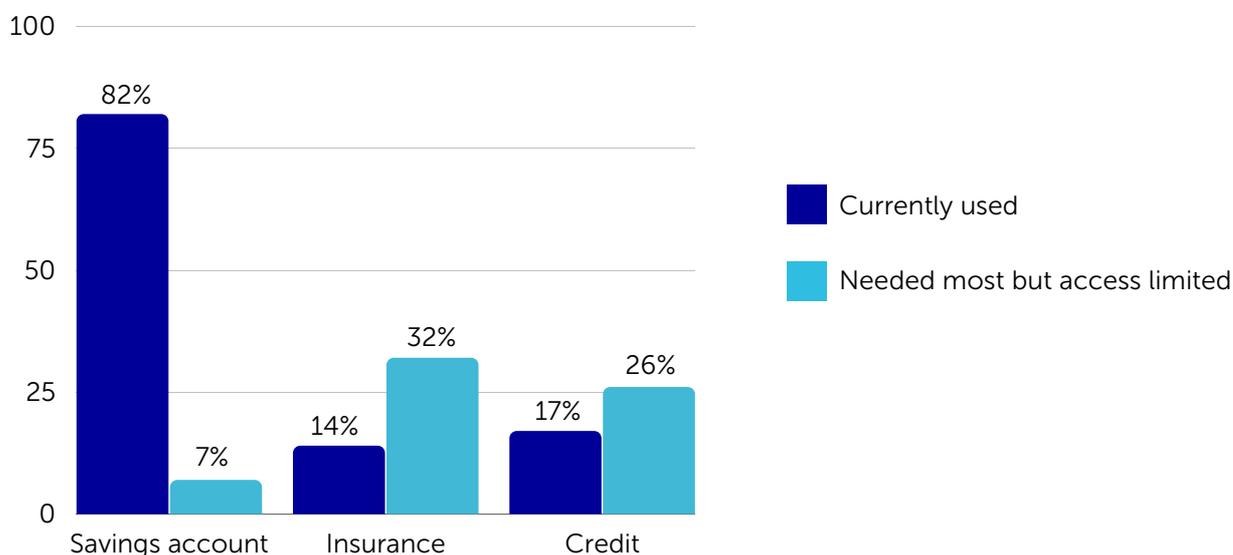
Financial Service Preferences and Accessibility

Part of the survey asked for existing financial services that assist MSMEs' business operations and their additional needs for financial assistance. Concerning managing accounts receivables and payables, most interviewed businesses still use cash (about 65 percent). Cheques and direct deposits are used by approximately 30 percent of companies, whereas mobile money is used by 10 percent. Similarly, almost 57 percent of business owners said they also mostly use cash to pay their employees. In contrast, mobile money is used rarely for paying employees (by less than 3 percent of businesses), indicating a currently minor role for digital financial services. The cheques for paying employees are about one percent equally deficient.

Furthermore, over 70 percent of the respondents went to banks to complete financial transactions, while only 44 percent used online services. Respondents could attribute the low usage of digital channels, such as mobile money or online banking, for financial transactions to the lack of access to and knowledge about these options. Alternatively, it could also suggest that MSMEs trust in-person transactions at bank branches more since over 68 percent expressed that they have a trusted relationship with their financial services provider.

When asked about most used financial products, over 80 percent of MSMEs stated that they use savings accounts, followed by credit (17 percent) and insurance (14 percent) (Figure 3). Interestingly, only 49 percent of MSMEs indicated that they have a savings fund designated for rebuilding after a disaster, meaning that not all savings activities are seen as a form of risk retention by the MSMEs. Among the business owners who took out insurance policies, most insurance products used are standard for running a business, such as property, motor, and accident insurance. It is worth noting that about six percent of interviewed companies have a business interruption policy. When asked about the financial product they need most but still have limited access to, insurance (32 percent) and credit (26 percent) were the ones mentioned the most. Slightly less than half of surveyed businesses (42 percent) said they encountered no significant barriers to accessing financial services. Among the ones who do encounter challenges, eligibility (31 percent) and administrative reasons (24 percent) are the main obstacles.

Figure 3: Financial services used and needed the most by MSMEs (n=466, multiple responses)

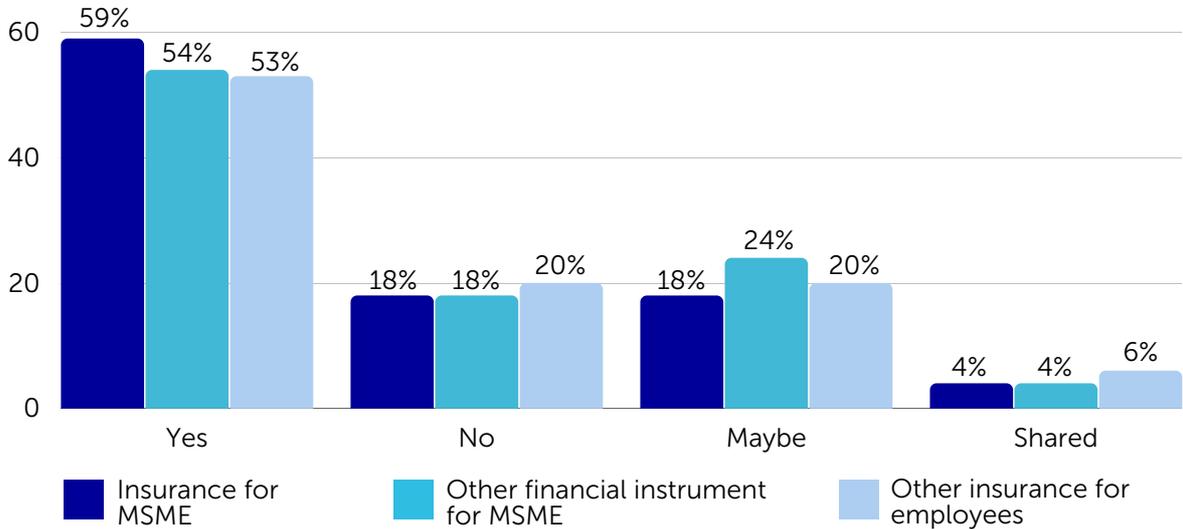


Perspectives on and Appetite for CDRFI Solutions

Concerning insurance products that bundle natural hazard risks cover into existing products (Figure 4), almost 60 percent of interviewed MSMEs indicated an interest in knowing more. As some businesses have insurance policies for employees, the respondents were asked about their interest in products bundling natural hazard risks with employee-related insurance such as life and medical insurance. More than half of the interviewees expressed interest. Over half of the businesses still expressed interest in bundling natural hazard risks with other financial instruments. However, a group of respondents (24%) indicated only a 'maybe' response.

About 60 percent of respondents stated that they would prefer a slightly cheaper insurance product that covers few critical perils than a more expensive product that covers a wider variety of risks. Based on the above results, the perspective and appetite of the respondents on CDRF solutions could be perceived as positive. The respondents showed interest in learning more about the options that could facilitate the initial scoping of CDRF products for MSMEs with various partners.

Figure 4: Interest in products that bundle the risks of natural hazards for MSME with other instruments (n=466, single response)

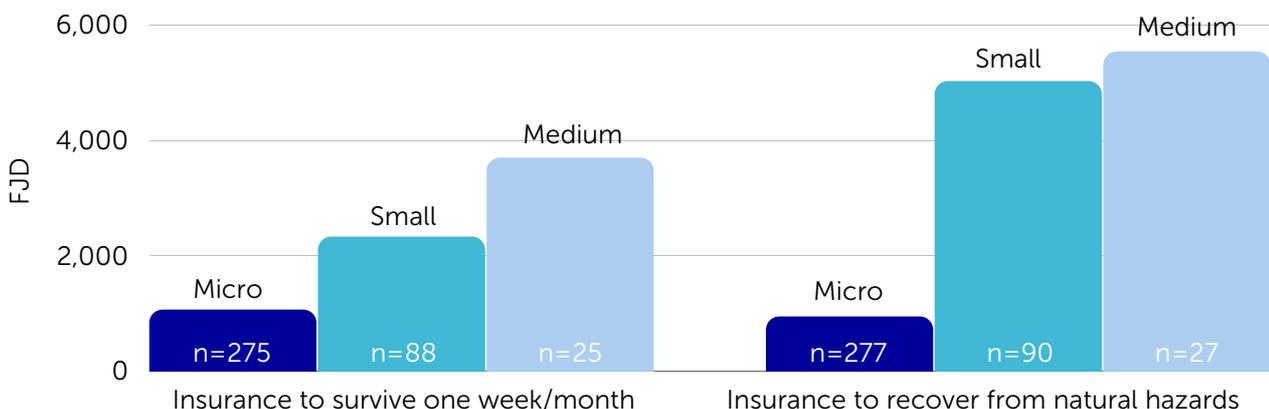


Willingness to Pay for Other CDRFI Solutions

The survey also investigated the MSMEs' average willingness to pay for a potential insurance product covering natural hazard-induced business interruption. The survey assessed MSMEs' willingness to pay for a product that would allow the enterprise to: (1) survive for a given period after being affected by an extreme weather event (one week or one month); and (2) fully recover from the impact of such an event.

Results show that the absolute willingness to pay for both types of insurance coverage increase with the size of the enterprise (Figure 5). The average willingness of recipients to pay for a product allowing full recovery is higher for small- and medium-sized enterprises. In comparison, the readiness is slightly lower for micro-sized enterprises. For small enterprises, the desire to pay for insurance that would cover full recovery after being affected by an extreme weather event is more than double the insurance that covers only shorter-term survival of over a week or a month.

Figure 5: Average willingness to pay (in FJD) per year among micro-, small- and medium-sized enterprises (single response)

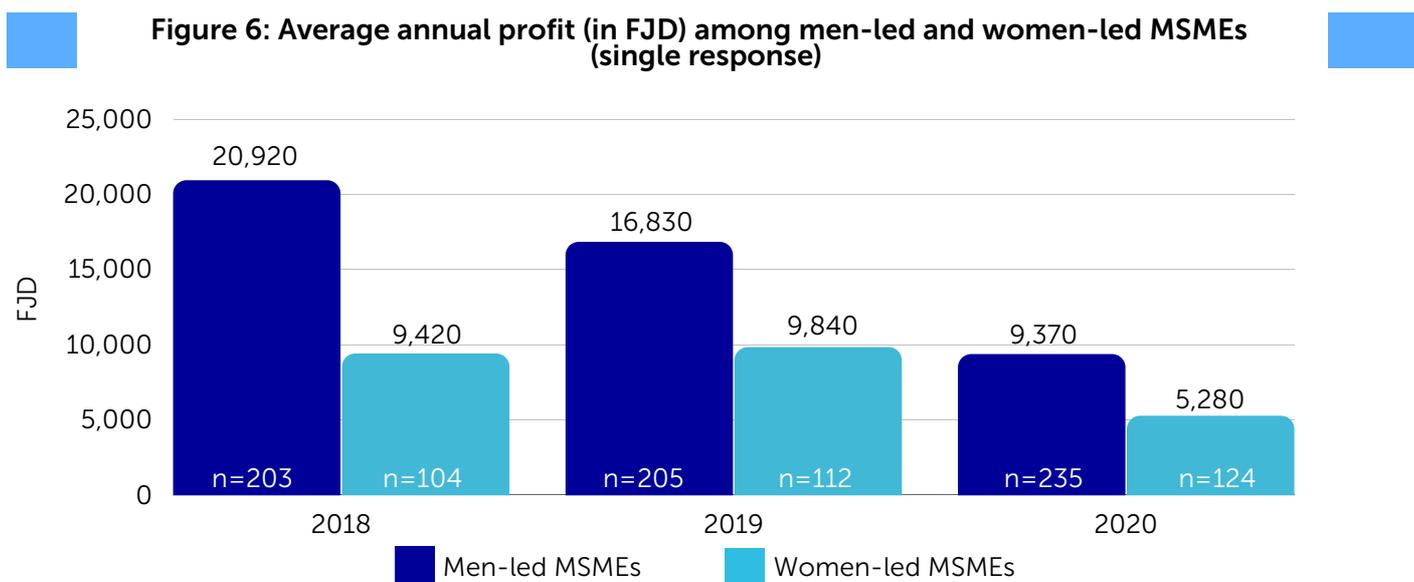


Note: The size of the enterprise is defined by their annual turnover.

GENDER DIFFERENCES IN FINDINGS

Comparing men-led and women-led MSMEs

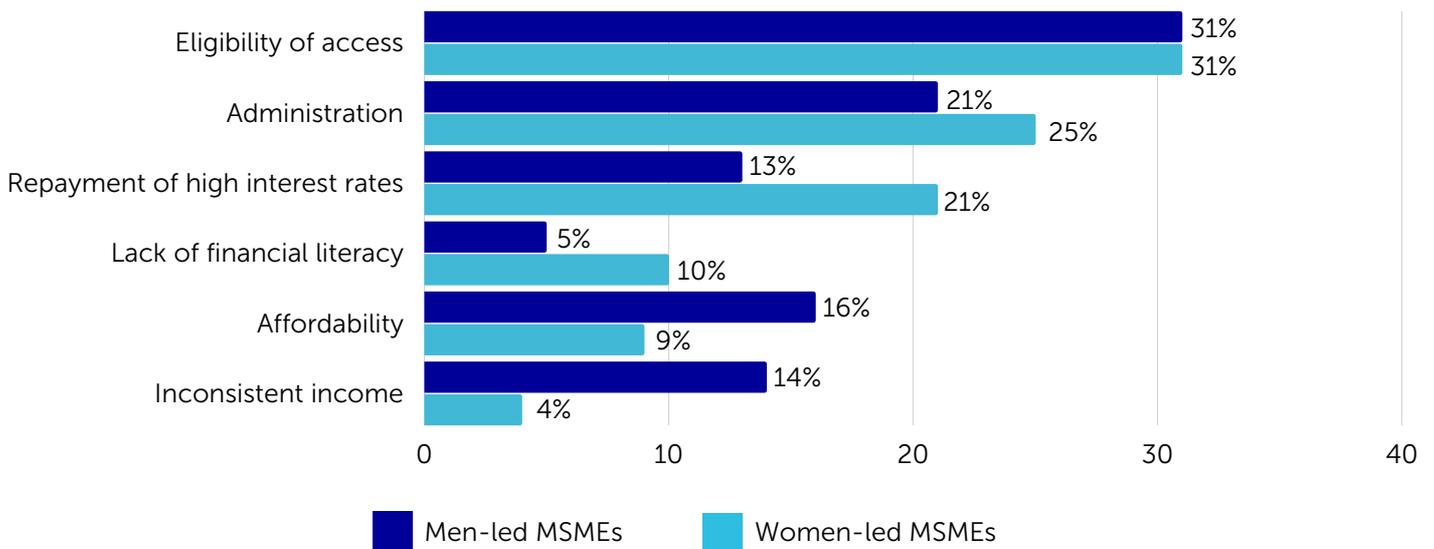
Most interviewed MSMEs were men-led (66 percent), while only 34 percent are women-led. An enterprise was defined as either men or women-led if more than 50 percent of the MSME's management team was reported to consist of men or women, respectively. These figures indicate that the MSME sector in Fiji appears, at least to a certain degree, to be more male-dominated, in particular when it comes to decision-making within the enterprise. Men-led MSMEs had much higher average annual profits between 2018 and 2020 than women-led MSMEs (Figure 6). However, men-led MSMEs had experienced a relatively more significant drop in income in this period, potentially caused by the experience of a harmful cyclone event - for example, tropical cyclone Sarai in 2019 and COVID-19-related lockdowns and the resulting travel restrictions that began a year later.



Differences in barriers to accessing financial services between men- and women-led MSMEs

When comparing the barriers of men- and women-led MSMEs to access financial services (Figure 7), there seems to be no gender-related difference in eligibility for access. Similarly, administrative barriers appear relatively balanced among both types of MSMEs. However, there are more pronounced differences when looking at other constraining factors. Firstly, the repayment of high-interest rates seems to concern men-led MSMEs more than women-led MSMEs, which could be explained by lower access to credit for women-led MSMEs. In addition, lack of financial literacy again concerns a higher proportion of men-led MSMEs than women-led MSMEs. Finally, higher ratios of women-led MSMEs identify the lack of affordability of financial services and inconsistent income as the main barriers to accessing financial services. This tendency could result from the generally lower income of women-led MSMEs and their lower disposable income from their business activities.

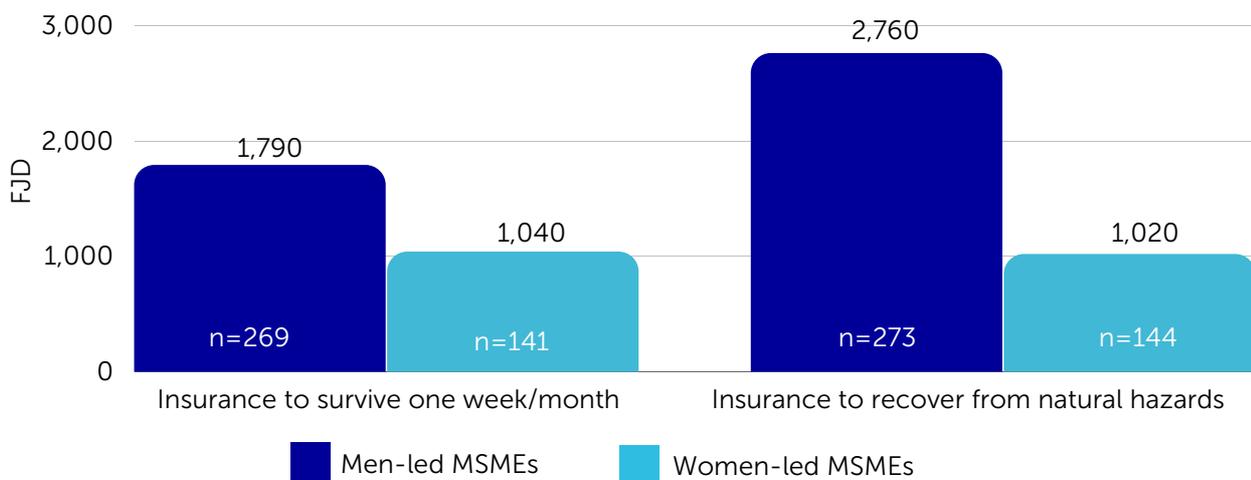
Figure 7: Main barriers to access financial services among men- and women-led MSMEs (single response)



Differences in willingness to pay between men- and women-led MSMEs

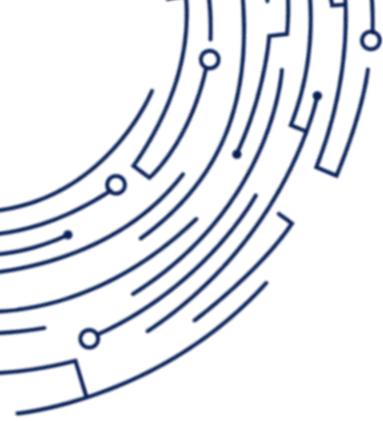
Men-led MSMEs exhibited a higher willingness to pay for insurance coverage (Figure 8), enabling an MSME to survive for one week/month and for a range that allows them to recover fully. This effect can be noted through the income differences shown in Figure 7. Interestingly, the willingness to pay did not differ substantially between those two types for female-led MSMEs. A possible explanation for the lower willingness to pay of women-led MSMEs could be the generally lower average annual profits of such MSMEs, which leads to inadequate disposable financial resources that could be re-invested in insurance products.

Figure 8: Willingness to pay for climate risk insurance (in FJD) among men- and women-led MSMEs (single response)



MSMEs and CDRFI in Fiji: What Next?

- This survey with businesses in Fiji showed that cash is still the preferred payment option among MSMEs. The question remains if a potential insurance product covering the adverse impacts of extreme weather events should accommodate this preference. Given the advantage of faster payments through digital tools in disaster situations, it could also help to conduct more research on the reasons for the low usage of digital financial tools and potential ways of raising their acceptance and reliability.
- Furthermore, savings are a prevalent and accessible financial instrument for MSMEs in Fiji. However, most MSMEs do not view it as a tool to manage climate and extreme weather-related risks. Only a little more than half of the MSMEs using savings, in general, indicated that they had saved up money designated to rebuild after an extreme weather event. Therefore, savings do not suffice as a sole financial disaster risk management strategy.
- Many MSMEs reported no barriers to accessing financial services in general. Nevertheless, financial services usage is still low, except for savings, and MSMEs need more access to credit and insurance services. There is a sound basis for increasing the use of financial services since three-quarters of MSMEs reported having a trusted relationship with their financial services provider.
- Insurance coverage among interviewed MSMEs is low – not many MSMEs have insurance. Business interruption coverage is not prevalent among those with insurance – not for business interruption linked to climate risk. Insurance coverage exhibits the most significant discrepancy between financial products used and those needed, but the offer and access to insurance products for MSMEs are still limited in Fiji.
- The survey results offer a glimpse of the sector and rudimentary insights into Fiji. The PICAP team can kick-start discussions with partners based on the findings. Nevertheless, a bigger sample size with a stronger focus on agriculture is essential to understand their challenges and needs on CDRFI solutions. In addition, the team can conduct more investigations on CDRFI products to assist in designing the relevant instruments and guide negotiations with different stakeholders.



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