



REAL Impact is working with PNG artisans to take their work to the global handicraft market (Credit: REAL Impact)

Innovative ideas help Pacific SMEs transition from aid to trade

By Caleb Jarvis

Economic growth in much of the Pacific region is not keeping pace with population growth. The remote nature of these island nations and weak domestic infrastructure makes international trade expensive.

While this challenging business environment means traditional investment tools are inaccessible to many Pacific island businesses, new models of funding are

supporting private sector growth.

The rise of new finance arrangements

According to the World Bank Findex database, 1.7 billion people globally are unbanked (without an account at a financial institution or through a mobile money provider), and one quarter of these people live in the East Asia and Pacific region.

While microfinance is available in the Pacific region, the interest rate can be up to 25 per cent, which is prohibitive for small to medium enterprises (SMEs). Informal economies like the Pacific region have little to no access to basic financial programs and are effectively excluded from the financial system, with unmet needs and untapped market potential.

This is leading to the rise of new funding models, such as crowdlending, crowdfunding and impact investments.

One example is crowdlending platform Kiva, a non-profit focused on expanding financial access for under-served people around the world. Since 2005, Kiva's global community of 1.7 million lenders has helped fund more than \$1.2 billion in microloans to three million borrowers in more than 80 countries.

Kiva works on a crowdfunding model, which allows users throughout the world to connect with organisations that provide small, low-risk loans to in-need individuals or groups in developing countries. On Kiva's lending platform, anyone can help a borrower start or grow a business, go to school and realise their potential. Kiva also works to address the systemic issues that keep communities from accessing the financial services they need.

With the support of [PTI Australia](#), Kiva just completed its first loan in Papua New Guinea for a local weaver to develop a business buying and selling handwoven baskets from her home to support her remote community. The loan, which

reached its fundraising target in just 14 hours, is the result of a new partnership between [Kiva](#) and [REAL Impact](#) to facilitate zero-interest loans up to US \$50,000 to SMEs in the creative industries in Papua New Guinea and Solomon Islands.

REAL Impact facilitates sustainable connections between the artisan skills of informal economies and the global creative industries of fashion and interiors, introducing creators and producers to buyers.

The groundbreaking partnership between Kiva and REAL Impact, which [PTI Australia](#) facilitated, will underpin the development of an SME pipeline of businesses, providing them with working capital that in turn will develop an economic network for Pacific creators.

Another funding model well suited to the region is impact investments, which are on the rise globally and can help break new ground in the Pacific. Impact investments look to make a financial return as well as deliver measurable social and environmental improvements.

Impact investments have the potential to drive sustainable economic growth and support the development of value chains in sectors such as sustainable agriculture, aquaculture, forestry, manufacturing, renewable energy, eco-tourism and microfinance.

Impact investments can also bolster the economy from a grassroots level. PTI Australia's experience in the Pacific shows that when local businesses and workers thrive, the money flows back into the community, which is where real improvements to livelihoods begin.

PTI Australia has already facilitated two impact investments from high-net-worth individuals and an Australian Impact Investment Fund in recent years. Vanuatu's [Tanna Coffee](#) received \$656,000 in equity in 2017 to develop 200 hectares of the island's rich volcanic soil for coffee farming and to fund farming innovation to

safeguard against future natural disasters. Similarly, an \$80,000 injection using a blended finance approach was made into Samoa [Coconut Cluster](#) in 2016, helping the company grow, increase employment and deliver better returns to local coconut farmers.

PTI Australia is also working with DFAT's Pacific Readiness for Investment in Social Enterprise (Pacific RISE) program to further develop the impact investment market in the Pacific. Pacific RISE is currently working with REAL Impact and PTI Australia to develop the skills of four high-quality artisan producers in the Pacific, providing design and technical advice to transform their products from handicrafts to designer objects, and deliver these products to global fashion and interior design markets.

The Pacific region is fertile ground for innovative ideas to help Pacific island economies transition from aid to trade.

About the author/s

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Caleb Jarvis is Pacific Trade Invest Australia's Trade and Investment Commissioner. Founded in 1979, [PTI Australia](#) is an agency of the Pacific Islands Forum Secretariat, funded by the Australian Government, that facilitates trade and investment in the Pacific islands. PTI Australia is working to facilitate growth of the Australian Government's Pacific Labour Mobility initiatives through collaboration with the Pacific Labour Facility.