Private Sector Investment in the Pacific

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Research Questions

• What are the potential barriers or disincentives to investment in the Pacific? To what extent can these be sustainably overcome?

• What are the costs and risks to the receiving economies of greater investment and how can these be avoided, reduced or managed?

• How can the growth/development impact of investment (both foreign and local) be enhanced?
REPORTING STRUCTURE

- Investment Climate
- Motivation
- Facilitating factors
- Constraining factors
- Benefits
- Costs
- Recommendations
Literature review

• Investment critical to PICs but deeper understanding of the processes that underlie, constrain and enable private investment (foreign and local) is needed

• Key themes:
  
  • FDI to PICs fluctuates.
  
  • Data on PIC investment are limited and problematic
  
  • PIC investment climate – risk and volatility. Political unrest and natural disasters affect vulnerable nations
  
  • Challenges in attracting FDI to PICs and poor performance of FDI in stimulating growth
  
  • No two PIC investment climates are the same: government regulations, financial and legal requirements, property rights, workforce capacity and infrastructure
**Selection of Participants**

**Case Studies**

To encapsulate investor’s investment experiences in the Pacific

130 possible cases > 24 final cases chosen

Sectors: Tourism, Renewables, Agriculture, Telecom

Countries: Cook Islands, Tonga, Fiji, Vanuatu and Niue

Method: In depth interviews

**Expert Surveys**

To capture expert perceptions of investment climate, constraints and investment impacts in Pacific

98 experts > 33 responses

• Regional and National Investment Experts

• Countries: Cook Islands, Tonga, Samoa, Fiji, Vanuatu, Niue, PNG, Australia, NZ

• Method: Semi-structured survey - Online, Phone/Skype and hard copy
Case Study/Survey Locations

Key:
- Green = Location of survey respondents
- Blue = Location of case studies and surveys
Types of Investment

- **Large scale** – an investment worth NZD$10m or more
- **Small/Medium scale** anything under that amount

- **Local**
  1. Pacific home country investor – long-term resident of PIC
  2. Returning Pasifika Investor – a PIC National who has been/is living abroad and who has invested in their PIC

- **Expatriate Domestic** - Expatriate investor living in PIC

- **Foreign**
  1. FDI – Foreign investor investing in PIC – living abroad
  2. Majority Foreign Investment with some In country shareholdings
### Summary of Investment Cases

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Vanuatu</th>
<th>Fiji</th>
<th>Cook Is.</th>
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<th>Niue</th>
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## Survey Sample

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<td><strong>17</strong></td>
<td><strong>16</strong></td>
<td><strong>33</strong></td>
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</tbody>
</table>

### National Focus
- Investment
- Chambers of Commerce
- Ministries of Agriculture
- National Tourism Offices

### Regional Focus

- Investment facilitator 13
- Finance 10
- Tourism 9
- Agriculture 1

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**Partners:**
- International Finance Corporation (IFC)
- Pacific Islands Private Sector Organisation (PIPSO)
- Asian Development Bank (ADB)
- World Bank Group
- Pacific Islands Trade & Invest
- South Pacific Tourism Organisation
Data Analysis Process

**Case Study Analysis**
- Data from face-to-face interviews integrated into matrix
- Thematic analysis conducted (iterative process)
- Theme coded each time respondent mentions it
- Key themes identified and refined manually
- Frequencies and rankings of codes produced
- Data segmented by country, sector, investment type and size

**Survey Analysis**
- Data from phone interviews, online & paper surveys integrated into matrix
- Thematic analysis conducted
- Theme coded each time respondent mentioned a theme
- Key themes extracted and refined using NVivo
- Frequencies and rankings of codes produced
- Data segmented into regional and country specific sets
Survey respondents’ views on the Pacific Investment Climate

**Negative**

“Fragile. Partly due to the absence of an enabling environment that includes inadequate resilience to disasters, inadequate environment for the financial institutions to channel funding to local businesses. Distortion in the market that poses problems for foreign investment.”

**Positive**

“Economies are generally open so there is opportunity to mobilise investment there. Various things can be done: taxation issues, credit bureaus, ability to raise credit, policy advisers to improve.”
“Actually it’s (investment climate) better than most investments give it credit for. The Pacific gets a bad rap because foreign investors are not familiar with it.

The framework for inward investment into PIC’s has changed significantly – it’s stable and favourable to foreign investors, albeit politically volatile in countries like Vanuatu.

There aren’t cases of companies having discriminatory regulation against them - far from it. Most foreign investment gets all kinds of advantages from the in country government. They get treated very well and welcomed so it’s not that the rules are discriminatory against foreign investment, they’re far from it.
"Tonga would be the most challenging experience for our group in the Pacific"

17/24 cases say they want to invest further in their home country

“I would ‘definitely’ recommend the Cook Islands to investors because the tourism industry will grow substantially in the future. The Cook Islands is easily accessible to the New Zealand market”
# Motivations for Investment in the Pacific

<table>
<thead>
<tr>
<th>Return on Investment and to increase market share</th>
<th>Expansion into new markets or geographical areas (larger investors)</th>
<th>A desire to develop an existing investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self funded life-style change/retirement opportunity</td>
<td>Borne out of family ties and business commitments Desire to provide a legacy of financial stability for children</td>
<td>Give something back to local economy/broader community through employment, capacity building and local linkage creation</td>
</tr>
<tr>
<td>A deep-seated passion for the sector attracting the investment</td>
<td>Ownership or access to land – investing time and energy in developing a family resource for broader outcomes</td>
<td>Adding value to local products</td>
</tr>
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</table>
# Facilitating Factors of Investment in the Pacific

<table>
<thead>
<tr>
<th>Facilitating Factors</th>
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<th>Fiji</th>
<th>Vanuatu</th>
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</table>
Local Knowledge, Networks and ‘Being Local’

An investment will be beneficial if investors have local knowledge in the industry that is being invested in and an understanding of the target markets’ behaviour.

There are a lot of challenges and issues for small businesses, but you can survive because of your local knowledge and your know-how.”
The Role of Government Support/Investment Process

**Investor Perspectives**

“The process is not difficult to go through if the rules are followed. For any legitimate application, obtaining approval is fairly straightforward, but the next steps are more difficult for potential investors.”

**Expert Perspectives**

“1) Stable Government
2) Right Incentives
3) Business Reforms
4) Use of technology to modernise business services”

…. “Stable government with good ethical practices”
Land

Investor Perspectives

“Land is the first step in any investment”

As one small tourism investor noted having land available and as a “known quantity” is “hugely advantageous

For some investors, access to family land facilitates a desire to ‘return home’ and ‘give something back’

Expert Perspectives

“Flexibility with land systems to allow longer lease. Investment training and education of local landowners. Facilitation of investment opportunities by Government”
Ranking of Investment Constraints

Investor Ranking

1. Governance
2. Environmental, climate change, natural disasters
3. Financing and security
4. Workforce - capacity
5. Land
6. Marketing and promotion
7. Market compliance and uncertainty
8. Isolation - distance and scale of markets
9. Supply chain

Expert Ranking

1. Governance
2. Land
3. Financing and security
4. Workforce - capacity
5. High costs
6. Isolation - distance and scale of markets
7. Lack of reliable information
8. Infrastructure
9. Environmental, climate change, natural disasters
10. Lack of strategy and big picture thinking
## Constraints to Investment by Country (Investors)

<table>
<thead>
<tr>
<th>Constraints</th>
<th>Tonga</th>
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</table>
Governance

- Need strong, transparent governance and political stability
- A tendency for over-regulation through legislation
- Smaller investors disappointed with level of government support
- Easy targets of government revenue ‘grabs’
- Concerns over investment flows from China
Environment, Climate Change and Natural Disasters

- **Cyclones**
- **Drought and unusual rainfall patterns**
- **Mosquito borne diseases**
- **The effect of environmental degradation e.g. Cooks algal bloom**
- **Need to diversify investment portfolio into remediation activities**

“The region is hit by disasters often – risky investment in this region, not adequate disaster procedures in Pacific Island countries”

“To survive I need my other businesses to supplement my main interest and passion – agriculture”

“Climate change – some sectors are resilient but investment could be directed to this area”
Financing

“Hard for new entrants to start from nothing.”

“Small countries have small deposit bases, there isn’t a lot of money to borrow – this creates a series of ramifications for lenders.

1) They don’t have enough money in the bank account to lend as deposit base too small
2) Small market size: amounts of money that can be allocated in any given sector fill up quickly.

E.g. Hotel industry. A $50m investment – fills banks books. Difficult to fuel growth as they will be over exposed. Banks can’t lend all the money to a certain sector of the portfolio or to a certain location….

Some services are difficult to price and are uncompetitive so investors will invest in bigger markets – that are easier to invest.”
High Costs

When tourism businesses pay bills and commission, the money has to be transferred into overseas currency and Tongans lose money in this process. Since most bookings are online the guests pay in Tongan soft currency but the commission has to be paid in hard currency. The exchange rate means that about NZD$200-300 a month is lost on bookings alone.

High interest rates also pose problems, some banks charge twelve percent and this can be an issue when you need to borrow money for maintenance and upgrades.
“The biggest roadblock.”

“Businesses can’t get access to capital - security: land creates a problem.

Need to find other forms of collateral – the Pacific has been slow to do this: mobile assets, cash flows – tend to be not attractive.

Challenges: land ownership, communal ownership

How can you secure access to capital?”

Cuts across all countries and sectors

Difficult to acquire

Issues with inheritance (e.g. Only males inherit land in Tonga and Vanuatu)

Bureaucracy (e.g. Fiji)

Land lease issues (e.g. Cook Islands, Vanuatu)

Cultural concerns (e.g. Community opposing commercial activity near ancestral burial site)

Push for longer lease periods and to develop land within timeframes
<table>
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<th>Lack of Reliable Information and Data</th>
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<tbody>
<tr>
<td>Lack of access to relevant information and data</td>
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<tr>
<td>Inability to draw on information to inform estimates of ROI</td>
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<td>Felt more by smaller operations (with limited capacity to fill the gaps)</td>
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<tr>
<td>Generate and disseminate timely supply and demand information for all sectors</td>
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<tr>
<td>Unclear government policies and uneven government incentives</td>
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<td>Lack of information about how to set up a business</td>
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## Strength of Supply Chain

### Country

<table>
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<th>Strength of supply chain</th>
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<th>Fiji</th>
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### Sector

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<th>Agriculture</th>
<th>Renewable Energy</th>
<th>Telecoms</th>
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<td>Strong</td>
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</table>
“Rather than grow basic lettuce which is relatively cheap to import, I’ve placed a focus on speciality vegetables, fruit, herbs and I’m now branching into edible flowers.

We plan to do much more in telling the story of local food through our menus and marketing.”

“Developing local supply chains is good for business and good for community – it’s a win win in the long term”
Labour

“Limited human resources available for sizable FDI. E.g. Papua New Guinea liquified natural gas project. We could not possibly provide all the technical expertise in terms of workforce during the project development/construction phase.”

- Difficulty in accessing adequate labour
- Lack of technical expertise, capacity and skills
- Difficult filling vacancies through migration
- Good staff are trained and then leave
- Important for staff to speak good English and to have basic communication skills
I have gone backwards with local community relations, its’ tall poppy’ stuff, they see me progress and they didn’t expect this.

It would be easier if I weren’t local and much easier if my husband was still alive.

As a larger enterprise its vital we do our bit locally – training, capacity building and connecting to community helps us and the national economy in the long run.
Benefits of Investment (Investors & Experts)

- Economic Development
- Employment
- Transfer of skills and knowledge
- Strengthen local supply chains
- Improved infrastructure
- Community involvement
- Provide income
- Self-sufficient businesses
- Local investment opportunities
- Innovative thinking

Investor Ranking:
1. Economic Development
2. Employment
3. Transfer of skills and knowledge
4. Strengthen local supply chains
5. Improved infrastructure
6. Community involvement
7. Provide income
8. Self-sufficient businesses
9. Local investment opportunities
10. Innovative thinking

Expert Ranking:
1. Economic Development
2. Employment
3. Transfer of skills and knowledge
4. Improved Infrastructure
5. Greater entrepreneurial opportunities
6. Local knowledge, networks and culture
7. Access to markets
8. Other

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## Benefits of Investment to the Pacific for Large and Small Businesses (Investors)

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<td>15</td>
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<tr>
<td>Improved Infrastructure</td>
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<tr>
<td>Community Involvement</td>
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<tr>
<td>Transfer of Skills and Knowledge</td>
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</tbody>
</table>
Benefits of Local and Foreign Investment (Experts)

- Employment
- Economic development
- Transfer of skills, knowledge, technology and innovation
- Improved infrastructure
- Greater entrepreneurial opportunities for business and locals
- Access to markets
- Other

Foreign Investment:

1. Employment
2. Economic development
3. Transfer of skills, knowledge, technology and innovation
4. Improved infrastructure
5. Greater entrepreneurial opportunities for business and locals
6. Access to markets
7. Other
8. Access to markets

Local Investment:

1. Economic development
2. Employment
3. Local culture and community
4. Greater entrepreneurial opportunities for business and locals
5. Transfer of skills, knowledge, technology and innovation
6. Improved infrastructure
7. Other
8. Access to markets
| Economic Development & Employment |

<table>
<thead>
<tr>
<th>FDI</th>
<th>Local Investment</th>
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</thead>
<tbody>
<tr>
<td>• Creates employment</td>
<td>• Can achieve the same as FDI (apart from technology transfer)</td>
</tr>
<tr>
<td>• Transfer of skills and technology</td>
<td>• A stepping stone to regional expansion in the Pacific</td>
</tr>
<tr>
<td>• Foreign capital</td>
<td>• Less risk as locals understand the marketplace, culture and sensitivities</td>
</tr>
<tr>
<td>• Economic growth</td>
<td>• Contribute to economy through import substitution</td>
</tr>
<tr>
<td>• Improved infrastructure (impact market development and productivity)</td>
<td></td>
</tr>
<tr>
<td>• Access to markets</td>
<td></td>
</tr>
<tr>
<td>• Builds up economic base of suppliers</td>
<td></td>
</tr>
<tr>
<td>• Can enhance the livelihood of local communities</td>
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</tbody>
</table>
Encouraging Local Entrepreneurial Opportunities

Encourages local engagement/investment

Tourism investment can generate a range of opportunities e.g. local food and handicraft production

Builds local skills and capacity

“Above all, FDI can act as an anchor investment that will link up with SMEs that can be service providers to the anchor investment.”
Community Links & Corporate Social Responsibility

Investors see value in engaging with community

A way to create success as a business (profit motive meets community development motive)

Key community links built through supply chains and networks

Preservation of local culture e.g. dance troupes in tourism

Investment opportunities for locals

Environmental sustainability

“Giving something back”

“I could see that young people were losing a connection to their cultural roots and that some were becoming wayward…. We can help people to come together and reconnect”
Costs and Risks of FDI (Regional & Country Experts)
Financial Outflows and Loss of Control

Economic leakages

Losing control

Heavy reliance on incentives/concessions to attract FDI – leads to further outflows

Concern over the scale of some FDI – overwhelming host economies

Issue of good governance

“Lack of capacity means there is a risk that the receiving economies will not get the best deal and that the economic benefits will flow back out of the country rather than being reinvested primarily.”

“Foreign investors may exercise management and control over receiving economy’s firms in a way that may not always benefit the host country.”
Crowds out Local Opportunities/Competition

Local opportunities crowded out by FDI

Foreigners leasing land, increases living costs in PICs

Some investment processes help FDI instead of locals

Concern over Chinese investment

Impacts on government corruption and transparency

“If they open the country up too much it will crowd out/neglect locals”

“Foreigners lease mass amounts of land and rent accommodation in Rarotonga, this will increase the cost of living in the Cook Islands”

Investment processes “set up to support offshore interests rather than local interests”
Culture, Society and Environment

Economic growth, employment opportunities, and a more marketable country” at the same time “the social/wealth/cultural gap potentially widens”

“You’re getting a lot of Fijian’s and Filipino’s working here now”

“If we develop accommodation, we need to look at our long-term goal – for environment and people: you build into the environment – don’t demolish it”

Threat to PIC culture

Poor use of labour and limited commitment to good employment

Loss of local employment due to foreign employment

Ability for environment to withstand impacts of large scale FDI

Comes down to good governance
Overall Findings

1. Facilitating factors
   - Local knowledge and networks
   - Government and Investment Agency
   - Environmental factors (Investors, Land (Experts))
   - Being a Local

2. Constraints
   - Governance
   - Economic development
   - Employment
   - Financing and security
   - Transfer of knowledge and skills
   - Cultural and social costs

3. Benefits
   - Financial outflows
   - Crowds out local opportunities
   - Cultural and social costs

4. Costs & Risks of FDI
   - Industry experience
   - High costs / Labour
   - Strengthen local supply chains
   - Environmental factors
Synthesis of Findings

Success:

You can’t create low value opportunities in the Pacific – it just doesn’t work because the cost of living is too high and you won’t get young people working hard for a couple dollars a day – it doesn’t work.

You need to create high value opportunities in order to sustain the Pacific economy.”
Developing an enabling environment

1. Generate and use robust and effective processes to vet applications.

2. Government and relevant stakeholders need to create policies that target investment at key development goals (remember domestic investors).

3. Simplify the investment process and make relevant information available in an accessible and user friendly fashion ‘one stop shop’.

4. Accept that land is a complex challenge for many investors. Work with stakeholders to smooth out the process as much as possible while ensuring rights are not compromised.
5. Focus on generating positive local sustainable development spin-offs from all forms of investment. Prepare in advance for large FDI.

6. Encourage returning Pasifika investment and investment by Pacific women.

7. Ensure that investment related data and information is robust and readily accessible to all potential investors and facilitators.

8. Develop effective KPIs to evaluate investor performance across a range of variables that relate to business performance and broader sustainable development goals. Use to inform future investors.
“….strengthen the understanding of investors to invest in ways that will benefit the Pacific and create positive linkages into communities.

The Pacific is a community-based economy; almost all of the economic activities are in the informal sector. If companies can understand that, work with that and create a story on the back of that – they’ll do well - they will get high prices for the product.

So, there’s a particular way of doing business in the Pacific which can form a great investment opportunity.”
Disseminate findings via webinar and final report
Provide access to the case studies
Further mining of the data
Deeper sectoral focus – tourism and PTDI (MFAT)
Develop research tools can be used to inform investment decision making and the evaluation of investment performance
Thank you

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ADDITIONAL SLIDES
Benefits of Local Investment (Country & Regional Experts)
Top Ten Constraints to Investment (Region & Country Specific Experts)

- Governance
- Financing and Security
- High costs
- Workforce - capacity
- Isolation - distance and scale of markets
- Lack of reliable information
- Environment, climate change, natural disasters
- Investment process
- Land
- Financing and Security
- Workforce - capacity
- Infrastructure
- Isolation - distance and scale of markets
- Lack of reliable information
- High costs