The University of the South Pacific

From the Selected Works of Dr Deogratias Harorimana

Spring April 17, 2012

Understanding Economics of the Pacific Island Nations: Issues and Cases

Deogratias Harorimana, Sr, The University of the South Pacific

Available at: https://works.bepress.com/knowledgeispower/18/
CHAPTER ONE
A REVIEW OF FOREIGN DIRECT INVESTMENT POLICIES

IN THE PACIFIC ISLAND COUNTRIES – ISSUES AND POLICY IMPLICATIONS

Introduction

The small island developing states of the Pacific face a set of particularly demanding development challenges in their limited geographical size, dependence on constricted resource bases, limited international trade opportunities, distance from major capital and goods markets, together with their particular vulnerability to natural and environmental disasters. In few other regions have societal changes over the past two decades been as remarkable and relentless as in the Pacific region, overpowering significant political, economic, social and technological transformation.

However, the lack of economic growth in the face of growing populations has contributed to increasing unemployment and hardship in the region. Pervasive poverty among the Pacific Island Countries (PICs) has put forth pressure on available resources; aggravate rural-urban migration and emigration of skilled labor to other developed countries thereby threatening the feasibility of their economies. While there has been progress in several countries towards achieving some of the core Millennium Development Goals (MDGs), these improvements are not likely to achieve agreed targets within the next ten years.
Aid and donor agencies have over the years assisted Pacific Island Nations (PICs) devise strategies to expand internal and external economic activities as an instrument to fight some of the issues that they face. One of the measures propagated by donor agencies and multilateral organizations is to encourage PICs to entice foreign direct investment into the region.

A review of the various national investment policies reveals a wide variety of approaches by the individual countries to attracting foreign direct investment. There does not appear to be a cohesive approach to attracting foreign direct investment although the reasons espoused by most of the PICs run along the same vein – to improve employment, to increase economic activities and so on. Except for two countries, most PICs adopt a ‘shot gun’ approach to attracting foreign direct investments. A review of international best practice reveals that leaders in attracting foreign direct investment have certain traits that make them successful.

PICs can learn from these leaders in attracting FDI, learn what made them successful and see if some of the techniques can be applied to achieve the desired level of FDI engineered economic activity.

**INTRODUCTION**

Since the industrial revolution in the late 18th century, economic progress and development have been closely associated with industrialization. This thinking has continued to influence policy makers especially in developing countries (Jomo, 1993).
According to classical theory, the benefits of FDI are a result of the direct accumulation of capital and indirectly, through positive spillovers. Drawing from the experience of Latin American countries, proponents of dependency theory argue that relations of free trade and foreign investment with industrialized countries are the main causes of underdevelopment and exploitation of developing economies. Due to the apparent exploitative nature of FDI, dependency theorists are in agreement in calling for the adoption of state policies that are deliberately discriminative of FDI in order to foster the development of local industries and promote self-reliance. These two contending views continue to dominate the theories that explain the role of foreign capital and government in industrial development.

It is our aim, through This Chapter, to discuss FDI situation in Pacific Island Countries and in particular the policies that are directed by and towards attracting FDI, and the impact of these policies on the development of the island states. First, we consider the relevant best practices in this regards.

**International Best Practice in Foreign Direct Investment**

Foreign direct investment (FDI) has become a key battleground for emerging markets and some developed countries. Government-level policies are needed to enable FDI inflows and maximize their returns for both investors and recipient countries. Given this, foreign direct investment (FDI) policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with conductive policies has therefore become a key arena in the emerging markets. Developed countries also look to bring in more FDI and use various policies and incentives to attract overseas investors, particularly for capital-intensive industries and advanced technology.

The main aim of these policies is to create a friendly business environment where foreign investors feel comfortable with the legal and financial framework of the country, and have the potential to reap profits from economically viable businesses. The prospect of new growth
opportunities and outsized profits encourages large capital inflows across a range of industry and opportunity types.

When policies are effective, significant FDI investments are injected into countries that help the domestic economy to grow. Different countries and regions offer various kinds of fiscal incentives, with a related difference in the level of FDI investments attracted.

In countries like Singapore and Canada, and more recently in Rwanda, the governments have set up promotional agencies to foster foreign direct investment, promote FDI-friendly policies, identify prospective sectors and investors, and structure specific deals and incentives for major foreign investors such as multi-national corporations (MNCs).

Global trade associations and more recently regional trade associations, also play a major role in some of these investment activities. These associations are tasked with creating a positive environment for foreign direct investors and ensuring that both investors and recipient countries enjoy a favorable environment.

The formation of human capital is vital for the continued growth of FDI inflows. To enable the most beneficial, technology and Intellectual Property (IP)-driven FDI, highly skilled personnel are necessary. Governments must therefore enact policies to provide training and skills upgrading to develop their workforce and meet the employment needs of foreign investors.

A study by UNCTAD (2010) suggests that political stability and high growth potential in a host economy will also make MNCs more willing to transfer technology. These suggestions have important policy
implications. While theoretical studies focus on technology transfer from a parent company to its subsidiary, most empirical studies aim to test the hypothesis that FDI leads to technological advancement and efficiency improvement in domestic firms. Many studies provide evidence of the existence of spillover effects, suggesting that FDI can act as a vehicle through which new ideas, technologies, and working practices can be transferred to domestic firms. However, some case studies and empirical research find little evidence of a spillover effect arising from FDI inflow. This mixed empirical evidence suggests that spillover benefits cannot be assumed, but rather, research needs to identify conditions under which spillovers actually occur.

With reference to the UNCTAD (2010), it is noted, that the complementarities between FDI and human capital development can start a virtuous circle. In addition the report notes, that a strong skills local base is likely to attract FDI inflows, while foreign TNC’s can, in turn, contribute to the local skills base through spillovers to employees and local firms, induced migration, and participation in local education and training institutions. A spillover here is defined as when knowledge or technology possessed by TNCs is acquired by the local firms and employees.

Apparent to note from the report, is that the level of human capital of the host country, will determine not only how much and what type of FDI that can be attracted, but also the extent to which the local economy is able to take in the potential skill transfer associated with the TNC activities.

In order to attract TNC investments, host countries need to have a relatively open framework for foreign investment and an attractive
business climate. However, more targeted policies are also important, as they can help secure the types of FDI most likely to contribute to skill formation.

Foreign investors require policies that provide sufficient access to skilled labour. Domestic education and training policies are essential to ensuring a sufficient level of appropriate skills for a given economy, hitherto, migration policies can also be designed to enhance the national skills base and ensure that foreign investors have access to skills that may be missing domestically.

Government action is often required to maximize skill spillovers from TNC activities, where dissemination policies as incentive programmes, may be required to partially compensate TNCs for their skill transfers. In addition, a national innovation system that encourages cooperation between local research institutions, foreign TNCs, and local firms can lead to higher levels of skill spillovers.

**FDI promotion and targeting**

Promotion and targeting requires a stable foreign investment framework and attractive business climate and for FDI to be tactically integrated with skill development, investment promotion and facilitation policies also become important. Government authorities or agencies can and should identify and target TNCs based on their potential to contribute to skill upgrading, while keeping in mind the host country's level of development and economic structure. Early and on-going contact with these potential
investors can identify mutually beneficial arrangements for TNCs to contribute to local skill development.

**Education and training policies**

Although FDI can indeed play a role, enhancing the general and technical skill base of the workforce is ultimately "something that host countries need to do themselves" (UNCTAD 1999: 42). The primary responsibility for skills development in a country rests with the national education system, which typically relies on public investment. An effective national education system seeks to develop universal elementary, secondary, tertiary and vocational education, and to ensure that curricula and research infrastructure keep up with the requirements of a country's economic structure. While effective education policies directly enhance the domestic skills base, they also serve two other important functions: *First*, they promote FDI attraction, as TNCs are more likely to locate in areas with pre-existing human capital (Noorbakhsh et al., 2001). *Second*, they ensure that the local workforce has the capacity to absorb skill spillovers from TNC activities. Generally, local economies are more likely to receive skill spillovers if the workforce already possesses a minimum level of human capital (Blomström *et al.*, 1994; Borensztein *et al.*, 1998). Consequently, when TNC knowledge and technology are “too sophisticated” for the local economy, skill spillovers are likely to be more limited.
FDI targeting in education

FDI may complement host country efforts and make positive contributions to national education systems. From a policy perspective, this can be pursued through two mechanisms. First, governments can directly target foreign educational institutions to set up local locations. Efforts to attract FDI in higher education and vocational training can bring about better quality universities and technical schools. This approach has proved useful in many countries, such as China, Malaysia, Singapore, Rwanda and Viet Nam, where it has led to the adoption of international standards in tertiary education, as well as the creation of high-quality professional and technical training institutes. Second, governments can work with TNCs in other sectors to participate in management and funding of specialized programmes. They can use their industry-specific knowledge and expertise to improve curricula and research infrastructure, benefiting both the local skills base, and providing the foreign affiliate with access to workers that fit their unique skill needs.

Migration policies

In addition to the education system, migration policies are useful tools to reduce the skills gap in a given country. General migration programmes that seek to attract skilled workers for permanent residence are increasingly used to compensate for shrinking numbers of local graduates in countries with low birth rates. Apart from these broad-based programmes, migration policies can also be focused on labour entry in cases where specific local skills are in short supply or unavailable. These policies include programmes that allow domestic and foreign companies to directly recruit foreign talent, as well as procedures for visas and
temporary work permits. The integration of foreign workers into the domestic labour market can also lead to cross-fertilization of skills, given diverse educational and professional backgrounds. However, it should be noted that achieving the right balance between the needs of investors, on one hand, and job protection, training, and career advancement for national citizens, on the other, is not an easy undertaking.

**Skill dissemination policies**

Such dissemination policies are those specifically designed to encourage skill spillovers from FDI, which may include schemes for direct training of local workers by foreign affiliates. These acquired skills can then be disseminated to the rest of the economy through job turnover and labour mobility. Having said and done this, incentives can be provided for foreign affiliates to undertake on-the-job training and retraining, by sharing the financial burden, or by offering other concessions. These concessions include allowing the use of foreign employees as long as locals are being trained, or providing supplementary income tax deductions for personnel training expenses. Policies that promote FDI spillovers to local suppliers and competitors are also important. In the first case, foreign affiliates may require their local suppliers to use higher levels of technology, resulting in pressure or assistance to train staff. In the case of firms within the same industry, foreign affiliates may partner with local firms to, for instance, undertake joint R&D activities, resulting in a need for the local firm to train or up-skill their workers. In another case, the entry of the foreign affiliate may increase competitive pressure on local firms in their market, requiring them to enhance their use of technology and train their staff.
Active government programmes to link TNCs with local firms can facilitate these types of skill transfers.

**National innovation systems**

A good understanding of the national innovation system can help policymakers identify other leverage points for enhancing local human capital. National innovation systems combine policies to enhance the innovative capacity of firms with those that improve networking among the different actors and institutions in the system, including firms, research centres, laboratories, universities, relevant ministries, among others. Interactions between these actors are important mechanisms through which skill transfers can materialize. These interactions can take various forms, including joint research activities, other technical collaborations, and connections between companies, universities and public research institutes; and diffusion of knowledge through worker mobility. In this context, innovation systems stand at the intersection between innovation policy and FDI promotion. On the one hand, the role of innovation policy is to improve the investment climate for R&D by identifying and acting upon the strengths and weaknesses of the national innovation system. Innovation policies may include incentives for corporate R&D, enhancement of the research infrastructure, promotion of collaboration and linkages, improvement of intellectual property rights, human capital development, and attraction of foreign talent. On the other hand, the role of FDI promotion is to improve perceptions of the country as an R&D location, and to provide targeted services to both potential and existing foreign investors in R&D.
Pacific Island Countries

Pacific island countries and the way they fit into place with the rest of the world are different in that, with the exception of Papua New Guinea, the countries are small isolated islands or fragmented collections of islands with relatively limited resource bases, their economies are fairly undiversified and dependent to a significant extent, on imports. Quasi-subsistent agriculture and fishing are often important parts of the economy.

Aid has traditionally been very important and has underpinned large public sectors. It has also supported a significant share of trade, either directly as grants or indirectly through preferential trading arrangements.

A large body of empirical literature on foreign direct investment (FDI) in developing countries in various regions, including the Asia-Pacific region has shown that FDI’s social and distributional impact on the host country has been generally favourable (Hill and Athukorala 1998, Sun 1998, Sun 1996, Jansen 1995, Athukorala and Menon,1995, Schive 1990).

Aside from bringing in a package of highly productive resources into the host economy, which include production know-how and process technology, managerial skills, improvements in accounting and auditing standards and information on international markets, there have been noticeable creation of jobs not only in those sectors attracting FDI inflows
but also in the supportive domestic industries and import competing activities.

A recent study by Asian Development Bank (2004) emphasizes the need for appropriate policies for regional development, besides the importance of flexibility in labour markets, for exploiting the forward and backward linkages provided by FDI. Such policies have been found to ensure the spatial distribution of benefits in terms of additional job creation in hinterland. Malaysia and Thailand, which attracted FDI inflows into their export-oriented, labour intensive and natural resource based industries including palm and rubber plantations enjoyed periods of nation-wide prosperity triggered by frequent booms in world commodity prices (Hill and Athukorala 1998), in the process conferring benefits on the hinterlands as a consequence of balanced regional development policies.

In some countries (Samoa, Tonga, Cook Islands, Fiji), outward emigration and inward remittance flows are very important, where for many countries exports involve (sometimes unsustainable) exploitation of natural resources, or minerals. Taxes on trade (exports and imports) comprise a large share of government revenues, adding to the disadvantage faced by exports that are not associated with significant revenues. Foreign investments is quiet heavily regulated, and there are considerable, ‘behind the border’ constraints on investment, including complex customary land tenure systems, obstructive regulation, monopolization of key sectors. These constraints also impeded domestic investment in activities targeting international and domestic markets.

**International Best Practice**
Attracting FDI is big business. According to the United Nations Conference on Trade and Development (UNCTAD), global FDI flows in 2008 were US$1.7 trillion, with global FDI stock amounting to US$14.9 trillion. In 2008, Canada attracted US$44.7 billion in FDI investment, and the total stock of FDI in Canada for that year was US$412.3 billion.

A constant question facing policy makers in all jurisdictions is what set of tools, strategies, and policies need to be in place in order to encourage the growth and development of high-value-added economic activity in their jurisdictions. It should be noted that, in order to attract foreign investors, jurisdictions across the world have put in place programs and policies to improve enabling environments in host countries. For example, countries have employed low corporate tax rates, implemented preferential tariff regimes, reduced business transaction costs (such as permits) and increased investments in infrastructure and R&D measures - all in an effort to attract increasingly mobile foreign investors. Some of these measures have been sector-specific (such as the Auto sector or the High-tech sector), while others have been region-specific (such as Free Trade Zones or special economic zones). A difficult situation for PICs is that the majority of countries in the World have adopted these policies. That means, having them should not be seen as a factor of competitiveness as every potential country seriously considering investment will, in anyway start with those famously known packages we name above. A question for PICs is therefore this one - what else can be done to attract investment? A solution to this difficult question can only be found in the soft elements traditionally known as the business environment. The business environment is not about having policies or having the incentives. They do help, I agree, but these should be there
any way—investors will say—so what are unique to make that final, all important decision? It is the combination and interplay of how the Political stability, the governance styles and policies that go with it, the fiscal and monitory policies, and the working culture especially a culture oriented and commits people to productivity, come into the interplay and make a unique environment which is hard to imitate. The blend of values and being honest, ethical and having a business mindset at the heart of the government are key drivers of investment decisions. These are implicit incentives that any investor would find hard to resist.

Explicit FDI incentives and programs come in two basic forms: rules-based or specific approaches. Rules-based FDI attraction programs rely on investors’ nationalities to provide investment subsidies applicable to foreign investors, and are generally stipulated in a country’s tax code. For example, Ireland’s tax code allows a reduced corporate tax rate on trading income, until the end of 2010, for companies in manufacturing and certain service industries. Another example is China’s current “super-deduction” on R&D expenditures. Under the two corporate income tax laws for domestic and foreign investment enterprises respectively, taxpayers in China are allowed to deduct 150% of qualified R&D expenses. While neither program is explicitly in favour of foreign investors de jure (since domestic companies qualify as well), given the historical context of these laws, foreign investors are the primary beneficiaries of these programs de facto. We call these rules-based FDI incentive programs “medium-risk” policies since, on the one hand, they are de facto discriminatory in favour of foreign investors and can result in regime competition between jurisdictions. On the other hand, such rules can provide a real incentive
for establishing foreign operations in any given jurisdiction, and are used extensively in tax codes across the world.

The following countries are examined in detail

**SINGAPORE**

- Small city-state situated on 63 islands and connected to the Malaysian peninsula
- Population 4.8m (~70% of Chinese origin)
- Land area 710.2 km² (~5% of NI)
- Official languages: English, Malay, Mandarin, Tamil
- 5th wealthiest country in the world in terms of purchasing power adjusted GDP per capita
- Self-governed since 1959, independent from Malaysia since 1965
- Parliamentary Republic
- Single Party (People’s Action Party PAP) dominates political process
- Limited natural resources (no freshwater)

**Key achievements for Singapore**

- Real GDP growth has averaged 8.1 percent since independence in 1965
- Productivity grew by a 4.0% between 1980 and 2008, over three times faster than the OECD
- Attracted major 7,000 international investors from broad range of industries, including for example Infineon, Exxon, GSK, Merck
• Succeeded in building sectors “from scratch” such as Health Care
• Rated number 1 in Ease of Doing Business by World Bank in 2008

Programmes in place to facilitate FDI

Through Rigorous policy planning:

• Long-term analysis and planning for direction of economic policy carried out by MTI, economic reviews led to re-orientation (e.g. focus on PC and disk drives in 80s post oil crisis)
• Dedicated planning unit in the EDB with 10 employees in Strategic Planning and Knowledge and 60 in Planning and Policies
• EDB Annual reviews help to bring together market intelligence and trends, identify focus sectors and areas and re-allocate resources accordingly

Prioritization of FDI

• Strategic clarity that FDI matters for growth as Singapore’s lack of natural resources and small insular position constrained endogenous wealth creation
• EDB “makes things happen” to attract FDI, e.g. set-up of university courses, infrastructure investment
• Strong support by leadership to attract investors – former Prime Minister used to gather CEO’s of potential investors to reassure about doubts and assert commitment

Creation of a business-friendly environment inc. low taxation
• Singapore comes top in the World Bank’s Ease of doing business rankings 2007 and 2008
• Eliminating unnecessary red tape is constant government concern. For example, businesses can submit suggestions online to Pro Enterprise Panel to cut red tape (e.g. outdated regulations)
• Effort to create a pro-businesses environment: EnterpriseOne Portal which centralises all relevant information, e-services, walk-in centers of government agencies

Government agencies as efficient one stop shops

• Public services mainly provided through government agencies (e.g. EDB ~500 employees, IE ~370 employees vs. 200 employees in the MTI) which are operated similarly to private entities
• Government agencies (EDB, Spring, IE) set up as “one-stop-shops” where all customer needs can be addressed (capital, capability-building, advisory services, market intelligence)
• Customer services centre for initial point of contact

Culture of excellence

• Talent recruitment – high performing students and graduated are attracted to public sector
• Talent retention – incentives through performance-based pay (15–50% performance-dependent bonus) and fast promotions
• Talent development – emphasis on functional and managerial training. Early on-job responsibilities including client relationships
The Economic Development Board Singapore (EDB) is a high performing, customer-focused government agency delivering significant benefits to the economy of Singapore via the following:

Scope and Approach

- 500 employees, budget of 410m USD (0.3% of GDP) of which $330m is spent on grants
- Provides input to other government agencies on how to make Singapore an attractive business location – has led Singapore’s to be first in ease of doing business worldwide (World Bank)
- 15% of staff located in 19 international offices which develop mainly contacts with new potential investors
- Headquarter staff manages relationships with foreign and domestic companies within a “cluster”
- Annual strategic reviews of targeted sectors and companies serve to re-focus efforts and identify opportunities based on existing strengths.

Programmes and Policies

- Customised assistance and incentives schemes are provided throughout the investment process
- Working in Singapore and registering business: easy access to visas, step-by-step guides
- Business location: List of science parks provided, EDB staff will look for suitable land
- Setting up the business – Financial incentives and assistance schemes range from assistance in manpower development,
technological/equipment upgrading, to R&D, intellectual property and industry development.

- Recruitment and Staff – EDB funds on the job training and overseas training of Singaporeans in MNCs
- Attractive taxation policy: 17% corporate income tax, capital gains not taxed, GST 7%
- Conditional grants: payments against milestones, if conditions not met re-negotiation or claw-back

Organization and Culture

- EDB recruitment targeted at high potentials – scholarships are offered to high performing high school students to study abroad and then return to work for the EDB
- Incentives for EDB employees are significant: financial incentives (15-50% of salary) and fast promotions
- The organisation is focused around seven values: Care, Integrity, Team, Imagination, Courage, Excellence and Nation – losing a deal to another country is seen as shameful
- Junior staff get responsibilities for managing day-to-day client relationships early on and account directors own client relationships and are empowered to create flexible deals to meet investor needs and to start deals moving while formal processes and approvals get completed
- Focus on training programmes. EDB employees learn financial and other functional skills as well as managerial skills in workshops on creativity, teamwork and risk-taking
In addition, through EDB, Singapore’s financial assistance and other incentive schemes include the following areas:

<table>
<thead>
<tr>
<th>Examples</th>
<th>Purpose of Scheme</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic and Development</td>
<td>Approved Foreign Loan Incentive (AFL)</td>
<td>AFL provides full/partial</td>
</tr>
<tr>
<td>Investment Allowance (IA)</td>
<td></td>
<td>exemption on interest payments to non-residents IA provides capital allowance for new equipment on the condition that it introduces new technology or contributes to industry efficiency</td>
</tr>
<tr>
<td>Business Development</td>
<td>Development Expansion Incentive (DEI)</td>
<td>DEI provides preferential corporate tax</td>
</tr>
<tr>
<td>Script to Screen (S2S)</td>
<td></td>
<td>Reduces tax liability/Assist companies to</td>
</tr>
</tbody>
</table>
S2S provides grants to support the development of creative and technical talents in content production to move towards higher value-added business activities.

<table>
<thead>
<tr>
<th>Innovation, R&amp;D, and Intellectual Property</th>
<th>Approved Royalties Incentive</th>
<th>Tax incentives and grants are given to promote R&amp;D capability (technical + manpower) Technology transfer must take place R&amp;D should be conducted in Singapore (S14E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation Development Scheme</td>
<td>Further Deduction for R&amp;D Expenses (S14E)</td>
<td>Meets the cost of R&amp;D; assists companies in technology and knowhow transfers</td>
</tr>
<tr>
<td>Research Incentive</td>
<td>Scheme for Companies Technology for Enterprise Capability Upgrading Writing Down Allowance for Cost Sharing Agreement</td>
<td>Helps local enterprises build in-house R&amp;D capabilities</td>
</tr>
</tbody>
</table>

In many cases, schemes are designed to promote innovation, innovation, R&D, and intellectual property, ensuring that technology transfers are beneficial to local companies and residents.
open to companies with at least 30% local equity or ones registered in Singapore

| Headquarters & Management | Regional/International Headquarters Award (RHQ/IHQ) | Encourage companies to use Singapore as a base | Customised package of tax incentives or grants are provided |

| Industry Development | Development Expansion Incentive | Activities must lead to the development or introduction of new capabilities for companies or industry | Reduces tax liability Helps meet costs of technology transfer, introduction of new capabilities, |

| Industry Development | Initiatives in New Technology | Local Industry Upgrading Programme Locally-based Enterprise Advancement | | |
### Programme

- **Pioneer Incentive**
- **Venture Capital Fund Incentive**

Projects must generate significant economic benefits for Singapore manpower and operating costs etc. Foster closer ties with industry contacts.

<table>
<thead>
<tr>
<th>Local Government Incentives</th>
<th>Help businesses improve efficiency, strengthen capabilities and explore new opportunities in their business</th>
<th>Loans, grants, tax incentives, equity financing and non-financial assistance etc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programmes cater to the needs of start up, local enterprises, global companies with large-scale needs such as the set up of regional headquarters in Singapore</td>
<td>Help businesses improve efficiency, strengthen capabilities and explore new opportunities in their business</td>
<td>Loans, grants, tax incentives, equity financing and non-financial assistance etc</td>
</tr>
</tbody>
</table>

**Republic of Ireland**

Built on low tax rate with flexible approach to attract FDI, bring in anchor investors and move up the value chain

- Small country on edge of Europe
- Population 4 million
- Total land area 82,000km\(^2\)
- Member of the EEC/EU since 1973
- Member of single currency zone (using the Euro) since 1999
- Youngest population in Europe

**Key Achievements**

- GDP per capita trebled between 1985 and 2008
- Strong productivity growth of 3.2% between 1990 and 2007, as opposed to 1.3% in OECD
- Rapid FDI growth, of 10x EU 15 average, resulting in 4x UK FDI level as % of GDP by 2003
- Attracted major global multi-nationals in pharmaceuticals and IT, including Intel, Microsoft, Google, Pfizer and Wyeth

The Republic of Ireland was successful in attracting FDI combining a customer-oriented agency with attractive financial incentives through the following programmes:

Moved early on FDI and focussed on attracting key anchors

Ireland focussed early on FDI and maintained this focus despite growing calls to provide more support to indigenous firms, which meant it was able to attract key anchor investors early on (Intel, Microsoft) and establish itself in the FDI market

Key anchor investors were pursued over very long periods (10 years plus) and the IDA dedicated high levels of resource to
attracting them (e.g. interviewing 300 Irish semiconductor engineers working abroad within 5 weeks for Intel)

Overall economic system aligned to attract the right investment

Long term success of the Republic as a destination for FDI has required an increasing focus on R&D support and building collaborative research projects (for example with government support of up to 80% for R&D expenditure carried out in partnership)

Skills have also been aligned to investor needs, with colleges creating new courses specifically to meet local investors’ skills gaps

Low corporation tax combined with EU membership

The Republic of Ireland was able to build on its strength as an EU member with low corporation tax rate to encourage MNCs to establish their European base in the Republic and to book profits there

Dedicated, dynamic investment agency

The IDA, despite being a government agency, has developed its own, customer-focussed culture based on pride in attracting companies to Ireland and respect from across the political system

Culture is focussed on “seizing opportunities” and “creating jobs” which has helped gain political alignment
The IDA’s customer-focussed culture and risk-taking of employees has been enforced by staff being measured based on outcomes of work rather than targets.

Technologists have been recruited to enhance capability to attract R&D intensive firms.

The following table shows the institutions in the Republic of Ireland that are responsible for FDI.

<table>
<thead>
<tr>
<th>IDA Ireland</th>
<th>Attracting and embedding FDI in the Republic of Ireland</th>
<th>• Goverment agency with considerable autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• 6 international offices situated across 4 continents</td>
<td>• 0 offices across the Republic</td>
</tr>
<tr>
<td></td>
<td>• 2007 turnover of €180m,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• if this, €80m was given to firms in grant funding</td>
<td></td>
</tr>
<tr>
<td>Forfás</td>
<td>National Advisory Body for Enterprise and Science in the Department of Enterprise, Trade and Employment</td>
<td>Data not available</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>• Its at heart of national-level planning of enterprise and science strategy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Enterprise Ireland (Transforming Indigenous Business) | Government agency with 1 international offices in 24 countries, with support services | 007 turnover of around €270m, of which €150m was spent on financial support to industry |
| SFI (Science Foundation Ireland) | Attracting and supporting world | • Public organisation responsible for distributing research grants to recruit and retain research groups | • Awarded €157m in grants in 2007 | Irish Industry sector, with a particular focus on exporting firms provided in another 39 countries |
Organization and Culture

Highly entrepreneurial culture, with a pragmatic focus on
“getting things done” within the overall grants cap rather than adhering to strict processes and rule

Staff are incentivised through strong mission and sense of purpose and through recognition of past success of IDA

Staff performance is measured on results rather than fix targets giving them more autonomy (no bonuses paid, public sector pay)

**Mauritius**

Strategically located in the Indian Ocean at the crossroads of Africa and Asia, Mauritius is reputed for its beautiful countryside and its 150 kilometers of white sandy beaches and transparent lagoon. Mauritius enjoys a maritime sub-tropical climate and is therefore an all-year-round holiday destination.

Mauritius adopted an official, more liberal, FDI policy with the establishment of the export-processing zone in 1970. The government sought to attract FDI in the zone by offering investors a wide range of fiscal incentives – including duty-free imports of machinery, raw materials and other inputs, substantial tax holidays, subsidized power rates and factory space, free unlimited repatriation of profits and dividends, and access to credit on preferential terms –, which some (for example, World Bank, 1989) have qualified as “overgenerous”. The incentives contained in the EPZ Act combined with the availability of relatively cheap semi-skilled labor and very flexible labor laws to spur a steady wave of investment into the export sector. On the external front, the preferential access of
Mauritius’s clothing exports into the then-E.E.C. under the Lomé Convention\(^1\) and the yet unexploited potential to export to the United States were probably instrumental in attracting foreign investors from Hong Kong who had bumped up against MFA quota ceilings. While the initial stimulus to EPZ activity came from foreign investors, local participation quickly caught up with and surpassed the degree of foreign equity in the zone.

The domestic-owned capital stock in the EPZ as of 2000 is estimated to be more than five times larger than the foreign-owned capital stock. In view of the importance of foreign investment as a source of sustenance to economic growth, the government of Mauritius has taken a series of policy measures to encourage its flows into manufacturing, offshore banking and financial services, information technology, communication and tourism. Foreign Direct Investment (FDI) has played an important role in the development of Mauritius and will again be decisive when the country embarks on high value-added, capital intensive and knowledge-based activities.

Foreign direct investment has played a small but pivotal role in Mauritius. In 1970, the Government enacted an Export Processing Zone Act (the first in Africa), attracting small Asian investors to locate textile and garment manufacturing operations in Mauritius and benefit from the preferential access to the European and United States markets. The main exporters are now national companies. FDI is also important in tourism, another

\(^1\) The Lomé Convention, signed in 1972, allows duty-free and quota-free access of Mauritian exports to the EU. Mauritius was not a member of the MFA. Nevertheless, exports of certain items of clothing were (and still are) subject to quotas in the United States and Canada. These quotas were underutilized in the early 1970s, thus allowing significant room for exports to North America.
pillar of economic prosperity. In the 1990s, Mauritius entered the league of outward investors, as firms began to establish operations in lower-wage sites in the region. The “flying geese” pattern, visible in Asia and Latin America, is finally in the making in Africa, with tiny Mauritius as the hub. Mauritius is one of the few countries to successfully deploy FDI to maximize the opportunities of preferential trade status, notwithstanding limited supply capacities and remoteness from world markets. Now a middle-income country, Mauritius faces challenges of a mature developing economy. Rising labour costs are eroding the competitive edge in garments manufacture. Future growth will have to come from efficiency gains and upgrading of production in established industries and from the development of new growth poles, such as regional business and financial services. Unlike manufacturing where competition is global, services can be more regionally based, partly shielded from global competitors.

The government plays the role of a facilitator and has endeavored at all times to create the most conducive investment environment by enacting appropriate legislations, building state-of-the-art infrastructure, investing in human capital and introducing packages of investment incentives for the manufacturing, financial services and ICT sectors so as to enhance the image of Mauritius.

The Board of Investment (BOI) is the first contact point for anyone investing in Mauritius.

Operating under the aegis of the Ministry of Finance, the BOI was established in March 2001 under the Investment Promotion Act to give a new impetus to foreign direct investment. The BOI is the apex organization for the promotion and facilitation of investment in Mauritius.
The primary role of BOI is to stimulate the development, expansion and growth of the economy by promoting Mauritius as a competing business and service center. It aims at streamlining the legal framework and to make better provision for the promotion and facilitation of investments in Mauritius. It acts as a facilitator and provides a one-stop shop service to both local and foreign investors ensuring reliable and speedy processing of applications.

The BOI receives processes and approves all applications for investing in Mauritius. It also assists investors in obtaining the necessary secondary permits and clearances from relevant authorities, thus ensuring a speedy implementation project.

Mauritius pursues a liberal investment policy and actively encourages foreign direct investment in all sectors of the economy. Attractive packages of both fiscal and non-fiscal incentives, tailor-made to the needs of each priority area of development, are offered to investors. Excellent opportunities for investment in Mauritius exist in various sectors of the economy including manufacturing, information technology, knowledge industry, regional headquarters, tourism and leisure, financial services, Freeport activities amongst other sectors.

Certain incentives provided by government to foreign investors. In the manufacturing sector, these include, among others:

- No customs or duty or sales tax on raw materials and equipment
- No tax on dividends
- No capital gains tax
• Free repatriation of profits, dividends and capital
• 50 % relief on personal income tax for expatriate staff

New incentives for the ICT Sector consist, *inter alia*, of:

- the availability of tax holiday up to year 2008 for specified pioneering high-skills ICT operators typically geared towards the export market, such as software development, multi-media; and to high-level ICT training institutions;
- customs duty-free import of ICT and similar equipment;
- 50 % relief of personal income tax for a specified number of foreign IT staff;
- duty-free import of personal belongings of foreign IT staff
- effective fast track procedure for procession of visa and work permits for foreign staff, including spouses;
INVESTMENT POLICIES IN THE PICS

The following data have been extracted from the Pacific Islands Trade and Investment Commission publications, an arm of the Pacific Forum that assist business and investments in its member states.
Papua New Guinea (PNG)

Policy and Investment Regulations

PNG liberal investment regime welcomes and encourages foreign investments that contribute to its economic development and prosperity of the country and its people. Investing in PNG can be lucrative given the vast opportunities.

They are different requirements for foreign investments in the resources, timber and fisheries sectors but in most cases 100% foreign owned enterprises are permitted whilst joint ventures with local partners encouraged. There are some restrictions to certain business activities which are limited to citizens and of which are of Cottage Business Activities List (formerly called “reserved list of activities”) can be obtained from the PNG Investment Promotion Authority.

The following are a number of government Acts covering foreign investments in Papua New Guinea:

- Free Trade Zone Act 2000;
- Investment Promotion Act 1992;
- Papua New Guinea Companies Act 1997;
- Forestry Act 1991;
- Mining Act 1992;
- Fisheries Act 1994; and
• Oil and Gas Act 1998;

There are fiscal, financial and tax incentives available to investors of large and small business proposals. As a member of several international treaties and regional agreements, such as World Trade Organization, Asia Pacific Economic Cooperation, PNG enjoys several preferential accesses to overseas markets such as the European Union (Cotonou Partnership Agreement) and the Melanesian region (MSG Trade Agreement)

**Taxation Incentives**

Most of the investment incentives available take the form of exemptions from company income tax or deferment of income tax liabilities. However, there are some incentives that are not related to company income tax. These include wage subsidy provision, which is a straight subsidy rather than a tax incentive.

PNG offers an attractive range of tax incentives to new and existing investors, which include the following:

• Export Sales Exemption: this allows export sales of a wide varieties of goods to be 100% exempt for a period of three years

• Double deduction for Export Market Development Costs: Expenditures on export market development for manufactured PNG goods can qualify for double deduction provided the tax saving is less then 75% of the cost of expenditure. Such expenditures as overseas publicity and advertising, market research, tender preparation, samples,
trade fair expenses, overseas sales and office expenses can qualify for this inducement.

- Rural Development Incentive: This provides for the exemption to businesses in a rural development industry (and those not dependent on exploitation of natural resources) for up to 10 years after the first year of commencement of business.
- Double taxation agreements with: Australia, Canada, China, Fiji, Malaysia, Singapore, South Korea and United Kingdom.

There is also a protective tariff applied to products that are manufactured in Papua New Guinea and that require protection for some time.

FIJI ISLANDS

Investment Policy and Regulation

Fiji welcomes investment both foreign and local, with the following application principles in its National Investment Policy:

- Investment should be market-driven;
- Investment should be welcomed from all legal sources;
- Investment should be welcomed into all areas of the economy, except where legislation reserves specific economic activities for citizens, for social policy purposes;
• Investment facilitation shall not discriminate between foreign and local investor unless stated otherwise in the legislation reserving certain economic activities for citizens for social policy purposes; and
• Investment–related legislation should be transparent and efficient, designed and implemented as the regulations that are minimally necessary to achieve a specific public policy objective;

The *Foreign Investment Act 1998* regulates the entry of foreign investment into the Fiji Islands. The Fiji Trade and Investment Bureau (FTIB) facilitate all investments. The aim of the Act is to encourage, stimulate and facilitate foreign investment through:

• Establishing transparent and simple procedures for the registration of foreign investments (ultimately, the Act aims to reduce the approval time for foreign investment proposals); and
• Specifying the activities that are open to foreign investors.

The process for establishing business in Fiji:

• Submission of application form and fee of F$14.00 to FTIB with five working days to process
• Issue of Approval Certificate and application to Reserve Bank for veracity check on transactions approval and authorization for issue and transfer of shares to non-residents
• Application to Immigration Department for criminal and character checks before issuing of post visas;
• Incorporation/registration, reservation and registration of company/business names and a compliance undertaken by the Office of Register of Companies; and
• Registration and issuing of Tax Identification Numbers (TIN) for Income Tax, PAYE and VAT requirements;

Investment Opportunities

There is an abundance of investment opportunities in the Fiji Islands, these include but are not restricted to: Child-minding services; commercial bakery; tourism supply services; eco-tourism accommodation services; petrol and associated services; deep-sea fishing; floriculture; noni; non timber products; handicrafts; dried fruit; commercial managed eco-forestry;

Incentives that are available for specific Industry Sectors include the following:

Agricultural Exports Service Industry

• Import Duty on capital goods Agricultural is Free Fiscal + VAT (Value Added Tax is payable upfront but will be refunded subsequently;
• Applies to all goods (raw materials) presently under the 10 percent band and most that are duty free;
• Excludes essential goods for education, health and agriculture, which will continue to enter duty free;
• Intermediate goods benefit from a reduction from 15 percent to 10 percent:

Back Office Information Export Service Industry

• Duty free imports of IT and telecommunications equipment;
• 100% deductibility on all R&D expenditures;
• Investment allowances for investments in IT;
• Unrestricted movements of foreign exchange and profits repatriation;

Electronics Industry

• Government encourages any export-oriented project:

IT Service Industry

• Duty free imports of IT and telecommunications equipment;
• 100% deductibility of all R&D expenditures;
• Investment allowances for investments in IT;
• Unrestricted movements of foreign exchange and profits repatriation;

BUSINESS DEVELOPMENT ASSISTANCE

FIJI ISLANDS TRADE AND INVESTMENT BUREAU (FTIB)
The Fiji Islands Trade and Investment Bureau (FTIB) a statutory agency under the Ministry of Commerce, Business and Investment is vested in facilitating and promoting all investments in the Fiji Islands. FTIB provides export promotion incentives and other incentives for setting up business and exporting.

The following schemes and assistance are available and eligible to Fiji Island based companies:

- Export Incentive Scheme;
- Export Credit Finance Facility;
- Finance and Assistance Schemes;
- Export Promotion Incentive;
- Business Training Fund;

Each of the above schemes has different criteria’s and information pertaining to these criteria’s is available via FTIB.

VANUATU

Investment Policy and Regulations

Under the Comprehensive Reform Programme, the government’s investment policy remains one of encouraging and welcoming foreign investment.

The government has enacted the Foreign Investment Act (No.15) 1998 to create a favorable environment for foreign investments. Under the Act, the Vanuatu Investment Promotion Authority (VIPA) is responsible for promoting and facilitating all foreign investments.
All foreign investors should get an approval from the VIPA Board and should approach VIPA for inquiries and foreign investment applications. The average period of time involved in processing an investment application from the point of submission to the final approval is three weeks. A limited number of small-scale activities are, however, are restricted to Vanuatu citizens. Examples include small food processing, kava bars, small-scale building service operations and hotels/motels with less than 10 rooms (further details can be obtained from VIPA).

Investment incentives are applied on a project-by-project basis. The primary incentive for investment in Vanuatu is its freedom from corporate tax, income tax, estate duties and non-capital gains tax. In addition there is no withholding tax and Vanuatu does not have any treaties or double taxation agreements with other countries. All investments over 1 billion Vatu enjoy zero duty.

**Tax Incentives via Tax Exemptions**

The Government of the Republic of Vanuatu has provided for the granting of exemption from payment of customs duty on goods imported for manufacture or process, and a reduction to a minimum rate of not less than 5 per cent on specified imports as mentioned in Schedules III of the Vanuatu Customs Tariff under Section 1 for Economic Relief as follows:

- v X.1 Goods imported for Manufacture or Process (Total exemption)
- v X.3 Goods imported for Agriculture, Horticulture, Livestock or Forestry Projects
- v X.5 Goods imported for a Tourism Development Project
- v X.6 Goods imported for Mineral Exploration and Extraction
• V X.9 Fisheries Industry Equipment

Application for exemptions prior to the commencement of a project is recommended and the grant of exemption is always subject to the condition that the goods imported fall within the policy guidelines laid down by the Government of Vanuatu. New investment in Vanuatu is welcomed by the Government particularly in areas of industry, tourism and agriculture.

Value Added Tax

Value Added Tax (VAT), otherwise known as GST in other countries, is a tax on consumption as legislated by the Value Added Tax Act No. 12 of 1998. It is charged and accounted for at a rate of 12.5 per cent. Businesses with an annual turnover of VT 4 million or more in its taxable activity, are required to register for VAT.

Trade Relations

Vanuatu is engaged in several trading arrangements in the region which will provide for an advantage to businesses: this includes the Pacific Island Countries Trade Agreement (PICTA) and the Melanesian Spearhead Group Free Trade Area (MSG-FTA), which provides for duty free access for imports and exports within the Melanesian countries.

Vanuatu also has duty-free access to Australia and New Zealand under the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA), and to the EU under the ‘Everything but Arms’ initiative. It is currently undergoing negotiations in the European Union Economic
Partnership Agreement (EU–EPA) and the World Trade Organization (WTO).

BUSINESS DEVELOPMENT ASSISTANCE

Chamber of Commerce and Industry of Vanuatu
The Chamber of Commerce and Industry of Vanuatu was established in 1995 to represent the commercial interests of the private sector in Vanuatu. The Chamber provides training courses for business operators in a wide range of areas (management, marketing, business planning, export markets, etc.). It also undertakes training courses for other organizations in Vanuatu.

Department of Co-operatives and Ni-Vanuatu Business Development Services
The Department of Co-operatives and Ni-Vanuatu Business Development Services (DCNVBDS) is the new name following the amalgamation of the Department of Cooperative and Business Development Services and the Department of Ni-Vanuatu Business Development Center.
The Department runs training courses on small business management, provides individual consultations with ni-Vanuatu business operators and entrepreneurs and manages the ni-Vanuatu Micro Finance Scheme which provides micro-loans to ni-Vanuatu businesses. Contact should be made directly with the Department in Port Vila or through the provincial offices.

**Vanuatu Investment Promotion Authority (VIPA)**

The VIPA is a government statutory body that handles all investment promotions, overseas new investments and opportunities in Vanuatu. It provides services to investors to aid in the set up or expansion of their businesses.

**Vanuatu Network of Women for the Development and Sustainability of Microfinance Institutions**

The organization provides disadvantaged women with access to microfinance, income earning opportunities and training for those involved.

**Vanuatu Rural Development Training Center (VRDTCA)**

This resource centre provides technical assistance and advice to all the rural training centers around Vanuatu. They also assist with income generating projects and activities.
The regulatory framework covering foreign investment includes the Foreign Investment Act 2005 and the Foreign Investment Regulations 2006. Reforms of business laws are expected to make it easier to do business. Furthermore Solomon Islanders are encouraged to engage in businesses through provision of training and establishment of credit guarantees operated by the central bank.

The economic outlook is positive, on the assumptions that investor confidence is sustained by political stability and that the Government implements its public sector and economic reform agenda at a moderate pace.

The following features are encouraged by the Foreign Investment Division for investments:

- Strengthening the technical and marketing expertise of the private sector;
- Maximizing the use of local raw materials in the production stages;
- Promoting export and import substitutes;
- Creating employment and training to the local people;
- Integrating or transferring knowledge and technology to the country’s economic system; and
A number of activities are not open to foreign investment, including retailing and the right to fish in inshore areas, the reef and lagoons (subject to traditional ownership/use rights).

In summary, the restricted activities include:

- cultivating plant crops exclusively for sale on the domestic market;
- timber milling operations producing not more than 2,500 metric cubic sawn timber per year;
- retail trading of household goods and services on premises with an area of less than 200 square meters;
- producing handcrafts and cultural artifacts;
- operating buses, taxis and hire cars;
- farming of livestock for sale exclusively for domestic market;
- gathering of wild forest products for sale exclusively for domestic market;
- laundry services not part of hotels;
- restaurants, cafes and other eating and drinking business other than specialty business, and operating within an area of less than 25 square meters;
- market vending and roadside stalls;
- static guarding services for offices and domestic dwellings with an employment of less than 20 employees;
- office and lawn cleaning services not associated with hotels; and;
- domestic help services;

Investment Opportunities
The government has developed a list of desired investment areas for potential investors; it also encourages joint ventures for foreign investors with local companies. Detailed information can be obtained from the Foreign Investment Division. The National Government is cognizant of the inputs of FDI and therefore places high priority for sectoral development and growth. With its long term development vision, investments are encouraged on areas which include but not restricted to the following:

- Off shore fisheries development;
- Aqua Culture development;
- Manufacturing of goods of all types;
- Tourism development;
- Commercial farming;
- Forestry development, particularly timber and related products;
- Mineral prospecting;
- Export oriented productions;
- Agriculture development;

BUSINESS DEVELOPMENT ASSISTANCE

Foreign Investment Division

Department Of Commerce, Trade & Industries

The Division administers the Foreign Investment Act and Regulation 2005 and stimulates investments whilst at the same time aims to promote and
encourage investments in the Solomon Islands. The Division has three main sub-divisions: the Promotion Units, Evaluation Unit and the Monitoring Unit.

Application Process:

- Apply for Registration intended for investment through the Registrar of Investment;
- Complete an official investment Form;
- Lodge application form to the Registrar of Investment with a fee of SBD$200.00 to the Treasury Division;
- Registrar reviews and registers the investor;
- On approval of investment activity, Registrar records prescribed information relating to the investment activity and issues a certificate of registration; and
- Incorporate company;

Observation of Labour and Immigration Acts must be adhered to by investors: Work Permits are issued by the Commissioner of Labour and Residence Permit from Immigration.

**SMALL BUSINESS FINANCE SCHEME**

The above scheme is aimed at assisting the development of business activities within the Solomon Islands of which the Central Bank acts as the guarantor to the participating lending financial institutions. Prominence is given to Small and Medium Enterprises involved with rural or export business ventures.
Those eligible for the Scheme:
- Individual Solomon Islanders;
- Cooperatives or Companies owned and controlled by Solomon Islanders; and
- Joint Venture companies (50% must be owned by Solomon Islander);
- Loans are in the vicinity of SBD$50,000 to SBD$1,000,000 and the maximum term for such loan is 5 years.

SOLOMON ISLANDS SMALL BUSINESS ENTERPRISE CENTRE (SISBEC)

Primarily funded by the New Zealand Government, the Solomon Islands Small Business Enterprise Centre (SISBEC) is modeled on similar business enterprise centers in New Zealand. SISBEC commenced operating in 1998. Its objectives are to provide business training and support services for small enterprises and those planning to start a business.

The following assistance is provided:
- Starting a business;
- Business proposal preparation;
- Book keeping;
- Skills for women in business;
- Marketing and customer service;

Training is based on cost sharing and is usually at US$30 in regional centres and US$20 in rural areas. A total of four free follow-up consultations will be provided through the 12 months after the course is completed. Those attending a training course need only fill out a simple
application form and pay the fee. Applicants requiring individual assistance should contact SISBEC directly to discuss their requirements. Most will, however, be encouraged to participate in a relevant training course before such support is provided.

POLYNESIAN GROUP

SAMOA

Investment Policy and Regulations

Foreign investment is actively promoted and welcomed with the government recognizing its contribution to Samoa’s economic development through foreign capital, technology and management skills transfer and employment. The Foreign Investment Act 2000 requires all foreign investment projects to obtain a Foreign Investment Certificate from the Ministry of Commerce, Industry and Labour prior to commencement of operations. Most sectors are open to foreign investment, however, the Act has provisions for certain activities that are either ‘Restricted’, ‘Prohibited’ or ‘Reserved’ (for local operators and Samoans).

The following business activities are reserved for citizens of Samoa:

- General transport buses, taxis, hire vehicles:
• Retailing; and
• Sawmilling;

Investment Opportunities

Samoa’s growing economy makes it for a viable investor friendly environment with opportunities existing in the following sectors:

Agriculture

The sector accounted for GDP of US$34 million (at market prices) and has a vast potential for additional investment, particularly in the production of high value products. The agro-economic conditions are well suited to organic production which is an advantage given the growth in demands for organics both fresh and processed. Some identified opportunities within the agricultural sector for both the local and international markets include: cocoa; cattle; banana; nonu; and cut flowers.

Food and Beverage

Value added generated by this industry was $33.56 million in 2005 giving an increase of 9.6% in comparison to the 2004 levels. The strong growth in this industry in 2005 was primarily due to remarkable performance by nonu juice exports. With an effective linkage to supply of agricultural inputs, this sector could provide excellent ventures in downstream processing of coconut oil, tuna processing for export, abattoir, production of banana and taro chips, and rehabilitation of the animal feed mill.

Tourism
Given the country’s political stability within the region, the tourism sector has continued to expand. In 2005 it was impacted by the opening of the Mormon Temple, the new Aggie Grey’s Lagoon, Beach Resort and Spa. Tourist arrivals increased to 115,882 in 2006 and pushed total tourism revenues by 4.4%. Samoa also hosted the South Pacific Games from 25th August to 8th September 2007 which exposed the country as a sporting capital of the Pacific region. Thus with the increased number of tourists visiting the country, there is a need for further development in the accommodation, transport/tours and entertainment or recreational activities.

**Timber and its Products**

Despite Samoa’s limited tropical hardwood resources, there are prospects for efficient downstream-processing operations in the timber sector. The large and under utilised coconut tree resource also offers opportunities. Investment is encouraged in the production of wooden furniture; coconut timber; various timber products; moldings; builders’ joinery; and sawn timber.

**Business and Financial Services**

Increased activities within the economy in 2005 saw benefits within this sector, up by 7.7% and contributing 0.7% to the overall growth in this period. The continuous expansion by the industry is indicative of the government’s success in its financial sector reform programme.

**Fishing**

Despite its decline over the years, the sector still remains critical for Samoa in terms of its subsistence and exports avenues. The Fishing
Authority is implementing the National Tuna Management Plan, providing supportive infrastructure for commercial and export growth; offering adequate freight space to major markets; and developing village and district aquaculture ventures for commercial domestic and export markets.

TONGA

Investment Policy and Regulations

In order to encourage investment, the government has recently gazetted the first ever Foreign Investment Act for Tonga. The Foreign Investment Regulations 2006 and the Foreign Investment Act 2002 which regulates foreign investment activities both came into effect on April, 2007. The Act also outlines 13 business activities which are reserved for Tongans, including:

- Taxis
- Passenger vehicles for hire
- Used motor vehicle dealers
- Retailing activity and wholesaling activity
- Baking of white loaf bread
- Tongan cultural activities
- Raising of chickens for the production of eggs
- Security business
- Export of green and mature coconuts
- Wiring and installation of residential and commercial buildings with capital investments of less than T$500,000
- Production or farming of root crops, squash, paper mulberry, pandanus and kava

Other activities on the Reserved List include reef fishing, inshore fishing within 12 meters in less than 1,000 meters and bottom fishing in water depth less than 500 meters.
Further information and the available incentives can be obtained from the Ministry of Labour, Commerce and Industries.

**Investment Opportunities**

The key investment opportunities in Tonga are in the following areas:

**Agro-based Industries**
Main opportunities are for those that focus on niche opportunities in international markets.

**Fisheries**
There is scope for expansion of the fishing industry in Tonga’s rich Exclusive Economic Zone. The government has already introduced incentives to encourage development of this industry and increased onshore processing (canning and fish filleting) would be welcomed.

**Import Substitution and Export Industries**
While the local market is not large, there are numerous opportunities for profitable projects that provide products and services to local industries and into niche markets in other neighboring Pacific Island countries.
Opportunities exist in the construction, tourism and general business support areas. Some examples include the supply of:

- concrete and metal construction materials;
- stationery;
- packaging materials;
- assembly of automotive parts and equipment;
- ready-mix concrete plant;
- soap; and
- Garments for both the local and export markets.

**IT and Related Telecommunication**

Recently implemented regulatory reforms have resulted in a marked increase in tele-density, huge fall in waiting list and 200% decline in telecom tariffs. In 2006 there was a planned delivery of wireless broadband to Tonga’s population and the opening up of a number of opportunities in this sector.

**Tourism**

This industry is slowly starting to expand in Tonga and has the scope to further increase especially in the northern islands group of Vava’u.
Youth Micro-Enterprise Development

Offers a range of relevant schemes, including microfinance and a future farmers’ program. The development assistance is geared towards the youth and women in small communities offering funding for projects aimed at agricultural diversification.

Development Bank of Tonga

The bank offers commercial banking services and also business advisory services. It is also the antenna for the Centre for the Development of Enterprise (CDE).

Overview of Assistance Programme

Business Advisory Services:

- one-on-one consultation and analysis of business
- assistance in developing a new business and/or writing a business plan
- aid with basic book keeping
- assistance in financial statement preparation

Centre for Development of Enterprise

The CDE is an institution of the Africa, Caribbean and Pacific group of states and the European Union under the Cotonou Agreement. Its activities include creation, expansion diversification and restructuring of enterprises to improve profitability and development impact.
Overview of Assistance Programme

- Assistance in studies
- Project feasibility
- Market diagnostic
- Technical assistance in operations, management, marketing and legal aspect for businesses

Steps involved in accessing assistance

Submit a project proposal outlining detailed description of the business enterprise, detail of the intervention and its impact on the business. Project proposal can be directly submitted to CDE or to the Development Bank of Tonga. Assistance on project proposal and other information on the CDE can be directed to the Development Bank of Tonga.

NIUE

Investment Policy and Regulations

The Government of Niue encourages investment and has set up the Niue Investment Promotion Agency (NIPA) to oversee the promotion and development of investments in the country. The Development and Investment Act of 1992 regulates investments in Niue and foreign investors need to register and apply to Cabinet through NIPA before carrying out a business. The Act also provides for the development of an investment schedule which allows for tariff protection,
import duty concessions, tax incentives, residence permits, and salary subsidies.

Under the Income Tax Act, exemptions may be applied to industries contributing to the economic development of Niue. All applicants for foreign investment and for incentives and concessions must be accompanied by comments from the relevant government stakeholders overseeing the sectors for which the particular investment shall be carried out. Any other information regarding investments is directed to the Niue Investment Promotion Authority.

**Trade Relations**

Niue is now a party to the Pacific Island Countries Trade Agreement (PICTA), which involves the progressive reduction of tariff and plans for most items to become duty-free in 2019. The Economic Partnership Agreement (EPA) with the EU is currently in the final stages of negotiations.

**Investment Opportunities**

Investment opportunities in Niue are restricted by the country’s small size. There are, however, opportunities in the following areas:

**Fishing**

A state-of-the-art purpose built fish processing facility has been established in Niue between Reef Group.

**IT and Related Telecommunications**
Given the advanced state of this sector and the availability of free internet access in Niue at broadband level there is a vast opportunity in this sector both in terms of ease of services delivery and e-commerce.

**Specialised Agricultural Projects**

Commercial quantities of agricultural products in particular niche market opportunities exist in this sector such as noni juice.

**Tourism**

Niue offers a unique tourism experience as the ‘rock’ of the Pacific and there is potential for growth in this sector in particular given its extremely clean environment, natural beauty and excellent diving.

**BUSINESS DEVELOPMENT ASSISTANCE**

**Niue Investment Promotion Authority (NIPA)**

NIPA is set up to assist with attracting and promoting investment opportunities in Niue. It provides all the relevant information on investing in Niue and is currently under the office of the Economics Planning Development and statistics.
Procedures for investment approval consist of:

- Initial discussion by investor and NIPA on requirements for preparation of application;
- NIPA arranges and coordinates comments from other departments for a Cabinet submission; Matters commented upon will include administrative and technical requirements, e.g. land, business, licensing requirements, EIAs, physical infrastructure requirements, audit statement;
- NIPA submits final application to Cabinet for approval; and NIPA informs applicant of results;

Other specific information needed from the investor for local planning purposes include:

- Nature of business;
- Financial requirements;
- Building requirements;
- Power requirements;
- Water requirements;
- Land type and area;
- Operating capacity; and
- Labor force requirements;

Investment priorities will be considered for incentives and concessions which may include the following:

- Tariff protection;
• Capital equipment concession;
• Raw materials concession;
• Tax concessions;
• Allowable expenditure and cost on recruitment – deduction against taxable income;
• Training of local persons – up to 200% of direct cost of training may be claimed against taxable income;
• Depreciation allowances; and
• Residence permits – up to 3 year period for key personnel or employees;

COOK ISLANDS

Investment Policy and Regulations

The Cook Islands’ government actively encourages economic investment and the establishment of new enterprises and business activities that make a positive contribution to the economic and social development of the country. All foreign investment in the Cook Islands is governed by the Development Investment Act 1995–1996. The Act provides for general investment regulations and requirements.

• The Development Investment Act 1995 – 1996
• All foreign organization or companies wanting to set up in Cook Islands must first obtain approval and register their planned activities.
• The Leases Restrictions Act 1976
Does not allow freehold ownership of land, persons may lease land up to five years and any longer period has to be approved by a Committee established under the Act.

- The Entry Residence and Departure Act 1977

Anyone other than Cook Islanders and permanent residents wanting to live and work must first obtain a residence permit.

Every foreign enterprise wishing to carry on business in the Cook Islands where foreign equity exceeds 33% must apply for registration with the Business Trade Investment Board (BTIB). Foreign investment applications and the associated investment incentives are also reviewed by the Business Trade Investment Board.

Other sector specific investments shall be subject to the appropriate legislations covering the relevant sectors.

Investment areas and activities which are in the scope and capability of Cook Islanders are set aside as reserved investment areas, however, a number of investment areas have been identified as priority investment areas and are encouraged.

These priority investment areas include:

- Tourism;
- Agriculture and livestock production;
- Fisheries and marine production;
- Manufacturing; and
• Outer islands development;

Applications for incentives must satisfy certain investment criteria’s before approval is granted. The types of investment incentives available to investors include import levy exemptions and work and residence permits. All areas not covered under “Priority Investment Areas” are deemed reserved investment areas.

**Taxation and Other Regulations**

There is no capital gains tax in the Cook Islands, however a resident domestic limited company pays corporate tax of 20% on worldwide profits and non-resident domestic company pays corporate tax of 20% from income sourced in the Cook Islands.

A withholding tax of 15% is payable on any dividends, interest or royalties paid by Cook Islands companies to non residents of the Islands; the rate of withholding for payments to residents are 5%. Interest payable to non-resident depositors by banks is free of withholding tax.

The Value Added Tax is levied at 12.5% on most goods and services. Local companies can claim 100% depreciation on imported assets used in the outer islands which will be in place till 2010.

Cook Islands does not have exchange controls or regulations that hinder the repatriation of capital, profits, dividends, royalties, loan payments, interest earned on loans and other forms of foreign owned finance.

The government had lifted most import levies from July 1, 2006, however levies on pork, fresh fruit, vegetables, pearls, soft drinks, motor vehicles, liquor, tobacco and fuel are still in place. However, import duties on these
items will be cut by 50% on July 1, 2008. Further reductions will be subject to review.

**Investment Opportunities**

The following sectors offer opportunities in the Cook Islands for foreign investors.

*Agriculture:* Opportunities include import-replacement and export-related agricultural goods, including livestock production and the processing of pawpaw’s, taro, vanilla beans and noni products.

*Jewellery:* There is a huge potential for value-adding to black pearls through export orientated jewellery manufacturing activities.

*Manufacturing:* The government encourages small-scale manufacturing, fabricating or assembly of import-replacement or export-orientated products. Of particular interest would be the manufacture of packaging materials, small electrical-assembly operations and basic construction materials.

*Marine:* The large lagoon areas of the northern group are ideal for live fish export, smoked fish operations and the processing of seaweed. Fisheries and marine exports were valued at NZ$5,159 million in 2005. Opportunities also exist in export of by-products of pearl shells. Pearl exports decreased in 2005/06 to $1.6 million; however, modest growth is projected for the industry with higher volumes and slightly higher market prices.

*Tourism:* Opportunities for accommodation such as up-market and resort style; tourism related areas such as restaurants, cruise charters, etc. A
number of small-scale tourism opportunities also exist on the outer islands in both the southern and northern groups. Visitor arrivals have shown a steady increase from around 74,000 in 2001 to just over 88,000 in 2005.

**BUSINESS DEVELOPMENT ASSISTANCE**

**Business and Professional Women’s Association**

The Business and Professional Women’s Association was set up in 1991 and carries out programmes to promote Cook Island women in business, empowering women through enterprise development workshops and training courses. The available trainings range from business-related skills, human resource management and hospitality.

**Business Trade Investment Board**

The Business Trade Investment Board was established in July 2007 as a result of a merger between the Development Investment Board (DIB) and Small Business Enterprise Centre (SBEC). The organization is viewed as ‘one-stop-shop’ for investment facilitation and approvals for all foreign companies wanting to set up in the Cook Islands. It promotes and encourages investment in the Cook Islands consistent with its national development and investment policies.

The activities carried out by the organization include:

- Regulating, monitoring and controlling the direction, extent and scope of foreign investment in the Cook Islands;
• Encourage and facilitate the participation of Cook Islands in investment and in the ownership, management and control of investment business;
• Encourage & promote trade to, from & within the Cook Islands;
• Provide and facilitate training in business related skills as well as provide advisory and other business services to encourage and assist Cook Islanders in business development; and
• Other services include business skills training, business facilitating, and mentoring and on-going support programs. Specialist seminars are also provided in marketing, business planning and development, accounting and business growth.

MICRONESIA

TUVALU

Investment Policy and Regulations

The Foreign Direct Investment Act 1996 legislates all foreign investments in Tuvalu. Given the countries geographical nature, the Government of Tuvalu is still enthusiastic in welcoming all investments and deals with each proposal on a case-by-case basis. The institution tasked with overseeing investment activities is the Foreign Investment Facilitation Board (FIFB), under the auspices of the Ministry of Tourism, Trade and Commerce. The FIFB is able to provide all necessary information regarding investment opportunities in the country whilst all application proposals must be submitted to the FIFB for its consideration. In addition applicants are obliged to complete a Foreign Direct Investment Questionnaire (FDIQ) which requires information such as the size and nature of the project, its projected costs and benefits, land requirements
and other information that may be needed to fully assess the particular investment project proposal. All investment proposals are appraised by the FIFB together with any necessary granting of concessions whilst recommendations are made to the Minister responsible for final approval. The normal processing time for the Minister’s review and consent is more or less 30 days; however, any large investments may be referred to the Cabinet for consideration and approval.

Investment Approval procedure:

- Submission of Investment proposal to FIFB;
- Appraisal of the Investment proposal by the FIFB;
- Report and recommendation made by FIFB to the Minister responsible;
- Approval or Rejection of the investment by the Minister; and
- Post-report activities of the Board;

Companies wishing to undertake business in Tuvalu must be registered with the Registrar of Companies.

Incentives are granted on a case-by-case basis as there are no specific or fixed set of investment incentives. Under certain categories, the Minister of Finance can at their discretion, grant exemption for certain periods. Such areas include tourism and other pioneering industries.

**Trade Relations**

Tuvalu is a member of the Pacific Islands Forum and is a party to the Pacific Islands Countries Trade Agreement (PICTA) which entered into force in 2002 and involves a commitment to reduce and eliminate tariffs
amongst the 14 Pacific Forum member countries. It has also signed on to the Pacific Area Closer Economic Relations (PACER) which includes Australia and New Zealand in addition to the 14 Forum Island countries.

**Investment Opportunities**

Although Tuvalu is hindered by its scarce land and limited resources which add to constraints in its development, Tuvalu is in the vicinity of offering unique opportunities that when given the chance can flourish to viable business prospects. The following are areas for possible development:

**Fishing and Seafood Processing**

The sparsely spaced atoll of Tuvalu gives it a very large and wealthy 900,000 square kilometers of ocean in its EEZ. Foreign fishing vessel licensing is the main income, however, it is the government’s wishes that other forms of investment within this area is also explored and maximized.

**Small-scale Hydroponics Project**

There exists opportunities in developing a hydroponics project for the shortage of local fresh green vegetables and fruits which are at present being imported from overseas. Profitability is guaranteed given the disposable incomes of the local population.
Specialist IT Services: Tuvalu has become well known as a result of its ‘dot tv’ business and there is an opportunity to take advantage of this promotion through the provision of associated web design and networking services. The country’s well developed communications infrastructure would facilitate such a venture and an increasing number of locals are undertaking IT related trainings overseas to accommodate this sector.

Tourism: As one of the smallest nations in the world, the unspoiled and non-commercialized atolls of Tuvalu offer an inimitable tourist destination. Its crystal clear waters, spectacular marine environment and distinctive Polynesian culture tender an exceptional touch to any investors contemplating investing in these islands.

BUSINESS DEVELOPMENT ASSISTANCE

Tuvalu Business Centre

Initiated in 1998 by the United Nations Development Programme (UNDP), the Tuvalu Business Centre aims to strengthen and expand the business sector in Tuvalu. It provides trainings, courses and individual assistance for existing businesses and potential entrepreneurs. Several scheduled courses are planned for throughout the year including those taking place in the outer islands. Individual assistance to businesses and entrepreneurs include feasibility studies, business plans and funding proposals.
MARSHALLS ISLANDS

Investment Policy and Regulations

The Government endeavors to encourage private sector development to help meet its development goals, which are for employment generation, human resource development, generation of foreign exchange, and import substitution. Its priorities for investments are in fisheries, tourism, manufacturing and agriculture sectors.

To facilitate and assist investments into the country, the government has established the Trade and Investment Services Division under the Ministry of Resources and Development. It requires all foreign investments to obtain a Foreign Investment Business License (FIBL) which can be obtained by applying to the Registrar of Foreign Investment in the Office of the Attorney General using a prescribed form. Every effort is made to issue the FIBL within 7 working days of application. There are Reserved Activities that foreign investors cannot operate in, such as:

- Small-scale agriculture for local markets
- Small-scale mariculture for local markets
- Bakeries and pastry shops
- Motor garages and fuel filling stations
- Land taxi operations, not including airport taxis used by hotels
- Rental of all types of motor vehicles
- Small retail shops with a quarterly turnover of less than US$1,000 including mobile retail shops and/or open-air vendors/takeaways; etc.
More information can be acquired from the Trade and Investment Services Division.

The government will grant work permits for highly skilled professional and technical positions should there be no Marshallese available. A work permit is issued for a specific non-resident worker for a period of one year.

The permit must be renewed at the end of the calendar year and can be renewed for a total of two years; however a further extension can only be made by the discretion of the Cabinet.

As part of the government’s investment incentive, investors can apply to the Minister of Finance for an exemption from paying taxes and duties in selected sectors. Investments in the following export-oriented sectors can be exempted from paying gross revenue tax for a five-year period:

- Off-shore or deep sea fishing
- Manufacturing for both local and international market
- Agriculture
- Hotel and resort facilities

To qualify for the above exemption, investors must invest at least US$1 million or provide employment and wages in excess of US$150,000 per annum to citizen workers. There is also the tax exemption for seabed mining.

Other incentives applied through the Compact include articles wholly grown, made or produced in the Marshall Islands having duty-free access to the United States, except for the following categories:
- Watches, clocks and timing apparatus
- Buttons
- Articles subject to textile agreements
- Canned tuna in oil (tuna in water has duty free access to the US as long as exports do not exceed 10% of total US consumption).

Products produced in the Marshall Islands are not currently subject to quota restrictions in the United States

**Investment Opportunities**

Natural advantages unique to the country, including pristine beaches, tropical agriculture and rich ocean resources, provide opportunities for the sustainable development of new industries.

This combination creates a solid foundation for investment found in few developing economies.

The key opportunities are summarized below:

**Agriculture:** There are opportunities for developing edible and non-edible products from coconuts, meat and vegetables for the domestic market and neighboring Pacific Island countries.

These industries could also supply the United States Army based at Kwajalein. There also exists demand for virgin coconut oil and noni which are available in the Marshall Islands.
**Manufacturing:** There are many opportunities for small-scale manufacturing operations to supply the local market, including food processing, construction, household products and garments.

The Marshall Islands offers good prospects for larger projects such as a tuna cannery, a brewery and garment production for export to the United States, and other markets with which it has preferential access arrangements.

**Marine and Fisheries Resource:** With its large EEZ and the level of fishing activity present in the RMI, it presents an opportunity for related business ventures such as fish processing, trans-shipment and vessel repair.

The Marshall Islands currently generates the majority of its fisheries income from foreign fleet licensing.

The natural lagoon environment and vast ocean resources creates a competitive setting for aquaculture; such as clams, beche-de-mer, black pearls and seaweed.

**Tourism:** Coral reefs, untouched islands and historical significance of the RMI appeals to niche travelers in scuba diving, sports fishing and World War II historical tourism.

Given its infrastructure capacity and the development of the Marshall Islands Resort, it is able to accommodate increased visitor traffic.

The Marshall Islands remains an undiscovered destination and is positioned to penetrate specialty segments of the tourism market.

**Seabed Mining:** There are large deposits of high-quality cobalt, manganese and other minerals in the seabed of the Marshall Islands’ 200 million square kilometer EEZ.
In recent years the existence of these minerals has been confirmed by various geological surveys undertaken by the United States, Japan and Germany.

As soon as appropriate technology is developed, there are expected to be numerous investment opportunities in this sector.

BUSINESS DEVELOPMENT ASSISTANCE

TRADE AND INVESTMENT SERVICES DIVISION, MINISTRY OF RESOURCE AND DEVELOPMENT

The Trade and Investment Services Division (TISD) is a division under the Ministry of Resources and Development. Its objectives are to facilitate and promote foreign and domestic investment in the Marshall Islands.

CHAMBER OF COMMERCE, MARSHALL ISLANDS

The Marshall Islands Chamber of Commerce was incorporated in 1985. It consists of members of around 50 local businesses, which employ approximately 2,000 Marshallese employees.

Its purpose is to develop, encourage, promote and protect the commercial, professional, financial, and general business interest of the Marshall Islands.

SPECIAL PROGRAMS, MINISTRY OF RESOURCES AND DEVELOPMENT

The Ministry has several program areas that are cross cutting with other institutions; however, the following are areas that it hopes to provide assistance in:
- Product and market development
- Investment and business development
- Energy services

**SMALL BUSINESS DEVELOPMENT CENTER**

The Small Business Development Center provides training and technical assistance to small and medium sized businesses in Business Planning, Marketing, Taxation, Record Keeping and other related small business topics. The Center also facilitates the Micro-Credit Loan and advices small businesses on loan requirements.

**PALAU**

**Investment Policy and Regulations**

Estimates of foreign direct investment in 2004 were recorded at USD$18.7 million (IMF reports) and the government aims to maximize benefits for its people through attractive, welcoming policies and initiatives. The government continues to recognize and encourage the value of foreign investment, provided it is compatible with cultural and environmental heritage of the islands.

Foreign investment in Palau is regulated by the Foreign Investment Act 1990 and all non-citizens seeking to engage in business in Palau are required by the Foreign Investment Act to obtain a license known as the Foreign Investment Approval Certificate (FIAC). They may however, be able to access specific exemptions.
The Foreign Investment Board reviews, evaluates and approves applications and proposals and requires investments to be more than USD$500,000 or having at least 20% of workforce as Palauan. For every foreign worker employed, an annual fee of USD$500 is required. The Board assesses the investment according to the following criteria:

- The extent of its current availability in Palau;
- The likely impact on same or similar activities currently being carried on by citizens;
- The overall benefit to the national economy;
- The bona fide financial capacity, experience and expertise of the applicant; and;
- The technical and economic viability of the proposed project;
- There are reserved investments which are closed or restricted to foreign investment these include:
  - Wholesale or retail sale of goods ;
  - All land transportation including bus services, taxi services, and car rentals;
  - Tour guides, fishing guides, diving guides and any other form of water transportation;
  - Travel and tour agencies;
  - Commercial fishing for highly migratory species;

The Foreign Investment Board is required by law to issue a decision on application within 90 days of submission of a complete application. Moves are presently being made to expedite the review process and to issue decisions more quickly.
Following approval the Board will set the duration, scope and any conditions to be included in the FIAC. Foreign investors are required to submit period reports to the Board, enabling the Board to monitor investor compliance.

Any foreign investors wishing to do business in Palau will also need to obtain the necessary business licenses from the Bureau of Revenue, Customs and Taxation and from the state government where the business is to be located. In certain circumstances, specific permits from the Environmental Protection Board or the Maritime Authority may need to be obtained.

The primary incentive for investment in the Republic of Palau is its status as one of the lowest taxed business environments in the Asia Pacific region. There is no corporate tax, nor is there any taxation of income for business owners.

The Compact of Free Association also allows Palau free access to the United States markets.

Also any foreign investor who constructs a facility in Palau may be entitled to a refund of taxes paid equal to the costs of off-site roads, water, power or sewer infrastructure improvements accomplished to service such facility. The amount refunded in any single tax year shall not exceed 50% of the amount paid in that tax year by the foreign investor.

The following are the applicable Annual Licensing fees as of July 2005:

- Wholesaler USD$300
- Importer USD$200
- Solicitor USD$500
• Professional USD$500
• General USD$50
• Other fees include:
  • Foreign Investment Certificate USD$500, a one off non-refundable fee
  • Foreign Investment Quarterly Report fee USD$25

Investment Opportunities

With its proximity to Asia, political stability and strong ties and duty free access to the US, Palau offers lucrative opportunities for foreign investors. Its low tax structure, well established infrastructure, natural resources, abundant tuna fishery, rich biodiversity, culture and pristine marine ecosystems are some enticing aspects of investing in Palau.

The government has identified the following main sectors of growth opportunities in-line with its economic development initiatives:

**Agriculture:** There is potential for some specialized agricultural projects, including the production of medicinal plants such as noni and sakua. Tropical flowers are another area that could be of benefit to the investor.

**Aquaculture:** This sector has increased over the years and provides vast opportunities for further development. Its principal cultured product is the giant clam shell with high demands in the marine aquarium industry. Ninety percent of all live marine aquarium products are imported by USA, followed by the European Union and Japan.
**Fisheries:** Given its geographic position and easy access to the Japanese and Asian markets, this sector is well placed for further development in offshore fishery.

**Light Manufacturing:** Preferential access to the USA market is one of the main advantages of investing in this sector. With its Free Trade Zone facility products and potential in assembling of specialized electronic equipment and components parts for re-shipment to the USA, Asian and Pacific markets.

**Tourism:** Tourist arrivals in Palau were up to around 86,000 in 2006 and were mainly from Japan, Taiwan, USA, Canada, Guam and the Philippines. Opportunities exist in providing diversified tourism products to target the niche and specialty tourism markets in Europe, America and Asia. There are also needs in up-market tourist resorts and its related services to cater for these tourists.

**BUSINESS DEVELOPMENT ASSISTANCE**

**Chamber of Commerce, Palau**

The Palau Chamber of Commerce, Inc. was incorporated in 1992 with the aim of mobilizing the resources of the business community and ensuring that Palau develops as a free, strong and self-reliant community.

The Chamber has the following committees which handle the sector specific matters: Agriculture, Banking and Finance, Communications, Fishery and Aquaculture, Foreign Investment, Labor and Immigration, Land, Tax, Tourism, Oil and Gas, Public Utilities and Ports Committee.
The Chamber provides individual business advisory services to small and medium-sized indigenous entrepreneurs, including the preparation of business plans and cases for finance. It also undertake lobbying activities on behalf of the private sector.

The Chamber offers the following assistance to members:

- Lobbying government on specific issues;
- Informing members of proposed legislation, proposed amendment laws, regulations and policies;
- Weekly information sheets;
- Trade information;
- Export/import information;
- Statistics from various agencies;
- Providing a forum to small working groups on specific issues (solutions to problems); and
- Training through workshops

FEDERATED STATES OF MICRONESIA (FSM)

Investment Policy and Regulations

The Federated States of Micronesia welcomes foreign investments given its importance to the country’s development in terms of foreign capital, management, and technology.

The government actively encourages investments and activities that: earn foreign exchange; offer both training and increased employment; use sustainable and efficient use of local raw materials; prospects for future
expansion; stimulates technological development, develops new and modern industries; and protects the environment.

Businesses may operate in whatever form (sole proprietorships, partnerships, corporations, etc) and laws do not require local citizens to share ownership. However the government encourages joint ventures with local partners.

Foreign investment permits are required and applications should be submitted either to the Department of Economic Affairs or to the State government authorities in each state that the proposed investment is to take place.

The following license fees apply:

- Importer; USD$100
- Exporter; USD$10
- Securities dealers; USD$250
- Insurance companies; USD$1,000
- Insurance brokers; USD$200
- Insurance agents; USD$100

Application forms may be obtained from the FSM Department of Resources and Development and filed with the same office.

Business activities other than banking, telecommunications, and insurance, fishing in the country’s EEZ, international and interstate transport, and international shipping are processed by each of the four states with small fees.

**Trade Relations**
The Federated States of Micronesia has no quota restrictions to the USA markets for domestic or value-added products and it enjoys non-reciprocal market access to Australia and New Zealand under the South Pacific Regional Trade Economic Cooperation Agreement (SPARTECA).

Potential for duty-free access to Japan and other Asian markets also exists.

**Investment Opportunities**

Although the domestic market may seem quite limited, there exists rewarding opportunities for the serious investor:

- **Agriculture:** Traditionally this sector has been small-scale and on a subsistence level. The country boasts lush vegetation, abundant rainfall and varying soil quality in the different regions.
- Identified as amongst the country’s high growth strategy sectors, the government is encouraging production cooperatives, to ensure a sustainable and consistent supply in both the local and overseas markets.
- Potential products include bananas, breadfruit, pepper corn, kava, noni and other niche agricultural products.
- **Aquaculture:** The country’s extensive reefs and lagoons offer several promising opportunities for aquaculture ventures for both export and domestic consumption.
Activities currently underway include cultivation of giant clams, black pearls, mangrove crab, sponges, live cultured coral, ornamental fish, sea cucumber and trochus shells.

Fisheries: Marine Resources offer FSM their largest resource with value of near-shore and coaster fisheries estimated at around USD$24.5 million (subsistence and commercial).

There are opportunities in the longer term development of tuna fisheries and further potential for line tuna and purse seine transshipment. Reports by the Asian Development Bank state that tuna processing and servicing sector offers the greatest opportunity for the FSM.

Manufacture: This sector is focused primarily on small-scale production and draws mainly from the natural resources available. Recent developments in this sector include recycling of aluminum cans, water bottling plant and a coconut processing plant.

The FSM is seeking investors in assembly line manufacturing, beer breweries and coconut products to name a few.

Tourism: This is perhaps the largest growth opportunity for the islands with its clear blue waters, traditional island lifestyle and a unique and distinctive heritage in each of the four states.

An anticipated move of 30,000 or so military and dependents from Okinawa to Guam, offers an added bonus where distinct tourist attractions can be accessible to accommodate this much closer and emergent market.

The national government is also promoting the expansion of eco-tourism activities and services thus promoting low-impact and culturally-sensitive tourism. There are opportunities in the eco-
tourism, hotels, cultural tours, dive operators, cruise operators and conference facilities.

- **Other opportunities:** The FSM offers opportunities in the following sectors as well - Telecommunications submarine cable, waste management, entertainment facilities (bowling alley), and inter island transport.

**Business Development Assistance**

**Small Business Development Centre (SBDC), Chuuk**

There are Small Business Development Centres (SBDC) in all of the states. The centers in Chuuk, Yap and Kosrae are a strategic alliance between the State Governments, the US Small Business Administration and the University of Guam. The Pohnpei Business Development Centre is collaboration between the State Government and the College of Micronesia-FSM. They all aim to foster sustainable business development by providing quality management and technical training assistance to businesses throughout the State.

The Centre provides the following programmes:

- Business counseling; Pre-venture feasibility assessments, business plan development, local and international marketing advice, book keeping, financial planning, human resource management and preparation of funding proposals;
- business training;
- business referrals;
- business information; and
- training workshops
All prospective or established business enterprises throughout the state are entitled to this assistance

**Investment Policy and Regulations**

Foreign investment in Kiribati is generally encouraged and no discrimination is shown between foreign and local investors. Foreign investors must apply to the Foreign Investment Commission which evaluates applications according to the provisions set out in the Foreign Investment Act. Foreign Investments are controlled under the Foreign Investment Act 1985; the Foreign Investment Regulation 1986 and the Foreign Investment Policy 1996.

Investments that may conflict with established domestic enterprises or impact on the use by nationals of lands or natural resources are dealt with on a case-by-case basis. Average time in processing investment applications to time of approval may take up to three months.

All proposals put to the Commission are considered under the following guidelines:

- The potential employment of I-Kiribati;
- Net export contribution;
- Balance between local resource exploitation and the size of the foreign investment;
- The potential for transferring to I-Kiribati foreign managerial and technical skills required in the enterprise;
- The extent of competition with local enterprises; and
• The impact on social and natural environments.

The Commission may approve investment plans in which capital input is less than A$250,000; larger investments are referred to the national cabinet.

If the application is accepted, the Foreign Investment Commission often sets permanent criteria relating to employment, training of local staff and production targets, including a timetable for implementation. To ensure compliance, the firm is expected to submit quarterly progress reports and annual accounts, which contain a revenue statement and balance sheet.

The government of Kiribati imposes restrictions on foreign investment only where local expertise or industry already exists (for example, handicrafts) or where the local, natural or social environment could be adversely affected.

Some investments are subject to restrictions and others are closed to foreign investments, these include:

• Local industries: piggery farming; poultry farming; lobster salad exportation; domestic inter-island shipping; wholesaling;
• Scarce endangered species: coconut crab harvesting; turtle hunting; giant clam harvesting; bone fishing and berried female lobster harvesting;

A range of incentives are available on a case–by–case basis and of which the investors are to initiate any such request for assistance.

Examples of incentives and concessions available include but not limited to:

88
• Pioneer status: a company that wishes to establish a pioneer business or industry in Tarawa or Kiritimati may apply to the Internal Revenue Board for pioneer status. This allows for a reduced tax rate of 10% for up to five years;

• Customs duty concessions: import duties are generally low and full or partial exemptions of import duties may be granted on capital items. This includes building materials, plant and equipment, furniture and fittings and boats;

• Direct government investment: the government may assist through government involvement or through joint-venturing a project. Assistance might be in the form of a financial contribution or through another resource contribution such as land; and

• Development of infrastructure: assistance may be provided for development projects, such as tourism.

Trade Relations

Kiribati has non-reciprocal trade agreements with Fiji and is a signatory to the South Pacific Agreement on Regional Trade and Economic Co-operation (SPARTECA) which grants duty-free access to the Australian and New Zealand markets. It is also a signatory to the Pacific Islands Trade Agreement (PICTA) where member countries agree to liberalize trade in goods. Kiribati is among the Pacific Islands Countries who are negotiating an Economic Partnership Agreement with the EU.

Investment Opportunities
In its National Development Strategy, 2004 – 2007, the government outlined a number of sectoral priorities in which they would like to engage the private sector. These priorities include:

- Increasing private commercial investment in marine and tourism resources; promoting new research-based openings for private capital and private investments;
- Promoting private-sector production and marketing of marine products, supporting a target number of marine products of the highest value and improving the transshipment by foreign vessels of these products;
- Participation in agriculture through the provision of support services to commodity industries, developing strategies for diversifying the agricultural base, facilitating value-adding of traditional crops and reviewing quarantine regulations;
- Providing a transparent and fully supported business environment and training service to diversify the small manufacturing base of the country; and promoting tourism-related investment in infrastructure required to support tourism development, including hotels and resorts, airports and ground transportation;
- Implement streamlining of foreign investment regulatory system;

A range of projects exists in all areas of the economy but the following sectors offer the greatest opportunities for foreign investors:

**Agriculture:** Successful trials have been conducted in the growing of Euchema, a red algae from which Carrageenan (a stabilizing gel used in
pet food and cosmetics) is produced, and joint-venture opportunities exist for the farming and processing of this product. Opportunities also exist in the copra industry by value-adding to the resource, including the production of palm oil butter, coconut cream and oil products.

**Marine:** With the vast stocks of tuna migrating through Kiribati’s massive EEZ, there are opportunities in the seafood capture and export industry, as well as onshore processing. Opportunities also exist for projects involving pearl, seaweed and milk fish farming.

With the upgraded port facilities capable of servicing overseas fishing trawlers, an opportunity for a ship repair and slipping operation also exists, given the number of foreign fishing vessels passing through the area.

**Tourism:** The tourism industry is largely underdeveloped and there are opportunities to establish a range of accommodation facilities from small guest houses to resort-style accommodation, as well as diving and fishing tour services. A sea sports centre on Tarawa is currently being proposed, this would involve the establishment of an integrated sailing, water-skiing, windsurfing, scuba diving and sea angling venue targeting incoming overseas visitors.
NAURU

Investment Policy and Regulations

For specific investment policy and regulation, the relevant contact point in Nauru is the Secretary for Commerce within the Department of Commerce, Industry and Resources.

Investment Opportunities

*Agriculture:* Primary production is confined to fruit and vegetables for domestic consumption, although the country is nowhere near self-sufficient. Primary production comprises the subsistence production of coconuts, figs, mangoes, wild cherry and pandanus. Pork and chicken are also grown for domestic consumption.

*Event Location, Tourism and Transit Visitors:* Tourism facilities for the limited number of visitors are generally well developed, although opportunities exist for further accommodation, game fishing/diving operations and associated support facilities including up-market restaurants.
Our Airline provides the only services to and from Nauru and its strategic location, between Melanesia and Micronesia, provides the opportunity for the country to become an event and conference host.

The Menen Hotel is currently upgrading its conference facilities, which will enhance the country’s ability to host international events in the future.

**Manufacturing:** Small-scale manufacturing, fabricating or assembly of import replacement or export-orientated products is viable.

**Marine:** With the country’s relatively extensive EEZ, the opportunity exists for investors to develop the fishing of a range of migratory species, including vast tuna stocks; flight services to Australia, the Solomon Islands and Kiribati provide established routes for investors keen on exporting fresh, chilled or frozen seafood from Nauru to these and other markets.

Because of its central location, Nauru also has the potential to be a viable fishing boat repair and refit centre. An extensive number of foreign-owned vessels from Japan, the United States, Taiwan, the Republic of Korea and the People’s Republic of China operate in the Pacific Islands and present overseas investors with a ready market.
KEY ISSUES FACED BY PICS

Why firms invest abroad.
Prior to discussing the key issues and challenges faced by PICs in as far as foreign direct investment are concerned it may be prudent to review, why firms will want to invest abroad. Hymer (1960) is credited with developing the modern history of foreign direct investment. He observed that indigenous firms have advantages over foreign enterprises that entered the domestic markets because they knew the local operating environment better. So, for the foreign investor to compete in the local market some form of enticement must be provided to compensate them for the disadvantage of operating in a foreign market – there must be specific advantage for the firm to enter the foreign market. Apart from this he also states that ‘some market imperfections must also impede the local firm’s access to the foreign enterprises advantages.’ Kindleberger (1969) developed a catalogue of conditions that induced foreign direct investment. This list included, the lack of perfect market conditions enabling them to take advantage of the inconsistencies, internal and external economies of scale and government regulations. Caves (1971), theorized on the vertical and horizontal integration of FDI. He emphasized the importance of product differentiation and its attendant skills as being fundamental to the monopolistic advantages that horizontal FDI’s obtain.

Product differentiation as presented by Caves comprised both technological advances and intense marketing effort. Essentially these researchers put forward the idea that cross border investments owes its existence to structural market imperfections in markets for final products. By contrast, the insight of transaction costs (internalization) theories as a
factor in the cross border decision making process was developed independently by McManus (1972), Buckley and Casson (1976), Brown (1976) and Hennart (1977, 1982). These researchers advocated that market imperfections are inherent attributes of markets, and cross border investors (Multi National Corporations, etc) need to bypass these imperfections as part and parcel of their normal business operations. They maintain that markets experience natural imperfections, i.e. they are constantly in a state flux because the implicit assumptions of perfect knowledge and perfect enforcement are not possible.

Perhaps, Dunning (1980) summarized these theories best when he argued that no single theory could explain why foreign direct investment exists. He suggested that an eclectic approach be used to make sense of the various theories. According to Dunning, foreign direct investment is a process where ownership, internalization and localization advantages work together to achieve a common goal. The ownership advantages are specific to the firm because the firm has control over these items which include patents, know-how, labour skills, superior production technology (relative to the market they are entering), control over markets and trade monopolies, scale advantages, managerial capabilities, etc. The firm’s competitive positions relative to competitors are determined by these factors.

Internalization advantages arise from the existence of market imperfections, and explain the firm’s reluctance to engage in licensing agreements.
Location advantages tend to be associated with the availability of inputs for firms established in a certain country and comprise natural resources, location, cultural and political environment, factor prices, transport costs, and importantly government policies such as trade barriers (quotas, tariffs) and local content requirements. These are issues that a firm considers when deciding on whether to manufacture abroad instead of producing for export from the home country.

In summary foreign direct investment are attracted by strong economic fundamentals in the host countries. The important economic fundamentals are ‘market size and real income levels, skill levels in the host economy, the availability of infrastructure and other resource that facilitates efficient specialization of production, trade policies, and political and macroeconomic stability. The relative importance market size and real income levels, skill levels in the host economy, the availability of infrastructure and other resource that facilitates efficient specialization of production, trade policies, and political and macroeconomic stability.’ (Blomstrom, 2002). Where foreign direct investments are located is determined amongst other things by the various incentives offered by the host government to attract the foreign direct investor and may include lower taxes, financial incentives in the form of grants and soft loans, market preferences and monopoly rights.

**PIC Experience**

Viewing the various investment policies by the PICs it becomes obvious that there is a wide gap in the level of effort put in by the various countries in attracting foreign direct investments.
Members of the Freely Associated States in general do not discriminate in favour of either the local or the FDI. No special incentives are given however and in fact it can be quite expensive for the foreign investor to operate a business in these countries because of the extra levies paid for bringing in foreign labour if required. For example in Palau became of the lack of labour garment manufacturers’ have to get workers from the Philippines and China in some case, however a fee of US$500.00 per annum for each laborer they bring on is levied.

The FDIs attracted to these countries do so because of the concessions available to them as investors in the country and the potential offered by the US markets. For example the Federated States of Micronesia has no quota restrictions to the USA markets for domestic or value-added products and it enjoys non-reciprocal market access to Australia and New Zealand under the South Pacific Regional Trade Economic Cooperation Agreement (SPARTECA). Potential for duty-free access to Japan and other Asian markets also exists.

On the other side of the scale are countries like Fiji and Papua New Guinea where their investment policies and attempts to attract foreign direct investment are focused on attracting investors are based on the various concessions provided by the host countries. Fiji does not discriminate against the local investors but given the level of investments that it tries to attract its concessions can be very attractive for the FDI. The various investment policies displayed by the PICs have certain common themes running through them.
Location

All of the PICs except for Papua New Guinea are located far from their export markets and tourism markets. Their numbers tend to be very small with very limited resources and are susceptible to the effects of climate change and natural disasters. This makes incentives hard to raise interest and the balance struck between an investor coming to the region and not coming maybe just fall the other side of the balance due to this distance. None-the-less, investors in certain industries especially none manufacturing can still make it their priority place.

Government

PICs essentially have two forms of Government – those that follow the British Westminster model and those that adopt the US style constitution and governance system. The Kingdom of Tonga is a monarchy that is now beginning the process of democratizing some of its institutions leading off with its parliament. Governments in the Melanesian and Polynesian countries are primarily based on the British model, having being colonized by the British in the 19th century. Micronesian countries have a mixture of both British (Tuvalu) based and the US (Palau, FSM and Marshalls) style of government.

Political stability in the PICs can never be guaranteed especially in the Melanesian islands. The Micronesian islands are fairly calm but for the record the first political assassination took place in Palau in the 1980’s
and not in Melanesia. The Polynesian islands have been calm till the riots in Tonga that saw the burning of Nukualofa.

Political stability is a primary ingredient required to lay a stable platform that will attract FDIs.

**Economic Outlook**

This is varied for the PICs given the wide and varied nature of the individual countries. In general however, PIC economies are vulnerable to what is happening outside their borders and depend to a large extent to the continued assistance of donor agencies etc. Governance is an issue that donor agencies are now targeting and an improvement in accountability and the taking of ownership by PICs of the challenges that they face will lead to a more predictable outcome in its planning and execution of economic policies. A critical point here though is this—will PICs improve on their current political instability and focus on building up institutions that would stand the test of an economic uncertainty or they will cling to the same values which have kept them in the slow comers—slow players on the World Stage?

**Infrastructure**

Again the level of development of infrastructure varies from PIC to PIC. Donor agencies and countries are involved heavily in the development of roads (Palau), renewable energy (Tonga). Reliable delivery of utilities and other basic infrastructure is a basic requirement in the delivery of business, but many PICs are still building the infrastructure. In outlook,
the situation of having an infrastructure that meets international standards remains a mirage to come for probably in decades. A difficult question for PICs therefore is how soon can they bring the infrastructure to the international level, good enough to market themselves for example against Singapore.

**Investment Policies and Regulations**

The development of investment and trade policies evolved as the various PICs gained their political independence and embarked on their efforts for economic independence. In 2003 a study carried out by Foreign Investment Advisory Service (A joint service of the International Finance Corporation and The World Bank) revealed that of the 9 responses received from Forum Island Countries, only 3 had national investment polices and showed a lack of consistency in FICs efforts to attend to investment issues. Efforts by donor agencies continue to try and assist PICs develop these investment policies.

The table below is a summary of FDI Best Practice for the three countries: Singapore, Ireland and Costa Rica
In these three country case studies that we have chosen, the following themes were apparent.

- Their being successful in attracting FDI’s was because they have had a clear strategy based on rigorous diagnosis of existing strengths and further expanding on such strengths
- Leadership has come from the top to drive alignment
- Persistent focus on creation of a business-friendly environment through “One-stop-shop” government agencies (EDB, International Enterprise, Spring), e-services and online portal for businesses
- Performance-oriented agency attracting FDI with incentive schemes for talent recruitment, development and retention based on financial and non-financial incentives
• Placing intense focus on attracting, retaining and embedding anchor institutions
• High performing investment agencies have cultures that are responsive, fast-moving and work to overcome bureaucracy

POLICY RECOMMENDATIONS

Out of our discussions, few recommendations can be made to move forward PICs FDI attraction agenda. One of course that comes first and which probably is the missing link that should follow is to have a long term National Vision from which any further recommendations would follow. The vision would inform priorities, strategies, and choices to be made. The majority of PICs have a blurred picture on what their long term vision is and where they are fitting everything else lose focus as a result. Singapore Vision was set in 1960s by the then Prime Minister Lee Kwan Yew. Until today this Vision lives and inspires the citizens, the politicians, the industry leaders and the Civil Society. Lessons from elsewhere show that such a Vision succeeds when it focus on the problem itself “Human Capital Development” and poverty eradication and not on symptoms of the problems—especially being inclusive and consensual, avoiding falling in trap of elitist minority vis majority is the key here. Assuming that such a vision exists, further recommendations can be made:

• PICs need to identify opportunities based on existing strengths
• PICs need to develop and implement rigorous policy planning platform
• Prioritize services and support for FDI
• Focus on attracting key anchors especially given the nature of PIC economies
• Align overall economic system to attract right investment and avoid shotgun approach to FDI
• Strong Leadership is essential in PIC to engage with some of World shaperst minds in business and entrepreuneurs.
• Culture of Excellence in the agency’s that support FDI’s need to be inculcated
• The Key Issues identified earlier will need to be discussed under the following International Best Practices:
  o Align overall economic system to attract right investment,
  o Strong Leadership
  o Culture of Excellence
• PICs may directly target foreign educational institutions to set up local locations, and through its extensive efforts in this, by attracting FDI in higher education and technical schools, can bring about an improved quality in the university’s and the technical schools. Such an approach has been proven successful in countries like China, Malaysia, Singapore and Viet Nam (UNCTAD Report in Best Practices In Investment For Development Case Studies in FDI, NYC and Geneva 2011). For this we have put together a chapter on Knowledge,Proximity and Learning to assist our readers.
CHAPTER TWO

A Critical Review of the Effectiveness of Fiscal and Monetary Policies in the Pacific Island Countries (PICS) between 1990–2010

1.0 Abstract

The purpose of This Chapter is to critically assess the effectiveness of Fiscal and Monetary Policies in the South Pacific Island Countries. The paper tracks down the economic growth for the last 20 years between 1990–2010, and drawing from key fiscal and monetary policies in place during the time under consideration, as well as specific interventions in the region, we find that:

1) While the South Pacific Island Countries (SPICs) particularly the six major economies (Solomon Islands, Fiji, Vanuatu, PNG, Samoa, Tonga) pursued fiscal and monetary policies for promoting growth and diversification of their economies, their fiscal policies relied heavily on recurrent budget but to some extent still influenced by large bulb of the foreign contributions.

2) The impact of fiscal and monetary policies on economic growth in South Pacific Island Countries appears to be uncertain, as there have been a number of factors, which are beyond the control of the decision-makers. The negative effects of physical limitations such as small resource base, long distances from external markets and limited export possibilities.
3) South Pacific Islands have now, to overcome by increased efforts towards diversification into new and emerging economic activities, including service-oriented, among tourism and off-shore finance centers\(^2\).

2.0 Introduction

2.1 Fiscal Policy and Monitory Policy

Baumol Blinder (1985) came up with this definition that “government fiscal policy is a government’s plan for revenue and expenditure. Fiscal policies are design to steer aggregated demand in some desired direction”\(^3\). Aggregated demand is the total amount that all customers, business firms and government agencies are willing to spend on final goods and services. A government uses fiscal policy to raise revenue through means of taxation and pursue an expenditure budget to influence economic activities.

Fiscal instruments intend to operate in such a way that where there is an inflation gap, prices will start to rise, pulling the expenditure schedule down. And where there is a recessionary gap there would aid prices to fall slowly and there would be a period of high unemployment. Legislatures, by fiscal policies, can raise government purchases, reduce taxes or increase grants to close the recessionary gap between actual and potential Gross National Products.

\(^2\) T.K. Jayaraman, Efficacy of fiscal policy and monetary policies in the south pacific island countries: empirical evidence, USP, Fiji.
Monetary Policy is the policy that regulates the money supply and interest rates and are imposed and administered by a Reserve Bank of a country. The purpose of the policy is to control inflation and stabilize the currency of a country. The main objectives of any monetary policy are to maintain price stability for an economy.

**Expansionary fiscal policy**
Where there is deficiency in aggregated demand governments would tend to have or maintain an expansive fiscal policy whereby it would increase its spending and seek to increase employment.  

The choice between a spending policy and tax policy in a fiscal policy can nudge the economy in the direction equally well by changing government spending or by changing taxes. For instance if a government wants to expand its economy it can raise government purchases or lower taxes. Either policy shifts the total expenditure schedule upwards and tries to find the equilibrium. According to Kenneth Galbraith what is more pressing for governments is to “increase government purchases when the economy needs stimulus and pay for these improved public services by increasing taxes when the economy needs to be reinedin”.

**Contractionary fiscal policy**
When national aggregated demand exceed the relative capacity of an economy to produce, economist or government would tend to adopt a restrictive or contradictory fiscal policy which would try to reduce inflation through spending cuts on its budget or by raising taxes.
3.0 Sources of Funding Fiscal Policies in the Pacific Islands

A. Revenues Sources

Pacific Island Countries have small resources base. Only Fiji has a manufacturing industry. Their main export resource crops are sugar, tropical fruits, vegetables, timber, cocoa, copra, taro, vanilla, spices, timber, and kava. These crops however are prone to annual hurricane occurrences as well as pest and diseases. Kava a potential crop has been banned for the last years from European market and to some extend in Australia. In 1994 leaf blight affected Samoa’s main staple and export crops\(^4\). External market prices and demand for copra and copra products have affected export earnings. These and other factors have affected the average rations of export to GDP in the last 10 years which saw Vanuatu ratios declined from 20 % to 5.9 %, then 8.5 % and 12.2 % respectively in 1995\(^5\).

C. Exports

Data on exports and export growth rates between 1919 and 1995 have transmitted of course to the economic growth of these four countries. Exports as a percentage of GDP are very low as 5.6 in the case of Samoa 37 % in the case of Fiji whose economic profile is better than these other countries. However export growth in the five years have now reached new heights as they tend to be more stagnant respective to each country.

\(^4\) T.K Tayaraman “Efficacy of Fiscal and Monetary Policies in the South Pacific Island Countries: Some Empirical Evidence, USP, Fiji p 64
\(^5\) See note no.3 p 65
Exports as percentage of GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiji</td>
<td>36.2</td>
<td>33.3</td>
<td>31.9</td>
<td>32.3</td>
<td>37.0</td>
</tr>
<tr>
<td>Samoa</td>
<td>5.8</td>
<td>5.6</td>
<td>2.8</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Tonga</td>
<td>12.4</td>
<td>9.4</td>
<td>11.0</td>
<td>8.5</td>
<td>8.4</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>10.6</td>
<td>13.0</td>
<td>12.6</td>
<td>12.2</td>
<td>12.2</td>
</tr>
</tbody>
</table>


D. Taxes

Pacific Island countries are not equal in terms of land base resources. For instance Vanuatu may comparatively have same economic profile as Fiji relative to smaller island nations; however Fiji has mining and manufacturing industries while others, including Vanuatu, do not have. The different PICs have different tax regimes and number of tax sources. For instance Niue has only three tax legislations, while Solomon Islands has eleven⁶. All except Vanuatu does not have income tax. Since some of these countries have very narrow tax bases and given the hesitation of fiscal policy makers to widen the bases import tariffs are high..

---

The imbalance in the past had been taken care of by way of grants or aid from “mother countries”. However the continuing imbalance in payment makes the bilateral and multi-lateral contributions remains a significant support to these islands nations’ fiscal policy.

Table of Aid Flow (2000–2003)

<table>
<thead>
<tr>
<th>Country</th>
<th>Annual aid receipts (million dollar)</th>
<th>Aid/GDP (%)</th>
<th>Annual aid per capita</th>
<th>Trend in total aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>4.5</td>
<td>N/A</td>
<td>210</td>
<td>Decline (substantial)</td>
</tr>
<tr>
<td>Fiji</td>
<td>33</td>
<td>1.91</td>
<td>40</td>
<td>Decline</td>
</tr>
<tr>
<td>Kiribati</td>
<td>17</td>
<td>33.6</td>
<td>177</td>
<td>Decline</td>
</tr>
<tr>
<td>Marshall</td>
<td>63</td>
<td>61.3</td>
<td>1196</td>
<td>Stable</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>33</td>
<td>14.3</td>
<td>165</td>
<td>Decline</td>
</tr>
<tr>
<td>Tonga</td>
<td>21</td>
<td>14.8</td>
<td>210</td>
<td>Decline (marginal)</td>
</tr>
<tr>
<td>Solomon islands</td>
<td>52</td>
<td>20.5</td>
<td>120</td>
<td>Increase (substantial)</td>
</tr>
<tr>
<td>PNG</td>
<td>216</td>
<td>7.0</td>
<td>41</td>
<td>Decline (substantial)</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>7.7</td>
<td>N/A</td>
<td>667</td>
<td>Increase (marginal)</td>
</tr>
<tr>
<td>Country</td>
<td>% Decline</td>
<td>GoVt</td>
<td>2011</td>
<td>Aid Flow</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
<td>------</td>
<td>------</td>
<td>----------</td>
</tr>
<tr>
<td>Niue</td>
<td>4.6</td>
<td>N/A</td>
<td>2350</td>
<td>Decline (marginal)</td>
</tr>
<tr>
<td>Palau</td>
<td>31</td>
<td>27.3</td>
<td>1590</td>
<td>Decline (substantial)</td>
</tr>
<tr>
<td>Nauru</td>
<td>9.1</td>
<td>N/A</td>
<td>718</td>
<td>Increase (substantial)</td>
</tr>
<tr>
<td>Samoa</td>
<td>34</td>
<td>14.3</td>
<td>197</td>
<td>Stable</td>
</tr>
</tbody>
</table>

Source: Thomas Sampson, Bank of PNG

The aid flow to the PICs have been decreased in some cases while others have seen increases.

Those countries which have experienced substantial decline were PNG, Palau and Cook Islands. This decrease was due to decline in aid from traditional donors such as Australia and New Zealand. Solomon Islands and other PICs who experienced increases were due to social security issues in the case of Solomon Islands and investment in infrastructure, community development, governance and other sectors.

Over the last five years, China has also provided significant aid to the Pacific Island Countries. According to Sydney-based Lowy Institute, $800 million were given in aid. In 2009, it was estimated that China pledged almost $270 million in loans and aid grants to the PICs.

**E. Remittances**

---

Remittance has been a significant component of the economies of the Pacific Islands, especially in Polynesia, though may not be captured in fiscal policies. In 1988–99 remittances in Tonga amounted to P$63 million, three times the value of exports and very much the largest component of the economy like Samoa. In 2005 remittances in Fiji had reached US$140 million. This was largely due to the declining of national economy, increasing number of Fijians recruited in the British Army, nursing and caregivers overseas and security contract in war-torn countries. With seasonal workers Scheme established between some Pacific island countries with New Zealand and Australia recently remittances would continue to increase. However too much reliance on remittance would

---

pose serious economic concerns if remittances are reduced or cut off by remitters or current arrangements are stopped.

The above table showed the trend of remittances to PICs from 1990 to 2002.

3.0 Economic Growth

Economic growth in the four Pacific Island nations had fluctuated over the years and were lower when compared to other islands nations of the Caribbean and the Indian Ocean. Not considering the growth rate of the populations of these island nations, while island countries in the Caribbean and Indian oceans were experiencing a growth ranging from 3 to 5 per cent per annum the Pacific Islands countries were just growing above 2 percent. The growth was affected by political stability, cyclones, world commodity prices of commodities, institutional weaknesses. Fiji had in the 3 years preceding 2000 had almost experienced zero growth while Samoa came up strongly in 2000.

Annual GDP Growth rates (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiji</td>
<td>1.7</td>
<td>4.9</td>
<td>2.2</td>
<td>3.9</td>
<td>1.4</td>
<td>4.4</td>
<td>-1.7</td>
<td>-1.3</td>
<td>9.6</td>
<td>-3.4</td>
</tr>
<tr>
<td>Samoa</td>
<td>-0.8</td>
<td>-0.9</td>
<td>6.3</td>
<td>-7.8</td>
<td>9.6</td>
<td>7.0</td>
<td>1.6</td>
<td>3.4</td>
<td>5.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Country</td>
<td>1.5</td>
<td>0.2</td>
<td>3.8</td>
<td>4.7</td>
<td>2.6</td>
<td>1.6</td>
<td>-1.42</td>
<td>5</td>
<td>3.5</td>
<td>5.3</td>
</tr>
<tr>
<td>------------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Tonga</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vanuatu</td>
<td>2.3</td>
<td>1.0</td>
<td>4.0</td>
<td>2.6</td>
<td>3.2</td>
<td>3.0</td>
<td>0.2</td>
<td>-1.1</td>
<td>-3.0</td>
<td>2.8</td>
</tr>
</tbody>
</table>


Macroeconomic indicators between 1981 - 1991 have shown that governments expenditure as a percentage of gross domestic product range from 25.6% in the case of Tonga and 113.4 in the case of Samoa. Annual changes in government expenditure as percentage are in the positives with inflation rate between 6.8% in the case of Fiji to 11.5 in the case of Tonga with Samoa and Vanuatu 10.5% and 8.2% respectively.

Faced with these economic performances and limitations the Pacific Island Countries have tried to diversify their economic activities as well as concentrate on their core export commodities. The new and emerging economic activities are those in the service industry like tourism, labour and financial centers. According to the Economic and Social Survey of Asia and the Pacific in 2011, most island economies have experienced sharp decline GDP growth in 1999 during the financial crisis and in 2010, the economies GDP growth have been mixed, except PNG, Solomon Islands and Palau have shown indication of growth. Tonga economy was contracting in 2010.
4.0 Stances of fiscal policies in the Pacific Island Countries

Fiscal Policy
The approach in the Pacific island countries seems to resemble the expansive fiscal policy whereby “big government” is a common featured in their fiscal policies. Fiscal policy review of Fiji, Samoa, Tonga and Vanuatu had shown that these countries expend heavily toward their large bureaucracies despite public sector reforms. Government expenditure as rations of GDP in the 1990’s has remained almost at the same level as 1980s. Vanuatu expended 80 % of its annual expenditure budget on a bureaucracy whose efficient is still questionable despite the reform in late 1990s. In addition to competing demand on the public finance and there are number of public sector entities operating in fisheries, cocoa plantation, livestock, coffee, and other state own entities are poorly operating that could not sustain therefore government has to subsidize.

Fiscal and Monetary indicators, according to Asian Development Bank 1996 data, have shown that while exports remain very much constant in the four countries and gross domestic products remain Vanuatu, Tonga and Fiji have shown increases in their monetary budgets while Samoa has shown a decreased. Nevertheless all four countries have decided to run their fiscal balances as percentage of their GDP into deficits as high as 27.8 in the case of Samoa and low as −3.8 in Fiji’s case.

---

9 T.K Tayaraman “Efficacy of Fiscal and Monetary Policies in the South Pacific Island Countries: Some Empirical Evidence, USP, Fiji p 65
## Fiscal and Monetary indicators (Fiji, Samoa, Vanuatu and Tonga)

<table>
<thead>
<tr>
<th>1991–’95</th>
<th>Fiji</th>
<th>Samoa</th>
<th>Vanuatu</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>‘91</td>
<td>‘92</td>
<td>‘93</td>
</tr>
<tr>
<td>Gov. Exp. As % of GDP</td>
<td>33.1</td>
<td>34.1</td>
<td>35.8</td>
</tr>
<tr>
<td>Annual change in gove. Expend. (%)</td>
<td>11.8</td>
<td>7.0</td>
<td>9.1</td>
</tr>
<tr>
<td>Fiscal balance as % of GDP</td>
<td>-</td>
<td>1.6</td>
<td>-</td>
</tr>
<tr>
<td>M2 as a % of</td>
<td>63.4</td>
<td>65.8</td>
<td>65.1</td>
</tr>
<tr>
<td>GDP</td>
<td>15.6</td>
<td>14.1</td>
<td>6.4</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Changes in M2 %</td>
<td>6.5</td>
<td>4.9</td>
<td>5.2</td>
</tr>
</tbody>
</table>


**Monetary Policy**

In the Pacific Islands the objectives of the monetary policy have been mainly concerned with maintenance of adequate foreign reserves and price stabilization\(^\text{10}\). For example, the Reserve Bank of Vanuatu monetary policy objectives is twofold, maintaining international reserves and inflation. The comfortable foreign reserves would be around 4 months of import cover while inflation is targeted to around four percent.

In concurrence with their political independence, Pacific island countries have different monetary policies and independent currencies that are under different exchange rate regimes. Except for PNG, Fiji, Solomon, Samoa islands, Tonga and Vanuatu have fixed exchange rate regimes under which their respective national currencies are pegged to the basket of currencies of their respective trading partners. This, according to Jayaraman, puts pressure on external reserves when they are dis-equilibrium in the domestic front. According to Jayaraman the exchange

\(^{10}\) See note no. 3.p.65
rate policy had been influenced by concerns with price stability however had worked well to insulate the domestic economy from imported inflation.

Monetary policy has recently changed from using direct instruments like statutory reserve requirement to indirect instruments. This demonstrated the major refocus of the Reserve Banks of Fiji, Solomon, Samoa islands, Tonga and Vanuatu on monetary aggregation as part of their monetary strategy to ensure their sound liquidity management. Fiji recently has recently prematurely retired its external debts obligations prompting the necessity to manage its liquidity.

In all these Pacific islands the instruments for regulating monetary supply in keeping with GDP growth for maintaining price stabilization have been mainly direct except in Fiji where there were changes made to reserve deposit ration statutory requirements, as well as variations in unimpaired liquid assets ration and moral suasion stance.\(^{11}\)

The approach of monetary policy has been significant circumscribed that open market operation is limited where reserve banks securities or government bonds were purchased or sold through transactions in the open market. The approach has been changed since 1989 where there has been more emphasis on the open market operations with lesser indirect controls.\(^{12}\)

---

\(^{11}\) See note no. 3 p65
\(^{12}\) See note no. 3 p68.
Figure 1: Output and Monetary Statistics of the selected Pacific Island countries.

<table>
<thead>
<tr>
<th></th>
<th>Output Growth (%)</th>
<th>Inflation (%)</th>
<th>Interest Rate (%)</th>
<th>Exchange Rate (US$/Dom Currency)</th>
<th>M1 (% of GDP)</th>
<th>M2 (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiji</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970–79 (Ave)</td>
<td>5.6</td>
<td>11.0</td>
<td>9.7</td>
<td>1.2</td>
<td>16.2</td>
<td>34.8</td>
</tr>
<tr>
<td>1980–89 (Ave)</td>
<td>1.3</td>
<td>7.5</td>
<td>13.9</td>
<td>0.9</td>
<td>12.5</td>
<td>44.7</td>
</tr>
<tr>
<td>1990–99 (Ave)</td>
<td>2.9</td>
<td>4.2</td>
<td>11.1</td>
<td>0.6</td>
<td>15.2</td>
<td>52.7</td>
</tr>
<tr>
<td>2000–04 (Ave)</td>
<td>2.0</td>
<td>2.6</td>
<td>7.9</td>
<td>0.5</td>
<td>18.5</td>
<td>42.3</td>
</tr>
<tr>
<td>2005</td>
<td>0.7</td>
<td>2.4</td>
<td>6.8</td>
<td>0.6</td>
<td>24.6</td>
<td>51.6</td>
</tr>
<tr>
<td>2006</td>
<td>3.6</td>
<td>2.5</td>
<td>7.4</td>
<td>0.6</td>
<td>21.5</td>
<td>56.6</td>
</tr>
<tr>
<td>2007</td>
<td>−3.9</td>
<td>4.8</td>
<td>9.0</td>
<td>0.6</td>
<td>29.7</td>
<td>60.2</td>
</tr>
<tr>
<td>Samoa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983–89 (Ave)</td>
<td>2.0</td>
<td>9.0</td>
<td>36.2</td>
<td>0.5</td>
<td>9.5</td>
<td>25.3</td>
</tr>
<tr>
<td>1990–99 (Ave)</td>
<td>1.4</td>
<td>4.8</td>
<td>12.4</td>
<td>0.4</td>
<td>12.0</td>
<td>34.9</td>
</tr>
<tr>
<td>2000–04 (Ave)</td>
<td>3.3</td>
<td>5.9</td>
<td>11.3</td>
<td>0.3</td>
<td>13.6</td>
<td>45.4</td>
</tr>
<tr>
<td>2005</td>
<td>6.0</td>
<td>1.8</td>
<td>11.4</td>
<td>0.4</td>
<td>16.1</td>
<td>48.4</td>
</tr>
<tr>
<td>2006</td>
<td>1.8</td>
<td>3.7</td>
<td>11.7</td>
<td>0.4</td>
<td>16.1</td>
<td>52.2</td>
</tr>
<tr>
<td>Year</td>
<td>HLA-1</td>
<td>HLA-2</td>
<td>HLA-3</td>
<td>HLA-4</td>
<td>HLA-5</td>
<td>HLA-6</td>
</tr>
<tr>
<td>--------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>2007</td>
<td>3.0</td>
<td>5.6</td>
<td>12.7</td>
<td>0.4</td>
<td>15.6</td>
<td>53.3</td>
</tr>
</tbody>
</table>

**Solomon Islands**

<table>
<thead>
<tr>
<th>Period</th>
<th>HLA-1</th>
<th>HLA-2</th>
<th>HLA-3</th>
<th>HLA-4</th>
<th>HLA-5</th>
<th>HLA-6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980–89 (Ave)</td>
<td>7.4</td>
<td>12.5</td>
<td>13.3</td>
<td>0.8</td>
<td>12.2</td>
<td>30.1</td>
</tr>
<tr>
<td>1990–99 (Ave)</td>
<td>2.9</td>
<td>10.7</td>
<td>16.2</td>
<td>0.3</td>
<td>14.2</td>
<td>28.5</td>
</tr>
<tr>
<td>2000–04 (Ave)</td>
<td>-2.1</td>
<td>8.2</td>
<td>14.5</td>
<td>0.2</td>
<td>15.9</td>
<td>26.6</td>
</tr>
<tr>
<td>2005</td>
<td>5.0</td>
<td>7.3</td>
<td>14.1</td>
<td>0.1</td>
<td>24.0</td>
<td>38.5</td>
</tr>
<tr>
<td>2006</td>
<td>6.2</td>
<td>11.2</td>
<td>13.9</td>
<td>0.1</td>
<td>27.5</td>
<td>42.6</td>
</tr>
<tr>
<td>2007</td>
<td>5.4</td>
<td>7.7</td>
<td>14.1</td>
<td>0.1</td>
<td>32.9</td>
<td>49.0</td>
</tr>
</tbody>
</table>

**Tonga**

<table>
<thead>
<tr>
<th>Period</th>
<th>HLA-1</th>
<th>HLA-2</th>
<th>HLA-3</th>
<th>HLA-4</th>
<th>HLA-5</th>
<th>HLA-6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980–89 (Ave)</td>
<td>2.3</td>
<td>9.6</td>
<td>10.2</td>
<td>0.8</td>
<td>13.3</td>
<td>31.2</td>
</tr>
<tr>
<td>1990–99 (Ave)</td>
<td>2.0</td>
<td>4.5</td>
<td>11.6</td>
<td>0.7</td>
<td>12.8</td>
<td>35.9</td>
</tr>
<tr>
<td>2000–04 (Ave)</td>
<td>2.9</td>
<td>9.5</td>
<td>11.4</td>
<td>0.5</td>
<td>15.1</td>
<td>45.9</td>
</tr>
<tr>
<td>2005</td>
<td>2.3</td>
<td>8.3</td>
<td>11.4</td>
<td>0.5</td>
<td>15.3</td>
<td>50.5</td>
</tr>
<tr>
<td>2006</td>
<td>1.3</td>
<td>6.4</td>
<td>12.0</td>
<td>0.5</td>
<td>13.5</td>
<td>49.4</td>
</tr>
<tr>
<td>2007</td>
<td>-3.5</td>
<td>5.9</td>
<td>12.2</td>
<td>0.5</td>
<td>16.6</td>
<td>54.9</td>
</tr>
</tbody>
</table>

**Vanuatu**

<table>
<thead>
<tr>
<th>Period</th>
<th>HLA-1</th>
<th>HLA-2</th>
<th>HLA-3</th>
<th>HLA-4</th>
<th>HLA-5</th>
<th>HLA-6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980–89 (Ave)</td>
<td>8.8</td>
<td>8.8</td>
<td>16.7</td>
<td>0.0</td>
<td>39.9</td>
<td>219.0</td>
</tr>
<tr>
<td>1990–99 (Ave)</td>
<td>5.1</td>
<td>3.2</td>
<td>13.6</td>
<td>0.0</td>
<td>31.1</td>
<td>218.0</td>
</tr>
<tr>
<td>2000–04 (Ave)</td>
<td>0.6</td>
<td>2.5</td>
<td>7.9</td>
<td>0.0</td>
<td>30.2</td>
<td>191.6</td>
</tr>
</tbody>
</table>
Empirical evidence indicated that inflation in the past years has been single digit except for the Solomon Islands. Pacific Island countries’ economies are import driven and therefore bulk of the increased in prices are imported. Apart from PNG, most countries in the region managed a fixed exchange rate. This may contributed to the high inflation rate in the region.

Much supply has been growing as indicated in the above table. This increase is attributed to the continuing government deficits and the private sector credits that are experienced by the respective jurisdictions.

Exchange rates in the region for the past years have been stable, interest rates spreads have been differed widely in some jurisdictions. In the last five years, Vanuatu and Fiji have single digit interest rates spread while Tonga and Solomon Island interest rates spread have been widened. This has been one of the contribution factors to high costs of doing business in the region.

5.0 Monetary and Fiscal Policy issues and Challenges
### Table 1: Monetary and Fiscal Policy Instruments Matrix in the Pacific

<table>
<thead>
<tr>
<th>Monetary policy</th>
<th>Instruments</th>
<th>Challenges</th>
<th>Way forward</th>
<th>Expect Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory Reserve Requirements</td>
<td>Reserve Banks (RBs) do not remunerate financial institutions on their statutory deposit.</td>
<td>RBs consider remunerating statutory deposits</td>
<td>Low interest rate charge to clients</td>
<td>More funds available for investment</td>
</tr>
<tr>
<td>Open Market Operation</td>
<td>Cost of RBs notes will increase and put pressure on the RBs balance sheets.</td>
<td>Negotiate with central governments to assist with open market operation</td>
<td>Banks earnings will increase reduce capital flight</td>
<td></td>
</tr>
<tr>
<td>Discount Rate</td>
<td>Shallow financial markets. No secondary Markets</td>
<td>Develop secondary market</td>
<td></td>
<td>More active markets</td>
</tr>
<tr>
<td>Repurchase Rate</td>
<td>Shallow financial</td>
<td>Develop secondary</td>
<td></td>
<td>More active markets that</td>
</tr>
<tr>
<td>Fiscal Policy</td>
<td>Taxation Policy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------</td>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>markets. No secondary Markets</td>
<td>market</td>
<td>generate economic activities</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>Working population is too small in size</td>
<td>Expand tax base</td>
<td>Increase Government revenue to finance public services</td>
<td></td>
</tr>
<tr>
<td>Corporate Tax</td>
<td>FDI may not be attractive</td>
<td>Attract high net worth foreign investors</td>
<td>Increase Government revenue to finance public services</td>
<td></td>
</tr>
<tr>
<td>Excise Tax</td>
<td>Increase domestic inflation</td>
<td>Reduce import tariffs.</td>
<td>Increase Government revenue to finance public services</td>
<td></td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>Weak compliance and enforcement</td>
<td>Improve compliance and enforcement</td>
<td>Increase Government revenue and expand tax base</td>
<td></td>
</tr>
<tr>
<td>Import and Export Tax</td>
<td>Trade Agreements</td>
<td>Negotiate appropriate</td>
<td>Reduce import price</td>
<td></td>
</tr>
<tr>
<td>WTO, FTA, MSG</td>
<td>trade agreements that benefits both parties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Expenditure</td>
<td>Spending beyond the budget</td>
<td>Prudent management of budget</td>
<td>Improve service delivery</td>
<td></td>
</tr>
</tbody>
</table>

**SWOT Analysis of the Monetary and Fiscal Policy of the South Pacific Region**

**Strengths:**
- Political Independence
- Sound Banking System
- Good Governance
- Transparency – establishment of the Ombudsman’s Office,
- Leadership Code

**Weakness:**
- Shallow Financial/Capital Market;
- Low Literacy rate
- Narrow Tax Base, VAT, INCOME TAX
- Weak Tax Compliance
- No or limited Monitoring
- Weak Evaluation exercise
- Weak Policy coordination
- Lag Policy Transmission
- Inflation targeting
<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth – Low Inflation,</td>
<td>Political Instability– Change of</td>
</tr>
<tr>
<td>employment opportunity,</td>
<td>government, no confidence motion,</td>
</tr>
<tr>
<td>Education Improvement– increase</td>
<td>Military Coup</td>
</tr>
<tr>
<td>access to education</td>
<td>Global Financial Crisis</td>
</tr>
<tr>
<td>Health Improvement– prevention of</td>
<td>Trade Barriers, manufactured goods</td>
</tr>
<tr>
<td>HIVs, access to medical health</td>
<td>Natural Disasters–regular cyclones,</td>
</tr>
<tr>
<td>Poverty Alleviation– increase</td>
<td>flooding, volcanic activity</td>
</tr>
<tr>
<td>welfare</td>
<td></td>
</tr>
<tr>
<td>Increase Human Welfare</td>
<td></td>
</tr>
</tbody>
</table>

**Shallow Financial/Capital Market and Lag Policy Transmission**

Most of the jurisdictions in the region have limited very swallow financial market and therefore it is possess a constraint to the effectiveness of monetary policy. A few of the island nations are very small in size and with very small population and therefore it is very difficult to achieve monetary and fiscal policy effectiveness. Looking at the jurisdictions in the region, the size of the market and the population size poses the challenge of effective fiscal and monetary policy. The small market size and the lack of the secondary markets in most of the pacific island countries contributes to the lag of monetary policy transmission to its
intermediate targets vis-à-vis interest rates, credits, reserves and to some extent liquidity to achieve price stability.

The players in most pacific islands economies are the commercial banks, credit institutions, insurance companies and other financial institutions such as the Development Banks and the National Provident Funds. Some of the island countries do not have a domestic currency and therefore monetary and fiscal policy may not be as effective as the other jurisdictions with central banks with their local currency. National Provident Funds of the region has been growing and it is one of the major players in the financial market which affects both the fiscal policy and monetary policy of that country.

The objectives of both the policies are challenges for the authorities to achieve. For example, most monetary policy target is to ensure that there is price stability. In 1989, former Chairman, Alan Greenpan defined price stability as “price levels sufficiently stable that expectations of change do not become major factors in key economic decisions” This is create a question as what is an optimal rate of inflation. The most challenging exercise is to define the optimal level of inflation that is close to price stability. Many countries in the region do not strictly to inflation targeting, however, country like Vanuatu, the inflation target is four (4) percent and it is the duty of the Central Bank to ensure the monetary policy exercises are geared towards that target.

Inflation targeting as the monetary policy target is a very challenging target to achieve. This is due to the fact that most of the jurisdictions data are not reliable. Data quality is an issue and therefore implementing
appropriate policy to achieve your inflation target becomes more challenging in the south pacific environment.

**Policy Interdependence**

This is a matter of practices as most centrals are established by an Act of Parliament. This is indeed imposes a great challenge of the effectiveness of the monetary policy. Both policies have to very independent of each other but must supplement each other. One of the challenge is that central banks in the region may find themselves becoming very independence and therefore not consistent with the development goals of the respective jurisdictions. On another factor, political influence on both fiscal and monetary policy causes the ineffectiveness of the policies of the day.

**Low Literacy**

Monetary and Fiscal policies effectiveness are hampered due to the low literacy in the region. According to the human development index report for 2011, education index has been very low throughout the region. For example Vanuatu education index in 2011 is 0.554 and Fiji is 0.786. This index indicates very low average of the population who are educated. The challenge is for the government to appropriately build schools and provide scholarships to its population to have an educated population. In terms of policy effectiveness, the region needs to be educated to achieve monetary and fiscal policy efficiency and effectiveness. In the south pacific business environment, financial literacy is a challenge due to that the fact
that there are not enough institutions that could be provide for proper and increased access in education. Business incubators should be established in the region to assist small businesses to grow and where there is a strong business environment, effectiveness of monetary and fiscal policies will achieved.

**Weak Compliance of Monetary and Fiscal Policies**

To achieve monetary and fiscal policies, there needs to be improved compliance of policies. In terms of fiscal policy via taxation, compliance is a major setback to policy effectiveness, the monitoring and the implementation of fiscal and monetary policies is a major challenge in the region. Fiscal policy implementation is an issue due to human resource capacity and the technology that is applied. The fiscal policy implementation could be better effected with appropriate skills and technology that is applied. In the region, most jurisdictions do not have the appropriate technology and human resource requirements to could be used to implement fiscal and monetary policies. Quality policies are the prerequisite of good technological system that could support the implementation and the monitoring of the policies.

**Weak Policy Coordination between the Fiscal Policy and the Monetary policy Authority**

The region with both monetary policy and fiscal policy, it appears that policy coordination is very weak. There is no proper structure place for effective coordination. It is important to have an effective policy
coordination committee in place to ensure that the two policies are properly coordinated to achieve policy effectiveness and efficiency. Both policies are developed to affect output in an economy, although it may not necessarily true as output may also be affected by other changes in other factors of production and not necessarily the monetary variables. With this in mind, it vitally important that fiscal and monetary policy coordination is very important in our small island economies. When monetary and fiscal policies are used, the interest rates are affected. For example, pursuing an expansionary monetary policy lowers interest rates and therefore making money cheaper to obtain. On the other hand, when there is a contractionary monetary policy directly increases interest rates and there reducing the demand for money. Expansionary fiscal policy increases interest rates by reducing the savings rate through lower taxes and higher government spending. Contractionary fiscal policy reduces interest rates and increases the demand for money. From this perspective, both the policies affect the output and therefore it is important to establish effective policy coordination between monetary and fiscal policy.

**Weak Evaluation of Fiscal and Monetary policies**

Fiscal and monetary policies are properly evaluated by respective jurisdictions. The effectiveness of both the fiscal and monetary policy evaluation is not properly done. There is no capacity to properly evaluate the effectiveness of the policies. For example, most government does impose unnecessarily revenue policies, such increasing tax regime without critically evaluating the existing policies to identify the gaps. Policy
evaluation is weak in most pacific island economies and this imposes tax burden in the economy.

A. Threats to Fiscal and Monetary policies in the region.

The Pacific island economic environment faces a number of threats such as the political instability, the natural disasters and the global economic developments. The pacific island governments continue to face challenging leaderships and it is evident that most countries leadership continues to change. There was an ethnic tension in the Solomon Islands, the Military coup in Fiji and the continuing change of government has posed threats to the effectiveness of monetary and fiscal policy in the south pacific island countries.

The pacific island economies are not immune to the global economic developments such as the Global Financial Crisis(GFC). This islands although weathered the global financial crisis, global economic environment continue to pose threats to the domestic monetary and fiscal policies of the region. Most or if not all island countries are import dependent and therefore the developments in the global what happens in the world today. This is indeed challenging especially global prices are factored into the domestic inflation and therefore it is beyond the domestic control of the jurisdiction relevant authorities.

6.0 Recommendations
During the global financial crisis, central banks in Pacific island countries eased monetary policy to stimulate economic activity. Judging by the ensuing movements in commercial bank interest rates and private sector credit, monetary policy transmission appears to be weak. This is confirmed by an empirical examination of interest rate pass-through and credit growth. Weak credit demand and underdeveloped financial markets seem to have limited the effectiveness of monetary policy, but the inflexibility of exchange rates and rising real interest rates have also served to frustrate the central banks’ efforts despite a supporting fiscal policy. While highlighting the importance of developing domestic financial markets in the long run, this experience also points to the need to coordinate macroeconomic policies and to use all macroeconomic tools available in conducting countercyclical policies, including exchange rate flexibility.

Macroeconomic policy developments during the crisis highlight the limitations of monetary policy in economic stabilization without support of other macroeconomic policies. To be sure, the crisis experience does not prove that monetary policy easing has been totally ineffective. One could argue that even though interest and credit responses appear to be weak, the credit situation facing the private sector could have been worse without the policy actions. Nevertheless, the crisis experience does point to the inconsistency between exchange rate and monetary policies, a situation that is difficult to avoid when a fixed exchange rate regime is faced with an adverse terms of trade shock such as rising international prices.
At the broadest level, the effectiveness of monetary policy transmission depends on the Macroeconomic policy framework in which it operates. In particular, since most PICs have a fixed exchange rate regime one way or another, monetary policy is subordinate to the maintenance of the exchange rate regime. However, because of limited capital flows across their borders (at least so far), monetary policy does enjoy a certain degree of autonomy. Namely, higher domestic interest rates in response to monetary policy may not attract rapid capital inflows and bring interest rates back to where they were, thereby largely avoiding increased liquidity and inflation pressures. It is not clear, however, how some private transfers, particularly remittances, respond to domestic interest rates. It had been suggested that remittances respond mainly to the needs of families in migrants’ home countries, rather than to returns on investments or exchange rates (Chami et al., 2008). Nevertheless, given the large volumes of remittances received by some PICs (see Australian and New Zealand Governments, 2010), their response to interest rates and exchange rates could make a major difference to the domestic liquidity situation and hence the effectiveness of monetary policy transmission.13

The recent experience in managing the impact of the global financial crisis has highlighted the weakness of monetary policy transmission in PICs. In particular, interest rate pass-through—a channel to lower borrowing costs to boost economic activity—seems to be quite limited in some countries. On the other hand, the credit channel of monetary policy transmission appears to be stronger in some countries. However, the

13 This subject may be worth a separate examination.
weak interest rate pass-through should not be interpreted as total ineffectiveness of monetary policy in influencing commercial interest rates, as other factors, such as changes in risk premia (including risk arising from policy interventions, such as controls and restrictions) and the availability of investment opportunities, could also offset the effects of monetary policy on commercial interest rates and credit growth.

Nevertheless, cross-country variations in pass-through point to the disconnect of policy rates from money markets in some countries. This is exacerbated by the inactive use of policy rates, weakening their signaling effects. It is thus not surprising, especially given the shallow money markets, that monetary policy transmission through the interest rate channel is relatively weak. During the recent crisis, monetary easing has not been supported by real exchange rate movements, because domestic inflation was higher than in trading partners and nominal exchange rate adjustments were avoided due to concerns about rapid inflation pass-through. This further diminished the power of monetary policy to stimulate economic activity.

Continued efforts to develop domestic financial markets should be the key focus in strengthening monetary policy transmission. Measured by standard indicators, such as the ratio of broad money to GDP and the availability of financial products, domestic financial markets in PICs are relatively shallow compared with comparable countries such as those in the Caribbean. A deeper financial market would strengthen monetary policy transmission not only through interest rate and credit channels, but also through other channels that are likely to be very weak at present—
such as those through asset prices and balance sheets that are effective only in deep and sophisticated financial markets. Improving market infrastructure will be a critical step to strengthen monetary transmission.

In many PICs, specific measures could include establishing credit reporting bureaus, secured transactions laws, and collateral registries. Moreover, the enforcement of credit contracts needs to be strengthened to ensure reliable and rapid resolution of defaults, bankruptcies and disputes. As market infrastructure improves, countries can accelerate the development of financial products, such as commercial paper, corporate bonds, equities, and foreign exchange products.

While focusing on the development of domestic financial markets as a long-term goal, policymakers need to expand the use of their toolkit in macroeconomic management. The ultimate objective of monetary policy—and those of other macroeconomic policies—is to achieve low and stable inflation and high economic growth. Achieving this objective, along with other intermediate objectives such as protecting foreign reserves, calls for use of all macroeconomic tools available and close coordination in the application of these tools, especially when monetary policy transmission is weak.

Exchange rate policy remains a powerful tool for macroeconomic stabilization in PICs. Fixed exchange rates have provided a useful nominal anchor, and this benefit should be recognized. However, some exchange rate flexibility (i.e., a band around a central rate) would help countries absorb the impact of external shocks that are frequent in PICs. Monetary and fiscal policy adjustment without the support of such exchange rate
flexibility would require larger changes in domestic prices to restore external balance and could result in larger output losses.

Such flexibility could be extended to one-off devaluations of the central parity when inconsistent fiscal and monetary policies have made the fixed exchange rate untenable at its set level. Of course, such considerations should be carefully examined at the country level for their feasibility and appropriateness. Prudent fiscal policy is vital to macroeconomic stability in PICs. To maintain a credible fixed exchange rate, fiscal policy must ensure that government spending does not lead to higher inflation than in trade partners. Even when governments finance spending in a noninflationary manner, they would still need to be mindful of crowding-out private sector credit. Past experience in PICs and the Caribbean shows that prudent fiscal policy does pay off: lower fiscal deficits and lower public debt seem to be associated with lower average inflation and higher GDP growth. Moreover, lower fiscal deficits and lower public debt are also associated with lower variability of inflation.

7.0 Conclusion

The assessment concluded that the South Pacific islands economies experiences a lot of constraints in pursuing an effective and efficient monetary and fiscal policies that are conducive to economic growth and that there is a need for an effective coordination of the fiscal and monetary policies;
CHAPTER THREE
A Critical review of Economic Growth and Sectors with Potential Growth in
Pacific Islands Countries

ABSTRACT
This Chapter reviews various reports and academic contributions with regards to economic growth of Pacific Island countries. From a carefully argued analysis of the strength, weaknesses, opportunities—and challenges of the countries region, we provide a list of key economic sectors with promising economic growth. Those sectors are given as Hospitality, Agriculture, Fisheries and the Services sector. The argument is however posited that unless National Governments as well as development partners focus on investment promotion and economic development centred on a comprehensive human capital development strategy, then the economic
growth of any sector may well be jeopardised by narrow focus of policies and strategies.

There is also a natural tendency for the Pacific countries to achieve better efficiency and effectiveness when organized on a regional basis. This Chapter recognised that this should be a strategy for growth if smaller countries of the Pacific are to fully utilize the opportunities for growth of the economies. In most literatures on economic growth and development, privatization is always a central issue. Some strategies for growth recommended in This Chapter include some form of privatization, notwithstanding that there is an overwhelming call for the governments of the Pacific countries play a more active role in protecting and growing their economies.

One implication of the analysis is by recognizing the importance of (1) an effective human development strategy as evidences of the respond to improve the country's economic development and, (2) an effective nature of policy development to direct and control economic activity that will replenish environment businesses to attract international investments thus encourage equal economic opportunities for all.
1. INTRODUCTION.

The Pacific island countries span around the Pacific Ocean. The governance systems vary from self-governing nations in free associations with countries like New Zealand for Cook Islands, Niue and Tuvalu, United States for Palau. Republic countries ruled by the President for Vanuatu and Fiji Islands, independent democratic government for Federated States of Micronesia, Kiribati, Papua New Guinea, Solomon Islands, Samoa, Marshall Islands, Nauru, and Tonga for an independent monarchy.

The common features shared across these island countries is that nearly all of the countries have relatively small populations and domestic markets is very limited. Most countries rely heavily on agriculture, fish, and timber for employment and exports. With limited resources, the countries rely heavily on import goods.

Serious challenges in providing for the people of the island nations are economic growth, sustainable development, good governance and security.

This Chapter identifies a few sectors in the Pacific island countries as the growth potential sectors and examines why they are regarded as the growth sectors and what are some of the possible strategies that could be suggested to sustain and grow these sectors. A few commonalities emerge include the role of government to legislate protective and growth inducing framework for these sectors to grow. However, other strategies
include some form of reorganization and refocussing on these sectors by enhancing infrastructure and developing policy structures.

1.1. Review of literature

In our research we have searched and read widely between the team members and developed a regional overview of the sectors we identify as growth potential sectors. It goes without saying that to state a common position on any of these sectors, whatever the perspective that the position might be developed from, is a difficult task because of the colossal diversity that we acknowledge right from the beginning of This Chapter.

We have read and consulted reports from the Food and Agricultural Organization of the United Nations is assist us in getting a deep insight into the diversity and strength of the agriculture sector across the Pacific region. Government reports like the Vanuatu National Statistics Office reports and the Fiji Reserve Bank publications complement the literature we consulted in terms of the Agriculture sector.

The tourism literature ranges from lecture power point slides to internet based publications. It may not represent the full scope of literature on the subject but it gives a fair insight into the state of the tourism sector in the Pacific countries.

Most of the literature consulted has been descriptive and only a few were critical analysis of the situation they publish on. One such critical analysis is a paper by Rod Davis, “Branding Asian Tourist Destination”. In This Chapter Rod Davis discusses the strategy of branding. It is a proposition, although there is little experience and experimental work that the
assertions are based on, apart from general marketing principles in other areas of economic life. Most of the critical thinking and analysis comes from the author of this project.

1.2 Methodology

This Chapter is a group research project required by the MBA 434 course “South Pacific Business Environment”. There were 4 members of our group, but during the course of the research, one member has dropped out leaving only 3 members to continue with the research and have finalized it in This Chapter.

We have met as a group to discuss requirements of the assignment. We have then agreed to allocate each section to each member and that one would collate and put together the inputs in one final version.

We came up with a skeleton of the paper which was reviewed and then a rudimentary first draft. Then this final version is produced.

Our research has taken us to books, articles, short publications and internet websites on projects and activities like the Forum Fisheries Agency and others. We have consulted on how the final paper would be set out.

1.3 PACIFIC ISLAND DIVERSITY

1.3.1 Ethnic groups

The Pacific countries are categorise into three ethnic groups—Melanesian, Polynesians and Micronesians. The sub region that result from these regions are:
<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melanesian</td>
<td>Papua New Guinea, Solomon Islands, Vanuatu and Fiji Islands</td>
</tr>
<tr>
<td>Polynesian</td>
<td>Cook Islands, Niue, Samoa, Tonga and Tuvalu</td>
</tr>
<tr>
<td>Micronesian</td>
<td>Federated States of Micronesia, Kiribati, Marshall Islands, Nauru and Palau</td>
</tr>
</tbody>
</table>

**Melanesia**

Melanesian countries are located at the western most of the Pacific ocean. The land mass is large and most of the resources like forestry and mineral resources are centred around these countries. Almost 85% of the Pacific island entire population is from these Melanesian countries.

Most of the resources for export are from agricultural commodities, (coffee and copra), marine products (tuna and prawns), timber, minerals, tourism and manufactured goods (furniture and clothing).

**Polynesia**

Polynesian countries land mass and population are small however exclusive economic zone are quite large. The main economic activities are fishing, agriculture, tourism and remittances. The activities have increased economic activity to countries like Cook Islands, Tonga, Samoa and Tuvalu.

Remittances played an important part of the economic activities of these countries.
Micronesia

Micronesian economy is dominated by agriculture (copra), fishing (tuna) and tourism. Most of these countries have close economic and political affiliation with the United States through free association agreement.

1.3.2. Regulatory Framework

Most of the pacific countries established legislations to facilitate and manage direct foreign investment. Ease of doing business to create enabling environment to attract foreign investors has been the pacific islands governments priority. Reform in the investment policy including tax regime and business regulations is focused by encouraging liberal and transparent investment procedures to enable an environment focus on private sector led growth.

However, approval of foreign investment procedures vary from country to country. Most island courage restrictions on foreign investment where guideline in employment of nationals, export earning upgrade of labour skills and preservation and conservation of environment and culture are preserved.

Small scale projects are reserved for nationals where foreign investors are unlikely to be interested in.

1.3.3. Infrastructure and Support Services

Road are sealed around CBD areas, unsealed road are mostly used in remote areas. Port facilities are capable of handling international shipping container and cargo activities. Larger countries, regional ports are also capable of handling containers.
Internal airline services concentrate on aircraft focus to carry passenger. Communications in the areas of local and international telephone calls, faxes, internet, and data transfer are well established including wide coverage of mobile phones out reaching remote area has improved.

1.3.4. Human and Institutional Services

Pacific Island nation have a small population, however, countries do have pool of skilled and unskilled workers. University institutions, Technical Colleges, Secondary Schools and Primary are accessible to all nationals.

Tertiary institutions are attempting to increase the number of skilled workers by expanding and tailoring their training programmes to private sector employee requirements.

Strengthening the Human and Institutional services United Nations through ESCAP assisted the island nations by contributing to strengthen the capacities of the nationals to implement policies to improve people’s lives.

The Mission was to “support the Pacific Islands developing countries and territories in their efforts to attain economic and social development goal”\textsuperscript{14}

\textsuperscript{14} www.unescap.org.epoc
Supporting the mission the emphasis is to promote regional cooperation and knowledge sharing of good practices and lessons learnt, providing regional advisory services on economic and social policies through policy development and stakeholders consultations, technical assistance and provision of training, strengthening institutional capacity through national and regional courses, regional workshops, and seminars on policy preparation, analysis and planning including assisting policy planning implementation through national level.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>17,900</td>
<td>200 sq km</td>
<td>Self governing nation in free association with New Zealand</td>
<td>$82 m (1999)</td>
<td>Tourism, pearl cultivation</td>
<td>(US$9 million (2000))</td>
<td>Machine, transport, equipment, food, live animals, mineral fuels</td>
<td>NZ$</td>
<td>US$1 = NZ$2 .2012</td>
<td>1,830,000 square kilometre.</td>
</tr>
<tr>
<td>Federated States of Micrones</td>
<td>118,500</td>
<td>700 sq km</td>
<td>Democratic government (compact of free association)</td>
<td>US$2 12m (1999)</td>
<td>Fisheries, tourism and copra</td>
<td>(US$2 m (1999))</td>
<td>Food, live animal, minerals, fuel, machines,</td>
<td>US$</td>
<td>2,978,000 square kilometre</td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Land Area</th>
<th>Government</th>
<th>Major Exports</th>
<th>Imports</th>
<th>Exchange Rate</th>
<th>Population Density</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiji Islands</td>
<td>811,000</td>
<td>183,000</td>
<td>Independent Republic (1970)</td>
<td>Sugar cane, gold, fish, textile yarns, fabric, molasses, coconut oil</td>
<td>Manufactured goods, machine, transport equipment, mineral fuel, food, live animal and chemical</td>
<td>F$ = F$2.32</td>
<td>1,290,000 sq km</td>
</tr>
<tr>
<td>Kiribati Islands</td>
<td>89,600</td>
<td>700</td>
<td>Independent Republic</td>
<td>Fisheries, agriculture, remittances and copra</td>
<td>Food, live animal, machines, transport equipments, manufactured</td>
<td>Aus$ = 1.7248</td>
<td>3,550,000 sq km</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------</td>
<td>--------------</td>
<td>-----------------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>51,600</td>
<td>200</td>
<td>Independent democratic government</td>
<td>US$9 9m</td>
<td>Fisheries, copra</td>
<td>US$7 m</td>
<td>Crude materials, machines, transport and equipment, food, live animal, manufactured goods, mineral fuel</td>
</tr>
<tr>
<td>Nauru</td>
<td>12,000</td>
<td>21</td>
<td>Independent democratic state</td>
<td>US$5 0</td>
<td>Phosphate, coconut</td>
<td>US$ 50</td>
<td>Food and live animal, manufactured</td>
</tr>
<tr>
<td>Country</td>
<td>Population</td>
<td>Area</td>
<td>Status</td>
<td>Main Exports</td>
<td>Trade with</td>
<td>GDP (2000)</td>
<td>Area (sq km)</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
<td>------</td>
<td>--------</td>
<td>--------------</td>
<td>------------</td>
<td>------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Niue</td>
<td>1,857 (2000)</td>
<td>259 sq km</td>
<td>Self governing in free association with New Zealand since 1974</td>
<td>Food stuff, manufactured goods, building materials</td>
<td>Remittances</td>
<td>US$7.2 m (2000)</td>
<td>390,000 sq km</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------</td>
<td>--------------</td>
<td>--------------------------</td>
<td>---------------------</td>
<td>----------------------------------------------------</td>
<td>----------</td>
<td>---------------</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>4.4m</td>
<td>462,800</td>
<td>Independent democratic since 1975</td>
<td>US$3,834m</td>
<td>Agriculture, fishing, mining, petroleum and forestry</td>
<td>Kina</td>
<td>K$= 2.7822</td>
</tr>
<tr>
<td>Samoa</td>
<td>170,700</td>
<td>2,800</td>
<td>Independent democratic government 1962</td>
<td>US$181m</td>
<td>Copra, taro, banana, timber</td>
<td>Tala</td>
<td>T$= 3.2864</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>459,000</td>
<td>28,900</td>
<td>Independent democratic government</td>
<td>US$320m</td>
<td>Fisheries, forestry, copra, palm</td>
<td>SI $</td>
<td>SI$5.11</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------</td>
<td>--------------</td>
<td>-------------------</td>
<td>-------------------------------</td>
<td>-----------------------------</td>
<td>----------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>10,450</td>
<td>26</td>
<td>Independent democratic government</td>
<td>Copra, stamps, handicrafts and garments</td>
<td>US$14 (1999)</td>
<td>US$79 0,000 (2000)</td>
<td>Food and live animals, manufactured goods,</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------</td>
<td>--------------</td>
<td>-------------------</td>
<td>-----------------------</td>
<td>----------</td>
<td>---------</td>
<td>------------------</td>
</tr>
</tbody>
</table>

Vatu US$1 = 137.64 (2000)

Figure 2: Country Profile, Business Information Guide to the Pacific Islands.
1.4.1 Location

The south pacific island span most in the south west pacific ocean and crossing the international date line (IDL), the island cover different time zones, ranging from plus GMT 9 hours to GMT 11 hours for countries to the east of the international dateline.

![South Pacific Map](image)

**Figure 3:** South Pacific Map. South Pacific Travel Guide

1.4.2 Government

The role of the government is to manage the state, establish a practice of accountability to the people, and promoting sense of nationhood. It includes the process of electing leaders to office, the interface between the political and bureaucratic arms of government, the strength of oversights of judiciary and the role of civil society in influencing the quality of governance.

The Pacific Islands are moving into the developing liberal and transparent investment by way of providing provision for a stable macroeconomic environment that sets incentives for efficient economic activity, provision of institutional infrastructure, property rights, peace,
law and order and rules of incentives that encourage long term private sector investments.

Government’s role is also to provide education, health care, basic housing provision, physical infrastructure (water, electricity), and protection of the environment.

1.4.3 Investment and Taxation Regulation

The Pacific Islands economies have access to many overseas markets. Most countries’ investment policy is to welcome foreign investments. In order to facilitate foreign investments government provide legislations and regulations to create favourable environment foreign investments.

The government revenue are obtained primarily through indirect taxation, though in some countries like, Vanuatu for example, there are no income or company taxes, capital gain taxes, withholding taxes and tax treaties or double taxation agreement with other countries.

1.4.4 Human Resource and Labour

The workforce labour are engaged in either in agriculture and other primary sectors with only a small proportion of the workforce involve in the manufacturing sector.

Specialised technical skills is lacking in the Pacific island therefore overseas specialist are recruited for specific periods.

1.4.5 Infrastructure and Support Services

Pacific Island have a reasonable well developed infrastructure. Reliable diesel, hydro electrical power, wind mills, geothermal power and water supplies are available throughout the urban centres.
Telecommunication services are provided by privately owned companies. Current networking is to make sure that communications network will also cover the rural remote areas with the introduction of mobile phones and internet communications.

International air connections are good with regular international connections from country to country including Australia and New Zealand. Domestic flights from island to island is improving.

2. SECTORS WITH GROWTH POTENTIAL

2.1. Agriculture.

Agriculture (including livestock), forestry, fisheries and tourism are important to the economies of PICs. Agriculture, particularly the export sector, is a key component together with fishing and tourism. For example, of the 1.9% growth in the economy of Fiji in 2010, the primary
sectors had a combined contribution of 25% (RBF, 2010\textsuperscript{15}), second only to manufacturing. The agriculture sector of the larger PICs has undergone much change over the past decades. Some countries have been able to undertake more transformations than others.

Generally, however, agriculture in PICs can be characterized as involving farming that is predominantly small-scale, low in productivity and based on family labour and the low adoption of modern technologies. Produce is largely consumed on the farm, with limited amounts being marketed. Root crops are the main staple, commonly grown with coconut, breadfruit, banana and plantain. Although the agriculture sector in Fiji is more commercial, subsistence farming remains important\textsuperscript{16}. The contribution of subsistence agriculture is often underestimated in national statistics. The sector is fundamental for all of the countries in providing livelihood options. Agriculture products still form the main component of exports. Furthermore, the sector continues to employ the greatest percentage of the labour force, either in commercial efforts, or more commonly, in self-sufficiency endeavours. But the countries remote locations, poor access to commercial and capital markets, poorly developed infrastructure and limited institutional capacity hinders economic development in the sector\textsuperscript{17}

The high degree of dependence on such sectors, however, makes island economies vulnerable to outside shocks and climatic factors\textsuperscript{18}. Countries are exposed to risks associated with global warming and consequent environmental problems, such as vulnerability to rising sea levels in low-

\textsuperscript{15} Reserve Bank of Fiji, 2010
\textsuperscript{16} FAO, 2010b: p.1
\textsuperscript{17} FAO, 2010b: p. 9
\textsuperscript{18} See 3 Above
lying coral atolls\textsuperscript{19}. Food production and security in many PICs are relatively fragile and susceptible to periodic external shocks, such as El Niño and La Niña, tropical cyclones and sea-level rise, which impact on food production and further increased dependence on imports. In addition, increased globalization in recent years poses new economic problems, compounded by low awareness of WTO-related issues and protocols\textsuperscript{20}. But the multilateral trading environment also presents opportunities.

Several studies (e.g. McGregor, 2006; Browne and Orsmond, 2006 and Duncan, 2007) have also identified other key constraints to agricultural development in the Pacific which \textit{inter alia} include: poor infrastructure, weak human resource capacity, lack of affordable finance (credit), land issues, policy, regulatory and governance issues, market access issues, inadequate research and advisory services and overall a generally difficult and risky environment for commercialization of agriculture and business development\textsuperscript{21}. To this one could also add low productivity (subsistence) agriculture; critical gaps in technology transfer and the adoption of efficient techniques and inputs; poor market integration of producers and consumers; a decline in traditional export earnings; low human resources development and poor institutional capacity in trade and policy\textsuperscript{22}.

\textbf{2.1.1 Horticultural produce for domestic and export markets}

\textsuperscript{19} See 3 Above
\textsuperscript{20} FAO, 2010a: p.3
\textsuperscript{21} FAO, 2010b: p.6.
\textsuperscript{22} See 7 Above
Of all PICs, Fiji, Samoa and Tonga are the biggest players in the horticultural export industry. Exports are mostly to New Zealand and Australia, also taking into account window opportunities when imports from other countries are low. Countries should begin with selected products that have planting and harvest times fitting in well with the market demand. In the New Zealand market for instance, Fiji currently produces and supplies 96% of eggplants and New Caledonia suppling the remaining 4%. In terms of papaya the Philippines supplies 74% of total papaya imports into New Zealand while Fiji supplies 25%. The supply for chilli and breadfruit fall short throughout the year. Fiji supplied 99% of total chilli imports and Samoa 96% of total fresh breadfruits imports into New Zealand in 2007/2008\(^23\). In 2009 the main success of this sector in Samoa is the export of Noni juice to Japan and the USA\(^24\). Despite having received clearance to export a wide variety of horticultural crops into New Zealand, Vanuatu is yet to make any significant export owing to factors like higher production costs and infrastructure limitations. The export of fruits and vegetables to overseas markets demonstrates commercialization of agriculture practices and competitiveness in businesses involved. The export trade involves integrating producers into markets and making them more market responsive. No PIC has been able to do this better than Fiji.

2.1.2 Supply of root and horticultural crops for domestic markets

\(^{23}\) Export supply figures are taken from (FAO report, 2009).
\(^{24}\) ITC report, 2009, P. 16
Quality fresh produce (fruits, vegetables and root crops) and raw meat attract reasonable prices in hotels and resorts in countries like Fiji and Vanuatu. The opportunity to increase domestic supply of fresh food to the tourism industry is significant, but requires a significant re-orientation of agriculture sector programmes. The sector is critical in feeding the population and as a means of farmer income through sale of products locally, and increasingly as exports. Emphasis must be placed on increasing the production, quality and standards of agricultural produce demanded by hotels and resorts.

Progress varies greatly between countries. Fiji is by far the only PIC that is making significant progress in this area. This is partly due to better infrastructure, access by producers to relatively secure farmland, and committed entrepreneurs. To ease marketing problems in rural areas, Government has established the Agricultural Marketing Authority. The Authority buys and sells agro-produce and agro-inputs and has been directed, through its legislation, to focus on non-viable remote areas. Government funding intends to promote participation in economic development by people, mostly indigenous Fijians, in the remote areas. Another important factor in Fiji agriculture as well as in Samoa and Tonga is the relatively high demand for local produce among local consumers. Fijians and Tongans generally consume more local food stuff compared to ni-Vanuatu. For a long time this demand has assisted in growing the interest and investment among farmers who see a local market for their produce. While Vanuatu people still consume local crops, many are more dependent on rice and other imported food.
In Vanuatu vegetable production constitutes 23% of the agricultural activities and this contributes a share of 30% income for farmers. A large proportion of vegetables sold in the municipalities and those that are consumed in hotels and restaurants are mainly imported. Many of these vegetables could be grown locally if farmers are supported with the right kind of inputs, including information, infrastructure and well coordinated links to the fresh produce market and hotels and restaurants. The linkage between the farmers and tourism sector needs to be developed. Few farmers sell their products to hotels and restaurants and the network is not robust.

2.1.3 Developing the business environment

Developing policies and institutions to encourage agribusiness investment needs to be done in a large policy context. Many of the most critical aspects of a supportive agribusiness environment are identical to those which apply to manufacturing and services industries. These include good public governance, stable macroeconomic climate, enforceable commercial laws, appropriate financial services, protection of property rights, and adequate infrastructure. Supporting trade policies are particularly important especially in the light of PACER plus, EPA and WTO discussions.

2.1.4 Broad-based growth and linkages

---

Growing the agriculture sector must be about broad-based development, in which the majority of farmers benefit from greater economic opportunities. It means that efforts by governments, for instance in encouraging private sector investment must critically consider how new and existing businesses are linking up with farmers in terms of supply side. Without initiatives that develop the linkages between farmers and businesses the majority of people will remain disadvantaged and the sector will not develop to its full potential. For example, the rural areas continue to be the home for about half of Fiji’s population, though declining. However, Fiji’s key exports are rural based, providing the greatest potential for future development and prosperity, particularly in the tourism, agriculture, forestry and fisheries sectors. In Samoa it is recognized that the agriculture sector must be developed if the majority of Samoans are not only going to satisfy their subsistence needs in future years, but meet their increasing needs for cash income. The same is true for Vanuatu and other countries. Broad based growth also requires that countries work towards greater product diversification. Vanuatu’s development in agriculture is hindered partly by dependence on relatively few primary commodity exports. To date the rural population has seen relatively few benefits of economic growth and internal migration continues to fuel the expansion of urban squatter settlements and unemployment.

2.1.5 Balancing subsistence and Commercialization of agriculture

27 FAO report, 2010b, p11
28 FAO report, 2010b, p.12
Food security regionally and in individual PICs can be improved significantly by supporting more efficient production, value addition, and reduction in post-harvest losses and improvements in trade, institutional capacity and exports\textsuperscript{29}. The importance of subsistence activities must be encouraged to ensure food security, but the commercialization of agriculture is a necessity for countries seeking to sustain exports and even meeting domestic food needs.

\textbf{2.1.6 Learning from success stories}

The relative importance of strategies and interventions are country specific, but there are also lessons based on experiences of successful enterprise development that can generally help refine realistic policy options and interventions for Pacific island countries. The FAO recently published findings about how some businesses were able to develop\textsuperscript{30} in Fiji for instance, establishment of the HTFA quarantine treatment facility at the international airport opened substantial export market opportunities for horticultural products in New Zealand (e.g. papaya, eggplant, mango, and breadfruit), Australia (papaya) and potentially USA. Exporters who are members of Nature’s Way Cooperative and thus have access to the treatment facility have provided the linkage for small farmers to these markets. Development of a parallel domestic and tourist market for fresh horticultural produce has lowered risk for farmers growing these products\textsuperscript{31}.

\textsuperscript{29} FAO report, 2010a, p.1
\textsuperscript{30} FAO report, 2010b, p.6
\textsuperscript{31} See 17 Above
2.1.7 Building competitive advantage in niche markets

This is an area that exporting PICs have shown to be possible. Export horticulture is now, after years of disappointment, the fastest growing part of Fiji’s agriculture sector. The continued growth in niche horticultural exports has confirmed the competitive advantage of Fiji’s agriculture in this area, although it is nowhere near sufficient to offset the accelerating demise of the sugar industry. Indeed, no single export crop has come close to approaching the importance of sugar for the Fijian economy; however, horticultural products as a group have come closest to this goal. Fiji’s small private exporters have been successful in developing a wide range of niche exports. Around 200 different agricultural products are currently being shipped to 20 countries. The most significant examples are ginger to the United States and New Zealand, papaya to New Zealand, Japan and Australia, taro to New Zealand and the United States, breadfruit to New Zealand, eggplant to Canada and New Zealand, coconuts to Australia, organic banana puree to France, and noni to Germany. None of these products receive any protection on the domestic or international markets. All these niches taken together represent a significant degree of export diversification. These products represent the future for Fiji’s agricultural exports.\(^{32}\)

Samoa has potential advantages for organic agriculture. Organic farming has gathered momentum since its beginnings in 1998. In 2006 there were 213 farms certified organic with an estimated area for organic cultivation of 7,243 ha\(^ {33}\) but current export capacity is relatively small and confined

\(^{32}\) FAO report, 2010b, p.12

\(^{33}\) Bell, “Organic Agriculture and Fair Trade in Pacific Island Countries”
mostly to coconut oil and noni exports\textsuperscript{34}. For Vanuatu, comparative advantage is seen to be in organically grown low-volume and high-value products. To further develop niche organic markets will require a robust certification process, adoption of minimum quality or grading standards, reliability of supply, effective transport and marketing systems and a reasonable return on investment for all involved in the value chain. With the assistance of French chocolate manufacturer KAOKA Vanuatu has put these conditions in place to export organic cocoa. The Vanuatu Organic Cocoa Growers Association (VOCGA) now exports around 300 tons of organically certified cocoa beans annually to France\textsuperscript{35}.

\textbf{2.1.8 Weaknesses and Constrains to growth}

There are many constraints to growth in the PICs. There are generally unfavourable conditions in many areas that are critical to agriculture growth. Entities like businesses seeing to export for example, must first deal with these difficulties, beginning locally, even prior to having to worry about market requirements. In Samoa issues affecting the value chain for fruits and vegetables for example, included inefficient trade facilitation locally, high transport costs, lack of market information, low level of farmer organization, no policy alignment with private sector priorities, ineffective agronomic support practices and lack of access to finance, among others\textsuperscript{36}.

The commonly cited weaknesses and threat can be summarized in this paragraph. All the countries face challenges meeting balance of payments due to very large merchandise trade imbalance with the value of imports

\begin{footnotes}
\item[34] FAO report, 2010b, p.13
\item[35] FAO report, 2010b p.17
\item[36] ITC, “Fruit & Vegetables SECTOR STRATEGY for SAMOA”, 2009
\end{footnotes}
exceeding exports. In 2010 Fiji had a trade balance deficit of about $2 billion\textsuperscript{37}. The countries are also highly vulnerable to commodity price fluctuations due to heavy reliance on primary exports (Solomon Islands, Vanuatu and Fiji), weather related shocks (all countries), and, in some cases, internal political unrest (Fiji, Solomon Islands and Tonga). Balance of payments is highly dependent on current account receipts from tourism and private remittances transfers, as well as the capital account Official Development Assistance (ODA) flows\textsuperscript{38}. To this one can add the threats posed by natural phenomenon.

2.1.9 Decline in consumption of local foods

Perhaps the most visible weakness in PIC agriculture is the decline in the relative importance of food locally produced and consumed food crops. There has been a steady decline (~37\%) in the availability of root crops for consumption in PICs is noted, with imported rice and flour now having replaced root crops as single most important source of starch and energy. This is creating a high level of food import dependency and contributing to nutritional anemia\textsuperscript{39}. Countries have agreed to establish “food fortification” standards that will promote the supply of wheat flour and other foods, which have been “fortified” with essential vitamins and minerals. Consumption of rice per capita is significant in Vanuatu and Solomon Islands, with Fiji also experiencing an increase.

2.1.10 Weak local production

\textsuperscript{37} Fiji Reserve Bank, 2010
\textsuperscript{38} FAO report, 2010b, p.10
\textsuperscript{39} FAO report, 2007
There is an increase in the importation of all kinds of fruits and vegetables to meet increasing demands in PICs, so much so that there is immense imbalance between what is being produced locally for domestic consumption and imports. In 2008, Fiji had production shortfall in rice of 60,000 tons ($50 M), beef of 1,600 tons ($6 M). Where production is much lower than demand, imports are significant. This is more pronounced for items such as dairy products (15,000 tons), lamb (5,000 tons) and potatoes (20,000 tons). The products with higher local production are beef, pork, and honey, with domestic demand for the later two products being almost 100% met by local production\textsuperscript{40}. Significant amounts of fruit and vegetables are imported into Samoa. For Samoa in 2007 the value of imports of fresh and processed fruits and vegetables was approximately USD1.5 million\textsuperscript{41}. Fiji is making strong push to address shortfalls in its local production, but the same level of commitment cannot be said for other PICs, notably Vanuatu.

2.1.11 Limited institutional capacity

One weakness commonly cited is the limitation in public institutional capacity in terms of human and financial aspects. Challenges faced by PICs include: the lack of experienced staff at national level; the absence of national plans for capacity building; the overworked existing capacities; the recurrent problem of maintaining skilled human resources in the countries; the need for more coordination among different ministries; the need for more investment in the policy area; the lack of robust and

\textsuperscript{40} Fiji Reserve Bank, 2010
\textsuperscript{41} Figures taken from ITC report, 2009
appropriate agriculture policy and strategic plans; the need for more financial resources, and the need for high performance tools to assess the impacts on food security and training material\textsuperscript{42}.

2.1.12 **International export restrictions**

Increasingly strict food safety and quality requirements have become impediments to fully exploiting potential export markets. Compliance with international food safety and quality standards is crucial for the development of the agriculture and fishery sectors. There is inadequate capacity to ensure food safety and quality along the food chain and weak national food control systems. Food safety is also important for food processing. Tremendous advances have been made in modern food processing technologies, presenting both opportunities and challenges to local food processors\textsuperscript{43}. For exporting countries one of the immediate constraints is, the difficulties faced in having to satisfy the buyer/market requirements, including restrictions like SPS.

2.1.13 **Limited access to agriculture credit**

One of the most discussed issues is the limited access of the farming community to credit, owing largely to high interest rates and perceived lack of collateral. In Vanuatu this is a major concern. In Fiji the percentage of total lending to the sectors was 15\% ($145 million) in 1993; where sugar, non-cane agriculture, forestry and fisheries were 9\%, 3\%, 2\% and 1\% respectively. By 2009 there was no more lending to sugarcane. The 1\% ($28 million) lending in 2009 was spread as follows; 0.3\%, 0.4\% and

\textsuperscript{42} FAO report, 2010b, p.10
\textsuperscript{43} FAO report, 2007
0.3% allocated to non-cane agriculture, forestry and fisheries respectively\(^\text{44}\).

2.1.14 What strategies may be used to grow this sector?

The agriculture sector provides for the livelihoods of the majority of the PICs populations. So in charting the course to grow the sector, one of the fundamental questions to be answered is how will interventions benefit this majority. Monitoring and evaluating will be about gauging correlation between growth and improvements in livelihood of the majority of farmers and domestic consumers. A lot of options can be articulated and these may vary between countries and reflective of the SWOT of each country and industry. Below some observations are made of experience of growth in the sector. Recommended strategies will be articulated in the next section.

Arguably, the overall approach in strategy would be for countries to work on progressively improving their business environments. This will be a continuing process in which all aspects in the business ‘ecosystem’ is in place and working in harmony, so as to facilitate growth. Countries will need to put supportive measures in place, where these do not exist, refine those that may be currently not productive and remove all others that are stumbling blocks. In the long run each country will be required to build its overall competiveness; having a sound business environment. A country should invest in agriculture production and industry if it is to be able to not rely on the importation of food stuff for its domestic needs, not rely on a narrow range of export products and make significant progress in taking

\(^{44}\) Reserve Bank of Fiji, 2010
advantage of international market opportunities. Below we list some of the strategies that should be employed in the spirit of growing the agriculture sector.

**Strategy 1. Sound policy direction and transparent decisions**

The business community, farmers and the agriculture sector at large need to know what the government policy on the agriculture sector is. The policy has to be evidence-based. Investor confidence and farmer commitment is triggered by some assurances that the government understands the issues or status quo at hand, and that it is clear in its resolve to continuously address them.

a. There must be a well articulated, researched policy document developed and a product of wide stakeholder consultations;

b. At least there should be that level of predictability of consistency in policy and decisions;

c. Also important in this strategy is the need to ensure that government is the facilitator and plays the role of regulator. Government should facilitate legislation and regulations where appropriate and support industries, farmers and stakeholders in all aspects requiring growth; and

d. The private sector’s primary responsibility should be for setting standards and monitoring compliance.

**Strategy 2. Modernizing the agriculture sector**
There is the need for country agriculture sectors to modernize in terms of trading higher value products and address the imbalance (shortfall) in the trade of agricultural products. This will require that farmers/suppliers and industries work to produce and trade value added products that meet local demand, and higher and more stringent market requirements. At this level of maturity industries would therefore become more competitive in their business operations. Consequently businesses would be better able to address in-country obstacles, take advantage of market opportunities and not be easily susceptible to market fluctuations, including episodes of sudden growth in overseas demand, and followed by bust.

How this strategy is undertaken in each country would vary but certain key principles or enabling conditions apply throughout. These should include the following:

1. In the region more attention needs to be devoted to developing the capacity of agribusinesses (processors, exporters, traders – the middlemen) which pull farm products into the market place and open the pathways for commercialization of smallholder farms;

2. The barriers to entry differ and this determines the types of mechanisms that might need to be put in place to facilitate smallholder participation in new markets. Improved market intelligence, linkages and promotion are key factors\(^{45}\);

3. To retain or grow a market share comparative advantage must be coupled with competitiveness; and

---

\(^{45}\) FAO report, 2010a:p.20
4. Promote innovation and respond to change to keep up with competition in market.

Strategy 3. Implement internationally acceptable food standards

Markets for fresh and processed agricultural produce require consistent high-quality standards. Exporting horticultural produce to markets in Australia, Japan and United States is very competitive and subject to guarantees regarding quality and supply. Countries considering high-value horticultural exports need to be certain that they can meet exacting quality and food safety standards.46

a. Ensure close monitoring of food and nutrition insecurity, including the provision of knowledge and skills which empower people to consume a balanced, safe and nutritious diet,

b. Strengthen the link between nutritional and agricultural interventions by integrating nutrition and food safety considerations into agricultural research, policies and development programmes.

c. Build capacity in food safety in order to strengthen national food control systems;

d. Enhance the capability to pro-actively contribute to and benefit from food standard setting work of the Codex Alimentarius Commission.

e. Strengthen capacity in food processing and food product development, including the associated quality/safety issues

Strategy 4. Improving farm productivity and linking producers and markets

46 Quality and Safety food standards in FAO report, 2010b, p.23
Another argument in terms of improving growing the sector is to link producers to the markets. This can be done in a number of ways but experience has shown that supply side considerations must be important components of this. The overwhelming involvement of farmers in subsistence and semi-commercial practices means that productivity of farms will be a major issue in successful linkages with the markets. Small farmers face a significant challenge to increase productivity (land and labour), particularly under certified organic cultivation regimes. More attention needs to be focused on maintenance of soil nutrients, pest control and disease management for long-term sustainable yields.\(^{47}\)

Interventions should address the following.

a. Improve farm productivity to increase price competitiveness on both local and international markets and thereby increasing farmers’ returns to effort;
b. Inculcation of commercial values in all aspects of operation, from farming and harvesting, to transportation, processing and exports (Government of Fiji, 2007: 41);
c. Invest on infrastructure, especially for the physical linking of farmers to exporters;
d. Coordinate and integrate supply chains, and build trustworthiness as an essential strategy to increase competitiveness in the market place;
e. Ensure a robust domestic market for potential export products to reduce the vulnerability of farmers to fluctuations in the international market;

\(^{47}\) FAO report, 2010a, p. 21
f. Promote large scale commercial farming; and

g. Enhance tourism industry and agriculture sector linkages to match demand and supply

2.1.15 Private sector role

It is widely acknowledged that growth in the PICs will depend increasingly on governments providing the conducive environment and supporting private sector development. The private sector develops opportunities which increase the productivity of resources required to drive growth. To work effectively, such private entrepreneurs need consistent and predictable “rules” that facilitate their access to the assets, markets, skills and the financial resources that they require. These regimes should also protect entrepreneurial gains. Such rules include property rights, regulatory regimes and legal systems which allow the private sector to work effectively. The need to support private sector initiatives in strongly articulated in Fiji (Government of Fiji, 2007), Vanuatu (Government of Vanuatu, 2006; UNDP, 2009), Samoa (Government of Samoa, 2009) and other countries.

3. Tourism.

The pacific countries have a lot of potential to grow and develop for many reasons but one key factor for consideration in the tourism industry. It is important to note from the outset that while it is one of the sectors with most growth potential, tourism is not the main key driver of growth in all of the pacific countries. A generic theme that is prevalent in this project
is that the pacific region is rich in diversity in terms of the make up of its economies and a the same time the developmental stages of each of the economies when compared with each other.

### 3.1 Nature and size

The tourism sector is a significant player in the economies of Palau and Cook Islands. They account for more than 40% of these two countries GDP in 2002\(^\text{48}\), while in Kiribati, Tonga, Vanuatu, and Fiji, tourism contributes between 10 and 20% to the countries GDP\(^\text{49}\) and in Papua New Guinea, the Solomon Islands and Samoa, the significance of tourism to these countries’ GDP is valued below 10\%\(^\text{50}\).

Tourism in the pacific has not yet come close to reaching its potential. It has so much potential to develop and be a real driver for growth in the region. The highest measure of its contribution the GDP is measured in Palau and Cook Islands. The nature of tourism in the pacific is related closely to the number of arrivals per year. For example, Vanuatu tourist arrival figures show as steady increased from 50,400 in 2003 to 68,179 in 2006\(^\text{51}\). There is a general steady increase in tourist arrival numbers in the pacific countries except in Fiji where there was a slowing down of tourist arrivals after the 2006 coup, which, among other factors, contributed to the decline of the Fiji GDP figures\(^\text{52}\).

### 3.2 Government Role in tourism sector

\(^{48}\) “Pacific 2020, Challenges and Opportunities for Growth” a report published by Australian Agency for International Development [Ausaid], Canberra, May 2006, p 49
\(^{49}\) See 1 above
\(^{50}\) See 1 above
\(^{51}\) “Vanuatu Diagnostic Trade Integration Study,” [Vol 1], WTO, 2007, p 165
\(^{52}\) “Pacific Survey 2008 Structure Pacific Economies D2” Side 15, taken from “Economic and Social Survey of Asia and the Pacific 2008"
The tourism sector varies in importance across the Pacific countries. In Vanuatu, it seems to be a growing sector offering a lot of potential. There is still a lot of work to be able to fine-tune this sector to its full potential and earning power for the Vanuatu economy. In the Solomon Islands, there was not a significant tourism industry to note and the effect of the recent ethnic tensions in the country in recent years has not assisted in its sustainability or growth.

Samoa has tourism to thank as one of its significant drivers for growth. The same can also be said for the Cook Islands where the strength and growth of the tourism sector is a 3.5% of GDP in 2008. Tourism is a major contributor to Palau’s GDP.

What is the government’s role in the development of the tourism sector in the Pacific? Is there a generic strategy emerging from the information and literature on this issue? It is claimed by the Business Information Guide to the Pacific Islands that “Each Pacific Island government has allocated priority to the tourism industry ….” However, when reading closely the analysis of each country and the regulatory framework in terms of investment policies and regulations, which the government of each country may play a major part in setting up, there is general reference to tourism in policy areas of creating jobs, skills development, geographical spread wealth, increases import substitution and growing of market. What stands out is that there is no active and focussed policy and regulation framework to develop and grow the tourism industry. A brief comparison shows that the Cook Islands and the Federated States of Micronesia are

like this, while Fiji has an active incentive regime to attract investment in the tourism sector\textsuperscript{54}. It includes:

- Hotel Investment Allowance
- Support Projects to the Tourism Industry Investment Allowance
- Tourist Vessels Investment Allowance
- Short Life Investment Package regime

Apart from these specific investment incentives offered by the government of Fiji to encourage investment in the tourism sector, there are duty concessions available to new hotel and resort developments.\textsuperscript{55}

### 3.3 Investment Promotion of tourism

This section of the project is attempting to show the mechanisms and strategies employed by Pacific Islands in promoting investment in their economies. An analysis of the promotion techniques used and the incentives utilized will show the kind of importance that each country attaches to the tourism sector.

In the overall consideration of the topic for this project, the importance of the tourism sector will be reflected in the kind of investment promotion used and the intensity of promotion will be a mark of a sector with growth potential.

\textsuperscript{54} See 6 Above, p.58
\textsuperscript{55} See 7 Above
## Promotion of investment in the tourism sector

<table>
<thead>
<tr>
<th>Country</th>
<th>Legislation</th>
<th>Investment Promotion Authority</th>
<th>Types of Incentives to promote tourism investment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>Development Investment Act 1995 - 1996</td>
<td>Development Investment Board</td>
<td></td>
<td>There is no targeted tourism promotion</td>
</tr>
<tr>
<td>Federated States of Micronesia</td>
<td>Department of Economic Affairs</td>
<td></td>
<td>Duty-free access to US market</td>
<td>Most visitors come from the mainland, USA [35%] and there seems to be very limited active promotion of tourism although FSM offers some of the most</td>
</tr>
<tr>
<td></td>
<td>Kosrae – Dept of Commerce &amp; Industry</td>
<td></td>
<td>Quota – with exceptions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pohnpei – Pohnpei State Investment</td>
<td></td>
<td>Investment Development Fund with threshold of US$500,000 with 5%</td>
<td></td>
</tr>
</tbody>
</table>

56 Information used in the table is summarized from the chapter on Country Profiles in “Pacific Information Guide to the Pacific Islands” published by Pacific Islands Trade Investment Commission and Asian Development Bank, 2001
<table>
<thead>
<tr>
<th>Country</th>
<th>Act/Regulation</th>
<th>Organization</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiji</td>
<td>Foreign Investment Act 1998</td>
<td>Fiji Island Trade &amp; Investment Bureau</td>
<td>Fiji has recently been promoted as an attractive location for production of films, tv, music, computer software and e-commerce. Duty concessions, investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>While there is a regime in place to encourage investment in tourism, there is no specific promotion activity of significance by the government. Promotion is mostly</td>
</tr>
<tr>
<td>Country</td>
<td>Authority</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>-------------------------</td>
<td>----------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Kiribati</td>
<td>Foreign Investment Commission</td>
<td>Not much promotion and incentives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foreign Investment Promotion Division under Ministry of Commerce, Industry &amp; Tourism</td>
<td>Kiribati Tourism Action Plan is there to encourage development in tourism but there is no active promotion of note. The FIPD mainly investigates investor complaints, not promote the tourism sector</td>
<td></td>
</tr>
<tr>
<td>Republic of Marshall Islands</td>
<td>Foreign Investment Business License (Amendment) Act 2000</td>
<td>Tax exemptions, negotiating air-route access from Honolulu</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Registrar of Foreign Investment Trade &amp; Investment Division in the</td>
<td>The TID is for information more than promotion</td>
<td></td>
</tr>
<tr>
<td>Ministry of Resources &amp; Development</td>
<td>Nauru</td>
<td>Very good conference facilities for events. Growing financial centre</td>
<td>There is no investment policy, except the operation of a financial centre allowing registration of offshore companies; there is no promotion except of Nauru as an event location.</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>-------</td>
<td>---------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Niue Development Investment Act 1992</td>
<td>Niue Development Trade &amp; Development Promotion Division (TIPD)</td>
<td>Tax concessions</td>
<td>Fully utilizing seating capacity on the Royal Tongan Airlines</td>
</tr>
<tr>
<td>Country</td>
<td>Act</td>
<td>Authority</td>
<td>Benefits</td>
</tr>
<tr>
<td>----------------------</td>
<td>----------------------------------------------------------------------</td>
<td>------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Palau</td>
<td>Foreign Investment Act 1990</td>
<td>Foreign Investment Board</td>
<td>Low taxation, No corporate tax</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>Investment Promotion Act 1992</td>
<td>National Tourism Policy</td>
<td>Tax holidays; double deductions; accelerated depreciation; wage subsidies; training levies; duty drawbacks; free</td>
</tr>
<tr>
<td>Country</td>
<td>Act/Regulation</td>
<td>Investment Board/Authority</td>
<td>Trade Zones Opportunities</td>
</tr>
<tr>
<td>-------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Samoa</td>
<td>Foreign Investment Act 2000</td>
<td>Investment Board</td>
<td>There is no active promotion of tourism sector; Samoa’s economy depends heavily on remittances.</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>Investment Act 1990 Investment (Amendment) Act 1996</td>
<td>Investment Board Tax holidays; double deductions; depreciation on capital expenditure; deductions on promotions; duty free entry for capital equipment</td>
<td>The IB does some promotion but its not IB’s central role and function</td>
</tr>
<tr>
<td>Tonga</td>
<td>Industrial Development</td>
<td>Standing Advisory Tax holidays; customs duties;</td>
<td>There does not seem to be much</td>
</tr>
<tr>
<td>Country</td>
<td>Act/Incentives</td>
<td>Committee/Authority</td>
<td>Concessions/Protection</td>
</tr>
<tr>
<td>-------------</td>
<td>------------------------------------</td>
<td>--------------------------------------------------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>Incentives Act 1978</td>
<td>Committee</td>
<td>Concession rates at ports and airports; protection of competition</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>Foreign Direct Investment 1996</td>
<td>Foreign Investment Facilitation Board</td>
<td>Tax exemptions for companies with ‘pioneer’ status</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>Foreign Investment Act 1998</td>
<td>Vanuatu Investment Promotion Authority</td>
<td>No income tax, no corporate tax, no capital gain tax</td>
</tr>
<tr>
<td>does promotion activities; but mostly Australian tourists.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The promotion of investment in the Pacific Island countries is not targeted and comprehensive. At best, promotion is included in the general investment promotion of the country as a general effort to attract investment into the country. In some of the countries, like Vanuatu, the type of promotion undertaken by the government is to attract tourist there as an alternative holiday destination. This promotion is big in the Pacific Islands but mostly by the tourism sector operators if not by the government. However, the promotion of investment in the tourism sector of the Pacific Islands is not distinct from investment promotion in other sectors. This may be due to lack of economies of scale, but it is a very significant statement, as an economy, when tourism is identified as a growth potential sector, but no active and targeted investment promotion is sponsored by governments in the Pacific Island countries.

3.4 Market and potential market

It is easy to see the country of origin of all the tourists that arrive in the Pacific countries. This shows that in the south of the Pacific, tourists are mostly from Australia, New Zealand, Japan, China and other Asian countries. The Pacific region is not yet breaking into the European market. Only a handful of north Pacific countries like Guam, Palau and the FSM might have access to the US market, but not in a significant way. It is evident from figures in Vanuatu in 2010, for example that the bulk of visitors to that country were from Australia and other regional countries like New Zealand and New Caledonia. A similar picture emerges from other Pacific countries as well.

Promotion in the tourism industry is two-fold: the promotion of tourist attractions that the tourists will be interested in coming to visit; and the promotion of the tourism industry for investors to be interested in investing in.
Marketing is the overarching activity which promotion activities come under, therefore this two-fold approach is a vital strategy for marketing the tourism sector in the Pacific region. There are other concepts in marketing that the Pacific countries need to consider as the tourism sector in the region becomes more developed and competitive.

The WTO published an article “Mega-trends in Tourism in Asia-Pacific”\(^\text{57}\) that pointed to the following trends that is emerging in tourism:

“1. Travel has become more activity-interest based rather than destination-based.
2. China and India continue to be the two main drivers of tourism industry and tourists generating countries/regions.
3. The development of low-cost carriers (LCCs) makes intra- and inter-regional travel more affordable and will change people’s travel habits and patterns.
4. Airlines are likely to become a low-cost industry.
5. Travel agents transform themselves into travel consultants.
6. Polarization of tastes and travel spending.
7. Continued growth of online transactions.
8. Consolidation of social-environmental awareness and consciousness.
9. Competition and cooperation among destinations for inbound tourists.
10. Emphasis on travel experiences and customized tours.
12. Asia is becoming a convention hub.
13. Increasing growth of seniors and women travelers boost the demand for cultural and wellness tourism.
14. Travel safety and health become major concerns.

\(^{57}\) WTO, “Mega-Trends of Tourism in Asia-Pacific”, June 2006
15. Emphasis on timely communication of accurate information to mitigate negative impacts on destinations”

Although the trends identified above may be dominated by consideration of Asian countries and economies which are, by far, bigger and stronger economies than the Pacific countries, it is not to be discounted by the Pacific countries in this day and age of interdependence and globalisation. In tourism, the Asian countries are a major source of tourist numbers which the Pacific countries want to attract.

In terms of marketing, the trends identified in studies like this one by the WTO and others concerned with tourism is very helpful because the countries can turn these considerations and emerging trends into customer needs which they can then tailor their strategies and products to meet. For the Pacific countries, what are the relevance of some of the trends identified? Let us discuss a few of them in the context of the Pacific countries.

The first trend identified here, for instance, is a major trend. It means that for potential tourists the destination is declining in significance as the major decider on where the tourist will go. It is more and more the activities or products available to them when they visit. The Pacific countries tourism sector should be streamlining their tourism activities and products to cater for the needs of the tourists. Strategies of differentiation and customization should be driving the production of tourist related products.

The trend identified as the “consolidation of social-environmental awareness and consciousness” become very important and warrants clear articulation and

---

58 See 10 Above, pp.2, 3
translation into their local contexts. This trend shows the potential tourist is environmentally and socially conscious. In terms of marketing, either to attract investment or to attract tourist numbers, the Pacific countries’ marketing strategy must be able address this, and any tourism products must be able to address the needs of the customers in this area.

Serious consideratios of these trends and strategizing marketing efforts can make a lot of difference to the nature and scope of the tourism sector in the Pacific countries. It is pertinent to the potential that the tourism sector can perform to. A potential market for tourist numbers and investment in the tourism sector can be developed using such indicators.

### 3.5 Infrastructure

The tourism infrastructure in the Pacific countries is underdeveloped. The bigger countries in the region have sustained investment and development in tourism infrastructure. Papua New Guinea in one of these. However, Palau and Cook islands also have comparatively good level of infrastructure development in the tourism sector.

The important analyse that needs to be done on the topic of infrastructure is that while the economies of the smaller Pacific countries will allow for limited tourism infrastructure, it may not be necessarily a bad thing for these small countries. It gives them the opportunity to address issues of sustainability and the impact of this industry on their physical and social environment. Many of the Pacific countries are now exploring eco-tourism projects and operations. This type of operation has limited impact on the sometimes-fragile environment of the Pacific countries. It is more sustainable and within the range of investment brackets that the local people can afford. This gives a lot of drive to the local
people to participate meaningfully to the development of the tourism sector in their country.

In a research by David Harrison, “Tourism in Pacific Islands”, the author discusses, inter alia, another piece of research by Russell Staiff and Robyn Bushell\(^{59}\) on ‘healthy tourism’ in Fiji. The general consensus amongst these researchers seem to be that if there was going be any guideline,\(^{60}\) it would “need to be “holistic,” community-centred, locally “owned”, empowering, consultative, culturally, environmentally, historically and gender sensitive and “scientifically” endorsable”\(^{61}\).

Another important consideration is the impact of Information Technology (IT) on the tourism sector in the Pacific. How is ICT impacting on developments in tourism? Technology is an enabler in this sector. It facilitates communication and online booking and reservations reduce the cost in time for the potential tourist to finalize their tourist holiday arrangements. From the operators point of view, technology contributes to information which expands the traditional borders, systems and techniques of how a tourism business used to be managed. The tourism business becomes more mobile and marketing become more effective and widespread. Information is received and send in real time and the level of assurances that the tourist receives in terms of backup services is raised significantly.

\(^{59}\) Staiff and Bushell, 18 The Journal of Pacific Studies Vol.26 no.1 & 2, 2004

\(^{60}\) Staiff and Bushell were researching linkages between Health and Tourism under a WHO project to develop a conceptual framework.

The airlines operating in the Pacific region play an important role in developments in the tourism in the region. As an illustration, the figure below shows the total holiday arrivals by air in Vanuatu in 2009 compared to 2010.⁶²


Most of the bigger Pacific countries have their own airlines, however, routing and economic sustainability of the airlines also affect their effectiveness in enabling development of tourism in their respective countries.

⁶² The Quarterly Statistical Indicators report for the 2nd Quarter of 2011 shows that visitor arrivals by air was higher compared to arrivals by cruise ships from June 2010 to June 2011.
3.6 Constrains to growth and development

3.6.1 Environment

Environmental challenges in the Pacific region seem to be one of the biggest constrains to growth and development in the tourism sector in countries of the Pacific. Rising sea levels and frequent cyclones that the region is prone to are two environmental challenges of note. The dangers and damages posed by rising sea levels, especially in the low-lying atoll islands of the Pacific is not conducive to long term serious investment in tourism. Existing investments in the sector may be adversely affected by this danger if original location of capital investment was too close to the shoreline. Tourism operators would normally want to capitalize on the Pacific pristine clear sea, the long hours of sun and the beautiful scenic beaches so they would locate near the sea.

Cyclones in the Pacific can also damage investments in tourism. A recent study by the World Bank in 2006 is mentioned in the Ausaid project “Pacific 2020, Challenges and Opportunities for Growth” as showing that “Cyclones are expected to increase in intensity by about 5–20 percent”\(^{63}\)

Other constrains to development in the tourism sector in the Pacific includes weak infrastructure, low level of ease of doing business, social and political instability and high rates of crime\(^{64}\).

---

\(^{63}\) Ausaid, “Pacific 2020, Challenges and Opportunities for Growth”, 2006

\(^{64}\) See 16 Above, p 52
A growing constrain to the development of tourism sector in the Pacific is the political instability of the countries in the region. This is shown in most literature on the region that make it clear that “recent political upheavals disrupt confidence and cause economic instability (Solomon Islands April 2006, Tonga November 2006, Fiji December 2006)”\(^{65}\)

3.6.2 Capital/finance

This is not really a serious constrain for the tourism sector if the marketing and promotion for investment in the sector is active and targeted. Across the Pacific region, tourism is a constant factor in overall consideration for investment opportunities.\(^{66}\) It is a constrain to development and growth only as far as local investment is concerned. One characteristic of the economies of the Pacific is the limited access to finance and financial markets to raise funds. Any investment in the tourism sector by the locals is going to be on a micro-business or small to medium enterprise scale. These are therefore open to competitive pressures of the Pacific island countries, just like any other business of similar size in other sectors of the economy.

3.7 Strategies for growth in the tourism sector

Growth and development in the tourism sector is not only an option but a necessity for many Pacific countries. For countries in the Micronesian ethnic group of islands, there are limited other options to drive their economies. There is fisheries and tourism. There is no agriculture industry to speak of. Manufacturing is non-existent, and other services industries like financial services are not viable. Technology may be a major driver in some economies,

\(^{65}\) Slide No. 12 on “Economic and Social Survey of Asia and the Pacific 2008”

but tourism seems to be the common growth potential sector. A general scoping of the literature and material discussed in the literature analysis section, it is possible to suggest the following strategies for adoption by Pacific countries to grow their tourism sector.

### 3.7.1 Enhance marketing

This strategy will involve active and targeted promotion of the tourism sector as an investment opportunity. The marketing will not be limited to attract visitors, but include advertising to attract serious investors to invest in the capital development and infrastructure of the tourism sector. Rod Davis, in his article “Branding Asian Tourist Destinations” writes about the reasons why strong image branding is important in tourism. He says branding is based on “… a thorough understanding of consumer needs.” The success “…of brand image development will depend on how the perceptions of consumers can be encouraged to believe that one destination is different and better than its competitors. This encourages consumer acquisition and retention, including extending length of stay.”

The marketing strategy should be led by the national governments of the Pacific countries and sector operators should only concentrate whatever marketing and promotion they can do, on improving the number of tourist arrivals each month or year.

### 3.7.2 Government role to increase

---


68 See 20 Above
The governments of Pacific countries should strategically invest in the tourism sector. The basic infrastructure necessary for the sector to grow must be build up to a level where the private sector can feel confidence to invest in the sector. This strategy should include possible timeframes when some form and scope of privatization takes place to make sure that the governments, with their limited budgets, allows the private sector to carry some of the public services that the tourism sector generates.

### 3.7.3 Review of allowances and incentives

There are a lot of incentives and allowances available to the investor in the tourism sector across the Pacific countries. However, these incentives need to be reviewed and in some instances, scaled down and targeted. This strategy will also encompass an exercise for matching the cost and benefits of each policy of incentive and allowances so that the costs does not outweigh the benefits. There is not much written and researched on this particular aspect of the industry, however, it is possible that some of the incentives are cumbersome on the country and should be reviewed to revitalize the industry and also to make sure that the country offering the incentive does not benefit from any such policy either in the short or long term.

### 3.7.4 Regional cooperation in air routes

One important factor for the potential growth of the tourism industry in the Pacific is the air routes across the Pacific region. Some of the Pacific countries own their own airlines. However, there does not seem to be maximizing the benefit of using their airlines to facilitate the flow of tourist visitors to their respective countries. This growth strategy will involve an audit of the profitability of air routes and whether the existing air routes are the best to
facilitate inbound visitors. This strategy will also contribute to the confidence that potential investors will grow in the business environment of the region as air routes and air travel impacts on other factors as well. The timely movement of services, material, finances and documents will also improve. The reliability created by schedules and strict observance of these schedules will also contribute to investor confidence. Since a business investor is concerned about their business’ bottom line, it is important that the sector focuses on reducing costs, by streamlining air routes.

4. Fisheries.

There are only a few platforms on which regionalism works well in the Pacific region. Fisheries has been one of them. Under the auspice of the Pacific Island Forum, the Pacific Island Forum Fisheries Agency “…shape the policy direction of fisheries management, control and development across the region and recieve expertise and support to manage tuna within their own waters.” The Pacific Island Forum Fisheries Agency has 17 members which are Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu.

Fisheries for the Pacific countries and their people mean 3 different levels of operations. Many of the Pacific country people depend on the sea for their sustenance. Their lives revolve around the sea.

69 Pacific Island Forum Fisheries Agency, published at http://www.ffa.int/members
On the next level are the small fishing operators who supply the local market a foreign market on a very limited way.

Then there are the bigger business operations where fleets of fishing vessels are operated to supply overseas markets.

The table below shows the data on catches by FFA countries in their national waters, progressively from 2007 to 2009. Some years in the late 1990s and early 2000 are omitted for convenience but some interesting trends are be articulated from this table. For example, FSM, Kiribati, PNG and Solomon Islands have been particularly active in their fisheries activities. Another thing of note is that it is a fluctuating industry with catches increasing and decreasing when other factors and circumstances affect the industry. Australian and New Zealand seem to be decreasing activity in this industry.

<table>
<thead>
<tr>
<th>Summary tables for catches</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All values in metric tonnes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Catch by national waters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>2003</td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>FFA members</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>10,941</td>
<td>5,256</td>
<td>3,821</td>
<td>2,737</td>
<td>4,850</td>
<td>4,264</td>
<td>3,940</td>
<td>2,977</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>166</td>
<td>1,954</td>
<td>2,827</td>
<td>3,012</td>
<td>2,372</td>
<td>2,453</td>
<td>3,151</td>
<td>5,571</td>
</tr>
<tr>
<td>Fiji</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
<tr>
<td>FSM</td>
<td>91,574</td>
<td>229,800</td>
<td>150,946</td>
<td>237,212</td>
<td>215,871</td>
<td>162,267</td>
<td>90,669</td>
<td>110,360</td>
</tr>
<tr>
<td>Kiribati</td>
<td>203,223</td>
<td>89,962</td>
<td>114,606</td>
<td>211,932</td>
<td>174,986</td>
<td>179,770</td>
<td>233,378</td>
<td>323,036</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>5,225</td>
<td>7,008</td>
<td>20,506</td>
<td>23,307</td>
<td>19,448</td>
<td>20,368</td>
<td>29,835</td>
<td>17,842</td>
</tr>
<tr>
<td>Nauru</td>
<td>26,417</td>
<td>21,519</td>
<td>68,919</td>
<td>51,730</td>
<td>58,747</td>
<td>67,030</td>
<td>59,181</td>
<td>55,398</td>
</tr>
<tr>
<td>New Zealand</td>
<td>10,451</td>
<td>11,061</td>
<td>16,583</td>
<td>14,569</td>
<td>8,522</td>
<td>12,880</td>
<td>12,621</td>
<td>6,488</td>
</tr>
<tr>
<td>Niue</td>
<td>95</td>
<td>1</td>
<td>16</td>
<td>105</td>
<td>343</td>
<td>249</td>
<td>2</td>
<td>162</td>
</tr>
<tr>
<td>PNG</td>
<td>181,320</td>
<td>394,284</td>
<td>331,192</td>
<td>304,844</td>
<td>436,499</td>
<td>476,188</td>
<td>471,539</td>
<td>424,095</td>
</tr>
<tr>
<td>Palau</td>
<td>2,816</td>
<td>4,430</td>
<td>7,050</td>
<td>4,885</td>
<td>8,687</td>
<td>3,804</td>
<td>7,809</td>
<td>1,894</td>
</tr>
<tr>
<td>Samoa</td>
<td>5,498</td>
<td>1,799</td>
<td>1,824</td>
<td>1,486</td>
<td>2,307</td>
<td>3,326</td>
<td>2,761</td>
<td>3,370</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>64,192</td>
<td>68,916</td>
<td>111,626</td>
<td>101,121</td>
<td>123,581</td>
<td>113,922</td>
<td>120,408</td>
<td>98,113</td>
</tr>
<tr>
<td>Tokelau</td>
<td>83</td>
<td>34</td>
<td>982</td>
<td>5,101</td>
<td>1,109</td>
<td>967</td>
<td>4,081</td>
<td>6,674</td>
</tr>
<tr>
<td>Tonga</td>
<td>671</td>
<td>1,187</td>
<td>420</td>
<td>610</td>
<td>816</td>
<td>878</td>
<td>597</td>
<td>323</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>7,276</td>
<td>3,901</td>
<td>20,975</td>
<td>15,680</td>
<td>15,400</td>
<td>45,138</td>
<td>40,937</td>
<td>67,541</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>751</td>
<td>4,550</td>
<td>5,037</td>
<td>6,972</td>
<td>10,254</td>
<td>6,251</td>
<td>6,004</td>
<td>7,081</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>615,466</strong></td>
<td><strong>853,323</strong></td>
<td><strong>874,098</strong></td>
<td><strong>991,234</strong></td>
<td><strong>1,091,117</strong></td>
<td><strong>1,105,387</strong></td>
<td><strong>1,095,486</strong></td>
<td><strong>1,137,248</strong></td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American Samoa</td>
<td>361</td>
<td>5,278</td>
<td>3,954</td>
<td>3,924</td>
<td>5,203</td>
<td>6,421</td>
<td>4,453</td>
<td>5,092</td>
</tr>
<tr>
<td>French Polynesia</td>
<td>5,219</td>
<td>6,017</td>
<td>5,419</td>
<td>4,548</td>
<td>5,544</td>
<td>5,952</td>
<td>5,420</td>
<td>6,678</td>
</tr>
<tr>
<td>Indonesia</td>
<td>217,886</td>
<td>260,507</td>
<td>271,204</td>
<td>287,125</td>
<td>318,329</td>
<td>320,153</td>
<td>323,439</td>
<td>322,691</td>
</tr>
<tr>
<td>Mathew and Hunter</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>New Caledonia</td>
<td>859</td>
<td>1,985</td>
<td>2,059</td>
<td>2,100</td>
<td>1,795</td>
<td>1,760</td>
<td>1,963</td>
<td>2,153</td>
</tr>
<tr>
<td>Philippines</td>
<td>177,203</td>
<td>235,091</td>
<td>240,726</td>
<td>246,085</td>
<td>263,721</td>
<td>292,960</td>
<td>318,601</td>
<td>276,219</td>
</tr>
<tr>
<td>Pitcairn</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Taiwan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>US + territories (ex Am Sam)</td>
<td>40,926</td>
<td>8,308</td>
<td>7,204</td>
<td>6,467</td>
<td>11,054</td>
<td>5,792</td>
<td>4,539</td>
<td>6,949</td>
</tr>
<tr>
<td>Wallis and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.1 Fish species and supplies

The table below shows the main fish species and the catches

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Albacore</td>
<td>112,551</td>
<td>122,364</td>
<td>120,686</td>
<td>100,715</td>
<td>105,141</td>
<td>123,806</td>
<td>99,721</td>
</tr>
<tr>
<td>Bigeye</td>
<td>115,788</td>
<td>116,933</td>
<td>134,706</td>
<td>120,982</td>
<td>128,564</td>
<td>120,413</td>
<td>128,965</td>
</tr>
<tr>
<td>Skipjack</td>
<td>986,458</td>
<td>1,301,179</td>
<td>1,397,717</td>
<td>1,487,430</td>
<td>1,560,064</td>
<td>1,662,114</td>
<td>1,621,834</td>
</tr>
<tr>
<td>Yellowfin</td>
<td>407,218</td>
<td>413,456</td>
<td>380,770</td>
<td>461,905</td>
<td>420,411</td>
<td>442,087</td>
<td>540,688</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>1,622,014</td>
<td>1,953,932</td>
<td>2,033,879</td>
<td>2,171,031</td>
<td>2,214,180</td>
<td>2,348,420</td>
<td>2,391,209</td>
</tr>
</tbody>
</table>

Source: Table is issued by the Western and Central Pacific Fisheries Commission, October 2010, published at http://www.ffa.int/node/425#attachments
4.2 Export and local Markets

The table below shows in metric tonnes, the fishery production in the Pacific region in 2007. One of the pictures emerging from this table is that some of the countries do not have offshore fishing operations based locally. This fact may have direct impact on the economy of these countries because they are small economies with very narrow export base. It also highlights a growth potential sector.

<table>
<thead>
<tr>
<th></th>
<th>Coastal commercial</th>
<th>Coastal subsistence</th>
<th>Offshore locally-based</th>
<th>Offshore foreign-based</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>5 700</td>
<td>30 000</td>
<td>256 397</td>
<td>327 471</td>
<td>619 568</td>
</tr>
<tr>
<td>Kiribati</td>
<td>7 000</td>
<td>13 700</td>
<td>0</td>
<td>163 215</td>
<td>183 915</td>
</tr>
<tr>
<td>FSM</td>
<td>2 800</td>
<td>9 800</td>
<td>16 222</td>
<td>143 315</td>
<td>172 137</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>3 250</td>
<td>15 000</td>
<td>23 619</td>
<td>98 023</td>
<td>139 892</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>950</td>
<td>2 800</td>
<td>63 569</td>
<td>12 727</td>
<td>80 046</td>
</tr>
<tr>
<td>Nauru</td>
<td>200</td>
<td>450</td>
<td>0</td>
<td>69 236</td>
<td>69 886</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Fiji</td>
<td>9 500</td>
<td>17 400</td>
<td>13 744</td>
<td>492</td>
<td>41 136</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>226</td>
<td>989</td>
<td>0</td>
<td>35 541</td>
<td>36 756</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>538</td>
<td>2 830</td>
<td>0</td>
<td>12 858</td>
<td>16 226</td>
</tr>
<tr>
<td>Samoa</td>
<td>4 129</td>
<td>4 495</td>
<td>3 755</td>
<td>25</td>
<td>12 404</td>
</tr>
<tr>
<td>Tonga</td>
<td>3 700</td>
<td>2 800</td>
<td>1 119</td>
<td>0</td>
<td>7 619</td>
</tr>
<tr>
<td>Palau</td>
<td>865</td>
<td>1 250</td>
<td>3 030</td>
<td>1 464</td>
<td>6 609</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>133</td>
<td>267</td>
<td>3 939</td>
<td>0</td>
<td>4 339</td>
</tr>
<tr>
<td>Niue</td>
<td>10</td>
<td>140</td>
<td>640</td>
<td>0</td>
<td>790</td>
</tr>
</tbody>
</table>

Source: Fisheries of the Pacific Islands: Regional and National Information, 2011, p.5

4.3 Local and regional frameworks – South Pacific Forum Fisheries

There are basically two main types of fishing activities in the Pacific. There is offshore fishing and coastal fishing. Offshore fishing is done by large industrial scale vessels. “Approximately 1 500 of these vessels operate in the EEZs of Pacific Island countries, mainly using purse seine, longline, and pole-and-line gear to catch tuna…”70

Offshore fishing is divided into two categories: the locally based offshore fishing and the foreign based offshore fishing. Countries of the Pacific benefit directly in both categories of offshore fishing. The locally based offshore fishing is a source of employment for their citizens, while the foreign based offshore fishing are a source of much needed income to support their national budget in licenses71.

---

70 Robert Gillet, Fisheries of the Pacific Islands: Regional and National Information, 2011, p.4
71 See 57 Above
Box 1: Fisheries and the regional organizations in the Pacific Islands

Compared with other fishing regions of the world, an important feature of the area is the strong regional organizations active in the fisheries sector. The two principal organizations are:

- **Secretariat of the Pacific Community (SPC).** SPC, based in Noumea, New Caledonia, helps its member countries and territories in matters relating to (a) coastal fisheries development and management, and (b) scientific research and catch data compilation on the tuna resources of the region.

- **The Forum Fisheries Agency (FFA).** FFA, based in Honiara, Solomon Islands, assists its member countries in matters dealing with the management of the region’s tuna resources, including economics, surveillance, and legal aspects.

Other regional organizations also have responsibilities in fisheries. These are the South Pacific Regional Environment Programme (based in Apia, Samoa), the South Pacific Applied Geoscience Commission (Suva, Fiji), and the University of the South Pacific (Suva, Fiji).

Source: Robert Gillet, *Fisheries of the Pacific Islands: Regional and National Information*, 2011, p.3
4.4 Sustainability Strategies

There is a general agreement that the supply of fish (of different species) is on the decline in the Pacific region and so some collective action is called for to support the national efforts to manage the countries’ fishery resources. “In general, the coastal fishery resources are heavily fished and often show signs of over-exploitation, especially in areas close to population centres and for fishery products in demand by the rapidly-growing Asian economies. The coastal fisheries are also negatively affected by habitat degradation, which occurs from destructive fishing practices, urbanization, siltation from mining/logging, and competing uses of the coastal zone\textsuperscript{72}.

Sustainability practices include traditional management, central government management and use of marine protected areas (MPAs)\textsuperscript{73}

As it is claimed in the Fisheries of the Pacific Islands, by Robert Gillet that the central government management is ineffective and costly. The use of traditional methods and partnership with the local communities to protect their marine resource is becoming the more viable option and its working.

4.5 Growth Potential

Fisheries in the Pacific countries is an opportunity for investment as even though there are serious depletion of fish stock, there are fisheries-related product and activities which offer investment opportunity and growth. Also, there are other marine resources which are being domesticated and farmed which can be sustainable and therefore source of growth in the sector.

\textsuperscript{72} See 57 Above, p. 17
\textsuperscript{73} See 57 Above, p.18
5. EMERGING TRENDS

5.1 Sustainability

A major trend that is emerging after considerations of all the literature on this topic is that most Pacific countries have an acute difficulty with sustainability – be it in Agriculture, Fisheries, Tourism or other sectors. The small size of the Pacific countries restricts the benefits of economies of scale. Agriculture, although part of the mainstay of the dietary composition of many Pacific islanders, is difficult to commercialize on a large scale, sufficient to compete globally.

The one benefit of the small size of the Pacific countries is that they have the opportunity to develop their infrastructures in each of these sectors so that it is small scale and sustainable, considering the limited resources they have.

5.2 Dependence on foreign markets

A clear trend is marked by the lack of viable local market. The national governments have to lead in this aspect, to create infrastructure to access foreign markets. An integral part of this marketing equation is that the Pacific countries have to be able to attract serious investment in these sectors. These investors can then assist the governments in consolidating these markets and supply chain.

There are foreign markets available, but they must be made accessible. There is Japanese market for Pacific fisheries. There is the Chinese and other Asian countries tourists, but the national governments have to actively market their products.
5.3 Regionalism

There is evidence that the Pacific countries are organizing themselves on a regional basis to be able to access markets, establish regional infrastructures and attract investment. The Forum Fisheries Agency is a very good example of how a regional body benefits its member countries.

5.4 Limited Private sector role

The private sector is a secondary player in the economies of the Pacific countries. It is difficult to attract and retain investment when economies are small and susceptible to major climate changes, fiscal and monetary policy changes. The political instability of the region does not help investor confidence, so there is limited investment in related industries. It is in our recommendations for strategies for growth that the government should play an active part in business by establishing business ventures which at a later stage can be privatized in some form or scope.
CHAPTER FOUR


Abstract
Privatization in a business sense is the “transformation of ownership for the public property business to a private ownership”. Privatization can have both positive and negative impact in terms of its broad perception. The challenge is to maximize the positive impact and be able to minimize and/or eliminate completely the negative aspects.

Introduction
South Pacific Island countries privatization programs have been of great interest to the practitioners’ esp. governments and bureaucrats in the region given the unique features of South Pacific island economies. Most Pacific Island countries adopt privatization programs as part of structural reforms and to alleviate recurrent and increasing budget deficits.

Selling state assets and enterprises to the private sector can significantly reduce the flow of public revenue to these enterprises. It also can generate substantial revenue for government in the form of sales proceeds and future tax revenues from the newly privatized firms.

The wave of privatization started in the South Pacific region in the 1990’s with the privatization of PNGBC Bank in PNG and Telecom Fiji. The pace of privatization has been slow due to lack of expertise and awareness as well as
opposition to such initiatives by employees of those enterprises indentified for privatization.

Considerable experience has been gained with enterprises already partially or fully privatized and consensus is emerging on the best practices and approaches that ensure success. It is also apparent that there is no right approach and each case in the Pacific Island region must be tailored to the circumstances of the island nation and the particular enterprise.

Although there are several best practices and methods of privatization, only proper analysis, terms and conditions tailored to suit each type of enterprise, island government and its population will guarantee success.

Privatization must ensure support from the highest levels of government to overcome resistance from those affected and special interest groups.

Privatization contributes to an improvement in services, efficiency, business development and rapid growth when competition is introduced. Likewise privatization can have positive and negative effects such that a proper privatization framework delivers huge benefits to the general population whilst a regulatory framework that is ill conceived or lacking thorough analysis tends to place certain segments of society at a disadvantage.

The purpose of this review is to analyze the various issues regarding privatization initiatives and frameworks by the countries in the region, determine the various challenges encountered at different stages of the privatization process and lastly recommend options to address these challenges.

1.0 Literature Review

1.1 Issues in Privatization in Pacific Island Countries
**Privatization** is the incidence or process of transferring ownership of a **business**, enterprise, agency or public service from the **public sector** (the state or government) to the **private sector** (businesses that operate for a private profit) or to private **non-profit organizations**. The term is also used in a quite different sense, to mean government out-sourcing of services to private firms, e.g. functions like revenue collection, law enforcement, and prison management.

The term "privatization" also has been used to describe two unrelated transactions. The first is a buyout, by the majority owner, of all shares of a **public corporation** or **holding company**'s stock, privatizing a publicly traded stock, and often described as **private equity**. The second is a **demutualization** of a **mutual organization** or **cooperative** to form a **joint stock company**.

Privatization generally improves the output and efficiency of the organizations that are privatized.

In the Pacific Island countries, the privatization processes can be debated in many levels with and different viewpoints of society considering the high percentage of the illiterate population. The idea can be accepted and adopted when communicated to all stakeholder levels. It can be rejected also at the top level. Culturally people feel threatened by other people taking over their land and businesses. There is governance issues involved with controlling the returns of those that are sectors privatized. Technology has improved the speed of doing business everywhere around the world, however, the Pacific Island countries are prone to natural disasters like cyclones, earthquakes and man-made disasters which is a major drawback.

1.2 **Challenges**
According to the Business Information Guide to the Pacific Islands, (Pacific Islands Trade and Investment Commission (Sydney, Australia) Asian Development Bank),

“Close examination of the business and investment opportunities in the Pacific Islands indicated that there are some constraints to economic development and the prospects for feasible new projects. Some of the obvious constraints include:

• the small domestic market in most of the countries;
• inadequate infrastructure for many sophisticated, export-orientated projects (the
  Under developed physical infrastructure in several countries is compounded by a
  relatively weak industrial support base);
• limited technical skills and/or experience in the workforce;
• high costs of basic utilities (such as power and water) and telecommunications;
  • isolation of the Pacific Islands from the world markets; and
• in some countries, relatively low productivity levels amongst the workers.

According to the Readership Survey by ESCAP’s, the report indicated that “the impact of privatization on financial and operating performance, labour, fiscal balances and distributional equity largely confirms the view that privatization can be beneficial for firms operating in a competitive market structure in middle-income countries. While it is difficult to quantify the fiscal and distributional impact of privatization, the evidence points to increased efficiency with only modest reductions in labour”. For low-income countries, a
precondition for successful privatization is to create an enabling environment in which the private sector can effectively operate. Those include macroeconomic reforms, improving regulatory frameworks, strengthening the financial system, reducing barriers to competition, deregulating product and factor markets and improved governance.

Where countries are not yet at a stage where it is politically or economically feasible to embark on a privatization programme, then privatizing management, asset leasing, franchising and management contracts can lead to important economic benefits without having to change ownership.

According to the Innovation Journal: The Public Sector Innovation Journal, Volume 12(2), 2007, Article 4 stated that in many countries, privatization is incomplete. It may be years before developing and transitioning countries achieve complete privatization. Complete privatization is difficult to attain; however, while many developing countries have moved fast, despite such debates, to privatize state-owned enterprises.

World Bank Report on Small and medium enterprises (SMEs) are especially challenged by the deteriorating risk landscape and are being crowded out by large firms who had previously financed international sales on “open account.” At the same time, the collapse in the supply of trade finance has been compounded by a sharp increase in capital requirements associated with the move to Basel II capital adequacy standards. As a result, the cost of trade finance has increased across the board.

According to the Background Paper prepared by World Bank Staff for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, United Kingdom on March 13–14,
“In responding the global economic crisis, developing and emerging market countries will face three main challenges:

• **Stabilization:** The crisis threatens growth, employment, and balance of payments stability even in those countries that have made significant improvements in macroeconomic management in recent years. Given the unprecedented severity of the crisis, few countries will be able to avoid heavy pressures on their fiscal and external positions. The challenge for policymakers in this environment is to assess their ability to undertake countercyclical policies given the resources available to them as well as their institutional and administrative capacity to rapidly expand and adapt existing programs.

• **Protecting Longer-Term Growth and Development:** An important lesson learned during the Asian crisis is that neglecting core development spending during a major crisis can have large long run costs. Responding to immediate fiscal pressures by putting off maintenance of existing infrastructure essential for economic development, for example, can lead to costly rehabilitation over the longer term and also hold back economic recovery. The same can be said of reduced public spending on human capital development, such as basic education.

**Protecting the Vulnerable** – Inevitably, the crisis will impact social and human development objectives. Declining growth rates combined with high levels of initial poverty leave many households in developing countries highly exposed to the crisis. The Bank estimates that of 116 developing countries, 94 have experienced decelerating growth, of which 43 experience high levels of poverty. This implies new spending needs and may warrant a re-prioritization of existing
public spending. While impacts are country specific, the crisis entails real risks for future poverty reduction and exposes poor and vulnerable households to potentially severe welfare losses. Households in the poorest countries are the most in danger of falling back into poverty and have less access to safety nets to cushion the impact. To some extent, countries that established or improved the efficiency of social safety nets during the food and fuel crisis can utilize these channels to protect the poorest and most vulnerable. Critical to protecting households in exposed countries will be the ability of governments to cope with the fallout and finance programs that create jobs, ensure the delivery of core services, and provide safety nets. However, given the scarcity of resources, the challenge remains to continue to improve the targeting and effectiveness of social support.

**Options to overcome**

According to the Innovation Journal: The Public Sector Innovation Journal, Volume 12(2), 2007, Article 4, “Privatization is one of the most critical and politically sensitive government activities. It has led to fundamental shifts in the relationship between the private and public sectors of the jurisdictions of many countries. The role and scope of privatization have increased dramatically in the last ten years both in the form of contracting out of public services and in the outright purchase of government enterprises by the private sector on the national and international levels (Hodge, 2000, Prizzia, 2001).”

During the General Assembly (fiftieth Session – agenda/item 97 (h) of the provision agenda, stated that “it is important to recognize that policies to foster entrepreneurship, as well as those regarding privatization, monopolization and deregulation have often been met by unforeseen problems of an economic, social and political nature. For example, privatization, deregulation or DE monopolization of previously public
activities must be followed by additional policies to ensure that, for example, public monopolies do not turn into private ones with the only difference being that monopoly rents flow to private owners instead of public ones. Labour-market deregulation may have unforeseen results regarding wage diversion and deteriorating social cohesion. Often deregulation necessitates enhanced policies to strengthen corporate governance systems and generate mechanisms of public accountability.

Indeed, corruption, tax evasion and even the exploitation of public resources for private ends have become serious problems in a number of countries.

According to the Background Paper prepared by World Bank Staff for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, United Kingdom on March 13–14, The World Bank Group has an important role to play in helping developing countries to assess and respond to the challenges that are faced by these small islands states. Such responses as:

- To assist stabilize the respective country’s economies, preserve and enhance the foundations for longer term economic growth and protect the most vulnerable against fallout from Crisis. The Bank is actively working with other IFIs and MDBs to design, develop and implement many of the new approaches and instruments it is proposing.
- The Bank also takes together the financial needs by stepping up its financial assistance to its clients which private companies in this case are also applicable.
- The Vulnerable funds which could channel resources not only through the bank but also through the UN or other MCBs would assist the countries without the resources to respond to the crisis by funding investments
under the key areas mentioned in their procedures. Such key areas follows:

- Infrastructure projects that would assist people to stay connect
- Safety Net Programs such as conditional cash transfers that make it possible for people to keep their children in school get adequate nutrition and seek health care.
- Financing for small and medium sized business and microfinance institutions to help private sector create jobs.
- In additional to direct financial support, the bank continues to provide the island countries with access to diagnostic and capacity – building instruments.
- The IFC Private Sector Platform will provide support to the private sector in LICs and vulnerable MICs for crisis-related activities. The International Finance Corporation (IFC) has launched or expanded five facilities to address problems experienced by the private sector. Financing for the new facilities is expected to total about US$30 billion over three years, combining IFC funds and externally mobilized resources, including from governments, export credit agencies, and international financial institutions. Among the efforts underway are:

**2.0 Characteristics of South Pacific Island Economies**

The South Pacific economies have unique characteristics that are similar and as a result tend to encounter similar challenges. There are also exceptions as reflected in the table below.
Pacific Island countries have several commonalities. These include their relatively small sizes of areas and population except for Papua New Guinea (PNG). With a total population of about 9,698 million, PNG makes up about 66% of that total and the remaining 40% spread throughout the rest. It is made up of three (3) culture groups being the Micronesians, Polynesians and Melanesians.

In most Pacific Island countries, the populations live in the rural areas and their income is from a mixed subsistence or cash income. Agriculture and Forestry sectors make up about 30 to 40 percent of the GDP. The Pacific Island countries have small industrial sectors, often encouraged and
sustained through the use of import restrictions and government business enterprises. Agriculture, Forestry, Marine, and Mining forms major part of the PICs exports. A small component of the PICs total trade caters for Inter Island trade due to their little complements between exports. Trade deficit is common in the most of the countries. The difference is financed by remittances, tourism receipts and aid.

The vast distances from international markets, low product capacity and remoteness of locations makes trade with the region costly and not viable.

3.0 Issues in Privatization in Pacific Island Countries

3.1 Introduction

Developing Countries have created SOEs for many reasons: to balance or replace weak private sector, to produce higher investments ratios and extract a capital surplus for investment in the economy, to transfer technology to strategic sectors, to generate employment, and to make goods available at lower cost. Although many SOEs have been productive and profitable, a large number have been economically inefficient, incurred heavy financial losses, and absorbed disproportionate shares of domestic credit.

Privatization has become a common feature of microeconomic reforms throughout the world not least in the transition economies of Eastern Europe as they have made progress towards becoming fully-fledged market economies.

Supporters of privatization believe that the private sector and the discipline of free market forces are a better incentive for businesses to be run efficiently and
thereby achieve improvements in economic welfare. The argument is that extra competition in markets will lead to reductions in price levels for consumers and improvements over time in dynamic efficiency.

Privatization was also seen as a way of reducing trade union power and encouraging an increase in capital investment as businesses were now free to raise extra financial capital through the stock market.

According to the lecture presentation by Dr. Harorimana Privatization is needed in the South Pacific for various reasons as follows:

- To Reduce the Cost of Public Services to Consumers
- To Increase Productivity and Raise Efficiency through Promoting Competition and
- Encouraging Entrepreneurship, the Formation of New Businesses and the Acceleration of Economic Growth

Although it is seen as a need, studies have also confirmed that it is one of the key roles for the Government to privatize business or assets for effective and efficient development of economy for respective countries.

Dr. Harorimana on his lecture MBA lecture on the “South Pacific Business Environment” pointed out that Government has a role on private business. Such business as “Government has to crowd out new opportunities for private sector development and to deprive the private sector of labor and drives up private sector wages ahead of productivity”.

According to the Public Sector Innovation Journal produced by the Assistant Professor of the University of Rajshahi, Bangladesh titled Implementation of Privatization Policy; “It is believed that privatization will reduce the role of the state, lessen the state’s fiscal deficit by decreasing the demand for continued
financing of firms from the exchequer, and improve the asset quality of the banking system.”

The Journal continued to say that “It is often argued in the context of Bangladesh that unlimited political maneuvering has directly contributed to the public sector’s chronic inefficiencies, huge financial losses and rampant corruption over the years. One of the principal reasons for privatizing public enterprises in Bangladesh is to reduce the fiscal burden that their losses and their subsidization imposed on the state”.

The working Paper Series (ESPD/WPS/99/01) by the United Nations Economic Commission for Africa (Economic and Social Policy Division) stated that “in all the major procedures in improving the process of privatization, namely, securing consensus, ensuring transparency, investing more on design and preparation and ensuring appropriate institutional blocks, the objective of broadening local participation reinforces the whole privatization process. Specifically, broadening local participation in Privatization secures consensus of the general public, helps to depoliticize and speed up the process, indicates a strong commitment to transparency and sends an encouraging signal to foreign investors”.

The report continued to say that the organization acknowledged the difficulty involved in designing and implementing mass privatization through voucher schemes in Africa in the short term, the study points out that with a strong commitment and planning, it could be achieved at least in the long term. “The study saw privatization as the prerequisite for promoting investment and acquiring credibility with both foreign and indigenous investors, continent-wide efforts are emphasized to ensure stability and to improve the investment environment”.
According to the Stanford Journal of Public Policy, “Does Privatization leads to Benign Outcomes – A case study in India” stated that “India initiated its privatization program in 1991 as part of a larger macroeconomic stabilization and structural reform effort to cope with extremely difficult economic conditions. Inflation had risen above 15 percent and foreign exchange reserves were dangerously low. India had to access International Monetary Fund (IMF) resources through a Stand-By Arrangement in 1991. The policies adopted by the country around that time covered the whole gamut of ‘Washington Consensus’ policies, including the privatization of state enterprises. There was a growing domestic consensus that state-owned enterprises were not generating adequate returns and were suffering from low efficiency, and the government expected that privatization of these enterprises would lead to better outcomes. In this context, the two main objectives of privatization in India were to raise revenues to ease the fiscal crunch and to improve the profitability and efficiency of the divested enterprises”. This was brought up as the economic need for the country.

The **International Finance Corporation** IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. It promotes sustainable [private sector development](#) primarily by:

- Financing private sector projects and companies located in the developing world.
- Helping private companies in the developing world mobilize financing in international financial markets.
- Providing advice and technical assistance to businesses and governments
- Promotes private sector investment by supporting high-risk sectors and countries
The IFC's equity and quasi-equity investments are funded out of its paid-in capital and retained earnings (which comprise its net worth).

According to the Asian Affairs, Vol. 30, No.4: 18 - 49, October - December, 2008, CDRB Publication, “The aid dependency of developing countries to donor agencies meant government has to take measures in favor of structural adjustment as prescribed and advocated by the World Bank and the IMF, Aylen (1987) argues that it is pragmatism and expediency rather than politics, that the main motives of privatization in developing countries, and that outside pressures and force of circumstance are more important than domestic pressures and ideologies”

The Public Sector Innovation Journal continued to state that “The major elements in the policy to bring about a decisive shift toward a private sector-driven industrialization during this period included: (i) elimination of ceiling on private investment, (ii) reduction in the reserve list of industries under the public sector and creation of “free sectors”, (iii) relaxation of investment sanctioning procedures, (iv) amendment of the Constitution to allow disinvestment and denationalization of both abandoned and taken-over industries, (v) establishment of a Disinvestment Board in 1975, (vi) reopening of the stock market, (vii) shift to a floating exchange rate, and (viii) introduction of various export promotion measures.

The most significant move in the privatization process occurred in 1982 with the announcement of the New Industrial Policy (NIP). The government introduced fundamental changes in the industrial policy environment and the adoption of various promotional measures, designed to accelerate the pace of private sector-led industrial growth. A number of large industries in the jute and cotton
textiles sectors (33 jute mills and 27 textile mills) were returned to their owners under the auspices of the NIP. In order to encourage foreign private investment, the Foreign Private Investment (Promotion and Protection) Act of 1980 was promulgated and a “One-Stop” service agency, i.e. Board of Investment (BOI), was set up, commencing its operations in January 1989”.

According to the World Bank Working Paper No. 139, “Strategic Communications for Privatization, Public–private Partnerships, and Private participation in Infrastructure projects, by Daniele Calabrese “Public sector reforms, public–private partnerships, and privatization constitute a significant part of the World Bank’s lending and technical assistance programs. The structural nature of these reforms might require that all stakeholders accept a significant change in beliefs, interests, and perceptions about the nature of delivery of public services. Privatization programs, therefore, require a shift in the rights and responsibilities of all societal players and call for a significant mobilization of civil servants, businesses, academics, media, consumers, and civil society to move the reforms forward and make them work better.

“There are various forms of conditionality at the World Bank and IMF beyond the specific conditions mandated for debt cancellation. These include:

- Direct loan conditions or “benchmarks.” These are requirements that World Bank and IMF borrowers must meet as part of their loan agreement;
- Country Policy and Institutional Assessment (CPIA). The World Bank’s CPIA process is an ex ante assessment that World Bank staff perform on each borrower in the International Development Assistance (IDA) program to determine the level of financial assistance that the Bank will provide to the country. Measures that countries are judged by include openness to trade
and foreign direct investment, conduciveness of macroeconomic management to private investment, sustainability of fiscal policy (to avoid high inflation and unsustainable current account deficits), and sustainability of debt policy; and
• Relatively new instruments for imposing conditionality include the Policy Support Instrument at the IMF and the Performance Assessment Frameworks contained in World Bank Poverty Reduction Support Credits.”

Report from Briefing Note, three February, 2008 “Are IMF and World Bank Economic Policy Conditions undermining the Impact of Debt Cancellation”

**National Privatization Policies**

<table>
<thead>
<tr>
<th>Type of Policy</th>
<th>Cook Islands</th>
<th>Fiji</th>
<th>PNG</th>
<th>Samoa</th>
<th>Solomons Islands</th>
<th>Tonga</th>
<th>Vanuatu</th>
</tr>
</thead>
</table>

According to the National Assessment Report of the Commitments to Sustainable Development programs in the Cook Islands (prepared for the United Nation Department of Economic and Social Affairs (UNDESA), July 2006, stated that
“Drastic measures were adopted, including introduction of new key legislations such as PERCA Act, MFEM Act, PSC Act to support the ERP, prudent fiscal policies, downsizing of the public service, changes in taxation regimes, establishment of State-Owned Enterprises (SOEs), privatization of key government assets and a private sector-led economy”.

A report titled *OBSTACLES TO ECONOMIC GROWTH IN SIX PACIFIC ISLAND COUNTRIES* published by Ron Duncan and Haruo Nakagawa stated that “As a self-governing entity in free association with New Zealand, Cook Islanders have free access to reside, work, and draw social security benefits in New Zealand. Samoa has also had relatively liberal access to New Zealand under a quota arrangement (1,100 per year, provided that they have a job that they can go to and other conditions). Because of the freedom of people movement between Australia and New Zealand, people from Cook Islands and Samoa living in New Zealand have free access to Australia. The large numbers of people from Samoa living in Australia and New Zealand, as well as in other high-income countries such as the US, have regularly sent back part of their incomes in cash and in kind, and these remittances have played an important part in the Samoan economy over a long period. Cook Islanders do not have a similar tradition with respect to remittances.”


From the report on Vanuatu: *Economic performance, policy and reform issues, Asian Development Bank Pacific Studies Series, 1996*, Five years after the programme began, the results remain mixed. Without CRP, economic policy would probably have remained highly inconsistent and it is unlikely that the economy would have maintained the performance of the previous decade. A
more modern public sector will help Vanuatu’s position within the international trading regime. Government performance has improved in some ways, with fewer extended families (wantok) appointments to civil service positions and a more meritocratic system of hiring and firing. Policy has become less susceptible to the influence of special interests. The introduction of a free press has rendered ministers and civil servants more open to scrutiny.

However, many public servants and ministers feel that, after the initial period of encouragement, they have been left under-resourced and with a new set of problems. Government was never big, with public expenditure averaging only 27 per cent of GDP during the 1990s. ADB has pointed out that in 1990 Vanuatu had one of the lowest ratios of government employees per capita among Pacific island economies, at three per 100 inhabitants of the country. This compared very favorably with the Cook Islands at 18.2, Tuvalu at 8 and Fiji with 6 per 100 inhabitants.

Despite the small size of the Government, CRP ushered in a period of privatization aimed at altering the structure of government revenue and shifting more economic activity to the private sector. However, as recent economic theory has shown, institutions are as important as ownership. Most major privatized government enterprises simply moved from the status of a publicly accountable monopoly to a private unaccountable monopoly. In a small economy such as Vanuatu, the institutional capacity for effective regulation will always be difficult to achieve.

In such a small market, there is little room for competition and government officials often have a vested interest in maintaining supernormal profits among former public firms with which they maintain close relations. Companies operating in areas crucial to overall efficiency (for example, Air Vanuatu, Telecom Vanuatu Limited and UNELCO, the electricity and water Utilities
Company) have little incentive to reduce prices, which are among the highest in the Pacific.

From a situation of relatively low indebtedness in 1996, CRP left Vanuatu with an external borrowing problem. The external stock of debt, mostly ADB foreign currency loans as part of CRP, ballooned in 1997 (figure I) and had reached 31.2 percent of GDP by 2002, compared with 15.6 per cent of GDP in 1990. A predicted expansion in GDP growth has not materialized, leaving Vanuatu with a substantial debt obligation but little means of generating new revenue for repayment.

The newsletter produced by ADB reported that “Enterprises owned by the state are candidates for privatization as a way to improve their efficiency and allow more money to be spent on other government provided services, such as health and education. Tonga’s Public Enterprise Act of 2002 sets the legal framework for the government’s stewardship of SOEs. It is modeled after similar legislation in Australia, New Zealand, and other countries in the Pacific. However, the Public Enterprise Act has an omission that constitutes a major departure from international best practice. The act fails to stipulate that SOEs must operate as successful businesses, usually defined to mean profitable in a way that is comparable to businesses in the private sector.
ADB Loan to Solomon Islands to Reform Public Sector (August 1998).

ADB approved a US$25 million equivalent concessional loan to Solomon Islands to support critically-needed policy and institutional reforms in the public sector. The Asian crisis brought the Solomon Islands' logging industry to a standstill as prices have fallen below the cost of production, causing most logging firms to shut down. The ADB loan will support policy reform measures in four areas: macroeconomic and fiscal; public sector management, including public service reform, re-orientation of the public sector and movement toward performance-based management; public enterprises, including establishing regulatory frameworks, corporatization and privatization; and government institutions, which need to be more accountable and transparent. In addition, ADB is financing a technical assistance loan of US$1 million for the Privatization of State-Owned Enterprises to support the Government's privatization policy. (http://www.forum-adb.org/BACKUP/Policies/Policy-Private%20Sector.html#24)

According to the Solomon Islands Rebuilding and Island Economic, the report stated that the private sector was severely weakened over the period 1998 to 2003. Businesses faced problems, including weak local demand, rising transport costs, deteriorating infrastructure, lack of business confidence and security problems.

RAMSI has successfully overcome immediate security problems. Many of the other problems that businesses faced still constrain development and need to be addressed quickly.

Sasape Marina: A Privatization Success Story in Solomon Islands

In early 2007, the Government of Solomon Islands decided to privatize Sasape Marina (SML). Lack of investment and mismanagement had resulted in a steady deterioration of the company's financial and operating position over the years, with the value of the government's equity in SML falling from SI$14 million in 1996 to an estimated SI$3 million in 2005—the last year in which financial statements were prepared. By 2008, the company was insolvent and its assets were in a poor state of disrepair, with both of the company's slipways inoperable. Without substantial investment, the company faced certain closure. The government, recognizing its limited capacity to invest in and profitably operate the slipways, turned to the private sector. It was decided that an asset sale would be the best way to achieve the government's objectives to expedite the transaction, minimize its costs, maximize sales proceeds, and have the new owner operating the facilities as soon as possible. With technical assistance from the Pacific Private Sector Development Initiative, a competitive tender was successfully conducted in 2010, with the winning bidder putting forward a plan to substantially rehabilitate and expand the slipways. This investment will make the slipways uniquely capable of servicing the large vessel repairs for the Solomon Islands shipping industry, as well as some from neighboring Papua New Guinea.

The new owners, a joint venture between a Solomon Islands company and the National Provident Fund, will invest an estimated SI$10 million at the existing site and employ up to 150 people once the new slipways are operational.
According to the Policy Submission on Government Ownership of Enterprises, Enterprise Performance and Divestment, “Divestment can contribute to private sector development but training and support systems for local private owners must be in place first. Otherwise important privatized businesses may fail. The Small Business Development Centre (and others) should be encouraged to assist. ‘Lessons Learned’ in previous privatizations indicate that the Samoan private sector requires time and business development assistance if privatized enterprises are to survive. Pre-emptive assistance, including collaboration with finance institutions will offer greater benefits than business failure. There is a
need for clear policy and high level strategic goals on which SOE ownership and
divestment decisions can be based. This will provide the broad framework.
Specific sector-based policies can then be developed, consistent with the
overall framework. This will provide a cohesive and comprehensive approach to
ownership and divestment and will allow both the public sector and civil society
to understand the rationale for Government decision-making regarding
enterprises”.

(http://www.mof.gov.ws/Portals/195/Privatisation%20Policy.pdf)

According to the Samoan Tel privatization Site “The Government of Samoa
(GoS) is continuing with its reforms in the Telecommunications sector.
Successful reforms in this sector are pivotal to the overall economic reform
process in Samoa. Consistent with the GoS plans for enterprise reform and
privatization of nonstrategic public enterprises, and in conjunction with the
Telecommunications Sector Project, a sales transaction advisor (Nathan
Associates Inc) has been contracted to advise and assist the GoS with the
privatization of Samoa Tel Limited, a 100% wholly owned Telecommunications
Company of the GoS.

The Government’s Policy regarding ownership and privatization of state owned
enterprises was originally set out in its policy paper dated July 2003. This policy
identified a number of objectives for privatization: (i) obtaining a good financial
return for any sale; (ii) Any state owned enterprise (SOE) classified as non-
strategic was to be sold (Samoa Tel is not classified as a strategic SOE); (iii)
Privatization should not encourage any concentration of wealth in
Samoa by those who are already wealthy; (iv) Ordinary Samoans should share in
any benefits of privatization; (v) Privatization should lead to reduced costs and
improved service for consumers”.
According to Chapter 18 Privatization Policy in Papua New Guinea

By Timothy Curtin titled the *First moves to privatization 1983–1994*.

After the 1983 NEC decision on CSAs, the government began to turn its attention to its commercial investments. In some cases its hand was forced when many of its wholly-owned commercial enterprises either became defunct or sank into bankruptcy (e.g. Sea Park, the Food and Fish Marketing companies, Energy Development Company, Baiyer River Alcohol, and Kagamuga Natural Products) and were not bailed out. In 1987 the Wingti government initiated privatization of the wholly state-owned National Insurance Corporation (NIC) and a few of its minority shareholdings in joint ventures. The sale of NIC to Malaysian interests in 1988 was aborted at the last minute after a change of government, and no action was taken on the minority shareholdings. NIC remained a public entity until absorbed by PNGBC in 1998.

The first comprehensive privatization policy paper was overseen by a committee of officials chaired by the governor of the central bank but largely drafted by Jakob Weiss, an adviser to the central bank, and presented to the cabinet in 1991, after prompting by the World Bank in the context of its initial Structural Adjustment Programme in Papua New Guinea (World Bank 1992, 52–54: Millett 1993, 12).

3.2 Major Issues facing some of the Pacific Island Countries
The following country profiles show some of the commonalities, challenges and opportunities that affect the small Pacific Island countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Strength</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>Privatization Policy</td>
<td>Lack of Technical Advisor</td>
<td>Expensive Technical Advisors</td>
<td>High cost of infrastructure</td>
</tr>
<tr>
<td>Fiji</td>
<td>Free Trade Zone</td>
<td>Lack of Professional Workers</td>
<td>Expensive Technical Advisors</td>
<td>High cost of infrastructure</td>
</tr>
<tr>
<td>PNG</td>
<td>Privatization Policy</td>
<td>Lack of Technical Advisor</td>
<td>Expensive Technical Advisors</td>
<td>High cost of infrastructure</td>
</tr>
<tr>
<td>Samoa</td>
<td>Liberalized Telco Market</td>
<td>Lack of Professional Workers</td>
<td>Expensive Technical Advisors</td>
<td>High cost of infrastructure</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>Liberalized Telco Market</td>
<td>Lack of Professional Workers</td>
<td>Expensive Technical Advisors</td>
<td>High cost of infrastructure</td>
</tr>
<tr>
<td>Tonga</td>
<td>National Reform Policy</td>
<td>Lack of Technical Advisor</td>
<td>Expensive Technical Advisors</td>
<td>High cost of infrastructure</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>National Reform Policy</td>
<td>Lack of Technical Advisor</td>
<td>Expensive Technical Advisors</td>
<td>High cost of infrastructure</td>
</tr>
</tbody>
</table>

According to the Business Information Guide to the Pacific Islands, (Pacific Islands Trade and Investment Commission (Sydney, Australia) Asian Development Bank),
“The evident constraints to business development in the Pacific Islands do, in fact, also offer opportunities for foreign investors who are prepared to adapt to the local conditions.
The key features of the investment opportunities can be categorized as follows:

• the considerable agricultural, timber and mineral resources of several countries have not yet been efficiently developed, and in almost every country there is scope to expand the fisheries sector and to develop viable aquaculture projects; while most of the local markets are small, there are numerous opportunities for import replacement projects that can also develop exports to the other Pacific Island markets;

• the tourism potential in the Pacific Islands is enormous and every government is keen to assist new ventures in this area; and

• the welcoming and increasingly deregulated markets in the islands offer a range of opportunities in the IT and services sectors.

One of the more tangible benefits of undertaking business in the Pacific Islands is the attractive and enviable lifestyle. The warm tropical climates and the genuinely friendly personalities of the great majority of Pacific Islanders make this region a most pleasant location for a successful business venture. While not all types of manufacturing and service industries are suited to the environmental and business conditions of the Pacific Islands, the country
profiles show that there are numerous opportunities in a number of industries.

### 3.2 Major problems and challenges experienced by South Pacific Island countries implementing privatization initiatives

The privatization frameworks implemented by Pacific Island countries have although worked well in terms of the expected results delivered, it has also come with its own unique challenges and problems.

The table below lists some of the positive and negative impacts of privatization that has been experienced in the South Pacific countries.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Positive Impact</th>
<th>Negative Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privatization in uneconomic areas (both urban and rural)</td>
<td>Creates service to the public with right knowledge.</td>
<td>Prices for the services or products are higher esp. if no competition.</td>
</tr>
<tr>
<td>Privatization in the commercial areas</td>
<td>Lot of job opportunities for the people</td>
<td>Prices for the services or products will still be high if there is no competition.</td>
</tr>
<tr>
<td>Privatization at a National level</td>
<td>Contributes to faster economic and infrastructure development.</td>
<td>Only when there is a competition and market environment.</td>
</tr>
<tr>
<td>Privatization at a Regional Level</td>
<td>Contributes to economic growth</td>
<td>Only when there is a fair playing field.</td>
</tr>
<tr>
<td>Privatization creates employment</td>
<td>Workers are innovative and creative when providing a service or</td>
<td>Technical expertise limited and costly</td>
</tr>
</tbody>
</table>
Privatization in Business environment  
| sale of product | Privatization in Business environment | Improves quality in output of work and cuts costs. Also increase productivity | Restrictions are considered in many performances and sometimes a threat to hard workers. If the business is not performing well, there is possibility that the business will reach the end of its life. |

Privatization in working environment  
| Effective turnaround time, business grows, monitoring of assets and workers is effective | Downsizing of employees is sometimes a problem. |

Some of the more common problems and challenges faced by Pacific Island countries who have implemented privatization initiatives are as follows:

- Job losses or redundancies - National Bank of Fiji, PNGBC, Telecom Fiji & Samoa
- Withdrawal or cessation in the provision of services in remote islands and rural outback communities - Banking services to the remote islands of the Fiji group
- Price of services rapidly increased - utilities e.g. water & electricity rates in soared in Vanuatu and bank fees increased overnight
As a consequence of these problems and in particular pricing increases, the overall cost of doing business increased.

**Identify International Best Practice relevant to PIC’s**

There are various international best practices that can be adopted from various developing and developed countries in the privatization of different types of public enterprises in the South Pacific region. Adopting best practices from advanced countries might not be suited to small island countries in terms of economies of scale, technology and cost structure. The best practice might be adopted from a developed or developing country of similar size in terms of population, state of economic, infrastructure and human capital progress.

### 3.2 *Best Practice Options available to Pacific Island Countries*

The following table shows various state owned enterprises from the South Pacific countries that have been partially or fully privatized and from which country did they sought or seek technical assistance in formulating and implementing their privatization policies.

<table>
<thead>
<tr>
<th>Public Enterprises</th>
<th>“Best Practice” Option</th>
<th>Pacific Island Countries</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>Singapore/ France</td>
<td>Fiji, Samoa, PNG &amp; Vanuatu</td>
<td>Profitable, efficient, reduced costs</td>
</tr>
<tr>
<td>Banks</td>
<td>Australia</td>
<td>Fiji, PNG</td>
<td>Profitable Technology</td>
</tr>
<tr>
<td>Service</td>
<td>Country</td>
<td>Location</td>
<td>Profitability</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-----------------</td>
<td>-------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>Radio/ TV</td>
<td>NZ</td>
<td>Samoa</td>
<td>Profitable</td>
</tr>
<tr>
<td>Abattoir</td>
<td>Australia</td>
<td>Vanuatu</td>
<td>Profitable &amp; ISO14000</td>
</tr>
<tr>
<td>Airport Terminal Services</td>
<td>Singapore</td>
<td>Fiji</td>
<td>Profitable &amp; Efficient</td>
</tr>
<tr>
<td>Forestry</td>
<td>NZ</td>
<td>Fiji</td>
<td>Profitable &amp; high export demand</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>Singapore/France</td>
<td>Fiji Samoa, PNG, Vanuatu</td>
<td>Profitable &amp; Efficient</td>
</tr>
<tr>
<td>Marina Slipway</td>
<td>Australia</td>
<td>Solomon</td>
<td>Profitable &amp; highly efficient</td>
</tr>
</tbody>
</table>

Most Pacific Island countries have adopted privatization frameworks from Australia, New Zealand, France and Singapore, not necessarily the world’s best practices but countries that are their existing close trading partners or former colonial powers that have offered technical assistance and support as part of their aid or foreign policy programmes.

### 3.3 Funding Privatization

Funding privatization initiatives have been always a challenge to Pacific Island countries more so when issues such as:

- Lack of knowhow to run these public enterprises
  
  This happens when the country lacks the human capital resources in particular the know how to run these public enterprises and as
such technical professionals have to be enticed from overseas to manage these

- Where do you get investors to buy these public assets?
In the South Pacific economies when there are no likely potential investors domestically to purchase public enterprises due to the size of the undertaking or unattractive nature of the enterprise (losses over the years), government might need to put it up on tender in the international market. Alternatively the Government might be obliged to initially invest some capital to “transform” the enterprise into a profitable proposition before privatizing it esp. utilities.

- How best can the public enterprise be packaged to secure the best return to the government and the country?
Governments in the region have normally sought technical assistance from the ADB/IMF to prepare the regulatory framework for privatization of an enterprise. Also the governments in the region have also engaged firms to provide professional advisory services in preparing international tender prospectus for enterprises to be privatized. Some Pacific Island countries tend to be enticed in accepting privatization proposals from countries esp. developed countries that offer to provide technical support in terms of expertise etc.

- Can finance be raised?
South Pacific governments would have had a fair appreciation of whether a particular public enterprise can be privatized and what privatization options are most desirable to sell these enterprises.
On the basis of this fore knowledge after a thorough cost benefit analysis, governments implement the most appropriate option.

Financing privatization initiatives in the South Pacific economies tend to fall into 3 categories:

1. Internal funding by firm’s or statutory institutions within the country
   
   This was the case in the privatization of Fiji Telecom by Amalgamated Telecom Holdings and PNGBC Bank was purchased by the 2 main superannuation funds and private interests in PNG.

   International tender

   This was the case of Air Niugini when the government put out an international tender for the sale of its national airline.

2. Domestic private interests.

   The Vanuatu Abattoir was purchased by one of the largest cattle farmers and businessman in Vanuatu and the marine slipway in Solomon.

4.0 Privatization Policies and Strategies – Moving Forward

It has been more than 20 years since Pacific Island countries have embarked on some privatization policy initiatives in an effort to divest some of their state owned enterprises based on recommendations from the international agencies such as IMF, ADB and the World Bank as well as their own initiative to reduce and manage the increasing government deficit and external debt. In all the government enterprises that have been privatized it has been apparent the improvements that have been achieved such as:
• Improved profitability
• Improved efficiencies
• Increase revenue to the government in terms taxes, duties etc…

Also there have been problems and challenges that have brought strife and difficulties to the general population as well as the investor such as:

• Increased costs of utilities
• Non profitable sectors are ignored e.g. banking in remote islands and rural areas
• Threat of losing jobs – layoffs
• Cost of doing business

It has been established that from the various privatized enterprises operating in the South Pacific region that several regulations or regulatory controls need to be put in place to regulate:

• Pricing
  This is critical as seen with the price of utilities usage e.g. water and electricity in Vanuatu. The private utilities company, UNELCO has complete control of the water and power rates. They charge unethical rates. This makes the cost of utilities usage in Vanuatu one of the highest in the region. This also pushes the cost of doing business in Vanuatu much more expensive.

• To operate in or provide service coverage to non profitable areas.
  Prior to the National Bank of Fiji being partially privatized in 1996, the Bank had branch network throughout the country including the remote islands and deep rural inland communities.
Two years after the partial privatization by Colonial National Bank of Australia, the number of branches in the rural islands and interior of Fiji were closed. These brought in a lot of difficulties to the rural and remote island populace esp. the working civil servants.

- Technical support and training
  When SOE are privatized by off shore firms, the lack of technical expertise, minimum training and grooming are provided to locals and very few are able to progress above middle management levels. This was apparent with the Telecom companies where technical skills are lacking and training locally was limited with technical support drawn from overseas. The National Bank of Fiji when privatized had all middle management and senior executives were brought in from Australia. It is therefore critical for proper terms and conditions to be stipulated in the regulatory framework of any privatization initiative.

- Cost of doing business
  The cost of doing business in Vanuatu is a classic case in particular the privatized utilities company has a free hand in pricing thus having a major impact on the costs of doing business in the country

5.0 Conclusion

From now to the foreseeable future the issues and challenges identified in this review can be addressed adequately and thoroughly when proper regulatory framework are formulated to include addressing all these concerns. In some of the Pacific Island countries there is a regulatory
body or commission that monitors and regulates pricing of public utilities as well as privately owned utilities e.g. the commerce commission in Fiji.

The regulatory commission can stipulate some control mechanism within the privatization framework to ensure that no exorbitant rates are levied whilst the investor is also able to earn a good return on its investment. These control mechanisms are widely used in developed countries esp. Australia and New Zealand. These control mechanisms can be introduced easily in the Pacific Island countries either through an act in Parliament to establish such a body or that a similar provision be included in the privatization framework.

The same mechanism can be applied to address the problems and challenges such as lack of on-going technical training and provision of services in unprofitable regions. It may include special provisions in the regulatory framework where the privatized firm be required to provided these technical training and/ or operate in unprofitable areas in return for lower import duties or tax concessions etc. There are several options that the government in the South Pacific region can incorporate into its regulatory framework in the privatization process to mitigate or entice a positive and a win-win outcome for both the government and the investor.
AN ANALYSIS OF POLICIES TO SUPPORT ENTERPRENEURSHIP & SMALL BUSINESS AT THE VILLAGE LEVEL USING VANUATU AS A CASE STUDY

Abstract

The development of policies in a developing country can be challenging when it is developed by technocrats who sit in their comfortable air conditioned offices in the urban centers or from overseas through the use of consultants. When policies are developed that lay out the strategic goal of any organization it is put to the implementers to get down to task and to deliver.

Often at times, the policies are not pragmatic where for a start the people who are the target of the policies are not consulted. Therefore, policies though well intended are used only to justify the financial reward that is derived from developing the policy but its real intention which in all likelihood should shift peoples’ mind and behavior from one situation to another is not the real issue.

This Chapter discusses and analyzes the policy of the government of Vanuatu on how Small Medium Enterprises (SMEs) operations of businesses have developed so far and what can be done to ensure that government and the sector work together to ensure its realization into the future.

Bearing in mind that SMEs are regarded as the backbone of the economy because of their role in value addition the government recognition of the private sector as the leader in economic growth should not be taken lightly. This is because there is the tendency to disregard SMEs as an important economic
force, thus missing the core thrust of targeting the involvement of the various sectors of businesses.

The involvement of micro businesses in any sector can be wide ranging and most will be unaccounted for in any official data collection but they represent or form an integral part and parcel of the networks to transact funds through a multiplier effect within the economy.

The Government of Vanuatu developed policies that recognize, promote and develop sustainable micro, small and medium sized enterprises (SMEs). Key result areas of the policies amongst others are employment, skills transfer and wealth creation, and diverse opportunities on a coordinated basis to ensure that encouragement and support all of the people who wish to participate and benefit from economic development.

Being mindful of the nation’s limited resources the government’s intention is to develop and deliver programs and initiatives for the purposes of developing the SMEs sector. The government will use public resources (staff support and funding) and coordinate resources offered by other stakeholders to achieve a concerted effort in the development of the SME sector into the future.

The purpose of the Policy and Strategy is to further stimulate sustainable expansion of the private sector:

- By increasing the number of viable micro, small and medium-scale enterprises and
- By creating a climate that is conducive for entrepreneurial spirit and culture to grow and flourish in all communities throughout Vanuatu.
The Department of Cooperatives and Ni-Vanuatu Business is tasked to oversee this important policy direction.
An aerial view of the harbor and Port Vila, Capital City for the Republic of Vanuatu.
Introduction

Small Medium Enterprises (SMEs) can be best described as micro, small and medium businesses operating in the urban and rural areas of Vanuatu. They are still in an embryonic stage where new micro-businesses are mushrooming in all sectors ranging from agriculture, retail, tourism, fishing, forestry, and others. Their implementation are not supervised nor coordinated in a manner that can be term as discipline through codes of business practice that would assist them with sustainable profits and contribute towards the economic aspirations of the country.

It is evident that through lack of coordination and clear direction from relevant government institutions, this sector which is regarded as one of the priority contributor to national economy has not progressed smoothly. It is an important sector that avail itself to the overall vision of an educated, healthy, and wealthy Vanuatu as foreshadowed in the Millennium Development Goals.

In order for strategic goals to be achieved, the government as the facilitator of such policies should put in place a committed thrust to have the people of Vanuatu focused on their participation in any form of business undertaking with pride and vigor. The active participation of the people through development of skills and knowledge in entrepreneurial trade are effective with continuous guidance from the government is available that will follow through the path of advancement in any form of business to the next level.

This Chapter will attempt to discuss the current situation of SMEs and types in Vanuatu, and drawing from experiences from other developing countries who feature similar to Vanuatu who have the progressed and realized the impact of
SMEs to their advantage. We will analyze the policy strategies and implementation, government support and incentives in terms of appropriate legislation, finance or loan, training, monitoring and evaluation.

In looking at the current entrepreneurial practices, we will study the different options available, whether they are working or not, discuss the opportunities and threats and make some recommendations for change and the way forward.

**Background**

The Republic of Vanuatu (formerly New Hebrides), a Y-shaped archipelago of over 82 islands is located 1,750 kilometers east of Australia and 800 kilometers west of the Fiji Islands. Total area is 11,880 square km from Torres in the northern dip towards the Solomon Islands and Aneityum in the southern dip towards New Caledonia.

The Population is 250,000, according to the 2009 census. Vanuatu is an independent and democratic republic. The government is elected through universal suffrage every four years. A Parliament appoints a Prime Minister who heads the government and he/she appoints the ministers of state.

There are 52 Members of Parliament elected every four years. The President is elected by Parliament and the National Council of Chiefs for a period of five years.

The country gained independence in 1980 after some 74 years of joint rule by Britain and France.
The Key Performance Indicators (KPI) according to IMF estimates 2006:

- GDP – US$349m
- GDP per capita – US$1,571
- Real GDP – 3 per cent
- Inflation – 2.3 per cent

**Rationale**

SMEs are becoming more recognized as vital contributors to economic development all over the world; and due to that fact, all SMEs put together become a significant economic force in a capitalist system. Despite the fact that some governments consider them lightly and unimportant in their policy, their contribution until recently, given the advent of the private sector led growth as an integral part of economic dynamism that now many start to relook at the importance of the role of their SMEs.

The re-focus target on ways or policy directions that require active support and assistance from the government in areas that are far lacking behind. In light of a win-win situation at all levels, emphasis must be in place that is conducive for SME growth and expansion.

Despite the importance of Small and Medium Enterprises (SMEs) and its role as a key participant in local and international business, the role of key stakeholders has to be closely examined to establish a significant relationship and linkages that must be maintain and nurtured.
This result poses some implications to managers and policy makers to set the pace for the right environment for SMEs development and from this scenario, the Group will present This Chapter.

The Purpose of this Policy is to stimulate sustainable expansion in the private sector by increasing the number of viable micro, small and medium scale enterprises, and by creating a climate conducive for the entrepreneurial spirit and culture to grow and flourish in all communities throughout Vanuatu.

**International Scene**

In the context of developing and least developed economies, Gries and Naudé (2008) put firmly the role played by entrepreneur-driven SMEs in advancing an economy:

*In essence the transformation from a low-income, traditional economy to a modern economy involves significant changes to production methods, a process of change where entrepreneurs provide essential roles: first, in creating new firms outside of the household, second by absorbing surplus labour from the traditional sector, third by providing innovative intermediate inputs to final-goods producing firms, fourth by permitting greater specialization in manufacturing, and fifth by raising productivity and employment in both the modern and traditional sectors.*

Therefore, SMEs are normally starters leading to bigger businesses and if properly guided and supported along the quoted principle of Gries and Naude, it would ensure their collective success as good indicators of change and economic growth in the hands of the people.
Equally, the Economic Commission for Africa in 2001 identified likely constraints to SMEs and recommend priorities for good practice:

- **The regulatory and policy environment**: to what extent is it enabling or disabling?
- **Infrastructure**: in which areas is it deficient?
- **Access to finance**: does it extend to SMEs?
- **Support services** for technology, skills development, and marketing; where and how do they need to be strengthened?

Available data from the Registrar General in Ghana indicates that 90 per cent of registered companies are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they represent a major source of income and employment.

Typical profiles of Ghanaian SMEs are:

They are dominated by one person, with the owner/manager taking all major decisions. The entrepreneur possesses limited formal education, access to and use of new technologies, market information, and access to credit from the banking sector is severely limited;
Management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth;
Target group experiences extreme working capital volatility;
Lack of technical know-how and inability to acquire skills and modern technology impede growth opportunities.
Many non-financial constraints inhibit the success of such enterprises. SME owners are reluctant to be transparent or open up involvement of their businesses to outsiders. The lack of available information makes it difficult to gauge the reliability of data that are written or known to academia.

Asia/Pacific Context

In Asia and the Pacific countries, similar constraints are faced due to lack of education as the literacy levels in some countries is still relatively low with regard to understanding the opportunities offered by the global market and gearing to take advantage from them.

As Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development pointed out in 2006:

“SMEs are a source of employment, competition, economic dynamism, and innovation: they stimulate the entrepreneurial spirit and the diffusion of skills. Because they enjoy a wider geographical presence than big companies, SMEs also contribute to better income distribution.

The government of Singapore policy for supporting and directing SMEs is a clear example of the importance to recognize the fundamental roles being played by small and medium enterprises in any economy. By contrast, Singapore as an island economy has outplayed all developed and developing countries, proudly boasts over 100,000 SMEs. This has been the backbone that drives the private
sector development in the country to providing needed capital, employment and facilitation of trade flow in-country and trading partners internationally.

The emerging economies of Asia (known as five Asian tigers) are fast moving in the right direction in placing more emphasis on their SMEs, with China now project to take over the world within the next ten years. Hongkong, Malaysia, South Korean and Taiwan are progressing well and registered high growth rates of 7–8 per cent while their pacific counterparts on average 4–5 per cent.

**Figure 1** below outlines the real GDP growth rates in Asia/Pacific:

**Growth to moderate in Asia-Pacific in 2008 – but remains robust at 7.7%**
The Vanuatu Case

Vanuatu recognizes that its policy of recognizing the private sector as the engine for growth holds a firm belief that SMEs is the backbone of the economy. Therefore, to grow this idea the full participation of the majority of the population to focus on assisting entrepreneurs at all levels of society must be given top priority.

SMEs portfolio in Vanuatu are currently under the Ministry of Ni-Vanuatu business and its implementation and coordination are undertaken by the Department of Cooperatives & Business Development Services. They now take the lead and in the process of putting a draft SMEs legislation that will be enacted soon. However, other departments of trade, tourism, semi and non-Government organizations promote advancement of business among potential entrepreneurs.

No single ministry or department has exclusive responsibility for matters affecting all aspects of business or the private sector. Many ministries and
agencies have responsibilities that affect the business community—covering such matters as training and skills development, trade, employment regulation, standards and other subjects thus encouraging duplicating of roles and responsibilities.

The DCNVB has a broad area of jurisdiction for business–related issues, and a mandate to support and strengthen the performance of the private sector. Given this long–standing activity, DCNVB is well–place and should continue to pay the lead role in coordinating initiatives affecting SMEs, including this Policy and Strategy.

**Vision**

The Department is to be the leader in rural economic development by being responsive to society’s business aspirations. The department will help to create, improve and sustain Ni-Vanuatu Businesses so that they are able to compete effectively domestically and internationally.

**Mission**

To facilitate sustainable and strong growth in Co-operative and Ni-Vanuatu Business and to advance the interest of Vanuatu’s citizens both domestically and internationally by:

a) Promoting increased rural saving and investment through savings and loan societies.

b) Encourage the establishment and diversification of Ni-Vanuatu Businesses.

c) Supporting Ni-Vanuatu Businesses by providing advisory services.
For the benefit of this Chapter, a summary below on Figure 2 can see where Vanuatu is position in its GDP growth potential among other Pacific countries.

**Figure 2**: Pacific islands GDP growth comparisons:

**Pacific Islands: Modest Growth amid Uncertainties**

Source: Economic and Social Survey of Asia and the Pacific 2008
SMEs Perspectives

Vanuatu does not have a dedicated office in dealing with SMEs in all entirety but spread among different institutions, which clearly showed the less significance the government attached to its roles.

Mr. Sowany Joseph, Director, Department of Cooperatives and Business Development Services (DCBDS), cited the government lack of understanding and appreciating the important role of SMEs as the key barriers to development of the sector. This is evidenced by the absence of a properly defined policy, legislation to govern SMEs, and appropriate allocation of resources to effectively carry out their programs.

He also stressed the lack of coordination of roles and responsibilities among several government institutions that has resulted in duplication of resources and strain on resources. A relook on the government structures would contribute to a fairer sharing and right-sizing of occupants of these offices; thus would result in savings that would best utilized in providing services for the people.

However, given Vanuatu as an island nation, geographically fragmented by sea and sparsely populated from island to island thereby creating an environment that is not conducive for larger companies to shift to rural areas because of difficulties inherent to small markets. The distinction is evident with medium to larger businesses concentrating in urban centers on Efate and Santo and micro to small in rural island centers. They lack basic support infrastructures to keep them at profitable levels and ensuring their survival among competing forces internally and externally that can be beyond their control.
DCBDS has been influential in delivering a much needed advisory services to the islands but has been hampered through lack of budget funding to keep them going and limiting their visits to once a year than more regularly. The embryonic state of any micro and small business ventures need regular inspection and monitoring until they are able to manage themselves independently that ensures success.

In the absence of a legally instituted office for the sector, the realization of the growth of SMEs, even though significant for economic growth will not come to fruition in the immediate and long term. It is an issue of understanding their importance in a structured manner by the government to grow the sector by putting more in recognition in place. The government has created a junior Ministry of Ni-Vanuatu business charged with responsibilities to play a leading role in coordinating a concerted efforts in promoting locally owned SMEs. But the Ministry is being staff by political staff who has limited knowledge in directing appropriate policies through the relevant department and agencies for implementation.

In placing Vanuatu’s category in doing business ranking performance, a World Bank report summarizes its position below:

The World Bank/FIAS 2010 Report on the Ease of Doing Business rank Vanuatu 60\textsuperscript{th} among 183 countries world-wide, with low points scored on Starting a Business, registering property, and trading across borders. Vanuatu’s performance has changed little in the last few years of rankings.

As Figure 3 indicates, Vanuatu scored well for dealing with construction permits, and paying taxes. The latter is not surprising given the absence of income taxes,
but might be even better but for the chronic issues faced by individuals and business when paying governmental fees and charges. Most other indicators show that Vanuatu’s position is mediocre on a global basis.

Figure 3 – “Doing Business” – Vanuatu Rankings– 2010, 2011

74 “Doing Business”, FIAS/ World Bank, 2011
Figure 4 shows Vanuatu’s overall ranking compared to those of the neighbouring Pacific Island states. Among this group, Vanuatu is now quite competitive, but the country’s improved ranking compared to its neighbours reflects their deterioration rather than improved performance by Vanuatu. There is still much room for improvement if the country is to advance its performance on a global stage.
While the findings and recommendations of these studies largely reflect the experiences and views of foreign investors and large domestic businesses, they suggest that the high points and low points can only be worse in respect of small and micro businesses since these are largely underserved.

Government Support to the Private Sector.
The fundamental bases from which to consider building a prosperous Vanuatu should derive from the Priority Action Agenda (PAA) announced by the Government. The broad strategic priorities of the Republic of Vanuatu can be summarized as follows:

National vision: “And educated, healthy and wealthy Vanuatu”, recognizing the need for economic growth led by the private sector and government’s role is to provide “an enabling environment for both domestic and foreign investors whilst ensuring that development is sustainable” (sourced: PLAS Action Agenda).

The national strategic priorities are: private sector growth and employment creation; macroeconomic stability and equitable growth; good governance and public sector reform; primary sector development (natural resources and the environment); provision of better basic services, especially in rural areas; and economic infrastructure and support services.

A sustainable growth of the private sector involves: the dominant rural sector where advantage to labor, access to land and sea are available; an increase of foreign direct investment & Ni-Vanuatu business development; manufacturing; tourism; and trade & commerce. The sectors of agriculture, fisheries and tourism were identified as sectors where more employment can be created and increased.

Noting these broad objectives the government of Vanuatu has in place legislated framework to facilitate economic reliefs on goods imported into Vanuatu towards building the country’s economic sector.

However, the Millennium Development Goals made in the Paris Declaration sets goals for Vanuatu to achieve as set out in the Priorities and Action Agenda 2006–2015.
Vanuatu is committed to the MDG goals and thus SMEs can indeed promote the achievement of the goals by creating wealth.

**Goal 1: Eradicate extreme poverty and hunger**

**Goal 2: Achieve universal primary education**

**Goal 3: Promote gender equality and empower women**

**Goal 4: Reduce child mortality rates**

**Goal 5: Improve maternal health**

**Goal 6: Combat HIV/AIDS, malaria, and other diseases**

**Goal 7: Ensure environmental sustainability**

**Goal 8: Develop a global partnership for development**

In recognizing the above broad MDG goals, a number of protection measures are implemented into sectoral policies and listed below:

**Local industry protection**

Local manufacturers are provided tariff protection to grow ensuring at all times that this is not done at the expense of the consumers. To support local manufacturing all their raw materials are automatically duty free at importation.

Machineries and equipment not only for local manufacturing but other economic sectors, are being imported at preferential rates. This also includes any other imported product that is an input to production in Vanuatu e.g. a bush knives or drills and hammers which are used by the population for generating economic activity.

The current protective 30 per cent duty rate is considered sufficient to protect local industry that is vibrant and growing.
Agriculture, Horticulture, Livestock, Forestry and Fisheries Sectors

Duty rates on imported goods for inputs into these primary sectors have been either removed or reduced substantially. Imports of animal feed are imported duty free into Vanuatu under the MSG Trade Agreement. Most agriculture products are imported duty free under the MSG Trade Agreement.

Tariff adjustments for these primary sectors are geared primarily towards supporting the rural population and not the large scale operators. Fuel for fishing projects is duty free and in fact more generous provisions for duty exemption apply for rural based fishing projects.

Tourism Industry

The tourism service industry, a high priority sector under the PAA, covers a very wide range of subsectors from hotel, restaurants, and tour operators to taxi services. Support for this sector is targeted only towards the construction and furnishings of current hotels and island bungalows.

Tourism is a large and growing industry for many Pacific Island countries. Roughly more than a million tourists visit the region each year and tourism is the largest foreign exchange earner for several pacific countries. The majority of the tourist comes from Australia and New Zealand with a significant numbers also arriving from the United States and Great Britain. Many of the tourism operators in the Pacific are small and medium size enterprises (SMEs).

The Vanuatu tourism industry is one that shows the industry has far more costs and fewer benefits than it should for local people and the Vanuatu economy. Its benefit is enjoyed more by foreign companies and wealthy expatriate residents who have taken advantage of Vanuatu’s weak regulation to slash high incomes, while ni-Vanuatu are left to face the social, cultural and environment impacts of tourism.
With its beautiful attractions—accessible active volcanoes, white and black beaches, pristine coral reefs, dive-sites, ceremonial land diving and cultural dancing, it comes without surprise that Vanuatu’s tourist industry is its main forging exchange earner, accounting for between 50 to 75 per cent of country’s GDP.

**Inter-island Shipping**

Inter-island shipping services had been getting preferential treatment by way of exemption of import duties on all their vessels, equipment, materials and fuel oils.

A shipping study of 2008 concluded that such fuel oils exemption was not an efficient way to support the shipping industry but that some form of support by the Vanuatu Government should only be provided for shipping services to areas that are not only irregularly serviced but are also unprofitable. The Government allocates each year approximately VT10 million for this purpose.

**Cruise Boats**

The number of cruise boats visiting Vanuatu has increased slowly but steadily since 2006. Currently seven cruise ships visit Vanuatu regularly. Three carries 600 passengers the others carry 1500 or more. Cruise ships make stops in Port Vila, Mystery Island, Pentecost, Champagne Beach, and Luganville.

Cruise ship ports of call receive regular income in the way of docking fees paid to local administrative authorities. South Seas Shipping which is the local agents for P&O, estimates that cruise ships contributes VT 1.8 billion to Vanuatu economy in 2009, with more spend in Vila and Luganville than in the outer more remote islands. On cruise boat days a lot of money is reportedly earned in the islands other than Vila and Luganville.
Tourism is an important source of revenue for the country and for SMEs who provide tourists with services and products. Arrivals have been growing steadily over the past decade at a relatively measured pace, although 2009 saw an interruption in this trend and 2010 looks higher to the prior year.

Figure 5

The table below shows the number of visitors each year since 1995.

<table>
<thead>
<tr>
<th>Year</th>
<th>Visitors</th>
<th>Day Visitors</th>
<th>Total Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>43,721</td>
<td>38,298</td>
<td>82,019</td>
</tr>
<tr>
<td>1996</td>
<td>46,123</td>
<td>57,107</td>
<td>100,230</td>
</tr>
<tr>
<td>1997</td>
<td>49,624</td>
<td>31,332</td>
<td>80,956</td>
</tr>
<tr>
<td>1998</td>
<td>52,085</td>
<td>25,728</td>
<td>77,813</td>
</tr>
<tr>
<td>1999</td>
<td>50,746</td>
<td>44,932</td>
<td>95,678</td>
</tr>
<tr>
<td>2000</td>
<td>57,591</td>
<td>47,848</td>
<td>105,439</td>
</tr>
<tr>
<td>2001</td>
<td>53,300</td>
<td>52,778</td>
<td>106,078</td>
</tr>
<tr>
<td>2002</td>
<td>49,462</td>
<td>50,027</td>
<td>99,489</td>
</tr>
<tr>
<td>2003</td>
<td>50,400</td>
<td>51,995</td>
<td>102,395</td>
</tr>
<tr>
<td>2004</td>
<td>61,453</td>
<td>37,870</td>
<td>99,323</td>
</tr>
<tr>
<td>2005</td>
<td>62,123</td>
<td>63,554</td>
<td>125,677</td>
</tr>
<tr>
<td>2006***</td>
<td>67,787</td>
<td>85,922</td>
<td>153,709</td>
</tr>
<tr>
<td>2007</td>
<td>81,345</td>
<td>85,737</td>
<td>167,082</td>
</tr>
<tr>
<td>2008</td>
<td>90,657</td>
<td>106,138</td>
<td>196,795</td>
</tr>
</tbody>
</table>

Source: Dept of Cooperative & Ni-Vanuatu Business

Last year 2010 an estimated 200,000 visitors came to Vanuatu by cruise boat. This brought a wealth of benefit to the local economy one of which is the employment provided for ni-Vanuatu crew. P&O is reported to have been employing 150 ni-Vanuatu since 2002. Ni-Vanuatu are the only Pacific Islander working on P&O cruise ships. Training for the work is provided by Institute de Technologie de Vanuatu (INTV), South Sea Shipping and for marine engineering
and fire-fighting jobs, by the Maritime /Seaman’s college on Lukanville in Santo. The minimum wage earned by cruise workers is A$500 a month, but some Ni-Vanuatu earn A$5,000 a month, working on commissions and receiving gratuity for each voyage.

Transport

The impact of cruise tourism have not been all that positive especially in the transport sector where a single transport operator holds a virtual monopoly over domestic transfers of tourists in Efate depriving dozens of Ni-Vanuatu owners operators of a fair share of tourist spending. P&O controls whatever tour they sell on board including how much they sell them for and defends its exclusive transport arrangements, saying that it had had bad experiences with a Ni-Vanuatu operator in the past. It required good quality, reliable service and many buses and taxis in Efate did not meet that requirement.

Ni-Vanuatu transport operators are adversely affected by expatriate tour operators from around 1991, when government first began to grow the tourism industry. The government has also been issuing too many licenses and a lot of Ni-Vanuatu is investing in taxis, public transport and buses because this is the only sector in which Ni-Vanuatu have an opportunity to invest.

The Ni-Vanuatu transport operators have been consistently asking the government through the Tourism Office to find ways to help them get bookings from aboard in packages. After all they know all about the product but are helpless because they are not able to get a share of pre-booking.

Most drivers who borrow from the local banks to purchase their vehicles are having to pay VT80,000 a month over a 2 to 3 years in loan repayments. On a good cruise ship day, a taxi driver can easily earn VT10,000. On a bad cruise day, he would be lucky to make VT5,000.
Mystery Island

The Mystery Island an uninhabited island situated in the south of Vanuatu plays host several times a month to P&O ships bearing up to 1500 tourists on each visits, who spend a day snorkeling in its pristine waters before sailing off to another island destination.

The natural attractions of Mystery Island are its rich and protected marine life. It was declared a Marine Reserve Park some years ago so no one is allowed to fish in its waters or take marine products from its reef. It is a natural aquarium and the islanders want to keep it that way. In creating the marine sanctuary at Mystery Island, the custom owners had no assistance from anyone. The community has also put the income from the cruise ship to good use. The children of Aneityum had to leave the island to attend high school until cruise ship money was used to build a junior secondary school in 2001.

When the cruise ships come to the island only the women selling handicrafts and local produce make money. The ships set up their own lunch barbeques on the beach, with food from on board. They is room to negotiate and expand on what is in place with local entrepreneurs to prepare traditional foods, drinks and other exotic items to sell for income.

Ni–Vanuatu Bungalow businesses

The Vanuatu Government has strategies in place which supports the concept of building rural bungalows with the view to spreading the benefits of tourism to the islands beyond Port Vila, and drawing Ni–Vanuatu into the industry as small–scale rural accommodation providers. The idea was supported and a large number of Ni–Vanuatu builds bungalows using their own resources in the expectation of seeing an influx of tourists and running a profitable business. Unfortunately this concept did not materialized as this was done in the absence
of proper structural planning to support rural tourism, to ensure that standards were met and marketing support for bungalows.

Bungalow owners would normally travel to Vila to try and market their accommodation business. They produce colorful brochures for their respective bungalows and seek support from tourism wholesalers based in Vanuatu. Some of these operators have worked in a tourism industry before so they are not new to the tourism business. The rates they charge (between 2,000 and 4,000 vatu per bungalow) are lower than those charged by expatriate owned alternatives. Most of the ni-Vanuatu owned bungalows only host local visitors to the islands including government officials who travel to the island to run workshops and they don’t come very often.

An association of bungalow operators, the Vanuatu Bungalow Association (VBA) was formed. It created a market section called Island Safaris and operated with some initial success. However, competition from foreign owned operators, combined with various management difficulties, saw VBA and Safaris fall into confusion.

Today, Ni-Vanuatu bungalow owners most of whom receive very few tourists, struggle to get their products advertised by wholesale in the industry based in Vanuatu. The main problem is bungalows have not been promoted enough and whole sale packages tend to exclude bungalows. While a few lucky communities may have benefited from being picked as adventure tourism destinations, investment in bungalows has not brought enough income to the Ni-Vanuatu population.

One other challenge faced by Ni-Vanuatu rural bungalow owners is infrastructural problems such as inter-island transport constraints, standard
issues and marketing difficulties, although the recent introduction of high speed boats promises to improve potential for rural businesses.

**Reserved investment for Ni-Vanuatu**

The Foreign Investment Promotion (FIP) Act allocates a number of SMEs as reserved investment from Ni-Vanuatu. Foreign investors are off-limits to these categories – only citizens of Vanuatu and companies that are wholly control by persons who are citizens of Vanuatu may run these businesses or be employed under these businesses.

In the tourism industry, reserved investments include:

- guest house where the number of beds is less than 50, or the number of units is less than 10, or where annual turnover is less than VT 20m;
- bungalows, where the annual turnover is less than VT 30m;
- motels and hotels if the total value of investment is less than VT 10m or the annual turnover is less than VT 20m.
- commercial cultural feasts;
- manufacture of handicrafts and artifacts;
- road transport operators – public taxi and bus services

If the intent of the FIP Act was to reserve SMEs in tourism for the local population as widely recognized, this is not being realized. In some reserved investment areas, expatriate and naturalized citizens have set up successful businesses (sometimes with Ni-Vanuatu as partners to get around the reservation) and have come to dominate the market.

What is currently happening in Vanuatu tourism sector is a clear indication of weak regulatory framework and weak protection of the interest of local people.

**Support and Opportunities**
Vanuatu has been struggling but when relishing the notion of self-reliance and has acknowledged break-through in some varied ways. One main innovation of SMEs in Vanuatu clearly noticeable is the increasing kava bars on Efate, Santo, Malekula, Tanna and other outer islands that produce fresh kava juice. In the extension of SME kava process, (i) the kava roots is dug and bagged in an island, (ii) transport by a truck to the closest anchorage by a public transport, (iii) shipped to Port Vila on an inter-island ship, (iv) transported to a middleman or nakamal (kava bar) by a public transport, (v) minced by a machine operation, (vi) bus services transport kava bar operators to and from mincing, and (vii) the bar to serve the juice.

Based on this kava production chain, there is an involvement of seven or more stakeholders carrying out a micro-business on their own.

Each night in Port Vila where some 45,000 of the country’s 254,000 people now live the townspeople are already settled in a variety of bamboo-walled, coconut leaves -roofed shelters, and are busy buying and drinking cups of kava. The Port Vila’s nakamals has increased dramatically since the country’s independence in 1980. Only a few of nakamals were operating in 1980, when the only imported Australian beer was drunk during those days as social drink. Today, more than 200 nakamals are scattered throughout the town, and many people have renounced alcohol for kava. Kava bars also do business in several other Pacific countries, including Pohnpei (Federated State of Micronesia), Fiji, and New Caledonia. Kava commercial bar known as nakamal are the only sector of Vanuatu’s money economy that is completely controlled by ni Vanuatu

In Vanuatu’s rural, outer islands, people in the main continue to drink kava in a more traditional, ritualized manner; in town, however, there has been a brisk
transformation of kava from sacred substance to a commercial product to make money. Ironically, during the same years that this commodification of kava and the drug's shift from gift to market economy were underway, kava also flowered as a conspicuous emblem of Vanuatu's tradition and identity. In local political discourse and ceremony, kava drinking has come to stand for the value and endurance of island kastom – the distinctive traditions that politicians like to evoke in order to foster sentiments of national unity and identity. People in Vanuatu today are debating kava's contrary functions: traditional sacred substance on the one hand, and cash crop and contemporary political icon on the other.

**Kava**

Kava, today is also worth money, in large part due to the growing numbers of urban nakamals in Port Vila that import kava rootstock from rural areas, principally Pentecost and Tanna islands. The plant is now a cash crop of increasing importance within the local market. It possesses a number of advantages vis-à-vis other cash crops, notably its high monetary return per working day. An agricultural survey in 1987 and 1988 estimated that Vanuatu's urban nakamals consume 400 metric tons of kava annually. This tonnage provides an average of 321 shellfuls of kava for each male aged eighteen and older living in Port Vila. Vila nakamals sell two sizes of coconut shell cups of kava: large shells (approximately 100 ml in size) go for 100 vatu, and smaller ones for 50 vatu. Estimated gross annual revenue at the nakamals was $916,000, of which kava farmers earned a net $150,000 profit.

The kava nakamal recapitulates in an urban setting some of the traditional forms and manners of kava drinking. Despite the fact that it serves coconut shell cups of kava rather than bottles of beer, the nakamal has also borrowed practices
from the Western bar. It prepares the drug in bulk. It charges money for a drink that, traditionally, was always a gift.

Vanuatu's kava drinkers have adopted a new Pidgin English word, redimed ("ready-made"), to distinguish the drink served in the urban nakamals from the customary, sacred kava. Like the nakamal, the drug is also caught between its old rural and its new urban uses. Promotion of town kava as a substitute alcohol and as an emblem of tradition has transformed kava into simply a locally available means of intoxication.

Kava helps mask and deal with tensions which are based on feelings about emerging economic and class differentiation, differentials in access to resources such as land, money, jobs, and knowledge, through education. What kava drinking does it to enhance a feeling of relaxation when many challenges are taking place.

Given kava's increasing commercialization and its contention with alcohol, the drug today is more popular than ever. As Port Vila's busy nakamals grind kava rootstock into 50- and 100-vatu shells of "redimed" drink, they are further processing sacred kava into a cash crop and into a rooted but inventive emblem of cultural identity. The urban kava bar itself is a ready-made central instrument of social and cultural transformation. Vanuatu's welcoming nakamal bars are wide open.

**SME Model for Vanuatu**

For SMEs to grow and become vibrant in Vanuatu, it is necessary that an appropriate growth model is develop after careful study so that relevant factors can be taken into account such as: communal ownership, cooperation,
competition, management expertise, government support, SME associations, SME funding, traditional governance, gender balance or imbalance, and the successful utilization of the traditional governance structure as the supporting organization for SME development.

**Past experiences**

The same scenario can be repeated for other products from the islands that are marketed from rural to the urban centers around the country or export selected goods. Same island markets use SME public transport systems that are totally operated by the SME private sector. SMEs are present in the value chain from production to reach their market. Village level SMEs promoted by the government are in the form of Cooperatives with a Cooperative Department as regulator. This was the direction during the colonial governments thus making the cooperative department a legacy department. There was once a driving business pre-independence to create as many cooperatives at village level with over 700 but now it has dwindle down to 260 left running and delivering on the model of assisting any form of businesses in the islands (Sowany Joseph, 2011).

It must be stressed here that for SMEs to grow, more people must change their mindset and get away from the current atmosphere of no need to work hard because the traditional social system takes care of the existence of subsistence living that is predominantly the norm of society at present. We have to think outside the box and allow people accept that we are setting the pace for advancement and prosperity and we must share and trade through economic means through hard work. Vanuatu people have a culture that has to come under scrutiny to allow and expose us to outside competition and only in this
way we will learn from others who believe in hard work with determination to succeed. It is advisable that more opportunities can open when selected individuals in business can be sent overseas on study tours or cultural exchange programs.

9.2 Potential change

The change of mindset is beginning to change through sending of Seasonal Workers Scheme to New Zealand for fruit picking. Scores of Ni-Vanuatu who have been to New Zealand and their attitude to work is beginning to change. They are branded in New Zealand, New Caledonia and other countries they are reliable, hard working, strong work ethics, and goal-driven. The country is benefiting from remittances and this is further opportunities where the government could facilitate short seminars in luring them into businesses. Although, change of culture will take time but the more aspiring young generational make up of those going overseas can see change coming from the horizon.

Traditional Model for the Shepherd Islands

Traditional organizations that exist under the chiefly system are available to generate funding for SMEs. For example, in the Shepherd Islands in Central Vanuatu, the chiefly system consists of tribes as Nawota, Nampau Nawota and Kitaku. For instance, in Panita Village on Tongoa Island, the Nawota is Matariliu. Other main chiefs in the village are Titongoa Ni Liseiriki, Matokai Kokona.

Under the main chiefly titles, there are lesser ranked chiefs under which there
are people to do the chief’s bidding. In the olden days, one of the primary role of the chief is to ensure the welfare of his people so a chief can send out his people to find new land to settle. In this contemporary age, there is no new land to be discovered, therefore, current chiefs have to be innovative to ensure that they fulfill their duties as guardians of the welfare of their people.

In this regard, SME provides the opportunity for innovation. Because top class managers would certainly make a difference given that bad management in the past bred current skepticism on any new venture it is essential that this top management is recruited to drive SME growth forward and to provide employment to the people of the Shepherd Islands.

The model for SME growth in the Shepherd Islands should in all likelihood follow the Shepherd Islands chiefly system whereby the system is used to amass capital for investment managed by a top class manager funded by the government initially and reverting to community funding as the system gains momentum and SME growth becomes vibrant. Conflict resolution mechanism should follow the traditional system of open village courts to sort out credit problems and bad management problems.

People start to believe in the system to take care of their welfare, this is a strong point to mobilize people power to create investment capital and when people have lived under and understand the system, chances of success are much greater than creating new organizations independent of the existing traditional system.

The catalyst for SME growth in the Shepherd Islands is an Investment Fund that collects funds from the people of the Shepherd Islands through the chiefly system.
The various island councils bring together all the paramount chiefs in each island and the Maraki Vanua Ariki Council of chiefs brings together all the paramount chiefs of all the islands sitting together to make important decisions or policy resolutions and it is the duty of PIMCO to ensure that the policy is implemented.

On October 30 to 3 November 2011, the MVCC New Direction Conference approved Vision 2030 for the Shepherd Islands and the Vision Approved is

Resolution of the new direction meeting number 1

October 30 to 3 November 2011

Vision 2030
In 2030 Shepherd Islanders will be God Fearing, Peaceful, Educated, Healthy, Wise and Prosperous

Source: Maraki Vanua Ariki Secretariat

PIMCO is tasked to produce a master plan for approval in June 2012 after which it will coordinate development implementation of the plan until 2030. Rough calculations indicate that significant investment can be raised using the Chiefly system for funding SME growth.

**Financial Support and Other Incentives**


He indicated that in Ghana the “major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. The paper specifically covers the following:

- A review of the various schemes, initiatives and funding mechanisms for facilitating access of SMEs to loan and equity finance;
- An analysis of their effectiveness; and
- Establish some reasons for the ineffectiveness of the financing schemes and provide some suggestions for improving the overall effectiveness of SME financing.

As illustrated under Ghana model, the same expectations within family unit holds true for Vanuatu in an SME is owned by family. The family can access credit and
expectation of no time limit on credit is normal and do not have a deadline for repayment.

SMEs in Vanuatu can access loans from the Vanuatu Agriculture Development Bank, the National Bank of Vanuatu, Vanuatu Women in Business Microfinance (VANWODS) and to lesser extent commercial banks. They provide high interest of between 16 – 25 percent lease financing for buses and taxis. The Credit Corporation also provides loans for public transport.

**Vanuatu Agricultural Development Bank**

The Vanuatu Agriculture Development Bank (VADB) was finally established in 2008 when political will was finally achieved to establish the bank. The main rationale for its establishment is that it will facilitate the development of the Natural resources of Vanuatu giving special regard to primary sector i.e. Agriculture, Forestry, Fishery and Livestock.

This is due to the fact that the Constitution of the Republic of Vanuatu, Articles 71, 72, 73 stipulates that all land in the Republic of Vanuatu belongs to the Custom Owner. This literally puts all resources in the hands of the custom owner.

However because factors of production that brings about economic change is essentially Land, Labour, Capital and Management Expertise, the owners of the resources of Vanuatu own two of them which are land and labour but they lack the capital and management expertise. The VADB will in the long run take care of the capital side but Management Expertise is another matter. All these factors as mentioned elsewhere in this report have to deal with in a concerted cohesive approach.
The exponential growth experienced by the bank so far indicates that the market for SME growth is far from being saturated.

It must be said that the conceptual framework began in 2001 and the bank was established in 2008, and the time in between wasted because politicians and officials could not agree to move forward in the shortest possible time frame. It could be said that the reason why SME growth in the Primary sector is slow is because a dedicated institution for SME funding in that sector took time so much time to be established.

However, even after its establishment its lending is constricted by the fact that the government commencing from VT 200 million in 2008 only injects VT 100 million per annum into the bank. Another factor that is a constraint to the banks servicing of more people is remoteness and lack of collateral. The bulk of resources in the hands of custom owners is not registered and therefore cannot be used as collateral.

The bank has approached the government to source funds in the market with a government guarantee to at least solve its liquidity problem but agreement is not forthcoming.

The following is taken from the bank’s Annual Report for 2010.

**Lending Operations – Approval by Province**

Total loans approved during the year were 816 in number and VT 395,382,880 in value. The large increase in loans approved in 2010 compared to 2009 is attributed to the marketing campaign carried out in 2010.
## APPROVALS BY PROVINCE FOR 2009 & 2010

<table>
<thead>
<tr>
<th>Province</th>
<th>No.</th>
<th>Amount</th>
<th>No. %</th>
<th>VT %</th>
<th>No.</th>
<th>Amount</th>
<th>No. %</th>
<th>VT %</th>
<th>No.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malampa</td>
<td>125</td>
<td>60,323,010</td>
<td>15%</td>
<td>15%</td>
<td>34</td>
<td>19,354,773</td>
<td>17%</td>
<td>19%</td>
<td>5</td>
<td>1,081,356</td>
</tr>
<tr>
<td>Penama</td>
<td>114</td>
<td>42,197,087</td>
<td>14%</td>
<td>11%</td>
<td>15</td>
<td>4,438,736</td>
<td>7%</td>
<td>4%</td>
<td>2</td>
<td>400,000</td>
</tr>
<tr>
<td>Sanma</td>
<td>181</td>
<td>108,762,667</td>
<td>22%</td>
<td>28%</td>
<td>60</td>
<td>39,929,864</td>
<td>30%</td>
<td>38%</td>
<td>3</td>
<td>3,883,200</td>
</tr>
<tr>
<td>Shefa</td>
<td>273</td>
<td>125,967,716</td>
<td>33%</td>
<td>32%</td>
<td>47</td>
<td>18,128,034</td>
<td>23%</td>
<td>17%</td>
<td>11</td>
<td>1,854,682</td>
</tr>
<tr>
<td>Tafea</td>
<td>104</td>
<td>49,905,459</td>
<td>13%</td>
<td>13%</td>
<td>43</td>
<td>22,075,112</td>
<td>21%</td>
<td>21%</td>
<td>3</td>
<td>2,513,300</td>
</tr>
<tr>
<td>Torba</td>
<td>19</td>
<td>8,226,941</td>
<td>2%</td>
<td>2%</td>
<td>4</td>
<td>745,250</td>
<td>2%</td>
<td>1%</td>
<td>3</td>
<td>316,200</td>
</tr>
</tbody>
</table>

| Total    | 816 | 395,382,880 | 100%  | 100% | 203 | 104,671,769 | 100%  | 100% | 27  | 10,048,794   |

The numbers and values of loan approvals improved significantly from 2009. This trend is expected to continue as more and more people become aware of the Bank’s services and as Bank officers are trained and gain confidence and experience in basic loan and project assessments.

Loan approvals to the Services (Other) sector were the highest in all provinces. Development loans that do not fit into any of the other sector definitions are put
into this category for reporting purposes. This was followed by approvals in the Industry Other sector with a value of VT43.2M, which is 15% of the total loans approved.

Agriculture sector made up 11% of the total loan approved, while the Cattle, Forestry, Fisheries Livestock and Eco-tourism Sectors combined, made up 42% and by value VT 129.7M of the loans approved in 2010. Opportunities to expand lending in the rural areas especially in cattle, livestock and copra abound, however a major constraint is access to markets. Whilst local markets exist for the disposal of some produce, semi commercial to commercial level of production is difficult to achieve in the absence of regular and economical access to markets.

Growth in numbers and volume of loan approvals throughout the six provinces can be attributed to the growing awareness of the Bank’s functions. The demand for capital in the rural area outweighs supply and whilst adopting a growth strategy the Bank is acutely aware of the risks involved and therefore constantly monitors the health of its portfolio closely. The Bank is also acutely aware of the need to allocate development funds in an equitable manner however in the final analysis, its growth is demand driven and loan approval is dependent on borrowers meeting the Bank’s normal underwriting criteria.

In terms of numbers, total approvals in 2010 grew by 302% whilst there was a 277.7% growth in the value of loans approved compared with 652% and 942% in the 2008/2009 period. The high growth rates experienced is primarily due to the start up nature of the Bank’s operations. These growth rates are beginning to slow down as experienced between 2009 and 2010.
Loan approvals to SANMA and SHEFA continue to dominate the Bank’s operations despite a concerted effort to market the Bank’s services to the outer islands.

<table>
<thead>
<tr>
<th>Loans Summary by province for 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malampa</td>
</tr>
<tr>
<td>Penama</td>
</tr>
<tr>
<td>Sanma</td>
</tr>
<tr>
<td>Shefa</td>
</tr>
<tr>
<td>Tafea</td>
</tr>
<tr>
<td>Torba</td>
</tr>
</tbody>
</table>

**Other international comparative model**

Alike Ghana, Vanuatu SMEs are dominated by owner/manager taking all decisions, entrepreneur possessing limited formal education, market information, access to credit, and reasonable cost of credit. Vanuatu and Ghana as developing countries must learn from Singapore which was once a poor country in the 1960s but today has around 100,000 SMEs with the following support instruments for entrepreneurs.

The following table sourced from the Singapore SME Portal has information on SME development and support.
ACE is a movement that involves both the private sector and government sector to create a more entrepreneurial environment in Singapore.

Promotion for Friends of ACE.
<table>
<thead>
<tr>
<th>Agency</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPRING Singapore</td>
<td>The mission of SPRING Singapore (Standards, Productivity and Innovation Board) is to enhance the competitiveness of enterprises for a vibrant Singapore economy.</td>
</tr>
<tr>
<td>IE Singapore</td>
<td>IE Singapore's mission is to help Singapore-based companies grow and internationalize successfully. Our vision is to be an expert agency in firm-level growth, market intelligence and internationalization strategies.</td>
</tr>
<tr>
<td>EDB</td>
<td>EDB acts as catalyst and facilitator to nurture a vibrant, self-sustaining enterprise ecosystem, a conducive total environment for startups and companies of all sizes.</td>
</tr>
<tr>
<td>Infocomm Authority (IDA)</td>
<td>The Infocomm Development Authority of Singapore (IDA) develops, promotes and regulates info-communications in Singapore, with the aim of establishing Singapore as a leading infocomm hub in Asia.</td>
</tr>
</tbody>
</table>
11.1 Contributions from Vanuatu Chamber of Commerce International

VCCI is the key organization representing businesses who are license holders in Vanuatu. The VCCI with its large size and seniority among business associations in Vanuatu and has prominence compared to other organizations. VCCI position has strong advocacy, high member involvement and lasting influence with government and throughout the business community can make a significant impact on the performance of the private sector, including SMEs. It has been recommended by the Director of CBDS in this report for an increased role for VCCI and important to build up the institution to a level where it can carry out additional responsibilities with assurance.

Therefore, given the Government assistance, support and as facilitator should ensure a business friendly eco-system exists, not only to attract foreign investment but also to provide opportunities for local entrepreneurs to flourish.

The government commitment has been seen to encourage a vibrant SME sector to grow and to contribute to economic development. The government has created the Ministry of Ni-Vanuatu Business and legislated on reserved areas for Ni-Vanuatu only businesses as illustrated below:

Figure 9

Reserved areas of business activities for Ni-Vanuatu entrepreneurs.
<table>
<thead>
<tr>
<th>ITEM</th>
<th>CATEGORY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tourism</td>
</tr>
<tr>
<td>1(a)</td>
<td>Local tour agents if the annual turnover is less than VT 20 million</td>
</tr>
<tr>
<td></td>
<td>Local tour operator if the investment is less than VT 50 million</td>
</tr>
<tr>
<td>(b)</td>
<td>Commercial cultural feasts (Melanesian, Polynesian, etc.)</td>
</tr>
<tr>
<td>(c)</td>
<td>Guests houses if the number of beds is less than 50 or less than 10 rooms or annual turnover is less than VT 20 million</td>
</tr>
<tr>
<td>(d)</td>
<td>Bungalows if the annual turnover is less than VT 30 million</td>
</tr>
<tr>
<td>(e)</td>
<td>Hotels and motels if the total value of the investment is less than VT 10 million or the annual turnover is less than VT 20 million</td>
</tr>
<tr>
<td></td>
<td>Trade</td>
</tr>
<tr>
<td>2(a)</td>
<td>Export of sandalwood in stick and chips form</td>
</tr>
<tr>
<td>(b)</td>
<td>Local trading of sandalwood</td>
</tr>
<tr>
<td>(c)</td>
<td>Export of seeds and other minor forest products</td>
</tr>
<tr>
<td>(d)</td>
<td>Second hand clothing shops</td>
</tr>
<tr>
<td>(e)</td>
<td>Export of kava in root, chips and stick form</td>
</tr>
<tr>
<td></td>
<td><strong>Manufacturing</strong></td>
</tr>
<tr>
<td>3(a)</td>
<td>Manufacture of handicraft and artifacts</td>
</tr>
<tr>
<td></td>
<td><strong>Services</strong></td>
</tr>
<tr>
<td>4(a)</td>
<td>Kava bars</td>
</tr>
<tr>
<td>(b)</td>
<td>Open air vendors</td>
</tr>
<tr>
<td>(c)</td>
<td>Mobile shops</td>
</tr>
<tr>
<td>(d)</td>
<td>Door to door sales</td>
</tr>
<tr>
<td>(e)</td>
<td>Road transport operators – public taxi and bus services</td>
</tr>
<tr>
<td>(f)</td>
<td>Private security services including security guards</td>
</tr>
<tr>
<td>(g)</td>
<td>Category F of <a href="https://example.com">Business Licence Act</a> (Cap. 249) of less than VT 5 million turnover per year</td>
</tr>
<tr>
<td>(h)</td>
<td>Retail shops including general merchandise trading shops where the annual turnover is less than VT 30 million, excluding specialty shops</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>(i)</td>
<td>Coastal shipping of less than 80 tonnes, excluding vessels used for tourism purposes</td>
</tr>
<tr>
<td>(j)</td>
<td>Electricians and electro-technicians meeting prescribed standards</td>
</tr>
<tr>
<td>(k)</td>
<td>Residential building and construction meeting prescribed standards</td>
</tr>
<tr>
<td></td>
<td>Fishing</td>
</tr>
<tr>
<td>5(a)</td>
<td>Fishing within archipelagic waters within the meaning of the <a href="#">Maritime Zones Act</a> [Cap. 138] and the first 6 nautical miles of the territorial sea within the meaning of that Act</td>
</tr>
</tbody>
</table>


### 11.2 SME Model Process

The illustration below (Figure 10) reflects the essential requirements that have to be in place for SME in Vanuatu to take off and become a significant contributor to economic development and wealth creation in the hands of Ni-Vanuatu. A forum dedicated to SMEs occurring at set intervals will indeed thrash out issues to incorporate into official government policy.
The conditions that have to be fulfilled in a concerted manner in a continuous basis for the SME sector to grow. The SME forum is required to ensure that ideas are garnered from a wide pool of people in the sector to ensure a holistic policy. This will set the national direction for SME growth. From this pragmatic policies will be derived to take care of training, funding, and evaluation and monitoring.

This will be a step in the right direction to fully acknowledge the importance of the sector and the process in essence will result in a dedicated office for SME alone.
Source: Author

**Training**

Basic Book Keeping and Business Management Courses are provided by the Chamber of Commerce. The Vanuatu Agriculture College trains farmers in Agribusiness.

In July 2009 the International Accounting Standards Board (IASB) published the

The IFRS for SMEs is intended to apply to the general purpose financial statements of entities that do not have public accountability. Entities that have public accountability, and therefore are outside the scope of the IFRS for SMEs, include those whose shares or debt instruments are traded in a public market, banks, credit unions, securities brokers/dealers, mutual funds and insurance companies. In many countries entities that do not have public accountability are referred to by a variety of terms, including private entities and non-publicly accountable entities.

IFRS Foundation: Training Material for the IFRS® for SMEs including the full text of Section 1 Small and Medium-sized Entities of the International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs) issued by the International Accounting Standards Board on 9 July 2009 Page 5 Accessed online 14 November 2011.

It cannot be said for certain whether in Vanuatu the keeping of books is in line with the IFRS for SMEs and whether training is being provided to ensure this.
Training however can only happen given the level of education because it is the most necessary requirement for training to take place. All the aspects of running a business whether SME or otherwise is essentially the same. These are identification of a potential market, designing the product, defining the product, designing the processes, producing the product and selling the product. The essential requirements of running a well run business should also be met for business sustainability purposes.

The importance of SMEs is well documented and UNIDO has developed software for management of SMEs. In Vanuatu the level of Education for SME entrepreneurs is at the basic level and this means that the ability to project a vision and build and organize to work for the vision is somewhat lacking. The objective therefore would have to be educating potential entrepreneurs to the level where they can understand training materials or simplifying training materials to fit the level of the entrepreneur’s ability.

In Vanuatu the most basic training is to differentiate between cash and profit as Ni-Vanuatu tends to view all the cash generated by an SME activity as disposable income. Another important factor is that the subsistence mindset of the Ni-Vanuatu comes into play in SMEs and therefore as long the SME has no long term vision beyond the necessity to have a food appetite the next. As long as food is assured, the SME entrepreneur is prepare to stay at that level all the time.
The Pharos Enterprise Benchmarking project had emerged as a result of implementations of UNIDO “Pharos – Business Navigator” software in industrial upgrading programmes by UNIDO and EC in different countries for 1997 – 2008. The Project facilitates easy access of private and public organizations to innovative ICT applications and services in performance management and benchmarking of results for variety of stakeholders. It transforms concepts of business analytics, intelligence and performance improvement to new by introducing a new powerful, agile yet easy to use integrated information tools for measuring, monitoring and benchmarking of organizational processes. The new vision of application simplicity and personal comfort facilitates best practices in improving of results in daily applications, business culture for sustainable developing, its sharing among employees and employers.

The software provides unified platform for management methods and processes for improving results by setting and evaluating goals, its understanding, optimizing and aligning daily activities to business targets for organizational, departmental and individual performance. The design, interface, references and learning support are implemented with special focus to assist personnel of industrial small and medium size industrial enterprises as well as service oriented private and public institutions.

The project is implemented with new approach to learning, training, supporting creative entrepreneurship and social involvement facilitating exchange of knowledge and unified benchmarking procedures between stakeholder groups. The software incorporates functionality of Pharos-Business Navigator (1996–2007), FIT.
As Vanuatu does not have a dedicated SME office to ensure that important international conventions that enhance and provide capacity are adopted and implemented the SME sector will never know what type of service or business support system is available.

On the other hand the support system may be available but the SME sector does not know. In such a case there simply has to be awareness campaigns to let people know about what type of services that are available to them. The Cooperative and Ni-Vanuatu business department may be saying that it is handling this sector but with no visible results on the ground as a result of government funding since 1980 is a rarity across the country. A new model and a new direction have to be worked out to make full use of the enormous potential that SME offers through active participation and development.

**Classification of SMEs**

What are SMEs?. SMEs is a term most commonly used in international organizations such as the World Bank, European Union and World Trade Organization (WTO). SMEs refer to small and medium enterprise (SME) or businesses. In most economies, smaller enterprises far exceed the number of larger enterprises.

**13.1 Classification of SMEs Worldwide**
There are variations in the classification of SMEs. The European Commission’s classification table which determines SME size, whether it falls under small or medium enterprise is seen in the table below.

**Figure 11 - European Commission classification of SMEs**

<table>
<thead>
<tr>
<th>Enterprise Category</th>
<th>Head Count</th>
<th>Turnover</th>
<th>Balance Sheet Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Medium</td>
<td>&lt; 250</td>
<td>&lt; 50 million Euro</td>
<td>&lt; 43 million Euro</td>
</tr>
<tr>
<td>2. Small</td>
<td>&lt; 50</td>
<td>&lt; 10 million Euro</td>
<td>&lt; 10 million Euro</td>
</tr>
<tr>
<td>3. Micro</td>
<td>&lt; 10</td>
<td>&lt; 2 million Euro</td>
<td>&lt; 2 million Euro</td>
</tr>
</tbody>
</table>

Source: [http://ec.europa.eu/cgi-bin/etal.pl](http://ec.europa.eu/cgi-bin/etal.pl)

Under the European Commission (EC), enterprises qualify for micro, small or medium size enterprises if they fulfill one of the criteria listed above. Micro enterprises are companies with employees up to 10 employees, small enterprises with employees up to 50 employees and medium enterprises with employees head count of up to 250 employees.
Within the EC member states itself, there are also differences in classifications of SMEs by way of size through employees’ headcount. For example, in Germany, a medium enterprise is classified as having 255 employees while in Belgium it could be around 100.

Many countries have different ways of classification of SMEs by size, investment value and company structure. In the United States, classification again varies. The emphasis and criteria for classification is based on the type industry, structure of ownership, revenue and the number of employees. In some cases, the criteria size may be as high as 1,500 although typically graded as 500.

In India, classification is determined by its Ministry of Small Scale Industries. Classification is as follows:

i. A micro enterprise is classified as the value of investment in plant and machinery excluding land and building and items specified by the Ministry of Small Scale Industries and must not exceed Rs. 25 lakh,

ii. A small enterprise is classified as having its value of investment in plant and machinery at cost excluding land and building and items set by the Ministry of Small Scale Industries of which its value is more than Rs 25 lakh but does not exceed Rs. 5 and

iii. A medium enterprise is where its investments in plant and machinery at costs, excluding land and building and items specified by the Ministry of Small Scale Industries of which its value is more than Rs. 5 but does not exceed Rs. 10.
In India, the SMEs in terms of its value, account for about 39% of the manufacturing output and 33% of its total export. SMEs play a vital role in the overall manufacturing industry in this country. Statistics reveal that this sector employs about 31 million people over 12.8 million enterprises. The labour intensity in this sector is said to be 4 times more than in large scale enterprises.

In South Africa, SMME is used which stands for Small, Medium and Micro Enterprises. Other countries in Africa, MSME is widely used which stands for Micro, Small and Medium Enterprises.

13.2 Classification of SMEs in Vanuatu

According to Joseph Sowany, Director of Cooperatives and Ni-Vanuatu Business in Vanuatu, SMEs are the backbone of the economy of any given country. There are no set criteria for classification of SMEs by size, applicable in Vanuatu. The definition has not been clear on how much is micro, small or medium. Hence, there is no difference or clear classification between micro, small or medium enterprises in Vanuatu. Coupled with the fact, there is no legislation in place yet for Vanuatu, and the absence of a Business Development Act or Business Policy.

The Department of Cooperatives and Ni-Vanuatu Business has now taken its first steps to having it legislated before any further work commences. Policy and Strategy was approved by the Council of Ministers in June 2011. Legislation is currently being drafted and will be introduced in Parliament in February 2012.
Below are stages of work plans and work in progress in 2011 on current policy issues in relation to the Business Policy or Business Act by the Department of Cooperatives & Ni-Vanuatu Business. Note that there is a proposal put forward below in Figure 12 on how to classify SMEs in Vanuatu.

### Table 3: Department of Cooperatives & Ni-Vanuatu Business Work Plans 2011

<table>
<thead>
<tr>
<th>1 Policy and Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Final revisions of MSME Policy and Strategy</td>
</tr>
<tr>
<td>✓ Approve, issue MSME Policy and Strategy</td>
</tr>
<tr>
<td>✓ Issue Policy Statement</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2 Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Determine administrative structural changes</td>
</tr>
<tr>
<td>➢ Prepare necessary legislative changes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3 Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>➤ Finalize priority actions</td>
</tr>
</tbody>
</table>
Review budget implications, identify funding sources

Determine other resource requirements

Make, adopt Action Plan

Assign responsibility for implementation

Implement, monitor, evaluate, improve

Legislation - Main Provisions

- Establish SBDA
  - Board of directors, advisory council
    - MSME participation
  - Ongoing consultations
  - Manage SBDF

- Establish business registry

- Define small businesses

Main Provisions

- Method to certify qualified small businesses

- Schemes of incentives for certified small businesses
  - Training, BDS
  - Relief from VAT, business licence fees, duties
Participation in public procurement programs

- Clusters, incubators
- Bureau of Standards

**Key Issue for Discussion**

- Define small business

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>LARGE</th>
<th>MEDIUM</th>
<th>SMALL</th>
<th>MICRO</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of employees</td>
<td>Over 50</td>
<td>20 to 50</td>
<td>6 to 20</td>
<td>1 to 5</td>
</tr>
<tr>
<td>Annual sales/turnover(Vatu)</td>
<td>Over 200 million</td>
<td>Less than 200 million</td>
<td>Less than 50 million</td>
<td>Less than 10 million</td>
</tr>
</tbody>
</table>

**TO DO – PRIORITIES FROM THE WORKSHOP**
<table>
<thead>
<tr>
<th>Legislative-regulatory framework</th>
<th>BDS Improvements</th>
<th>Quality standards</th>
<th>Rural focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>• MSME legislation</td>
<td>• Inventory, gap-needs analysis</td>
<td>• Bureau of Standards</td>
<td>• Increase</td>
</tr>
<tr>
<td>• Organization re-structuring</td>
<td>• Business linkages</td>
<td>• Improve product quality</td>
<td>• Most</td>
</tr>
<tr>
<td>• Marketing, service focus</td>
<td>• Incubator</td>
<td>• Increase exports</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Finance-MFI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Fits 2007 decentralization amendments</td>
<td>• Minimize duplication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• A necessity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Legislative-regulatory framework:**
- MSME legislation
- Organization re-structuring
- Marketing, service focus

**BDS Improvements:**
- Inventory, gap-needs analysis
- Business linkages
- Incubator
- Marketing
- Finance-MFI

**Quality standards:**
- Bureau of Standards

**Rural focus:**
- Increase
<table>
<thead>
<tr>
<th>Value add to raw materials</th>
<th>public services, BDS delivery</th>
<th>MSMEs, population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Small-scale processing</td>
<td>• Create niche markets</td>
</tr>
<tr>
<td></td>
<td>• Clustering</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long term, strategic policies</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Entrepreneurship education, capacity</td>
<td>• CDC syllabus renewal</td>
<td>• Change culture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Commercial mindset</td>
</tr>
<tr>
<td>• Physical infrastructure</td>
<td></td>
<td>• Reduce transport cost</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Improve supply chain</td>
</tr>
</tbody>
</table>
Currently, according to Joseph Sowany, there are no data available in the Department of Cooperatives & Ni-Vanuatu Business on individual businesses and their nature of enterprising.

The only data that is available is the number of Cooperatives in Vanuatu. There are altogether, 260 Cooperatives currently operating. Most of these cooperatives are found in the provinces of Sanma and Malampa (see figure 3). These two provinces are the biggest cocoa and copra producing areas. Cooperatives are set-up in these provinces to cater for the business needs and general well being of the farmers. Farmers initially pay shares which are then pooled together to form these Cooperatives and at the end of each year, profits are calculated and determined based on the overall annual performance. Farmers then obtain a share of the profits based on the percentage of their initial investment share.

**Details of SMEs in Vanuatu**

There are several Tourism Operators in Vanuatu that can be seen as meeting the requirement of SMEs as per the Department of Cooperative & Ni-Vanuatu Business “draft” table in Figure 12 on Work Plans 2011.

**Figure 4** Map of Vanuatu – Provinces with high number of Cooperatives
Other SMEs that meet this “provisional” requirement are micro, small and medium enterprises in the Agriculture sector.
SMEs in the Agriculture Sector

Farming – Root Crops

There is an existence of micro enterprising in rural areas in farming. The Department of Agriculture & Rural Development (DARD) has over the years, continued to assist farmers by way of distribution of root crops that are able to withstand natural disasters. These root crops are specifically grafted, tested, grown and proven to be able to produce a harvest in abundance and simultaneously withstand natural disasters. This has been made possible by the Vanuatu Agriculture Research & Training Centre (VARTC) in Santo.

On a quarterly basis, farmers bring in their produce to the Port Vila Market House at Blandiniere Estates, facilitated by Department of Quarantine & Livestock staff. The market house was built through New Zealand Aid Funding in 2009. Total revenue earned in 2010 for the farmers for local root crops and farm animals sold at the market house was Vt.15 million. See Figure 7.

**Figure 5:** Shipping information collected for farm produce to Port Vila Marope Market House

<table>
<thead>
<tr>
<th>Island</th>
<th>No. of shipment/trips</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanna</td>
<td>2</td>
</tr>
</tbody>
</table>
DARD organized farmers in the islands to sell their produce at Port Vila market house and the Marope small livestock market house.

**Small Livestock Sales**

*Figure 6*: Data below indicate sales in 2010.

<table>
<thead>
<tr>
<th>ISLANDS</th>
<th>NUMBER OF SALES</th>
<th>GOATS</th>
<th>PIGS</th>
<th>CHICKEN</th>
<th>DUCKS</th>
<th>TOTAL CROPS</th>
<th>TOTAL LIVESTOCK</th>
<th>TOTAL (VT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPI</td>
<td>4</td>
<td>17</td>
<td>38</td>
<td>122</td>
<td>0</td>
<td>15,550</td>
<td>648,850</td>
<td>664,400</td>
</tr>
<tr>
<td>TONGOA</td>
<td>5</td>
<td>13</td>
<td>382</td>
<td>10</td>
<td>0</td>
<td>128,410</td>
<td>2,117,800</td>
<td>2,246,210</td>
</tr>
<tr>
<td>EMAE</td>
<td>6</td>
<td>8</td>
<td>138</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1,057,100</td>
<td>1,057,100</td>
</tr>
<tr>
<td>NGUNA</td>
<td>2</td>
<td>6</td>
<td>0</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>42,400</td>
<td>42,400</td>
</tr>
<tr>
<td>EFATE</td>
<td>6</td>
<td>23</td>
<td>47</td>
<td>396</td>
<td>129</td>
<td>0</td>
<td>964,600</td>
<td>964,600</td>
</tr>
<tr>
<td>ROOT CROP TYPE</td>
<td>QUANTITY</td>
<td>LOCATION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>----------</td>
<td>-------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. alata</td>
<td>10kg</td>
<td>Lakatoro, Malekula</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. esculenta</td>
<td>15kg</td>
<td>Lakatoro, Malekula</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. esculenta</td>
<td>50 kg</td>
<td>West Malo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. alata</td>
<td>80 kg</td>
<td>North Pentecost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: MAQFF Annual Report 2010

**Figure 7:** List showing distribution of Root Crops in 2010 by DARD
<table>
<thead>
<tr>
<th>Plant Type</th>
<th>Weight</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>D.alata</td>
<td>15 kg</td>
<td>East Santo</td>
</tr>
<tr>
<td>D.alata/esculenta</td>
<td>20 kg</td>
<td>South Santo</td>
</tr>
<tr>
<td>D.alata/esculenta</td>
<td>20 kg</td>
<td>Westcost Santo</td>
</tr>
<tr>
<td>D.alata/esculenta</td>
<td>30 kg</td>
<td>Stonehill Santo</td>
</tr>
<tr>
<td>D.alata/esculenta/rotundata</td>
<td>2500 kg</td>
<td>Yam festival Santo</td>
</tr>
<tr>
<td>D.esculenta</td>
<td>120 kg</td>
<td>North Pentecost</td>
</tr>
<tr>
<td>D.numularia(net&amp;lapanai)</td>
<td>40 kg</td>
<td>West Malo</td>
</tr>
<tr>
<td>D.numularia</td>
<td>20 kg</td>
<td>East Malo</td>
</tr>
<tr>
<td>D.numularia (Net)</td>
<td>8 kg</td>
<td>South west bay, Malekula</td>
</tr>
<tr>
<td>TARO</td>
<td>Colocasia</td>
<td>1,000 suckers (4 varieties)</td>
</tr>
<tr>
<td>colocasia</td>
<td>400 suckers (4 varieties)</td>
<td>Sharkbay, Santo</td>
</tr>
<tr>
<td>colocasia</td>
<td>500 suckers (4 varieties)</td>
<td>Jubilee farm</td>
</tr>
<tr>
<td>Plant</td>
<td>Quantity</td>
<td>Location</td>
</tr>
<tr>
<td>-------------</td>
<td>----------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>colocasia</td>
<td>50 suckers (2 varieties)</td>
<td>Lakatoro, Malekula</td>
</tr>
<tr>
<td>alocasia</td>
<td>200 seeds</td>
<td>Fanafo, Santo</td>
</tr>
<tr>
<td>Alocasia</td>
<td>100 seeds</td>
<td>south Santo</td>
</tr>
<tr>
<td>Sakius</td>
<td>1,000 suckers</td>
<td>Morris, Balon area</td>
</tr>
<tr>
<td>colocasia</td>
<td>150 suckers (5 varieties)</td>
<td>Nerkar, Santo</td>
</tr>
<tr>
<td>colocasia</td>
<td>1200 suckers (6 varieties)</td>
<td>Stonehill, Santo</td>
</tr>
<tr>
<td>3 hybrid taro</td>
<td>50 suckers</td>
<td>S.W Bay, Malekula island.</td>
</tr>
<tr>
<td>KUMALA</td>
<td>2,000 cuttings (4 varieties)</td>
<td>RTC, Malo</td>
</tr>
<tr>
<td></td>
<td>4,000 cuttings (3 varieties)</td>
<td>Nandiutu school, Malo</td>
</tr>
<tr>
<td></td>
<td>3,000 cuttings (2 varieties)</td>
<td>Gaua</td>
</tr>
<tr>
<td></td>
<td>400 cuttings (2 varieties)</td>
<td>Sarkbay, Santo</td>
</tr>
<tr>
<td>Area</td>
<td>Total Cuttings</td>
<td>Varieties</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------</td>
<td>-----------</td>
</tr>
<tr>
<td>West Malo</td>
<td>1500 cuttings</td>
<td>(5 varieties)</td>
</tr>
<tr>
<td>South Malo</td>
<td>1000 cuttings</td>
<td>(5 varieties)</td>
</tr>
<tr>
<td>Panpan, Santo</td>
<td>1200 cuttings</td>
<td>(4 variety)</td>
</tr>
<tr>
<td>Jubilee farm, Santo</td>
<td>600 cuttings</td>
<td>(3 varieties)</td>
</tr>
<tr>
<td>Fanafo</td>
<td>1,300 cuttings</td>
<td>(2 varieties)</td>
</tr>
<tr>
<td>Bigbay Bush</td>
<td>200 cuttings</td>
<td>(1 variety)</td>
</tr>
<tr>
<td>Nerkar, Santo</td>
<td>160 cuttings</td>
<td>(3 varieties)</td>
</tr>
<tr>
<td>Lakatoro, Malekula</td>
<td>60 cuttings</td>
<td>(2 varieties)</td>
</tr>
<tr>
<td>St.Michel School, Santo</td>
<td>1,000 cuttings</td>
<td>(2 varieties)</td>
</tr>
<tr>
<td>Agriculture College, Santo</td>
<td>2,000 cuttings</td>
<td>(2 varieties)</td>
</tr>
<tr>
<td>Variety</td>
<td>Description</td>
<td>Location</td>
</tr>
<tr>
<td>-------------</td>
<td>---------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Cassava</td>
<td>5,000 cuttings (3 varieties)</td>
<td>Nandiudu</td>
</tr>
<tr>
<td></td>
<td>600 cuttings (3 varieties)</td>
<td>S. W. Bay, Malekula island.</td>
</tr>
<tr>
<td></td>
<td>600 cuttings (3 varieties)</td>
<td>AAO W. Ambae</td>
</tr>
<tr>
<td></td>
<td>200 cuttings (3 varieties)</td>
<td>Show ground Santo</td>
</tr>
<tr>
<td></td>
<td>1000 cuttings (6 varieties)</td>
<td>Ste therese Santo</td>
</tr>
<tr>
<td></td>
<td>100 cuttings (2 varieties)</td>
<td>Chapuis</td>
</tr>
<tr>
<td></td>
<td>2,500 branch cuttings (4 varieties)</td>
<td>Nandiutu school, Malo</td>
</tr>
<tr>
<td></td>
<td>600 branch cuttings (3 varieties)</td>
<td>Sharkbay, Santo</td>
</tr>
<tr>
<td></td>
<td>510 branch cuttings (4vars)</td>
<td>Nerkar, Santo</td>
</tr>
<tr>
<td></td>
<td>400 branch</td>
<td>Showground,</td>
</tr>
<tr>
<td>Description</td>
<td>Location</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>------------------</td>
<td></td>
</tr>
<tr>
<td>cuttings (2 vars)</td>
<td>Santo</td>
<td></td>
</tr>
<tr>
<td>320 branch cuttings (3 vars)</td>
<td>Jubilee farm, Santo</td>
<td></td>
</tr>
<tr>
<td>300 branch cuttings (2 vars)</td>
<td>Gaua, Torba</td>
<td></td>
</tr>
<tr>
<td>1,500 branch cuttings (2 var)</td>
<td>Agriculture College, Santo</td>
<td></td>
</tr>
<tr>
<td>1,200 branch cuttings (6 var)</td>
<td>Avunatari, Malo</td>
<td></td>
</tr>
<tr>
<td>3000 cuttings (8var.)</td>
<td>Avunatari West Malo</td>
<td></td>
</tr>
<tr>
<td>100 cuttings (2 var.)</td>
<td>Vanualava</td>
<td></td>
</tr>
<tr>
<td>600 cuttings</td>
<td>North Ambae</td>
<td></td>
</tr>
<tr>
<td>Yellow Manioc</td>
<td>Saratamata</td>
<td></td>
</tr>
<tr>
<td>White and yellow</td>
<td>South Pentecost</td>
<td></td>
</tr>
<tr>
<td>3 cart truck</td>
<td>Michael Louez</td>
<td></td>
</tr>
</tbody>
</table>
Several islands in Vanuatu are involved in rice planting. They include the major islands such as Tanna, Santo, Shepherds Islands and Efate. There was an installation of a rice processing machine in Santo. Twenty six tons of raw rice was produced by farmers in Santo in 2010.

On the island of Tanna, about fifty percent of farmers are engaged in rice planting. There are four rice processing machines used in Tanna by the farmers and the Isangel Rice Association. Most rice farmers grow rice on a micro scale for home consumption and sale.

**Figure 17 – Rice production on Tanna Island in 2010.** Source: Annual Report DARD 2010

<table>
<thead>
<tr>
<th>Crop</th>
<th>Quantity</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>White and yellow manioc</td>
<td>500 cuttings</td>
<td>Molvara Jingo, Malo island</td>
</tr>
<tr>
<td>White manioc</td>
<td>2 white bag flour</td>
<td>Nadiudu, Malo island</td>
</tr>
<tr>
<td>White manioc</td>
<td>1,500 cuttings (2 white bags flour)</td>
<td>AAO. W. Ambae</td>
</tr>
</tbody>
</table>

Source: DARD Annual Report 2010
<table>
<thead>
<tr>
<th>Sites</th>
<th>No of farmers</th>
<th>Kgs of rice produced</th>
<th>Area of land used (ha)</th>
<th>Tones Polished</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Tanna</td>
<td>29</td>
<td>67</td>
<td>0.265</td>
<td>0.06</td>
</tr>
<tr>
<td>Middle Bush Area</td>
<td>26</td>
<td>688</td>
<td>0.53</td>
<td>0.7</td>
</tr>
<tr>
<td>White Sand Area</td>
<td>16</td>
<td>81</td>
<td>0.6</td>
<td>0.081</td>
</tr>
<tr>
<td>South West Tanna</td>
<td>17</td>
<td>10</td>
<td>2</td>
<td>0.6</td>
</tr>
<tr>
<td>Erromango</td>
<td></td>
<td></td>
<td></td>
<td>0.025</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>88</strong></td>
<td><strong>846</strong></td>
<td><strong>3.4</strong></td>
<td><strong>1.47</strong></td>
</tr>
</tbody>
</table>

*Figure 18 – Annual Report, Rice production in MALAMPA, June 2010, DARD 2010*

<table>
<thead>
<tr>
<th>SITE</th>
<th>QUANTITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walla</td>
<td>1,500 kg</td>
</tr>
<tr>
<td>Pinalum</td>
<td>600 kg</td>
</tr>
<tr>
<td>Walla</td>
<td>300 kg</td>
</tr>
<tr>
<td>Tautu</td>
<td>125 kg</td>
</tr>
<tr>
<td>Lingarak</td>
<td>170 kg</td>
</tr>
<tr>
<td>Unmet</td>
<td>50 kg</td>
</tr>
<tr>
<td>Uri</td>
<td>200 kg</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td>----------</td>
</tr>
<tr>
<td>Unmet</td>
<td>50 kg</td>
</tr>
<tr>
<td>Lamap</td>
<td>50 kg</td>
</tr>
<tr>
<td>Dixon (Bambu Bay)</td>
<td>200 kg</td>
</tr>
<tr>
<td><strong>Total Weight</strong></td>
<td><strong>3,245 kgs or 3.245 Ton</strong></td>
</tr>
</tbody>
</table>

**Source:** DARD Annual Report 2010

Locally polished rice is also being sold to villages and high schools. Matevulu, Mormarte and Onesua High Schools have produced their own rice ultimately reducing their food bill.

### iii Farming – Cassava

The materials for the establishment of mini processing units have been purchased and the equipment shipped to site. At Paunangisu on the island of Efate, sheds have been built to house the mini-processing units which have now begun processing cassava flour. It has proved a lucrative business for the women in the community. Cassava chips have been produced and sold to Lapita Cafe’ by the Paunangisu Women’s Small Business Association. This venture has proven viable, however, the supply of cassava is not sufficient to meet the demand for Cassava chips.

### iv Fisheries – Fishing

Estimates ranged from 15,000 to more than 25,000 enterprises, excluding small farmers and fishermen.
The Agricultural census of 2006 has registered 100,000 farmers and fishermen. (see Figure 11 below). The majority of these would no doubt be MSMEs by most definitions—family-run enterprises that are small in scale and local in orientation. Some would be employing others while most would be family or single-operator enterprises.

**Figure 19—Households Engaged in Fishing and Forestry by Province**

<table>
<thead>
<tr>
<th>Province</th>
<th>Fishing</th>
<th>Non-timber forest</th>
<th>Forest-timber</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shefa</td>
<td>7,823</td>
<td>7,775</td>
<td>6,114</td>
</tr>
<tr>
<td>Sanma</td>
<td>6,153</td>
<td>6,578</td>
<td>6,837</td>
</tr>
<tr>
<td>Malam</td>
<td>6,658</td>
<td>6,774</td>
<td>7,417</td>
</tr>
<tr>
<td>Penam</td>
<td>4,828</td>
<td>5,134</td>
<td>6,663</td>
</tr>
<tr>
<td>Tafea</td>
<td>4,260</td>
<td>4,623</td>
<td>5,376</td>
</tr>
<tr>
<td>Torba</td>
<td>1,508</td>
<td>1,390</td>
<td>1,817</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>31,23</td>
<td>32,274</td>
<td>34,224</td>
</tr>
</tbody>
</table>

Source: Volume 1, MSME, Department of Cooperative & Ni-Vanuatu Business

v **Forestry – Sandalwood**

Nursery activities require relatively minimal workload and in many community and private nurseries, women and children are involved actively in potting and maintaining the seedlings. This is important because their involvement in this area and also in woodlot establishment means that the whole family could effectively involve in forestry activities.
Women effectively involve in day to day operations of family owned forestry nurseries

Source: Department of Forestry, Annual Report 2010

Due to the high value of sandalwood sales, a high number of farmers are now engaging in its commercial cultivation.

Two local companies were involved in the purchase of sandalwood from local farmers in 2010. The two companies are: Tropical Rainforest Aromatics and Far North Oils. From the 50,913 kilograms of sandalwood purchased from local farmers, a total of about Vt.67 million was paid as royalties to farmers. See Figure 13 below.

Figure 20 – Total Sandalwood Purchase by Local Companies. Source: Forestry Annual Report 2010

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount of wood purchased (Kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tropical Rainforest Aromatics</td>
<td>19,666</td>
</tr>
</tbody>
</table>
**Far North Oils** 31,252

**Total** 50,913

**Figure 21 – Quantity of sandalwood sold and payment of royalties paid to farmers.**

<table>
<thead>
<tr>
<th>Island</th>
<th>Quantity of sandalwood sold</th>
<th>Royalty paid to sandalwood owners on each island</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanna</td>
<td>18,774</td>
<td>24,010,000</td>
</tr>
<tr>
<td>Aneityum</td>
<td>1,127</td>
<td>1,344,525</td>
</tr>
<tr>
<td>Efate</td>
<td>5,867</td>
<td>4,991,770</td>
</tr>
<tr>
<td>Santo</td>
<td>9,810</td>
<td>17,808,150</td>
</tr>
<tr>
<td>Erromango</td>
<td>11,804</td>
<td>14,560,210</td>
</tr>
<tr>
<td>Aniwa</td>
<td>3,531</td>
<td>4,236,244</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50,913</strong></td>
<td><strong>66,950,899</strong></td>
</tr>
</tbody>
</table>

*Source: MAQFF Annual Report 2010*

6. **Other SMEs & Business Ventures**

To name a few, other types of SMEs and micro family businesses are:

a) Buses and Taxi Operators

b) Locally owned shipping vessels
c) Family shops

d) Local tailor

e) Kava Bar Operators

Support Available

i Financial (loans) support

Financial support is available through commercial banks. Most clients from the Agriculture sector obtain advice from staff of the Department of Agriculture & Rural Development (DARD) in applying for Vanuatu Agriculture Development Bank (VADB) loans. DARD staff also provide assistance to the farmers in filling out loan application forms and organize interviews for the farmers with VADB.

ii Training

The four departments under the Ministry of Agriculture, namely, Agriculture, Forestry, Fisheries and Quarantine & Livestock provide relevant training to farmers to assist them in their small scale business ventures.

Figure 22 - Number of National, Regional and International workshops and meetings attended and or organized by the Department of Forests staff in 2010.
Source: Forestry Annual Report 2010
<table>
<thead>
<tr>
<th>attended</th>
<th>Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>21</td>
</tr>
<tr>
<td>Regional</td>
<td>12</td>
</tr>
<tr>
<td>International</td>
<td>5</td>
</tr>
</tbody>
</table>

The above is a table indicating trainings or workshops delivered by the Forestry Department in 2010.

### Business Advise

The Department of Cooperative & Ni-Vanuatu Business does provide advise to farmers, micro, small and medium enterprise owners on how well to plan their business activities in order to become profitable.

### Next Step and Way forward

We have seen and witnessed that Vanuatu entrepreneurs have developed the right frame of mind to enter and operate any form of SMEs. However, there lack of focus and they are working in uncoordinated manner due to lack of business practice and understanding. The government as the facilitator should put more emphasis in the sector to recognize its importance and place it as one of urgent priority to deal with. People have a fair idea in doing business at a micro level and to advance further but they lack the basic understanding to deal with money matters when it reaches their hands.

A sharpened focus on SMEs is needed in order to assure owners and employees of small businesses, government officials, other stakeholders and the public that the Government values the sector highly and considers it of critical importance to the country.
Above all, in the current economic climate, and mindful that GDP per capita is quite low; although this has been improving, wealth creation must be a top priority for the Government of Vanuatu. Hence, greater policy attention, financial support, institutional strengthening, technical expertise, and customer care in MSME development and expansion.

The Objectives of the Policy include:

- employment creation,
- income generation,
- economic diversification,
- a more enlightened, caring, efficient and productive Public Service, demonstrating greater responsiveness to the needs of small businesses and the poor, and

The centre piece of the Strategy is increased business knowledge, business skills and competencies.

Sustained promotion and Implementation of the SME Policy and Strategy will:

- stimulate popular recognition of the importance of the SME sector to the nation’s economic performance and potential,
- make explicit the Government’s commitment to the sector’s growth,
- establish a framework for developing and directing strategies and initiatives for the SME sector
- clarify the roles and responsibilities of the public and private sectors in developing SMEs
Conclusion

The importance of SMEs in a democratic capitalist market is well documented and the issues and challenges are generally the same the world over. The certain key point is that education unlocks the opportunities available for SME growth. Without the appropriate level of education the SME owner cannot understand what is available and also take advantage of whatever is available.

In the case of the IFRS for SMEs, because of lack of education and absence of ability to forecast the business into the future there is a high probability that the benefits of keeping proper records cannot be comprehended. SMEs are started and operated for whole host of reasons but one underlying factor is to make some money to improve living standards and welfare for the people and nation. A quote from Adam Smith in his book “Wealth of the Nation”.

The SME owners’ contribution as an economic force when taken together puts the onus on the government to craft policies that enhances their participation and contribution.

Without the appropriate level of education the Minister responsible for SMEs cannot direct appropriate policies for SME growth. In order for SMEs in Vanuatu to grow and strengthen, there has to be a well articulated policy, availability of SME training facilities, the existence of credit providers to SMEs, SME Support Associations/Services, SME Policy evaluation, and SME forum at policy level directed regular intervals. There also has to be well trained top class managers that are able to see opportunities offered by the traditional governance system in practice in different islands.
For Vanuatu the start is to group all the SMEs together and instill in them their importance as partners with the government in economic development. It is also true that the level of education is also important to translate and simply important training materiel for delivery to SME owners at their level of understanding whilst emphasizing the importance of education so that the next generation can be better prepared.

The government has not provided a single SME dedicated office in the past and work is just beginning to take shape when the Department of Cooperatives was renamed the Department of Cooperatives and Ni–Vanuatu Business Development Services. A lesson learned so far is that the SME operator feels that he is left alone with the struggle of survival with no close monitoring and assistance in any way but his barrier has to be broken down. The government as the facilitator has to take the role of a referee more seriously to provide the environment for SMEs to operate and to be rewarded improved bottom line results.

. Recommendations

Given the forgoing the Group recommends the following:

♣ Government should seriously consider that the SME sector is important as an economic force in Vanuatu
♣ Formulate pragmatic policies and create appropriate legislation in the sector
♣ Set up one dedicated office to oversee and take charge the SME sector
♣ Pursue policy implementation with a sense of urgency
♣ Ensure processes are in place for effective monitoring with a view to use church based organizations and traditional organizations
Use seasonal workers programs to instill business acumen prior to depart overseas

SME forum

Government guarantee for Vanuatu Agriculture Development Bank to source funding from financial markets

Promote open economy and business friendly eco system

Useful links

Ibid