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Private Sector Investment in the Pacific

Final Report – September 2017

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Executive Summary

Despite the importance of investment to Pacific Island Countries (PICs), relatively little is known about the challenges that face both foreign and domestic investors and how these groups may be enabled to meet their goals while also helping to achieve key national sustainable development goals. We also have a relatively limited understanding of the impacts associated with investment in PICs. This report examines the drivers of, and barriers to, private sector investment (both foreign and local). In addition, the research seeks to understand the benefits and costs associated with different forms of private sector investment - ranging from large scale foreign through to small scale local/Pasifika and ex(re)patiate.

Three key research questions guide the report:

- 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 FDI and how can these be avoided, reduced or managed?
- How can the growth/development impact of investment (both foreign and local) be enhanced?

The work draws on in-depth case-based interviews with 24 investors from Fiji, Tonga, Cook Islands and Niue. The sectors covered are tourism, agriculture, renewable energy and telecommunications. Investments range in size from large scale foreign initiatives through to small local activities. The second part of the research draws on semi-structured surveys conducted by email/phone with 33 regional investment ‘experts’. The survey comprised a series of open-ended questions designed to supplement and add to the dimensions covered in the investor interviews. The surveys were received from countries around the region, including those represented in the interviews.

While experts surveyed generally hold a negative view of the investment climate in the region and across specific national contexts this stands in contrast to the opinions voiced by investors who were interviewed about their own experiences/situation. Investors generally had a good investment experience in the Pacific with over three quarters noting a positive outcome. The fact that the bulk of investors are planning to invest further in their home country tends to reinforce this positive outlook.

The report explores the motivations that lie behind investment decisions as these can shape later investment approaches and outcomes. Core motivations focus on ‘return on investment’ but the research does, however, uncover a broader range of impetuses. For some investors, these derive from existing family ties, others state that they wanted to “give something back” to the broader community by, for example, supporting the education and development of local staff and/or building environmental awareness and resilience.

A review of the key factors that investors see as facilitating investment highlights ‘local knowledge and networks’ as being most...
significant. The second most frequently mentioned facilitating factor is the Government and Investment Agency. A stable political environment, with transparency of investment processes, clear and efficient administration of the laws and relevant regulations in all areas of Government, is also seen as vital. ‘Being a local’ is also a factor considered important in enabling investment in some of the cases covered, with industry experience being seen as providing a distinct advantage. Government incentives, family links and land ownership are also identified as important facilitating factors for investment.

For both investors and experts, the area of governance emerged as the number one constraint to investment. Environmental factors emerged as the second most significant constraining factor among investors but featured well down the list for experts. Among experts, ‘land’ was seen as the second most important factor, whereas for investors this was placed in sixth position. Financing and security received considerable attention from both groups and the ‘top five’ of constraints to investment was rounded out by high costs and limitations in the size and/or skills of the labour force.

Both investor and expert groupings identified identical ‘top three’ areas of benefit associated with investment. Broad-based economic development, employment creation and the transfer of knowledge and skills, were all seen to be critical positive outcomes from investment processes. Domestic investment is seen to have a greater impact on the development of local culture and to bring broader community benefit whereas there is less focus on its ability to transfer knowledge, technology and innovation. Experts associate foreign investment with stronger benefits than its domestic counterpart, and also view it as a much stronger driver in the area of infrastructure development.

For many of those investors participating in the research, it is their links to the local community that they see as generating the greatest benefits - both in terms of corporate financial performance and the broader development outcomes that have emerged from investment. Many of those interviewed have established significant networks with the surrounding economy and have important links to the well-being and quality of life of local communities. This brings important benefits in terms of the transfer of knowledge and development of skills, the development of local entrepreneurship and the growth of trust and understanding.

The return home of ‘local’ investors/partners is also a feature highlighted in the research. This group often brings experience in developed market environments and a “new set of eyes” when it comes to business practices and investment opportunities. These ‘repatriates’ often arrive with a motivation to bring deeper benefits to their home nation and culture. They can however face challenges in returning to an environment that may, in some respects, be unfamiliar.

Financial outflows, the crowding out of local opportunities, and cultural and social costs are the factors most commonly raised when experts are asked to outline the costs and risks associated with foreign direct investment. Environmental and governance factors are also considered to be significant in shaping outcomes, with attention often focused on the increased danger of corruption and the need for full transparency in approval processes. Social and cultural costs associated with FDI are
seen by experts to revolve around impacts on the social fabric of communities with concerns focused on labour issues and the potential widening of social/wealth and cultural gaps.

In short, the findings reveal a complex and diverse array of issues that constrain and facilitate investment in the Pacific and which shape its eventual success and broader impacts on sustainable development outcomes. It is clear that connections and relationships between investment cases and the surrounding community/economy/environment are vital factors in motivating, facilitating, constraining and shaping the impacts (and perceived success) of investment.

The following recommendations are provided in the report to assist government in developing an environment that enables investment growth that is linked to sustainable development goals:

- Use robust information and effective processes to vet applications.
- Government and relevant stakeholders need to create clear policies and target investment at key sustainable development goals - including supporting domestic investors.
- The investment process should be simplified and relevant information be made available in an accessible and user friendly fashion. Work where possible with the financial sector to ease access to capital especially for domestic investors.
- Accept that land will remain a complex challenge for many investors and attempt to work with all stakeholders concerned to smooth out the process as much as possible while ensuring rights are not compromised.
- Look to create positive local sustainable development spin-off effects from all forms of investment whether they be large scale, small, foreign or domestic. Prepare in advance for FDI so that maximum benefits are created and negative impacts minimised.
- Encourage returning Pasifika investment and in particular, investment by Pacific Women.
- Ensure that investment related data and information is robust and readily accessible to all potential investors and those that work in the investment arena.
- Develop effective tools and systems to evaluate investor performance across a range of variables that relate to business performance and broader sustainable development goals.

The report highlights the complex issues that influence investment processes in the Pacific and the broad range of benefits and costs that stem from such investment. The diversity of the region and the investment experience itself means that no one path can be followed to achieving success both in terms of corporate performance and the achievement of broader sustainable development goals. What is critical is that we continue to learn and tell the stories of investment in the region and embrace the complexity and uniqueness of the context and cases that we encounter.

This report represents one step in the direction of telling the story of the challenges and opportunities of Pacific investment. The detailed case studies that inform much of the discussion here have been reworked as easily accessible investment stories that can be accessed by interested parties at www.nzipr.ac.nz/research/private-sector-investment-in-the-pacific.
1. Introduction

Pacific Island Countries face myriad economic challenges, including geographic isolation, small land area and market size, narrow resource bases and vulnerability to both external economic and environmental shocks. Opportunities for economic growth are limited, with Small Island Developing States (SIDS) having a strong reliance on foreign aid, and the growth rates among Pacific Island countries (PICs) being the lowest and most volatile amongst developing nations (Feeny et al., 2014). Structural constraints, including limited access to finance, complex regulatory environments, political instability, weak institutional arrangements, poor infrastructure and limited domestic population bases, compound these challenges.

Given this context, it is clear that a major role must be ascribed to foreign investment in developing the economic resources and opportunities of the region and creating positive economic development outcomes for local populations. The development of local investment is also critical to the growth of low-income economies and the creation of incomes and employment for households.

Despite the importance of investment to the Pacific SIDS, relatively little is known about the challenges that face both foreign and domestic investors and how these groups may be facilitated to meet their goals and aspirations while also delivering key national development outcomes. Similarly, we know little about the impacts associated with inward investment to Pacific SIDS – what are the costs that may shadow the opportunities presented and detract from the final benefits delivered?

This report seeks to understand the drivers of, and barriers to, private sector investment (both foreign and local) in developing island economies in the Pacific. In addition, the research seeks to understand the benefits and costs associated with different forms of private sector investment - ranging from large scale foreign through to small scale local/Pasifika and ex(re)patriate.

Three key research questions guide the report:

- 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 FDI and how can these be avoided, reduced or managed?
- How can the growth/development impact of investment (both foreign and local) be enhanced?

In order to address these questions the following research pathway was adopted (Figure 1.1).

The work commenced with a thorough review of relevant literature from the Pacific and elsewhere. The focus of the review was on the causes and nature of FDI inflows to Pacific Island countries, determinants of local investment and the impacts associated with investment.
In consultation with MFAT, a decision was made to adopt a two-pronged approach to the research with a series of in-depth case studies being used to highlight the investor perspective on the key research questions, while a phone/email survey was used to gather information at a regional scale from those who facilitate, regulate and manage investment at national and regional levels. Throughout the report, the former group are referred to collectively as the ‘investors’, the latter are referred to as the ‘experts’.

A decision was also made to focus the research on four sectors: tourism, agriculture, renewable energy and telecommunications, all of which, with the exception of telecommunications, are areas of MFAT investment priority. For renewable energy, MFAT has a focus on expanding access to affordable, reliable and clean energy; in agriculture, the emphasis is placed on increasing economic and food security benefits; while for tourism, the focus is on increasing economic benefits (MFAT, n.d. b).
For many Pacific Island countries, tourism and agriculture are key drivers of economic growth, opening up the telecommunications market is also an opportunity to enhance investment. Tourism and agriculture are among the most competitive industries in the Pacific (Chen et al., 2014). These sectors are critical to the national development plans of the selected countries and much of the broader region. The links between the sectors represent key opportunities for sustainable development and security in Pacific Island countries across the region. For example, the links between local food production and the tourism industry represent a means for both greater food security and local economic development. Furthermore, the tourism and agricultural industries can both benefit from the development of the renewable energy sector, supporting it to grow and deliver greater benefits to local economies whilst mitigating climate change related challenges.

The case studies include a mix of investment initiatives and revolve around in-depth, in-country, semi-structured interviews and associated desk research. Four countries form the focus of the work: Fiji, Vanuatu, Cook Islands, Tonga, with one case added from Niue. The semi-structured interviews provide insight into investor needs and perceptions; the growth/development impacts of investments, and the factors that constrain and enable successful investment outcomes.

The challenges and opportunities facing not only foreign investment but also local investment, are important to understand. This is especially the case when examining private sector investment in Pacific Island countries where low-incomes and limited international exposure mean that reliance on domestic investment is nearly always a factor.

We have adopted a fundamentally qualitative approach to this work because there is a need to tell the deeper story of the investment process. We also believe that it is through the voice of the research participants that we can best understand trends and issues, and share learnings from those who have been through the investment process or who are experts in the field. We are very much focused on trying, where practical, to compare and contrast the perspectives of the investor and expert groups.

This report represents one of three key outputs to stem from the NZIPR Private Sector Investment in the Pacific work stream. A number of resources from the research and the case study stories are available at [www.nzipr.ac.nz/research/private-sector-investment-in-the-pacific](http://www.nzipr.ac.nz/research/private-sector-investment-in-the-pacific). The website also features content from the workshop held in October 2017 where key findings were presented and discussions held.

**Report Structure**

Section Two reviews the literature around current trends in investment in Pacific Island Countries, including the facilitators, barriers, costs and risks. The section concludes with a reflection on the future challenges, and potential solutions, to stimulating investment in the Pacific.

The following section (3) focusses on the research method that underpins the report. We outline the methodological approach. Details of the case studies are outlined and the investment context and climate in which they operate (country/sector/type and size of
investment) is discussed. The phone/email process is also outlined along with broad details of the backgrounds of those who participated – we provide a sense of the regional and national bodies covered in the sample.

Rather than split the remainder of the report into results and discussions sections we have combined the two into a series of thematic sections that reflect the core thematic areas to emerge from the research. Section Four begins with a review of perspectives on the investment climate. The motivations underlying the decision to invest in the Pacific are explored. A focus is placed on not just the primary motivations of return on investment and income generation, but also on broader, and in some cases deeper, stimuli including the desire on the part of investors to generate community development outcomes and ‘give something back’ to the country or locality concerned.

Section Five focuses on the facilitators and constraints that influence private sector investment. Beginning with facilitators, we review the role that good governance, local knowledge and linkages, industry experience and a number of other factors can play. Considerable focus is then placed on constraints influencing investment, with comparisons drawn between investor and expert perspectives. The discussion ranges widely over a range of factors including: access to finance, transparency of governance, access to land, labour sources, environment, culture and infrastructure.

In the following Section (6) the focus shifts to the impacts associated with private sector investment in Pacific Island Countries. The discussion commences with a review of the positive impacts associated with foreign and domestic investment as well as the costs and risks associated with these activities. The discussion highlights some of the key differences and commonalities between investor and expert perspectives on the issues facing investment in the Pacific. The focus then shifts to the costs and risks associated with foreign direct investment.

Section Seven concludes the report. We synthesise the key research findings and reflect on their implications for investment processes and related development. We relay the key advice that our case study participants have for future investors to the region. The chapter ends with a series of recommendations that emphasise how government and other key stakeholders in the investment process can grow and enhance the links between foreign and local private investment and sustainable economic growth and development outcomes.
2. Investment in Pacific island Countries – An Overview

Investment plays an increasingly important role in PICs given its potential to contribute to economic development and prosperity (Feeny, Iamsiraroj & McGillivray, 2014). A review of relevant literature reveals that a deeper understanding is needed of the processes that underlie, constrain and enable private investment (both foreign and local) in PICs.

The review commences with a brief overview of trends in investment flows and levels, and then focuses on contributions to understanding the determinants, facilitators, barriers, and disincentives to investment in PICs. We then review extant literature to understand the benefits, costs and risks of investment to PICs and conclude with a discussion of future challenges in the investment climate in PICs. Finally, we take a forward planning approach and look at a ‘new generation’ of investment policy that provides solutions appropriate to the context of PICs and sustainable development goals.

General Investment Trends

Worldwide flows of FDI fell 13% in 2016, equating to just over US$1.5 trillion. With global economic growth remaining weak and world trade volumes posting limited gains, UNCTAD (2017, 2) believes that at best 2017 will see only a modest recovery. At the regional level, the global total was reduced by falling flows to Europe (-29%), Developing Asia and Oceania (-22%), Latin America and the Caribbean (-19%) and Africa (-5%) (Figure 2.1).

![Regional contribution to global FDI flows 2015-2016 USD Billions (UNCTAD 2017)](image)

Source: UNCTAD (2017, 2). Note: Caribbean offshore financial centres. Percent changes are calculated for each region relative to 2015.
Foreign Direct Investment net inflows (as a % of GDP) to selected Pacific Countries have fluctuated over recent years with vulnerable nations affected by political unrest and natural disasters such as Fiji, Tonga and Vanuatu, showing a decline in FDI net inflows since 2010. Table 2.1 reflects data taken from the World Bank DataBank across seven Small Island Developing States in the Pacific from 1990 to 2015.

Table 2.1 FDI net inflows (% of GDP) to selected Pacific countries 1990-2015

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Source: Data from DataBank, World Bank 2017. NB: There is no available data on the Cook Islands and Niue

Levels and types of private sector investment vary widely across the Pacific but overall, they remain stubbornly low. A range of research has focused on attempting to estimate and model the factors that influence FDI flows and patterns in PICs (Kami, 1995; Jayaraman, 1996, 1999; Cho, 2003; Jayaraman & Choong, 2006; Jayaraman & Singh, 2007; Gounder, 2013; Feeny et al., 2014). This work consistently points to the considerable challenges faced in attracting FDI to PICs (limited domestic finance, few resources, geographic isolation etc.) and the relatively poor performance of FDI in stimulating economic growth.

Data on FDI inflows to PICs are patchy and problematic, and this creates real difficulties in trying to model the determinants of FDI and the broader societal value associated with encouraging and supporting it. The econometric work that has been conducted with this data over the years (Feeny et al., 2014; Foster, 1995; Dahalan & Jayaraman, 2006; Chauvet, Collier, & Hoeffler, 2010) points to common and relatively consistent barriers to inward investment and highlights debates over the sometimes tenuous links between FDI and local economic development.
Pacific Island Countries (PICs) face many challenges including geographic isolation, small size and remoteness from large markets. PICs are also characterised by their vulnerability to climate change, and to economic and natural shocks beyond domestic control (Brown & Connell, 2006; Feeny et al., 2014; Holden, Bale & Holden, 2004; Wong, de Lacy, & Jiang, 2012). What they are able to exert some control over, however, is the investment climate - or the “policy, regulatory and institutional factors that provide incentives sufficiently robust to induce the private sector to invest in socially desirable projects” (Weingast, 1995, 8). The enabling environment for “real-economy business investment and entrepreneurship” is critical to a country’s success in expanding employment, boosting wages, and widening asset ownership, which are central drivers of progress in broad living standards (World Economic Forum, 2017).

Many PICs are facing structural challenges when it comes to private sector investment. These include top-heavy inefficient state owned enterprises, comparatively poor civil infrastructure (roading, electricity, sanitation, water) and a limited labour force often characterised by low levels of human capital and innovation capacity (Holden, Bale & Holden, 2004). In some but not all PICs, government and political instability is a further impediment to private sector investment with many small South Pacific island nations faced with large, unwieldy bureaucratic government structures and complex investment policies and incentive structures (Cho, 2003; Davis, McMaster & Nowak, 2002). Other challenges that affect the investment climate of PICs include limited access to sustainable and secure finance, out-of-date and slow tax and enforcement systems, and large informal economies. PICs have also suffered from uneven and uncoordinated aid programmes leaving mixed infrastructure, and organisations overstretched once funding runs out. (Holden, Bale & Holden, 2004; Centre for International Economics, 2007).

The South Pacific is a unique region with specific investment challenges and opportunities especially in terms of leveraging linkages – for example, between tourism and agriculture - for economic growth, as well as in becoming energy self-sufficient and more sustainable. However, this point is somewhat overlooked with much of the academic literature, related policy discourse, and the related work of donors, focusing on improving the business environment in PICs to reduce the in-country costs and uncertainty of doing business (Novik, 2017; APEC, 2008; Chen et al., 2014).

With the exception of relatively resource-rich countries like Fiji and Papua New Guinea, in general the investment climate in the Pacific is associated with a high level of risk and volatility due to numerous challenges that make it difficult to do business (Rao, 2002). No two-investment climates are the same in the Pacific region as each PIC features different government regulations, financial and legal requirements, investment procedures, business and trade licenses or permits, reserved/restricted and prohibited areas of investment, property rights, workforce capability and infrastructure. There are similarities and differences between each context and this is emphasised throughout the research.

Determinants of Investment

Developing countries are increasingly interested in attracting FDI given the
potential role such investment can play in accelerating growth and economic transformation. Host country determinants of investment are commonly argued in the literature to be made up of: economic conditions (e.g. the markets, resources and competitiveness), host country policies (e.g. macro policies, private sector, trade and industry and FDI policies), and Multinational Enterprise (MNE) strategies (e.g. risk perception, location, sourcing and integration transfer) (Table 2.2). These determinants rely on at least three features of investment: 1) the motive for investment (e.g. resource, market, efficiency, or strategic-asset seeking) and 2) the type of investment (e.g. manufacturing or services), and 3) the investment size (e.g. small and medium MNE’s or large MNE’s) (Cho, 2003; Read, 2007).

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<td></td>
<td>Competitiveness</td>
<td>Labour availability, cost, skills, trainability; managerial technical skills; access to input physical infrastructure; supplier base; technology support.</td>
</tr>
<tr>
<td>Host Country Policies</td>
<td>Macro policies</td>
<td>Management of crucial macro variables; ease of remittance; access to foreign exchange.</td>
</tr>
<tr>
<td></td>
<td>Private Sector</td>
<td>Promotion of private ownership; clear and stable policies; easy entry/exit policies; efficient financial markets; other support.</td>
</tr>
<tr>
<td></td>
<td>Trade and industry</td>
<td>Trade strategy; regional integration and access to markets; ownership controls; competition policies; support for SMEs.</td>
</tr>
<tr>
<td></td>
<td>FDI policies</td>
<td>Ease of entry; ownership incentives; access to inputs; transparent and stable policies.</td>
</tr>
<tr>
<td>MNE Strategies</td>
<td>Risk perception</td>
<td>Perceptions of country risk based on political factors, macro management, labour markets, policy stability.</td>
</tr>
<tr>
<td></td>
<td>Location, sourcing, integration transfer</td>
<td>Company strategies on location, sourcing products/inputs, integration of affiliates, strategic alliances, training, technology.</td>
</tr>
</tbody>
</table>


Read (2007) investigates the determinants of FDI in Small Island Developing States (SIDS), including Pacific Island countries, and issues a caution on adopting a ‘one size fits all’ approach to understanding determinants of investment. The author highlights the need to focus on the inclusion and analysis of determinants with respect to small economies i.e. with populations below three million people. Read (2007) finds that
(small) size, ‘islandness’ (as a geographical and sociological reality) and sectoral structure variables are not significant determinants of FDI inflows. Openness to trade, income and location, however, are found to have significant effects on FDI inflows. The author adds that “the policy stance of many SIDS towards FDI maybe be more restrictive than that towards trade openness” (Read, 2007, 21). Drawing on a secondary analysis of existing data and extant literature related to FDI inflows to SIDS, Read (2007) adds to the list of determinants of investment in SIDS (Table 2.3):

<table>
<thead>
<tr>
<th>Variable</th>
<th>Policy implications with respect to FDI inflows in SIDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Small size in itself is not found to be a significant barrier to attracting inflows of FDI. The population size variable is found to be negative but insignificant.</td>
</tr>
<tr>
<td>Income</td>
<td>Relative FDI inflows are significantly and negatively related to countries in the highest and lowest of the World Bank income groups. FDI inflows are positively related to the upper-middle income group and negatively related to the lower-middle income group but insignificant in both cases. The critical implication for SIDS is that they are unlikely to attract much in the way of market-seeking FDI and, particularly with respect to the least developed SIDS, only low levels of efficiency-seeking FDI. This does not however, negate the potential for FDI inflows seeking valuable natural resources.</td>
</tr>
<tr>
<td>Openness to Trade</td>
<td>A positive and significant determinant of FDI inflows at the global level. Openness compensates to some extent for small size. However, the wide variations in FDI stocks and shares of FDI inflows in gross fixed capital formation among SIDS suggest that trade openness on its own is not necessarily a sufficient remedy for low levels of FDI. The Policy stance of many SIDS towards FDI maybe be more restrictive than that towards trade openness.</td>
</tr>
<tr>
<td>Islandness</td>
<td>This variable is included to capture fully the effects of an island location of FDI inflows and is applied to the global dataset. The islandness variable is found to have a positive but insignificant effect on FDI inflows. This result is consistent with empirical findings elsewhere on small economies but runs counter to the inferences of much of the (descriptive) literature on islands. The SIDS variable encapsulates small size, islandness and developing status in a single variable but, like islandness, it is found to have a positive but insignificant effect on FDI. This may be at least partly explained by the flexibility applied to the granting of SIDS status with respect to size, islandness and income levels.</td>
</tr>
</tbody>
</table>
| Location       | Relative inflows of FDI are found to be significantly related to location in some World Bank regions. Notably, location in Western Europe has a positive and significant impact on inflows of FDI while Middle East and North Africa and South Asia have a negative and significant effect. Given the small number of SIDS located in the latter two regions and their preponderance elsewhere, including Western Europe, these results
suggest that the location of the greater proportion of SIDS does not influence their prospects for inflows of FDI.

**Source:** Read (2007, 21-22)

### Investment Facilitators

While Openness to Trade is a positive and significant determinant of FDI inflows at the global level, several authors (Read, 2007; Novik, 2017; Holden, Bale & Holden, 2004) highlight the importance of creating an enabling environment in which investment can occur. Investment facilitation as a concept refers to a whole of government approach to ease business establishment and requires governments to take actions to “attract foreign investment and maximise the effectiveness and efficiency of its administration through all stages of the investment cycle” (Novik, 2017, 2). Novik (2017) cautions that investment facilitation is not to be confused with investment promotion.

Private capital flows can be separated into the following components: foreign direct investment; portfolio equity (in the form of buying and selling stocks and shares); remittances that are sent home by migrants; and private sector borrowing (OECD, 2017). The impacts of changes in FDI flows have not yet been analysed in an integrative fashion. Amirahmadi & Wu (1994) focus on developing countries in Africa, Asia, Europe, the Middle East, and Western Europe (Argentina, Brazil, Colombia and Mexico) and present four reasons for the sustained FDI flows to these countries: the paradigm shift in development thinking, the domestic urgent notion towards economic growth in developing countries, globalisation (of production and services), and the transforming international environment. The authors posit that the main causes of the uneven geographical distribution of FDI flows should be pursued through FDI supply, changing economic conditions, and diverse investment environments in developing countries. The paper reveals a joint declining effect in private capital flows to developing countries, unbalanced distribution of FDI flows, and severe trade asymmetry which is the cause of a shortage of foreign exchange in developing countries (Amirahmadi & Wu, 1994).

Pacific governments are working to make their business environments more attractive to foreign investment (Gilbert, Rickards-Rees, Spicer & Coates, 2013, 46). In order to optimise the advantages of foreign investment and to enhance productivity and growth, governments are increasingly ensuring that they have investment procedures in place that do not unnecessarily increase the costs or risk of doing business, or constrain business competition.

Facilitators of greater FDI in the Pacific focus on trade liberalisation and more recently - regionalism - with FDI flows into the Pacific region relatively small yet positive (Feeny et al., 2014). Cho (2003) conducts a review of policies that could assist hosting countries to attract FDI and highlights the importance of a stable macroeconomic and political environment, adequate infrastructure, domestic enterprise capabilities, attention to environmental and social matters, relaxed competitive and business laws, large markets, investor incentives and investment protection. The author contends that competitiveness of the domestic enterprise sector in conjunction
with a pool of skilled people is also crucial to investment.

Facilitators to doing business in the Pacific are argued to include microfinance institutions, which overcome the barriers of a lack of access to finance, generally used by small business operations without a large amount of capital to invest (IFC, 2010). These institutions also offer business and financial literacy training programmes that have been highly successful in getting local businesses off the ground. For example, the VANWODS institution in Vanuatu has assisted 2,637 businesses to access finance. Various initiatives in Samoa have been successful, especially in supporting women in business (Struthers, Purcell & Giera, 2008). While these institutions may facilitate small businesses to get up and running, the ADB (2015) highlights that a disadvantage of using these services for small business is the high interest rates charged, some as high as 20-28% per annum (ADB, 2015, 3).

**Remittances and Local Investment**

Estimates of remittance flows to developing countries amounted to $429 billion in 2016, a decline of 2.4 percent over $440 billion in 2015 (World Bank, 2017b). After foreign direct investment, remittances form the second largest source of external financial flows to developing nations (Meyer & Shera, 2016). Several authors have investigated ways to stimulate remittances and influence their use, with the majority of the recommendations focused on improving investment policies to streamline remittance transaction processes and to use remittances to support small businesses.

To stimulate remittances, and subsequently facilitate and enhance network ties, Gupta, Pattillo and Wagh (2009) recommend provision be made in investment policies of developing countries to encourage the lowering of transaction fees by financial institutions. Brown (1994) focuses on PICs and concludes that remittances can be investment motivated which, in turn, relates to the potential gains and effects that local investment and returning Pasifika investment can have on Pacific Island countries (particularly Tonga and Western Samoa). Brown’s findings indicate that remittances are used for small business development. The author contends that there are differences in remittance strategies between cultures and a need for cultural understandings in order to understand the facilitators and drivers of remittances in Pacific nations. The author also found that remittance is reciprocal as in some cases, partial profit was remitted back to the migrant overseas to cover purchasing costs and recipients also sent goods (e.g. local food) to their remitters. As migrant income rises, savings behaviour increases in importance in determining remittances in both countries.

The main forms of use for investment remittances in South Pacific countries are in the agricultural and service sectors, in businesses such as small shops and transport (Brown & Ahlburg, 1999). The authors make several long-term growth recommendations and outline policy implications to stimulate remittances and influence their use. For example, government-led incentives could help induce investment into certain sectors from local investors. Another finding from this study is that there has been a shift in the use of remittances from consumption to investment. Chami, Fullenkamp and Jahjah (2003) find that remittances are commonly
used for consumption purposes in developing countries however the focus of their work is in south-east Asia. Connell & Conway (2000) found that remittances support domestic investment, with 26% of remittances to Tonga used for investment purposes and 36% in Samoa. Investment has also been used to assist small businesses and improve housing. Brown & Ahlburg (1999) add that in Tonga's case, remittances actually add to local income distribution.

Fiscal and monetary policies play an essential role in the macro-management of PIC economies, for both local and foreign investment (Prasand & Narayan, 2008). To enhance investment by Pacific Islanders, Cole (1993) argues that there is a need for macroeconomic policies that provide a stable economic environment, and the encouragement of niche industries that reflect the skills and capacity of SIDs. The author also contends that the availability of skilled or semi-skilled workers, easy access to the incentives offered by governments, and effective law and order, are fundamental for increasing domestic investment. Case study based research by Coates, Clark and Skeates (2010, 2) in the Pacific finds that there is a need for support to producers to assist with arranging “transport and delivery; training in agricultural production standards, certification schemes and business; and support for developing value-adding processes in their village or region”. The authors contend that an in-country producer support organisation is highly important for the success of sustainable businesses producing tradable products. Such organisations for producers could also play an important role for exporters to give access to markets and link with key buyers in the sector (Coates et al., 2010).

Local Knowledge and Networks

The ability to achieve, maximise and sustain development outcomes through investment (both domestic and foreign) depends on the contributions of multiple interconnected local actors and the local systems that support them as a whole (the actors, their interrelationships, their local knowledge, and the incentives that guide them) (US Aid, 2014). Working within a specific context (place, local conditions, culture etc.) there is an increasing emphasis on local engagement that seeks out local perspectives, embraces local knowledge, pays attention to the voices of marginalised populations, and engenders local accountability for setting priorities and monitoring and achieving outcomes (US Aid, 2014; World Economic Forum, 2017). To assume responsibility for the achievement of community economic and social aspirations, does however, require local actors to have a level of knowledge and capacity beyond that which may currently exist.

With relationships and networks seen as essential to achieving successful investment outcomes, Gilbert et al., (2013) emphasise the importance of taking a long-term approach to investment so that businesses can create knowledge networks by building strong linkages, and strengthening the skills and resilience of local communities. While local (internal) networks are important, Coates et al., (2010, 47) stress the need to link local growers, food producers, small business etc. to external organisations who can:

“Play a significant role in assisting producers to make the leap to overseas markets by helping improve the flow of information from markets to producers. This assistance has been crucial as many
Pacific businesses simply do not have the market knowledge to produce goods that will be attractive to consumers in Australia and New Zealand or other overseas markets.”

The authors issue a caveat; however, to highlight the importance of adapting network approaches (predominantly ‘cooperatives”) to work within existing cultural structures. A common approach to cooperatives is one based on democratic decision-making, however the formation and integration of cooperatives with extended family and clan structures (as is often the case in PICs) requires consideration of cultural practices where elders and clan leaders are given greater say in decision-making.

Constraints to Investment

Legislation and investment promotion activities must not only set out to attract FDI but also provide investors and private enterprises with seamless channels of administration for their establishment and operation. Regulatory barriers to FDI in the developing world continue to exceed those found in developed economies (Arita & Tanaka, 2013).

To facilitate the lowering of barriers to FDI and the design of alternative scenarios relevant for policy issues, it is important to first identify crucial barriers to foreign investment (Arita & Tanaka, 2013). Investment entry barriers include both legal and regulatory dimensions (de jure barriers) and factual elements that arise on the ground (de facto barriers). Two broad categories characterise barriers to foreign investment in the Pacific in terms of policy mechanisms: first, policies that discriminate against foreign investors as opposed to domestic investors and second; policies and institutional weaknesses that impede both domestic and foreign investment (Centre for International Economics, 2007). Barriers to investment include: controls (caps) on foreign ownership, the mode and limit of investment, limitations on the type of establishment or industry sector where investment can occur, exclusion of foreign investors from certain economic activities or from land lease or purchase, limitations in the form of quotas or economic needs tests, joint venture requirements and discriminatory treatment e.g. taxation and other forms of state intervention.

There is considerable literature outlining the challenges that Pacific Island countries (PICs) face in accessing investment finance. Weak domestic capital markets and limited access to international financial markets combine with geographic isolation, small market size, narrow resource bases and vulnerability to external shocks to create an environment that constrains international firms’ desire to invest in PICs and which severely limits investment by locals (Centre for International Economies, 2007; IFC, 2010). Access to finance is a key challenge facing FDI / private sector investments in PICs as returns on investment in small island states are not perceived by foreign investors to be not commensurate than larger states (Holden, Bale & Holden, 2004). This is compounded by the lack of market information that is available to potential investors.

SME face constraints in expanding activities and increasing productivity (Lage de Sousa, 2016; Beck, 2007; IFC, 2010). Small firms in PICs have less access to formal sources of external finance, which may be one of the factors holding back SME contribution to economic growth (Lage de Sousa, 2016; Beck and Demirguc-Kunt, 2006). Indeed,
access to and the cost of finance is often ranked as one of the most constraining features of the business environment faced by SMEs (Beck, 2007). Gender barriers also exist such as women being ‘less trusted’ than males when applying for a loan and having to work harder to do business with males (perceived as “inexperienced women”). Other barriers for women include limited opportunities to expand their own networks, gender issues and imbalances in the judiciary system, and the need to balance family life and cultural expectations (IFC, 2010).

The need for stakeholders in the South Pacific to adapt to the negative impacts of climate change is urgent and crucial (Wong, de Lacy & Jiang, 2012). Dornan, (2015, 497) contends that "sea level rise threatens the livelihoods of communities and entire countries in the region with low lying atolls most at risk. Periodic flooding has already caused widespread damage due to the salinisation of crops and impacts on the broader water supply." Climate change, domestic conflict events and political instability have significant negative effects on FDI (Arbatli, 2011; IFC, 2010) and are evident to different degrees across the Cook Islands, Fiji, Federated States of Micronesia (FSM), Kiribati, Samoa and Vanuatu and elsewhere through the region (Duncan & Nakagawa, 2006). The increased risk of natural disaster and negative impacts of climate change have restricted access to capital for investors in PICs (Holden, Bale & Holden, 2004).

Gilbert et al., (2013, 44) call for business models that move beyond the notion of a “traditional profit making business where financial benefits of the company are the priority and any development benefits are an incidental bonus”. The authors highlight the importance of investors in PICs incorporating in their business models measures to limit negative environmental, social and economic impacts as well as notions of corporate social responsibility. Such business models should intentionally include “those who are too often excluded from development benefits and develop more sustainable goods and services to address development challenges such as climate change”. This is especially important in terms of small business communities.

Complex, lengthy, tedious and sometimes unnecessary or impractical regulations and systems of administration feature in the literature as significant barriers to investment in PICs. Holden, Bale & Holden (2004) find that many Pacific governments have become extremely risk averse and have instituted complex and expensive registration processes or have targeted industries that are unproductive to growth. While the authors understand the need to restrict investment to protect nations from fraudulent or small investments in projects of dubious viability, the issue remains that many countries are characterised by highly complex and expensive evaluation and approval processes. These systems are often time-consuming to engage with and often lack effective information or contact details. The outcome is that legitimate investors are often discouraged while less credible investors may still make it through inefficient systems and processes. The authors argue that in order for FDI to reach the poor, Governments should allow free market entry and exit, encourage competition and incentivise markets to enhance productivity. They also encourage investments that incorporate investment in the training of local people, and contribute to infrastructure. They join myriad authors who call for investment policy frameworks that consider not only economic growth but also
social and environmental aspects in terms of regulations (Gilbert et al., 2013; Coates et al., 2010; Bilney, 1994; Holden, Bale & Holden, 2004; Brown & O’Connell, 2006; Fry, 1994; Halapua, 1997; UNCTAD, 2014). Other challenges facing foreign investors are restrictive immigration requirements and processes, inadequate government agency and staff handling of foreign investment cases, and a lack of laws protecting personal and private information (Davis et al., 2002).

Gilbert et al., (2013, 47) highlight the links that exist between determinants of investment in the Pacific and the strong impact of trade policy as a barrier to investment. The authors mention rules of origin in current trade agreements and requirements to meet New Zealand and Australia’s phytosanitary regulations. Phytosanitary barriers and quarantine protocols constrain the ability of Pacific farmers to trade and sell their produce in New Zealand and overseas markets. One recommendation is for New Zealand and Australian governments to review and update quarantine protocols and for New Zealand agencies to appoint more phytosanitary officers. The authors also refer to the significance of historical and cultural links, geographical closeness, and family and community links in strengthening the New Zealand private sector’s position to engage in business in the Pacific – through several case studies the authors demonstrate the benefits of having personal connections with the Pacific.

Coates et al. (2010, 6) discuss the “reality that, in rural and remote areas, economic development is not driven by foreign investment or the cluster of commercial enterprises in capital cities, but by NGOs, entrepreneurs and small businesses”. The authors highlight several constraints and technical barriers that impede domestic business growth. These include poor communications and telecommunications infrastructure (which plays a crucial role in connecting organisations with overseas markets), a lack of local entrepreneurial and management skills (e.g. online marketing
skills), and complex systems of certification for growers including quarantine protocols (Australia, New Zealand).

The issue of land ownership and tenure features as a barrier to long-term investment in several studies. Tensions over land access result from the cultural practice of Pacific Island people who live in a communal/collectivist system, one that is about sharing and reciprocity. Land is important to Pacific people and is entwined with power and status, spirituality, and cultural identity (Holden, Bale & Holden, 2004). The notion of sharing extends to land and this can be problematic as the high rate of migration (nationals moving to other countries) stagnates investment and agricultural productivity on communally-owned land (Duncan, 2003, 2008). Land in the Pacific predominantly remains under customary ownership and this precludes using land as collateral for credit as lenders cannot repossess land should a business default on a loan. This presents the need for governments to manage the conflict between social norms and formal regulation. There is a need for land tenure systems in rural areas that provide secure access to resources for investors while considering customary practices in land ownership. Specifically, issues in land ownership in terms of investment and regulation exist in a lack of clear boundaries and official recording/registration of land ownership. The existence of restrictive rules and regulations on the transferability of land holdings, and a lack of clarity around definitions of various land tenure rights creates a major impediment to investors (Holden, Bale & Holden, 2004). “Without secure individual title to land, the credit market remains in an immature state” (Holden, Bale & Holden, 2004; Duncan & Chand, 2002, 1). For tourism investments (FDI) to be successful in the Pacific an understanding of the PIC’s land tenure system, ecosystems and cultural traditions is necessary.

The availability of skilled labour is widely acknowledged as an impediment to investment in PICS. Chand (2004) highlights the need to upskill local workers and expose them to contemporary systems of production and service standards. Labour mobility and deepening labour markets are proposed as potential solutions. Chand argues that policy frameworks that enable the movement of unskilled workers between PICs as well as the mobility of workers from Pacific Island countries to neighbouring industrial countries on fixed term contracts (with country quotas and incentives for employment) would upskill local workers, bring economic benefits from remittances and deepen cultural ties across the wider region. Gilbert et al. (2013) comment on the predominance of low-skilled workers in PICs and remark on the ability of investors to assist with the training and development of workers e.g. in engineering, fishing, and management. The authors call for businesses to do this in a way that helps meet the challenge of lifting people out of poverty, and leads to more sustainable practices and outcomes for PICs. They also highlight the needs for workers to have job security and employment benefits with opportunities created for them to advance; and the need for investors to pursue gender equality through their activities.

A lack of reliable data and information to support decision-making is another significant difficulty faced by investors. The flow of private investment is often decided on the basis of available information and data (Medda & Caschili, 2016), however, in
South Pacific Islands, this information is often unreliable due to “ineffective data collection practices, corruption aimed to inflate or deflate the significance of data, and underinvestment by administrative agencies” (Medda & Caschili, 2016, 179). Gilbert et al. (2013, 8) comment on the limited data that exist on the impact of foreign investment in the Pacific and on foreign business activity in the Pacific more generally. The authors comment on the lack of “research on the links between foreign investment and development in the Pacific, or on the domestic economic benefits and other spillover benefits from foreign investment”.

Holden, Bale & Holden (2004) specifically highlight the lack of robust information on various industry sectors that is available to private investment markets as being a critical barrier to securing capital for investors. There are also issues with the quality and credibility of research in PICs and the ability to access databases e.g. of businesses trading in the Pacific (Gilbert et al., 2013) being restricted due to commercial confidentiality. Authors of the APEC report (2013) also find that there are issues with the availability and quality of existing research e.g. on the impact of bilateral investment treaties of FDI in PICs with biases presenting a major problem. Essentially, these issues relate to publication biases where results show only small or statistically insignificant results. The authors state that, “this effect is so strong that for meta-analysis, we are likely to be better off discarding 90% of the research results in certain cases” (APEC, 2015, 74).

The Oxfam report ‘Learning from Experience’ (Coates et al., 2010) highlights the importance of research and development in Pacific Island agricultural-based investments and shows a need for more data in the Pacific region. Coates et al., (2010, 6) comment that “there is a surprising lack of research on what kinds of economic development are broad-based, and even less research that is grounded in the realities of economic development in the Pacific”. In order to develop value-adding processes, the report states that investment into research and development, technical knowledge and expertise is needed. Information sharing, building relationships and sustaining engagement with regional and international bodies is also key to facilitating knowledge transfer.

Poor infrastructure is a significant impediment to investment in PICs – especially in terms of transport, communications and connectivity (IFC, 2010; Holden, Bale & Holden, 2014; Duncan & Chand, 2002), road infrastructure, electricity and shipping (Batic, 2013) and airline connections (Chen, 2014). Airline operations significantly affect growth in Cook Islands, Fiji, Federated States of Micronesia (FSM), Kiribati, Samoa and Vanuatu (Duncan & Nakagawa, 2006). Gilbert et al., (2013) comment on the restrictions imposed by poor infrastructure in PICs (e.g. limited export opportunities for PIC producers of perishable goods due to infrequent air connectivity) but also highlight the need to address the gaps in what they refer to as ‘essential human infrastructure’ through education and training, health care, water and sanitation and community development.

It is important to remember that internal barriers to local investment have a critical role to play in shaping economic outcomes. For developing nations and regions this is particularly the case, as the Australian APEC Study Centre (2007, 2) notes: “typically around 90% of investment for a low-income economy is sourced domestically”. These
domestic (or ‘behind-the-border’) obstacles range widely in nature and focus and can include: high levels of government regulation including the identification of ‘restricted’ area of the economy, a lack of transparency around property rights and land tenure, limited legal systems that may be difficult to access, and a lack of legislation designed to promulgate competition.

PICs do share the common traits of being challenged by the tyranny of distance – they are isolated from key markets for produce and tourists (Holden, Bale & Holden, 2004). Investors in private enterprise face high transport costs (e.g. in getting goods to export markets, high cost of fuel), small cargo volumes, poor infrastructure, and infrequent services (which also negatively affects the tourism sector) (Gilbert et al., 2013). Geography impedes producers reaching local and domestic markets as well as regional and international markets as "high costs of transport constrain market access and the development of services that would provide incentives for specialisation and shifts away from subsistence production" (Centre for International Economics, 2007, 1).

While remoteness, dispersed populations, and small size are often viewed as impediments to economic growth, for tourism this is argued to be a comparative advantage. This advantage comes from the unique natural environments and cultures setting the Pacific apart from other regions in the world. Milne & Dobbin (2016) and Perrotet & Garcia (2016) highlight the competitive advantages of PICs for tourism and both caution that large numbers of visitors do not equate to larger returns in terms of yield and spending; attracting low-volume high yield tourists is critical to maintain the ecological balance and sustainably advance the industry. These authors emphasise the importance of linkages between sectors - for example, linking local food to tourism, creating stronger links between tourism and agriculture, and strengthening regional training and destination management to increase efficiencies.

The Benefits of Investment

Developing countries increasingly regard FDI as a source of economic development, modernisation, and income growth (OECD, 2002; Margeirsson, 2015; Gilbert et al., 2013). Improved investment inflows can: support domestic private enterprises to upskill the workforce and create employment opportunities for local workers; result in technology transfer and enhance the competitive business environment; contribute to international trade integration, and improve enterprise network development (OECD, 2015; UNCTAD, 2015; Subramaniam, 2008). Beyond economic benefits, FDI can improve environmental and social conditions in the host country by “relocating ‘cleaner’ technology and guiding to more socially responsible corporate policies” (Kurtishi-Kastrati, 2013, 26). There are limited studies on the benefits and positive effects of investment to Pacific Island Countries and the majority of the literature that does exist focuses on the economic effects of FDI, foreign aid and remittances.

Feeny et al. (2014, 12) find that FDI has returned positive but limited growth to the region (specifically, Fiji, Kiribati, PNG, Samoa, Solomon Islands, Tonga and Vanuatu). Results from econometric analysis show that “a 10 per cent increase in the ratio of FDI to host GDP is associated with higher growth of about two per cent in host
countries on average but just 0.1 to 0.4 per cent in the case of the Pacific”. Jayaraman and Singh (2007) find that FDI contributes to employment creation and economic growth in the case of Fiji. The authors found a small but statistically significant (5%) unidirectional long-run causality between FDI and employment. A further unidirectional causality from FDI to GDP was uncovered but was found to be shorter term in nature. Chen et al. (2014) and Perrottet & Garcia (2016) argue that financial inflows from tourists have the potential to improve infrastructure in PICs and conclude that greater efforts should be made to attract foreign investment in tourism. The authors also contend that there is a need to create stronger linkages between tourism and agriculture to optimise outcomes from both industry sectors.

Jayaraman, Choong and Kumar (2011) focus on Samoa and Tonga, two PICs that are heavily dependent on remittances, and find that inward remittance flows stimulate growth in economic activities. This they attribute to remittances adding to the liquidity of the banking system, which in turn results in a rise in credit to the private sector. Findings that remittances have a positive impact on economic activity are consistent with studies in other regions (Jayaraman et al., 2011). Connell and Brown (2005) conclude that remittances contribute to human resource development, the maintenance of social networks and facilitators of the creation of social networks. The authors also comment on the role of remittances in supporting families to bear the costs of education and to sustain livelihoods - especially in the smaller and more remote islands of the Pacific.

One of the more insightful investigations of the benefits of investment in PICs comes from Gilbert et al., (2013) who use a case study approach to understand the perceptions of four New Zealand businesses of their contributions to sustainable development in the Pacific. The authors comment on the limited pool of research to understand the impacts of FDI in PICs and conclude from the literature that does exist that the positive impacts of FDI are limited. However, from the case studies (agriculture, tourism and fisheries), the authors identify a number of perceived development outcomes arising from New Zealand business activity in the Pacific. Six common themes emerge in terms of positive impacts: the provision of goods and services, development of essential infrastructure, generating business for the local private sector, facilitating access to markets for Pacific products, creating employment opportunities and developing skills. Additionally, some case study respondents highlight regular and extra business and certainty of payment, exposure to new networks, and support for small businesses through training and mentoring as positive benefits of foreign investment. Also mentioned were; support for agricultural producers with local market growth through value-added activities, and strengthened links between farmers and tourism.

Gilbert et al., (2013) highlight that each of the four case study organisations employ mainly local staff in PICs in predominantly low-skill positions but offer training and skills development opportunities. The benefits associated with raising product and process benchmarks through sharing knowledge and expertise was another common theme to arise during the research. Examples included upgrading knowledge of food quality and food safety, environmental practices (recycling, waste management) to
protect the fragile biodiversity and natural environments in small island nations, training in hospitality to upgrade service standards in the accommodation sector, and upskilling local management in current practices in marketing and distribution channels. The authors (2013, 41) stress that the greatest value of the long-term investment of resources is by way of “building relationships, providing skills for communities and, in some ways, inspiring hope through employment opportunities”.

In summary investment flows to developing countries offer opportunities to increase an economy’s productive capacity and generate employment (Feeny et al., 2014, Meyer & Shera, 2016). Through technology diffusion, knowledge transfer, and skills development, host countries can strengthen the activities and management of domestic private sector enterprises and contribute to the funds needed for development (Gounder, 2013). The real challenge arises in finding ways to mitigate any negative impacts and risks associated with investment, and to mobilise and channel investment into sustainable development goals (Gilbert, Rickards-Rees, Spicer & Coates 2013; UNCTAD, 2015).

Costs and Risks of Investment

Several studies highlight the drawbacks of investments in developing countries and more specifically PICs. The negative impacts of FDI commonly reported in the literature include increased capital outflows in the form of repatriated earnings or fees (Ruiz & Baranes, 2008), imports growing more quickly than exports which consequently increases trade deficits, and the potential deterioration of a nation’s balance of payments via transfer pricing (yield limited net export gains) (Tisdell, 2005; UNCTAD 2015; Salman and Feng, 2009). Other potential risks of investment include over-exploitation of resources (Gilbert et al., 2013), poor generation of linkages, under-utilisation of local inputs - reducing the impact on domestic investment, raising wage and local supply input prices thereby hampering growth and reducing employment, and crowding out of domestic investors (Tisdell, 2005; Gounder, 2013; Gounder, 2002).

The relationship between foreign direct investment (FDI) and domestic investment is a major area of debate; the key question being: Does FDI crowd in or crowd out domestic investment? By creating spill over effects, “FDI may lead to new or higher amounts of domestic investment, thus have a ‘crowding in’ effect. On the other hand, due to the loss of competitiveness of domestic firms”, and the potential increase in wage and benefits plus other spin-off impacts, FDI can be argued to run the risk of ‘crowding-out’ domestic investment. Making it difficult for locals to gain or secure a foothold (Acar, Eris & Tekce, 2012, 1).

Policies to attract FDI can distort domestic incentives and displace domestic investment subsequently crowding out local firms and limiting employment outcomes (Feeny et al., 2014). Fiscal gains may be limited by tax avoidance or corporate tax reduction schemes available to international investors. While such schemes to attract foreign investment may be well intentioned, investors may take advantage of tax incentives that they were not expecting in the first place; and once in place corporate tax advantages are difficult to withdraw.

A poor record of technology transfer in developing countries can also hamper technology diffusion through investment.
Technology dissemination might not take place, or only at high cost (e.g. through licensing fees) and local technological development may be slowed down or hampered by host country policy frameworks (Davis, McMaster & Nowak, 2002; OECD 2015). Another issue affecting the labour force is that of instability in employment. By introducing more efficient work practices or through restructurings, jobs created may be unstable due to the weak/uncommitted nature of some investment types (Athanasou & Torrance, 2002; Tisdell, 2005; UNCTAD, 2015). There are also concerns that the type of jobs created (Baldacchino, 1999) may limit skill transfers and workforce development. FDI can also have a negative impact on the labour force with the “higher use of technology in FDI performing firms sometimes leading to layoffs”, having a potential negative impact on overall demand in the economy as incomes decrease. (Moura & Forte 2009, 4). Another risk of FDI is wage spill overs where enhanced productivity due to increased labour efficiency brought about by FDI can increase competition in labour markets and increase wage expectations for domestic firms (Tisdell, 2005; Görg & Greenaway 2003).

FDI has also been found to have a negative impact on indigenous peoples and their culture (UNCTAD 2013). In general, though there is a lack of available empirical research from developing countries, and even less for PICs, to understand the implications of FDI on host culture. Vadi (2014, 220) cites several arbitrations involving indigenous cultural heritage in the U.S. including expropriation, lack of fair and equitable treatment, discrimination and lack of full protection and security. UNCTAD (2013) raise socio-cultural concerns related to the impact of increased tourism on local communities in developing countries. Investment in tourism can lead to cultural degradation or disruption for communities in the destination country, with women and indigenous people being particularly vulnerable. By its very nature, tourism brings people with different values, cultures, protocols, levels of income and lifestyles into contact with each other. While this exchange can be very valuable, these interactions can also increase friction or threaten established value and cultures (Milne, 2014).
Chami et al., (2003) found that migrant’s remittances have a negative impact on growth in per capita incomes and attribute this to large proportions of remittances being spent on consumption, with a smaller share of remitted funds going into saving or investment. Remittance flows from migrants back to PICs can also be a disincentive to investment and savings. Foster (1995, 134) examines the relationship between remittances and savings for Tonga and Western Samoa using econometric modelling and concludes that there is a need to find approaches where “financial assets can be tailored to migrant and domestic needs within specific cultures in order to maximise the flow of saving”. Remittances can also bring a variety of social issues including dependency on family overseas and the burden of reciprocity e.g., hosting and hospitality of families visiting the Islands (Foster, 1995; Connell & Brown, 2005).

**Future Challenges and New Solutions**

Much of the literature, and the related work of donors, in the area of investment promotion and impact focuses on improving the business environment in PICs to reduce the in-country costs and uncertainty of doing business. Data on FDI inflows to PICs are patchy and problematic; this creates real difficulties in trying to model the determinants of FDI, and the broader societal value associated with encouraging and supporting it. The econometric work that has been conducted with this (predominantly secondary) data over the years, points to common and relatively consistent barriers to inward investment and highlights debates over the sometimes-tenuous links between FDI and local economic development.

The growth rate in GDP for the Pacific is forecast to be 2.9% in 2017 and 3.3% in 2018; significantly less than other Asian Development Bank (ADB) regions (ADB, 2017). While FDI can bring significant benefits to PICs, it is not always the case that FDI will increase aggregate domestic investment of economic growth. Feeny et al., (2014, 11) finds that the growth return from FDI to the Pacific region has (on average) been very small although positive. The authors highlight that a 10 per cent increase in the ratio of FDI to host GDP is, on average, associated with higher growth of about two per cent in host countries, but this is not the case in the Pacific where the impact on growth is relatively insignificant at between 0.1 to 0.4 per cent.

There is a paucity of research into the challenges that face investors; and even less is known about ways to support them to meet their goals and aspirations. Similarly, we know little about the impacts associated with inward investment: What are the costs that may shadow the opportunities provided? Nor do not have a clear picture of the constraints and facilitators to investment or a strong sense of the impacts associated with investment.

Sustainable development for PICs requires inclusive economic growth that is broad-based across sectors with equitable distribution of benefits throughout Pacific communities, and is inclusive of a large part of the labour force (including women and disadvantaged groups) (Gilbert et al., 2013; Coates, et al., 2010). Inclusive economic growth is not only about expanding national economies but also about reaching the most
encourage and support good governance and capable institutions, broad-based economic growth, high absorptive capacity and an effective regulatory framework (Gilbert et al., 2013; Czinkota, Ronkainen, & Moffett, 2015; Margeirsson, 2015).

UNCTAD (2015) refer to a ‘new generation of investment policies’ that pursue a broad, relatively complex and interconnected development policy agenda, while developing a generally favourable investment climate. ‘New generation’ investment policies strive to “place inclusive growth and sustainable development at the heart of efforts to attract and benefit from investment” (UNCTAD, 2015, 6). These activities focus on core sustainable development goals-related sectors, including: “infrastructure, renewable energy, water and sanitation, food security, health and education” (UNCTAD, 2015, 6).

At the national level, there is a need to create synergies between investment policies with broad-based economic development goals. To do this there is a need to create better linkages between sectors, and incorporate sustainable development objectives in investment policy. At the international level, there is a need to strengthen the development dimension of international investment agreements.

Unnecessarily complicated and burdensome regulatory environments compound the difficulties of doing business in the Pacific islands. The challenge is to assist countries to improve their regulatory environments to encourage private sector development,
especially at the small and medium-size enterprise level, which will lead to broad-based employment and income growth (IFC, 2010). There is general consensus in the literature that in order to stimulate investment in PICs there is a need to improve the investment climate by supporting an enabling environment, simplifying administrative, regulatory and legislative requirements, and incorporating investment planning and promotion with economic development strategies (IFC, 2010).

Perrottet & Garcia (2016) focus on solutions to improve the tourism investment climate in Pacific Islands Countries and emphasise the importance of improving the effectiveness of public sector participation in the visitor industry. The authors highlight the need to ensure government and regional agencies of PICs are equipped to manage the future demands of a fast-growing tourist industry. To achieve this, suggestions include creating a more enabling business environment, upgrading the quality of the labour force, and enhancing the effectiveness of public institutions to attract visitors and the capacity of regional destination marketing.

The phrase ‘enabling business environment’ is liberally used throughout the investment literature for developing countries and PICs, however it is rarely unpacked to identify what ‘an enabling business environment’ really is, let alone how to achieve it. How will we know when there is a ‘more enabling business environment’ for investors? This requires a level of granularity and insight that we currently do not see in the literature. In order to increase and optimise outcomes from investment for the governments and people of PICs there is a need to have a more detailed understanding of just what ‘an enabling environment’ is in the Pacific context.
3. Methods, Cases and Context

The bulk of research conducted on PIC investment flows and impacts has made use of quantitative research approaches. Econometric modelling of investment flows (Edwards, 1990; Feeney et al., 2014), analysis of the impacts of investment (Edwards, 1990; Chowdhury, 1994; Jansen, 1995; Fry, 1996; 1998; Jayaraman, 1996; 1998; Jayaraman & Singh, 2007; Chauvet et al., 2010), and studies of links to economic growth (Dahalan & Jayaraman, 2006; Cashin & Loayza, 1993; Gani, 1998; Faal, 2007; Gounder, 2002; 2013; Chen et al., 2014) have relied on secondary statistics. Unfortunately, there are deficiencies in the quality of regional investment data (Coates et al., 2010). Broader surveys of investment needs/issues (Brown, 1994; Rao et al., 2007; Gilbert et al., 2013) have added valuable insights into our understanding of issues affecting investment in the region but the ability to gain deeper insights has been limited by deficiencies in the spatial and thematic reach of the work.

To date, with a few limited exceptions (e.g. Read & Driffield, 2004; International Finance Corporation, 2010; Coates et al., 2010; Gilbert et al., 2013; Dornan & Bryant, 2014; International Renewable Agency, 2014), there has been very limited use of semi-structured or in-depth interview methods in the study of investment related themes in Pacific Island countries. In particular, there has been a relatively limited amount of case study research designed to understand the impacts of FDI from a deeper qualitative perspective. There are even fewer examples of approaches that have mixed qualitative and quantitative methods in a systematic fashion (e.g. Mahon et al., 2013). Feeney et al. (2014) note the key research challenge that lies ahead is to investigate ways to improve the growth impact of FDI and to find ways to encourage investment. We believe these questions need to be addressed, at least in part, from a qualitative perspective. In particular, there is a real need for a broad base and range (both sectoral and spatial) of case study research to be conducted. While small numbers of case studies have been produced over the years, the inclusion of a broader range of sectors and locations will generate greater insights and provide a more robust set of inputs to the policy setting.

This research has employed a multi-faceted qualitative approach. Twenty-four case studies were developed from in-depth interviews with investors in the Pacific, and thirty-three semi-structured surveys were completed with regional and national investment experts via online and phone approaches. This method allows us to compare and contrast a variety of perspectives held by different stakeholder groups and also enables us to provide a broad array of case-based insights.

Case Studies

The NZTRI team worked closely with MFAT staff to identify potential investment cases. We also received some guidance and support from National Tourism Offices and National Investment offices, Chambers of Commerce and regional experts. A master list of cases featured local and foreign investment in the Cook Islands, Tonga, Samoa, Fiji and Vanuatu, and covered the renewable energy, agriculture and tourism sectors. For cost and logistical reasons
Samoa was eventually removed from the final list of PICs. The telecommunications sector was integrated at a later stage.

Considerable consultation was undertaken with MFAT to finalise the case studies. At the start of the research, a ‘long list’ of 130 potential cases was constructed. From this initial list, 23 cases were identified by NZTRI as the ‘first choice’ case options. MFAT confirmed 15 of the research team’s ‘first choice’ cases and asked for alternative case study options for a further 8, with a focus on larger scale businesses in areas such as telecommunications and renewable energy. MFAT selected their preferred additional cases from the original ‘long list’ and in close discussion with the research team, a final list of 23 cases was confirmed. One additional case was added from Niue as it provided important additional insights and could be completed for limited cost due to an overlap with other project work. This brought the total case study sample to 24.

An initial plan to explore unsuccessful investments and to develop related cases was not pursued for two reasons. First it was difficult to identify contact details for failed investments and secondly it proved to be difficult to engage with stakeholders that could (or were willing to) share information on the failure. It was agreed with MFAT to simply focus on existing investments and to explore the dimensions of success, failure and survival within these settings.

The spread of cases across countries and sectors is relatively strong (Table 3.1). Vanuatu features the largest number of cases and like Fiji has a strong representation of agricultural activities. The Cook Islands, Tonga and Niue have a stronger focus on tourism within their case study profile. For the purposes of the research, we have delineated the following types of investment.

- **Large Scale Investment** (in the Pacific) - An investment worth NZ$10 million or more
- **SME** anything under the NZ$10 million 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
- Total employment across the cases is estimated to be close to 1200, with 460 women included in that number and approximately 90% of employment being local. The value of the investments covered in the 16 cases who provided this form of specific information on their investment totalled over NZD$50 million.
Table 3.1 Summary of investment cases

<table>
<thead>
<tr>
<th>Sectors*</th>
<th>Vanuatu</th>
<th>Fiji</th>
<th>Cooks</th>
<th>Tonga</th>
<th>Niue</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Renewable Energy/Telecoms</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Tourism</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>24</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>Local</th>
<th>Expatriate Domestic</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>0</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>2</td>
<td>8</td>
<td>24</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Size of Investment</th>
<th>Large scale</th>
<th>SME</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>16</td>
<td>24</td>
</tr>
</tbody>
</table>

* Note: Dominant sector listed - some cases operated in more than one sector e.g. tourism and agriculture

Tourism Cases

The Pacific region tourism industry is characterised by considerable diversity in terms of size, market characteristics and relative economic impact. As Figure 3.1 shows the four countries that are the focus of this work all boast tourism sectors of some significance. Fiji dominates the regional industry with nearly 800,000 arrivals in 2016 while the Cook Islands has been characterised by significant growth and has reached nearly 150,000 visitors (Table 3.2). The Tonga tourism sector has been relatively stagnant with limited growth while Vanuatu’s air arrivals have been hit hard in 2015 (Cyclone Pam) and 2016 (Port Vila airport runway problems).

While remoteness, dispersed populations, and small size are often viewed as impediments to economic growth, some argue that for tourism this can offer a comparative advantage (Perrottet & Garcia, 2016). There are clearly opportunities for investment in Pacific tourism and also good chances to ensure that investment generates valuable economic outcomes for host communities.

The tourism industry in Vanuatu has faced a challenging two years with the impact of cyclone Pam in 2015 having a significant effect on both visitor arrivals and yield per visitor. The industry is starting to see a
Table 3.2 Tourist arrivals to the Pacific

<table>
<thead>
<tr>
<th>Destination</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vanuatu</td>
<td>108,656</td>
<td>89,952</td>
<td>95,117</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>121,458</td>
<td>125,130</td>
<td>146,473</td>
</tr>
<tr>
<td>Fiji</td>
<td>692,630</td>
<td>754,835</td>
<td>792,320</td>
</tr>
<tr>
<td>Tonga</td>
<td>50,736</td>
<td>53,752</td>
<td>59,000</td>
</tr>
<tr>
<td>Niue</td>
<td>7,408</td>
<td>7,707</td>
<td>12,000</td>
</tr>
</tbody>
</table>

Source: SPTO, Statistics Niue, Tonga Department of Statistics, research team estimates

Fiji and the Cook Islands have been seeing strong growth studded by periods of uncertainty or challenge. Cyclones have had some impact on the Fiji industry in recent years and there are always lingering concerns around political stability. Fiji is growing as a regional tourism hub as new markets, especially China, explore emerging travel opportunities. Fiji and the Cook Islands have been seeing strong growth studded by periods of uncertainty or challenge. Cyclones have had some impact on the Fiji industry in recent years and there are always lingering concerns around political stability. Fiji is growing as a regional tourism hub as new markets, especially China, explore emerging travel opportunities.

bounce back in arrivals although this has also been hampered due to questions raised about the Bauer Field runway by some of the airlines flying into the country, with Air New Zealand not resuming direct flights. A diverse range of investment opportunities exist both on Efate and in the outer island destinations.
routes into the region. The Cook Islands has been something of a regional success story attracting a new carrier (JetStar) on its key New Zealand routes and growing product and experiences beyond Rarotonga. The country has recently released a new Investment Strategy for the tourism sector (Stafford Group, 2016).

Tongan Tourism has struggled in recent years to match the momentum of its competitors in the Cooks and Samoa. New investment activity in the hotel sector and increasing whale watching activity has led to some increase in optimism in the sector. The Minister of Tourism has recently noted at the 2017 National Tourism Day, however, that the country struggles to attract investment of the quality and scale that will grow the industry and generate economic benefits for the people of Tonga. Recent news of Tonga withdrawing from hosting the Pacific Games in 2019 will not build industry/investor confidence.

Niue is seeing some growth in visitor numbers on the back of increased marketing campaigns, greater frequency of flights and the current expansion of the Matavai Hotel. There is also some inward investment from returning Niueans especially in basic accommodation and hospitality services. There are plans for the industry to grow to 15,000 arrivals with one of the key challenges facing potential investors being access to available local labour.

The tourism cases presented in this report cover an array of investment stories – from large scale investment by regional hotel chains through to the establishment of small accommodation businesses by returning Pasifika expatriates (Table 3.3). Where participants requested anonymity, we have cloaked identity of individual businesses.

**Agriculture Cases**

In the Pacific, the primary purpose of agriculture is for subsistence and in some instances, trade in domestic and international markets (Barnett, 2010). Agricultural development is important to the Pacific as it improves food security, stimulates economic growth and reduces poverty (Pinstrup-Anderson & Pandya-Lorch, 1998; Barnett, 2010). Unfortunately, the cumbersome and perishable composition of agricultural goods in conjunction with limited technology, access to customary land, poor logistical links and high transportation costs to external markets, hinder agricultural development in the Pacific and make it difficult for PICs to compete and trade on a global scale (Duncan & Nagakawaka, 2006; Chen et al., 2014).

Natural disasters and climate change can have a devastating effect on Pacific Island economies and in particular, the agriculture sector (Duncan & Nakagawaka, 2006; Barnett, 2010). Given the geographic isolation of Pacific Island countries along with increasingly frequent natural disasters and the pervasive impacts of climate change, Pacific Island countries cannot necessarily rely on either internal or external supply chain links for access to food. They must develop their agricultural sectors to enhance food security and become more self-sufficient (Barnett, 2010).

Presently, there is growing demand for local organic food production in the Pacific. This is beneficial as it will sustain the agricultural industry, improve food security, and cater to
niche markets and high-end tourism and hospitality establishments (Barnett, 2010). Targeting niche agricultural markets also enables Pacific Island countries to command higher prices (Duncan & Nakagawaka, 2006; Coates 2010). Opportunities to export high value niche market products are growing and are already in place in the Pacific with;

Table 3.3 Overview of tourism cases

<table>
<thead>
<tr>
<th>ID No.</th>
<th>Case/Investors</th>
<th>Pacific Island</th>
<th>Description</th>
<th>Size business/investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Islander Hotel <em>(Accommodation)</em></td>
<td>Cook Islands</td>
<td>The current Islander operation has a dining area, indoor and outdoor bar areas and 13x rooms capable of sleeping 52x people. The investor has branched out into agricultural production and community based cultural experiences. Employs 60 staff.</td>
<td>SME/Local (Returning Pasifika)</td>
</tr>
<tr>
<td>2</td>
<td>Tourism Attraction Operator</td>
<td>Cook Islands</td>
<td>Employs 10 (local) staff. Provide visitors to the Cook Islands with an experience of lagoon based natural and cultural attractions.</td>
<td>SME/Local</td>
</tr>
<tr>
<td>3</td>
<td>Mahana’s Villas <em>(Accommodation)</em></td>
<td>Cook Islands</td>
<td>Mahana’s Villas is located near the main township (Avarua) of Rarotonga and comprises a four-bedroom villa, two-bedroom villa and one-bedroom villa. It is a local investment - owned and operated as a family business, and employs 5 (local) staff.</td>
<td>SME/Local</td>
</tr>
<tr>
<td>4</td>
<td>Tanoa Hotel <em>(Accommodation)</em></td>
<td>Tonga (new development), Samoa &amp; Fiji</td>
<td>Tanoa Hotel Group are a family owned and operated business, established more than 40 years ago. Ten properties in Fiji, Samoa, NZ and Tonga employ more than 1,000 people. The newly established Tanoa Hotel in Tonga is a 4.5 star rated hotel situated in Nuku’alofa that comprises 122 rooms and employs 90 staff.</td>
<td>Large scale/Foreign</td>
</tr>
<tr>
<td>5</td>
<td>Dayspring Lodge <em>(Accommodation)</em></td>
<td>Tonga</td>
<td>Dayspring Lodge is a 6x room B&amp;B lodge. Caters to professionals/consultants as well as international visitors. 100% owned locally. Owner moved to Auckland with his family and turned his family residence into a B&amp;B lodge. Operational since late 2012. Employs 3 (local) staff.</td>
<td>SME/Local (Returning Pasifika)</td>
</tr>
<tr>
<td>ID No.</td>
<td>Case/Investors</td>
<td>Pacific Island</td>
<td>Description</td>
<td>Size business/investment</td>
</tr>
<tr>
<td>-------</td>
<td>----------------</td>
<td>----------------</td>
<td>-------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>6</td>
<td>Deep Blue Diving (Whale watch tours)</td>
<td>Tonga</td>
<td>Services provided by Deep Blue Diving include whale swim, scuba diving, reef fishing, snorkelling, Makaha’a Island day trips and boat charters. There are 3 whale watching boats in Tongatapu and 2 boats in Eua Island. Employs 15 staff.</td>
<td>SME/Expatriate Domestic</td>
</tr>
<tr>
<td>7</td>
<td>Accommodation</td>
<td>Fiji</td>
<td>Targeted at the budget and mid-range market. This operator provides both double rooms and dormitories and employs approximately 40 staff.</td>
<td>SME/Local (Family owned)</td>
</tr>
<tr>
<td>8</td>
<td>Marina (Marina)</td>
<td>Fiji</td>
<td>Provides fully serviced berths and swing moorings. Significant retail and hospitality development has taken place to service both Marina patrons and tourists. Employs over 30 staff.</td>
<td>Large/Foreign</td>
</tr>
<tr>
<td>9</td>
<td>Moyyan House (Accommodation)</td>
<td>Vanuatu</td>
<td>Moyyan House is a boutique resort located northeast of Luganville, Espiritu Santo. It features 6x fares, a day spa and restaurant. The Moyyan site is held under a registered ground-lease from the local land-owning community. It employs 12 staff.</td>
<td>SME/Foreign</td>
</tr>
<tr>
<td>10</td>
<td>Total Management Solutions (Accommodation)</td>
<td>Vanuatu</td>
<td>Total Management Solutions (TMS) is a business that manages the letting of luxury private houses and villas on Efate, Vanuatu and employs 14 staff. It also manages Angelfish Cove Villas (on behalf of its overseas owners) which is a boutique resort made up of 12x self-contained rooms set on Port Vila’s coastline.</td>
<td>SME/Expatriate Domestic</td>
</tr>
<tr>
<td>11</td>
<td>Hotel Santo (Accommodation)</td>
<td>Vanuatu</td>
<td>Hotel Santo is located in Luganville, Espiritu Santo and consists of 30 rooms. A range of investments in property and plant have continued since the last major construction of rooms in the 1980s. Employs 21 staff.</td>
<td>SME/Expatriate Domestic</td>
</tr>
</tbody>
</table>
vanilla, cocoa, copra, kava, chilli, coconut oil being just some of the recent examples. An organic certification means higher export value however challenges are also associated with this. Strong supply chain coordination and cooperation, including quality control and facilities are key to continuity and quality of produce.

There are significant opportunities to strengthen links between agriculture and tourism sectors for sustainable economic growth in both industries. Enabling smallholders to link to the tourism industry is highlighted as an opportunity although this does require investment in related infrastructure and storage. For export producers market pull is essential. In the

Pacific region smallholders have responded to demand (Squash in Tonga, Passion Fruit Samoa, Kava in Tonga, Fiji and Samoa), however it is important for the demand to be sustained to justify investment (Arias et al., 2013; Asian Development Bank, 2015; Basnet et al., 2016).

Table 3.4 presents an overview of the agricultural case studies in Vanuatu, Tonga, Fiji and the Cook Islands. Six of these cases represent SME investments in the Pacific (although one of these comes close to being categorised as large) and one is a large-scale investment. Four are local investments and the other four are equally split between expatriate domestic and foreign investments.

Table 3.4 Overview of agriculture cases

<table>
<thead>
<tr>
<th>ID No.</th>
<th>Case /Investors</th>
<th>Pacific Island</th>
<th>Description</th>
<th>Business/Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Tinopai Farm (Growing local produce)</td>
<td>Tonga</td>
<td>Tinopai Farm was established in 1994 and focuses on the export of coconuts and taro. They have developed markets for value-added coconut products, such as coconut oil moisturiser, in Australia, New Zealand and Japan, and are the largest exporter of coconuts from Tonga. Their products are natural -no pesticides are used. They employ 16 staff.</td>
<td>SME/Expatriate Domestic</td>
</tr>
<tr>
<td>14</td>
<td>Agricultural producer (growing, value added and export)</td>
<td>Tonga</td>
<td>A Company that has partnered with local growers to create organic products. An international market and the company employs approximately 15 staff.</td>
<td>SME/Foreign</td>
</tr>
<tr>
<td>ID No.</td>
<td>Case /Investors</td>
<td>Pacific Island</td>
<td>Description</td>
<td>Business/Investment</td>
</tr>
<tr>
<td>-------</td>
<td>-----------------</td>
<td>----------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>15</td>
<td><strong>Fresh 2 U</strong></td>
<td>Cook Islands</td>
<td>Fresh2U produces a hydroponic lettuce and sells locally, often at a cheaper rate than the imported price. The investment is playing an important role in reducing tourism sector imports and strengthening domestic supply. The investor is the sole employee of the company.</td>
<td>SME/Local</td>
</tr>
<tr>
<td>16</td>
<td><strong>The Kava House (Kava)</strong></td>
<td>Vanuatu</td>
<td>The Kava House sources top quality ‘noble' Kava produce that is organically grown by indigenous Vanuatu farmers, and transforms it into a commercially marketable format. 60% of the kava is processed, packaged and exported to the US. The remainder is exported to the Marshall Islands, Torres Islands, Hawaii, Fiji, New Caledonia and NZ. Employs 10 staff.</td>
<td>SME/Local</td>
</tr>
<tr>
<td>17</td>
<td><strong>Joes Farm</strong></td>
<td>Fiji</td>
<td>The company began in 1981 and has evolved from a small farm produce distributor into a large organisation producing, retailing, wholesaling, distributing, importing and exporting farm produce, frozen goods, processed/manufactured food, liquor, and groceries. Joes Farm employs over 200 staff.</td>
<td>Large/Expatriate Domestic</td>
</tr>
<tr>
<td>18</td>
<td><strong>Value added products based on local produce</strong></td>
<td>Fiji</td>
<td>Products use local Fijian raw materials and handicrafts supplied by community members. A local factory produces for export.</td>
<td>SME/Local</td>
</tr>
<tr>
<td>19</td>
<td><strong>Livestock company</strong></td>
<td>Vanuatu</td>
<td>Mixed private and government shareholding. The company exports its product and continues to invest heavily in plant. Employs fewer than 100 people.</td>
<td>Large/Foreign</td>
</tr>
<tr>
<td>20</td>
<td><strong>Lapita Café</strong></td>
<td>Vanuatu</td>
<td>A food processing operation (est. 1999) owned by an entrepreneurial ni-Vanuatu and her husband employing 40 locals. Lapita focuses exclusively on local food sources (e.g. making flour from manioc, drying, pressing and packaging nangai nuts).</td>
<td>SME/Local</td>
</tr>
</tbody>
</table>
Renewable Energy/Telecommunications Cases

Renewable energy in the Pacific

The Asian Development Bank (2016, 6) paints a rather negative picture of the challenges facing the energy sector in the Pacific region:

“Its limited supply of domestic fossil fuels resources has led to a historical dependence on imported fuels and a corresponding, vulnerability to fluctuating energy prices. At the same time, outdated power infrastructures, geographical constraints, small populations, and limited generation capacity lead to high electricity tariffs (or costly subsidies), transmission and distribution losses, and low electrification rates in a number of Pacific developing member countries.”

The ADB also highlights the fact that access to reliable, affordable power continues to hamper economic opportunities in the region (Asian Development Bank, 2016, 7).

There is no question, however, that Pacific Island nations have great potential for the widespread use of renewable energy, and this represents a significant opportunity for investment across the region (Ministry of Foreign Affairs and Trade, 2016). The shift to renewables opens important opportunities to strengthen energy security and support economic development and investment.

Table 3.5 shows the profile of the case study countries in relation to renewable energy.

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>National target for renewable energy</th>
<th>Total installed generation capacity (MW)</th>
<th>Annual electricity generation (MWh)</th>
<th>Access to electricity</th>
<th>Renewable electricity generation with completion of current projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>18,100</td>
<td>100% renewable electricity generation 2020</td>
<td>15</td>
<td>31,750</td>
<td>99%</td>
<td>15%</td>
</tr>
<tr>
<td>Fiji</td>
<td>865,600</td>
<td>100% access by 2020 and 90% renewable electricity generation 2030</td>
<td>297</td>
<td>900,000</td>
<td>87%</td>
<td>65%</td>
</tr>
<tr>
<td>Tonga</td>
<td>106,000</td>
<td>50% renewable electricity generation and</td>
<td>16.5</td>
<td>55,400</td>
<td>89%</td>
<td>13%</td>
</tr>
<tr>
<td>Country</td>
<td>Population</td>
<td>Energy Generation</td>
<td>2020</td>
<td>2025</td>
<td>2025 %</td>
<td>2025 %</td>
</tr>
<tr>
<td>-------------</td>
<td>------------</td>
<td>-------------------</td>
<td>------</td>
<td>------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>234,000</td>
<td>100% renewable electricity generation and 100% access 2030</td>
<td>35.6</td>
<td>66,300</td>
<td>33%</td>
<td>29%</td>
</tr>
<tr>
<td>Niue</td>
<td>1,500</td>
<td>80% renewable energy generation 2025</td>
<td>2.2</td>
<td>3,300</td>
<td>99%</td>
<td>13%</td>
</tr>
</tbody>
</table>

*Source: Ministry of Foreign Affairs and Trade (2016)*
In comparison to other Pacific Island countries, electricity costs are particularly high in the Cook Islands. The nation’s dependence on imported fuels to generate power causes high tariffs and can annually equate to 4% of household costs and 15% of business expenditures (Asian Development Bank, 2016). The Cook Island government have set a target of providing 100% inhabited islands with renewable energy by 2020 (Ministry of Foreign Affairs and Trade, 2016).

Fiji relies on imported petroleum-based fuels for energy. Reliance on imported fuel leaves Fiji vulnerable to changes in global petrol prices. Transport and industrial sectors use the majority of the country’s energy. Future demand for electricity in Fiji is expected to grow by 3% annually between 2015 and 2020 and continue to grow as GDP increases. Fiji currently features a broad mix of renewable energy including hydro, solar, biomass, wind and geothermal. To date the actual potential of renewable energy has yet to be assessed.

Recommendations are to have a national energy policy, create renewable energy investor association to increase private sector investment, coordinate rural electrification master plan, consider alternative fuel for maritime transportation, and to explore geothermal energy as solutions to current and future energy needs (International Renewable Energy Agency, 2015). Fiji’s current energy sector policy aims for 99% renewable generation by 2030 and a 100% electrification rate by 2020. Substantial investment is required to achieve this goal (Asian Development Bank, 2016). There is growing investment in renewable energy mainly from the public sector but there is rising opportunity for investment in the private sector, for example Sunergise is a private sector investor who has invested in solar power in many PICS, including Fiji.

The World Bank is creating a risk-sharing fund to increase the use of renewable energy in Fiji, for example by: facilitating equipment purchases to help develop the sector (World Bank, 2016).

In Tonga 89% of households have access to grid electricity and the nation is still 90% dependent on imported diesel to fuel power generation. Coupled with Tonga’s geographical isolation, country specific energy-related issues to Tonga are unstable fuel prices that result in high generation costs. The Tongan Government has set a goal of meeting 50% of its energy needs by renewable energy generation, and having 100% power access by 2020 (Ministry of Foreign Affairs and Trade, 2016; Tonga Energy Roadmap, 2010; Asian Development Bank, 2016).

Vanuatu has created a national Energy Road Map as a guiding document for the development of the energy sector. Approximately two thirds of total households do not have access to electricity and only 17% of rural households. Biomass and oil products are the current major energy sources. Vanuatu has geothermal, biomass, biogas, biofuel, solar energy and wind energy as potential sources of renewable energy. The new goal is for Vanuatu to have 100% renewable energy regeneration and 100% access by 2030 (Ministry of Foreign Affairs and Trade, 2016). The International Renewable Energy Agency (2015b) recommend examining on-grid renewable energy options as a key factor in future energy development.

Niue Power Corporation (NCP) is the nationally owned power utility. Niue has an Energy Policy and Energy Action Plan committed to convert 30% of all electrical...
generation to renewable energy by 2013 and 100% by 2020. All residences and businesses have access to electricity. Solar energy, wave and OTEC, solar photovoltaics and solar thermal systems are seen as key renewable sources of energy. Niue has many challenges for renewable energy deployment. There are complex requirements by financing institutions for projects, land tenure issues, a difficult environment for mechanical and electrical equipment, a lack of adequate technical capacity for maintenance and repair, a lack of economies of scale, and limited knowledge of renewable energy (International Renewable Energy Agency, 2013).

**Telecommunications in the Pacific**

PIC’s have an increased opportunity to gain a competitive edge in the global economic environment if they transform themselves through economic reforms that are underpinned by a competitive telecommunications industry (Chand Prasad, 2008). Opening telecommunications to the market (instead of relying on government owned monopolies) is seen as an opportunity to enhance investment (Duncan & Nakagawa, 2006).

Fiji is leading the Pacific in relation to development of, and investment in, its telecommunications infrastructure and ICT sector. Nevertheless, Fiji is still intermittently affected by extreme weather events such as cyclones that are destructive to infrastructure. For instance, in 2016 when Cyclone Winston hit Fiji, almost 80% of the population had no power and a number of landlines were also affected. Fiji is now largely dependent on mobile technology instead of fixed lines and various efforts to reduce mobile pricing continue. There is also growing demand for improved communications in Fiji, particularly from tourism resorts on isolated islands (Budde Comm, 2017).

Recent years have seen significant advances on the Vanuatu telecommunications sector. “Mobile phones are now the primary mode of communication across the country enabling considerable social and economic change, especially in the outer islands. In 2015 over 90% of the population were registered as being covered by a mobile network, those in rural areas are, however, hampered by the challenge of unreliable electricity supply leading to a need to rely on solar power, batteries and diesel options” (Budde Comm, 2017a, 1).

Niue has the highest internet participation levels per head of population in the Pacific. This is due to Niue’s Wi-Fi network which is free once a registration fee is paid. Niue also has fixed-line phone services in most of the population’s households. However, there is a relatively limited use of mobile services (Budde Comm, 2017c). Telecom Niue, a state-owned enterprise is the only provider of mobile, fixed line, and ADSL services. Currently, Telecom Niue is installing a fibre-optic cable around the island.

In 2015, Cook Islands telecommunications underwent significant change when Spark sold its 60% interest in Telecom Cook Islands to Teleraro for NZD$23 million. Telecom Cook Islands is trading as Bluesky Cook Islands and changed its branding when the majority shareholding was sold. Bluesky Cook Islands is the only provider of postal, broadband, mobile, and fixed line telephone services for businesses and residents (Bluesky, 2017; Keall, 2015).

The two main telecommunication providers in Tonga are Digicel and Tonga Communications Corporation (TCC).
Digicel Tonga, a privately-owned company, offers mobile phones and services. TCC is a state-owned enterprise offering fixed telephone line, broadband and GSM mobile services. Tonga has access to an undersea high-speed fibre-optic cable that was installed in 2013. Fixed landlines are in decline in Tonga and there are increases in the use of mobile technologies (Budde Comm, 2017d, Digicel Tonga, 2017, Tonga Communications Corporate, 2017).

The case studies presented in this report (Table 3.6) cover two large-scale foreign direct investments and one small to medium local investment in the renewable energy sector and one large telecommunications sector investment in the Cook Islands.

Table 3.6 Overview of renewable energy/telecommunications cases

<table>
<thead>
<tr>
<th>ID No.</th>
<th>Case/Investors</th>
<th>Pacific Island</th>
<th>Description</th>
<th>Business/Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>Solar power in Rarotonga (Local landowner and Cook Island Government)</td>
<td>Cook Islands</td>
<td>Landowner invested in the net metering policy in partnership with the local electricity company. The policy encourages locals to invest in renewable energy by becoming shareholders and selling their power back to the electricity company.</td>
<td>SME/Local (Local Government &amp; private sector)</td>
</tr>
<tr>
<td>22</td>
<td>Sunergise (Solar panels)</td>
<td>Fiji</td>
<td>Founded in 2012, Sunergise is a New Zealand company that serves five Pacific countries (Fiji, PNG, Solomon Islands, Vanuatu and NZ) as the first pan-Pacific solar power utility and employs 36 staff. Sunergise works in partnership with Clay Energy and Engineering Procurement and Construction and specialises in solar installation e.g. Port Denarau, Fiji - the largest marina-based solar plant in the world.</td>
<td>Large scale/Foreign</td>
</tr>
<tr>
<td>23</td>
<td>UNELCO ENGIE (locally incorporated company. 2 majority shareholders: ENGIE (85.59%) and Electricité et Eau de Calédonie (14.40%) (Electricity company)</td>
<td>Vanuatu</td>
<td>UNELCO ENGIE, a French owned company, operates a 3 MW Wind farm generating 9% of the power used in Port-Vila. The company handles diesel oil, wind power, copra oil (biofuel) and PV solar. Today, renewable energies represent 20% of the total power generation provided by the company. UNELCO ENGIE employs 125 staff.</td>
<td>Large/Foreign</td>
</tr>
<tr>
<td>24</td>
<td>Bluesky (Telecommunications)</td>
<td>Cook Islands</td>
<td>Based in American Samoa telecommunications company Bluesky purchased a 60 percent stake in Telecom Cook Islands from Spark New Zealand in February 2015. The national government maintains 40% ownership while Blue Sky subsidiary Teleraro’s</td>
<td>Large/Foreign (Local Government &amp; private sector)</td>
</tr>
</tbody>
</table>
ownership structure includes participation for local investors and Telecom employers. The business employs 27 (locals).

Survey

A group of key stakeholders, including national investment officers and regionally focused investment experts, were surveyed using structured phone interviews and emailed surveys (both containing identical, largely open-ended questions). The focus of the work was on capturing expert perceptions of the investment climate, constraints and the impacts associated with investments across the region.

In total, 98 investment experts were identified with MFAT and were then approached to participate in the survey. The 33 responses represent a respectable response rate of just over 33%. Table 3.7 presents an overview of the survey sample. Survey participation comprised a range of organisations; 13 were investment facilitators, 10 finance institutions, 9 tourism entities and 1 agricultural organisation. There is an almost even spread of national (i.e. country) and regional focused organisations (i.e. country=17 and region=16) participating in the survey. See Appendix 8.2 for further details.

Table 3.7 Overview of survey sample

<table>
<thead>
<tr>
<th>Type organisation</th>
<th>Country Specific</th>
<th>Regional Focus</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment facilitator</td>
<td>6</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Finance</td>
<td>4</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Tourism</td>
<td>6</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17</strong></td>
<td><strong>16</strong></td>
<td><strong>33</strong></td>
</tr>
</tbody>
</table>

The regional bodies represented include:

- Pacific Islands Trade and Invest
- South Pacific Tourism Organisation
- Pacific Islands Private Sector (PIPSO)
- The World Bank Group
- The International Finance Corporation
- Asian Development Bank

The national government offices included comprise Investment, Chambers of Commerce, plus Ministries of Agriculture and Tourism NTOs.

A number of approaches were considered to enable respondents to complete the survey. A decision was made to create an online version that could be conducted via email or via phone/skype. If required, the survey could also be printed and handed out/gathered as a hard copy. The latter proved to be useful when members of the research team were travelling and the opportunity to have expert input arose.
A recruitment email was sent to respondents inviting them to participate in the research via phone or skype. This was followed by a follow up email informing respondents of the option of completing the online survey via the URL link. The survey ran during January and February 2017. A total of 13 phone surveys were completed and we received 20 written responses.

The regional coverage of the work (Figure 3.2) shows an overlap between the countries featuring survey respondents and those chosen as interview cases. Countries highlighted in green indicate the location of survey respondents. Survey responses covered the following PICs: Tonga, Samoa, Fiji, Vanuatu, Niue, the Cook Islands and Papua New Guinea. Blue country names indicate where both cases and surveys were conducted and where surveys were also completed.

![Figure 3.2 Case study and survey country locations](image_url)

**Data Analysis**

Both the case study and survey data were analysed using a mixture of qualitative and simple quantitative approaches.

**Case Studies**

Twenty-four face-to-face interviews were conducted with investors by five researchers. The researchers created 24 case studies based on the interviews. The case studies were the primary data source for the case study analysis. Data was categorised into a case study matrix using Microsoft Excel. The matrix captured details about the investment background, process, benefits and challenges, growth and development. Using
an iterative process, case study data was then thematically coded and analysed. A wide range of themes were identified and refined. A theme was coded each time respondents mentioned relevant material and frequencies were then produced. Data was segmented according to country, sector, business type and size of investment. Frequency results were reported in tables and ranking figures.

**Surveys**

Thirty-three investment experts completed online and phone surveys. The phone surveys were transcribed and online surveys exported from open source survey software Qualtrics. Each transcript was reviewed and keywords and short phrases were categorised to provide a summary of key themes. Key themes were extracted and refined using NVivo version 11. The key themes were reviewed to check the validity of coding. Results were presented in tables and ranking figures. Tables show the frequencies of each code reported by survey respondents. Ranking figures also illustrate the frequencies with which each theme occurs. Thus, each time an individual mentioned a specific facilitator or barrier in their interview or survey, their response was counted and recorded as part of the basic frequency analysis.

**Country Investment Context**

The following is a brief review of policy measures, both national and beyond, that impact upon the investment climate in the five PICs that are the focus for much of this report: Cook Islands, Fiji, Tonga, Vanuatu and Niue.

**Cook Islands**

Foreign Investment in the Cook Islands is overseen by the Business Trade and Investment Board and regulated by: The Development Investment Act 1995-1996, the Development Investment Regulations 1996, and the Development Investment Code Order 2003. The most important Act for outside investors is the Development Investment Act 1995-1996 which lays down the requirements for foreigners to first register using the Foreign Investment Application Form and for their planned activities to be approved and registered by the Board. A comprehensive profile is required for the application, including business plan, references, police and medical checks. Foreign investors are not allowed freehold ownership of land. Land can be leased for up to five years; any longer requires approval under the Act. (Cook Islands Investment, n.d). While investment by Cook Islanders is favoured, there are incentives for outside investors such as “concessions for tariff protection, import duty and levy concessions, tax concessions by way of accelerated depreciation, allowance for counterpart training and recruitment of Cook Islanders from overseas” (Cook Islands Investment, n.d).

For foreign investors seeking to link to local partners to expand their investment options, there is a Registry of Business and Investment Opportunities. The Business Trade Investment Board:

“Aims to link local partners with an international network of buyers, investors and financing sources, and to increase economic growth and employment in the Cook Islands. The BTIB is developing a registry of investment opportunities, expansion programmes needing partners and new ideas. It can also help with applications for development funding from regional and international agencies like the
Marketing Support Fund from the Pacific Forum Secretariat.” (Cook Islands Investment, n.d)

The Development Investment Code Order outlines Government policy towards foreign investments and provides for sectors of the economy and specific business activities to be reserved for Cook Islanders only. “Where the proposed investment activity is reserved for Cook Islanders, exceptions exist under which a Foreign Investor may qualify to invest in the reserve sector” (Business Trade Investment Board Cook Islands, 2015).

Two main elements underpin investment policy: first, “business activities must contribute significantly to the economic development of the Cook Islands and result in a net economic benefit either to the Cook Islands or to at least one island in the Cook Islands”. Second, a priority is given to Cook Islands for investment with a number of activities reserved for Cook Islanders, with some specified exceptions. Appropriate joint venture projects featuring foreign investors and Cook Islanders are encouraged in the policy. Priority is placed on encouraging investment (by Cook Islanders and others) in three areas of activity: agriculture, marine resources, and the tourism industry. In terms of foreign investment policy, activities are welcomed (with various restrictions) if they contribute to the future development of the Cook Islands. ‘Foreign enterprise’ is defined as an activity owned at least one-third or more by an overseas investor, and reserved investment areas are specified. Participation and investment by Cook Islanders in foreign enterprises are encouraged across sectors (Business Trade Investment Board Cook Islands, 2015).

Stafford Group (2016) have recommended changes in policy to improve the tourism infrastructure of the Cook Islands and enhance the competitiveness of the island as a destination for investors. In particular, the authors strongly recommend the refurbishment and upgrading of accommodation. The policy changes recommended include amendments to depreciation rates, the introduction of a guarantee by government on leasing terms for large projects of state significance; and grants for workforce development e.g. to upskill local (Cook Islanders) workers in service standards and create career pathways.

Fiji

Fiji’s last WTO trade policy review was in 2009, currently the country is reviewing and updating its investment policies which regulate foreign investment (Foreign Investment Act 2009, Foreign Investment Regulation 2009, and Foreign Investment Budget Amendment Act 2016) to improve the efficiency of processing and approving foreign investment proposals. Investment Fiji is responsible for all foreign investment to the country including, regulation, control and promotion for the interests of national development. Investment Fiji requires that foreign investors or businesses complete the foreign investment component of their ownership register and obtain a Certificate of Foreign Investment Registration. Reserved activities for Fiji citizens only include small business in the hospitality, professional services, retail, and horticulture sectors. There are also restrictions on activities in forestry, fishing, manufacturing, tourism, professional services, construction, earthmoving and transportation (ferry services) (Investment Fiji, n.d).
The government highlights several reasons for investing in Fiji including the country’s position as the ‘centre of trading in the South Pacific for the South Pacific – Asia, USA and Europe Region’. Fiji has also developed as a regional hub for global communications and transportation routes (shipping and air travel). A range of incentives for trade and investment are offered, including: investment allowances, tax exemptions, tax free regions, duty concessions and reduced corporate tax rates. The government aims to facilitate local and foreign investment by investors by providing them with efficient banking and financial systems, effective administration systems for foreign projects and a well-educated workforce. The government of Fiji also highlights strong infrastructure in telecommunications, utilities, airports and wharfs, health facilities and the availability of land and buildings at relatively good prices (US Department of State, 2015b).

**Tonga**

The Government of Tonga regulates investment mainly through legislation, although in some instances where specific legislation does not exist, policy is applied on a case-by-case basis. The key pieces of legislation are: The Companies Act 1995 (with subsequent amendments), The Business Licenses Act 2002 and Business Licenses Regulations 2007, and The Foreign Investment Act 2002 and Foreign Investment Regulations 2006 (Ministry of Labour, Commerce and Industries, 2009). The Foreign Investment Act identifies activities reserved for local businesses. The Business Licenses Act’s list of activities reserved for citizens includes small business activities such as transport, retail, wholesaling, fishing, cultural, and agricultural work. Investment projects are considered on a case by case basis and the government generally encourages joint ventures. Land cannot be bought or sold in Tonga, but may be leased through formal lease arrangements for between 50 and 99 years, with approval from Cabinet (Tonga Chamber of Commerce and Industry, 2013). For investments in tourism, finance, farming, forestry a relevant minister’s endorsement is required along with the application for investment (Government of the Kingdom of Tonga, n.d.).

The Government of Tonga welcomes business and investors but the country’s economy remains heavily reliant on flows of overseas remittances (US Department of State, 2014). The main productive sectors of the economy are agriculture and tourism and the ADB (2014a) has highlighted these as the prime candidates for investment. Investment incentives include: guaranteed long-term space and land leasing in the Small Industries Centre, residential and work visas for foreign investors and their families for as long as the enterprise is in operation; and priority for electricity, telephone, and water connections. Technical assistance is available to help prospective investors identify, evaluate and set up business (Ministry of Labour, Commerce and Industries, 2009).

**Vanuatu**

The main regulatory instrument governing investment is the Vanuatu Foreign Investment Promotion Act 1989 (VFIP Act). The government of Vanuatu welcomes foreign investment while seeking also to protect citizen interests in particular sectors of the economy. The government appraises applications from foreign investors on the basis of economic feasibility and investor
credentials. All foreign investors in Vanuatu are subject to the country’s governing commerce laws, regulations and practices. “Under the 1980 Constitution, it is not possible for non-Vanuatu-Citizens to purchase land, however, under the Land Leases Act [CAP 163] of 1983, government policy allows investors to lease land for up to 75 years for commercial purposes and 50 years for agriculture (lease conditions are usually subject to review every five years.)

On Tanna: “males only can lease land and must have a land lease to have a business” (Vanuatu Investment Promotion Authority, 2010).

Tourism, agriculture and services have been identified by the government as areas of competitive advantage for Vanuatu. While emphasis is placed on these sectors, investment is encouraged across all industries, and there are no incentives for particular sectors offered by the government, other than some exemptions on import duties (Vanuatu Investment Promotion Authority, 2010). In 2014/2015 a land ombudsman was appointed in Vanuatu, making property registration easier. Investment in Vanuatu was also made easier when the government invested in infrastructure at Port Vila which increased the efficiency of imports, reduced the border compliance time and made it easier to trade across borders (World Bank Group, 2016).

The Vanuatu Investment Promotion Authority describes government policy as “pro foreign direct investment policy making Vanuatu one of the best countries in the Pacific region for business.” (Vanuatu Investment Promotion Authority, n.d.). Foreign Investors must receive a Foreign Investment Approval Certificate before setting up a business in Vanuatu. Outside investors are encouraged to discuss plans with the Vanuatu Investment Promotion Authority to ensure the business matches guidelines. Along with the application form, police clearance and a business summary is required including plans to train Ni-Vanuatu workers (Vanuatu Investment Promotion Authority, n.d).

Niue

The limited size of Niue’s domestic market means exploiting opportunities provided by international markets is key to economic development. The Niue National Strategic Plan’s (NNSP) aims to maximise the benefits from Niue’s resources through the promotion of private sector development. NNSP focuses on improving infrastructure in key markets such as tourism, agriculture and fisheries.

Of interest to investors are recent discussions around reducing the corporate tax rate as well as reducing taxation on secondary employment. Enhancing protection of relevant Intellectual Property Rights, and the streamlining of land laws are also options being examined.

Tourism is the sector that holds the largest economic potential for Niue. From this point of view, expansion of tourism exports and establishment of economic linkages with the sectors supplying the tourism industry should be at the core of the country’s development agenda and must underpin discussions around potential investment.

Niue still lacks adequate capacity to undertake its regulatory functions for key services such as power and telecommunications. Building this capacity is crucial
to reap the potential benefits arising from corporatisation of former government trading entities. Approval of a national ICT policy is important in identifying and prioritising the country’s objectives, and it is vital to mainstream ICT in the government’s development strategy and sectoral policies (InvesNiue, n.d).

Applications by outside investors go through a review process involving a range of government departments, as well as the Niue Development Bank (InvesNiue, n.d). InvesNiue (n.d) recommend that an in person visit to meet with relevant sectors of government and finance strengthens an application:

“All applicants for foreign investment or for incentives and concessions are to be accompanied by comments from the Financial Secretary, General Manager, Niue Development Bank, the Economic Adviser and the Director, Community Affairs Department. Other Government departments may be asked for comment on the possible impact of proposals on infrastructure and other services provided by Government. An initial visit by the applicant or a representative is strongly recommended.”

**PACER Plus**

Each national context outlined above is influenced by regional and global trade alliances and agreements. Perhaps the most significant in the context of this report is the Pacific Agreement on Closer Economic Relations (PACER Plus), negotiated by member countries of the Pacific Islands Forum and focused on achieving trade and economic integration. PACER Plus aims to create employment, raise living standards and quality of life and encourage more sustainable forms of economic development throughout the Pacific region. The benefits of the Agreement, as presented by supporters, include a sharper focus on increasing investment in the region, in particular by New Zealand and Australian companies into Pacific Island countries.

Under the Agreement, the Chapter on Investment focuses on attracting FDI in sectors of development priority, promoting competition, creating jobs and expanding productive capacity in order to take advantage of trade opportunities. Another main objective of the investment chapter is to encourage a stable environment to facilitate direct investment flows among Parties in line with national policy objectives and the right of each Party to regulate (MFAT, n.d-b). Negotiations commenced in August 2009 and concluded in late April 2017. Before coming into force, the agreement needs to be signed and ratified. Fiji and Papua New Guinea have withdrawn from the agreement.

There is significant debate over PACER Plus with concerns shared by a broad variety of public agencies, and private enterprise. Areas of concern relate to the process for settling disputes between parties. For example, there are concerns about rules on conflicts of interest, enforcement of investment rules, and the right to regulate, with a call from some for policies that “balance commercial interests with regulatory sovereignty and social rights” (Pacific Network on Globalisation, 2016, 8).

It has been argued that PACER Plus could result in a loss of autonomy for Pacific Island governments, broaden the economic and development gap, threaten the survival of local businesses (due to reduced or eliminated tariffs), impact health, and affect
food security and the local environment. On the other hand, there is the possibility that the agreement could improve social aspects in Pacific Island countries (Oxfam, 2009; Pacific Network on Globalisation, 2016).

**World Bank Ease of Doing Business Rankings**

The World Bank ranks economies on their ease of doing business – defined as a regulatory environment that is conductive to starting and operating a local business. The rankings are created using aggregate data on ten topics that each contain specific indicators that are equally weighted and benchmarked against best practice economies. The indicators are: Starting a Business, Managing Construction Permits, Accessing Electricity, Registering Property, Finding Credit, Protecting Minority Investors, Paying Taxes, Trading across national Borders, Enforcing Contracts and Resolving Insolvency.

Table 3.8 presents the ease of doing business rankings for Vanuatu, Tonga and Fiji, data is not available for the Cook Islands or Niue. New Zealand and Australia have been included for comparative purposes. Vanuatu was highlighted by the World Bank as implementing a broad reform programme to ease a relatively restrictive regulatory environment, making it easier to do business there (World Bank, 2017). Starting a business uses the same ranking scale and relates to the relative ease of starting up a business in a country in relation to others around the world. Starting a Business scores have been included to show the relative ease of the process in each country. The indicators used to calculate the score are number of required procedures, time expended in days, cost as a percentage of per capita income per capita, and minimum capital as a percentage of income per capita.

<table>
<thead>
<tr>
<th>Economy</th>
<th>Starting a Business</th>
<th>Ease of Doing Business Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vanuatu</td>
<td>126</td>
<td>83</td>
</tr>
<tr>
<td>Tonga</td>
<td>55</td>
<td>85</td>
</tr>
<tr>
<td>Fiji</td>
<td>159</td>
<td>97</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Australia</td>
<td>7</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: [http://www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings)

The regulatory environment in all three PICs is restrictive and all score relatively highly. When compared to Australia and New Zealand, it can be seen that these environments compare quite poorly. Fiji has the most challenging process out of the three PICs for starting up a business, followed by Vanuatu and Tonga. While Tonga’s regulatory environment is fairly restrictive, the process of starting up a business is ranked as much easier in comparison to Vanuatu and Fiji.

As one regional expert commented in our survey:
“Most of the Pacific Island countries have severely deteriorated in their Ease of Doing Business ranking over the last 10 years, and considering how much money has been going into these economies to address these problems, they should by now be some of the easiest places to do business so clearly, something’s not working there.”
4. Investment Climate, Experience and Motivations

The discussion of findings over the next three sections follows the same contours as the survey and in-depth interviews - covering first the broader themes of the investment climate and then exploring underlying motivations and broader decision making processes. The focus then shifts to the factors that investors and experts feel are the key facilitators of, and constraints to, investment.

In each section, we look at a key theme and where applicable draw on comparisons between the expert and investor data. In some instances, we review the in-depth interview material and survey response in isolation simply because comparative coverage is limited or not appropriate. While the data is presented mostly through the voices of the research participants there are also, where appropriate, summaries provided of the key themes/issues raised across all respondents, allowing for a summary of subjects to emerge.

Section 4 begins with a review of the investment climate, largely from the perspective of the expert survey and then moves on to examine investor motivations and the elements that underlie the decision to invest in PICs.

The Investment Climate

The term ‘investment climate’ can be defined broadly and we did not provide guidance as to the content/focus of the term. For investors, the focus was inevitably on their own personal investment experience (and those of others) plus the current operational context. For experts, the focus tended to reflect their respective roles - with those who are nationally focused tending to emphasise country specific examples and dimensions while regional experts often took a broader or comparative view.

Expert Perspectives

In discussing Regional and National investment contexts, facilitators and experts generally held a less than positive view of the investment climate in the Pacific, with well over a half (56%) unequivocally negative in their perspectives (Figure 4.1). There was some variation between the experts who are country based and those who are regional in terms of their focus. Those reflecting on the regional environment were a little more negative in their view on the investment climate for the Pacific (Figure 4.2). Only a relatively small number presented a thoroughly positive perspective on the situation.
In many cases the perspectives are mixed – emphasising the fact that there is considerable diversity of investment climates within the region.

“The Pacific is not homogenous. If you put Fiji and PNG in a separate bucket, they are much bigger and have different dynamics. Investment climate is really limited. Really struggle to get anything of substance up. It tends to be a lot more opportunistic, where we can work directly with institutions like banks to help facilitate it as opposed to private equity in individual institutions. Having said that we’ve invested in the National Bank of Vanuatu, the Bank of the South Pacific, we’ve looked at other
investments and have shifted to those players that are regional as opposed to those players that are country specific. Other than Fiji and PNG where there is opportunity to be more focussed on aspects of business, where they have enough volume. Predominantly because the commercial parameters behind it are really poor.”

Some argued that the climate gets a lot of negative coverage that is not always justifiable:

“Actually it’s (investment climate is) better than most investments give it credit for. The Pacific gets a bad rap because foreign investors are not familiar with it. They only see it as a holiday destination and not as an investment destination. They associate it as a small market rather than a gateway to other markets. 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. They’re in favour of foreign investment.”

Positive comments tended to emphasise the efforts that were being made in the region by both agencies and governments to enhance the investment climate: “The increase in number of investments in the Pacific is testament to the supportive policies and regulations in Pacific governments that all contribute to a conducive environment for increased investment, business expansion and growth.” There was also a focus in several comments on the abundant array of resources available to attract investment especially in the area of tourism, marine/fisheries, agriculture and ICT telecommunications.

There is a sense that, despite undoubted opportunities for investors, there is still work to be done by national governments to improve outcomes for both domestic and foreign investors

“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.”

The term ‘potential’ was often used and there is a clear sense that resources and opportunities exist but must first be unlocked through effective policies and promotion. The latter are essential because of the competitive environment that faces nations attempting to attract investment, as one experienced regional expert noted: “A lot of great opportunities. Hugely challenging environment at the moment”. For some experts, the key trigger to unleash potential lies less with government policy and support through incentives and more with provision of underlying information: “There is potential. Given proper research and especially feasibility studies are carried out to ensure decision makings are based on consultative approach and quantitative research.”

Negative feedback on the competitive environment tended to focus on underlying factors that will require deep seated reform to overcome. For some the investment
climate is: “restrained by the level of commercial activity.... There is a lot of liquidity in these markets, the difficulty is finding good quality credit and good quality investments.”

For others, the problems lie in the realm of legislation and political will, as well as in limited capacity:

“Many Pacific island countries simply do not have the requisite legislative framework in place to encourage investment (for example guarantees around the protection of direct foreign investment, up to date banking systems, internal capacity to negotiate correctly with potential investors). There is significant potential for investment, but my observation is that this mainly takes place between the more powerful insular economies (Fiji, PNG).”

On occasion, the regional experts would make more direct assertions as to the current climate for investors:

“Cautious. A courageous person would put money into the Pacific at the moment.”

And,

“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. Enabling the regulatory framework. Combination of these. Distortion in the market that poses problems for foreign investment.”

The interpretation of the investment climate is a little more positive on the part of experts who are attached to, and focused on, a specific country within the region (Figure 4.3). In comparison to their regionally focused counterparts they are less likely (53%) to provide an overwhelmingly negative view on the investment climate and are more likely to provide a positive review (29%).

![Figure 4.3 Country specific survey respondents' views on the Pacific investment climate (n =17)](image)

Figure 4.3 Country specific survey respondents’ views on the Pacific investment climate (n =17)
On some occasions, regional comments were made by nationally focused respondents:

“Huge opportunities for New Zealand and Australian investors in existing export-ready companies, to build capacity and grow within the region to supply export markets in the New Zealand, Australian and Asian markets. The main export sectors that require investment, in order of importance are 1) fish, 2) nonu, 3) beer, 4) coconut, 5) taro, 6) cocoa, 7) kava, 8) garments, arts and crafts and 9) snack products using locally grown ingredients. We are promoting these areas. Need to grow the capacity of these companies, provide incentives in these sectors and attract investment to increase supply.”

But in most instances the focus was placed on specific national contexts and it was here that experiences of the investment climate varied significantly.

In the case of Tonga there was considerable emphasis placed on the need for government to re-think aspects of its policies. One expert felt that the government was simply: “Restrictive. Government do not outwardly appear to have a policy of encouraging investment in Tonga – whether it be local or foreign.”

Good work that has been done in recent years was lauded but the sense was that there is more to do:

“Tonga’s Investment strategy and policies are in need of review. While there has been a lot of work over the last 5-6 years to make registration of companies and doing business in Tonga easier, there are still key areas to be developed by Tongan government (for e.g. infrastructure development and incentives etc.) to attract investment that would increase employment and revenue for the country.”

There is of course also variation in perspectives on countries. For some experts based in the Cook Islands:

“The investment environment has never been better…. Interest rates have reduced, tax rates are lower than previous, systems are automated, and assistance is available through the Business Trade and Investment Board and Ministry of Agriculture to small and developing businesses.”

For others in the Cook Islands, however, there are a range of challenges that remain around “land ownership, the annual nature of immigration permits issued, the broad nature of reserve areas for investment (clarity), lack of specific incentives such as tax breaks and the need to regularly review the Investment Code (Policy).” The intersection between trade policy and investment is also critical, with the implementation of a National Trade Policy Framework seen as key to improve the coordination across the country (private-public stakeholders) on impediments to trade, which also improves the investments climate.

The Cook Islands also generated respondent comments on the ‘gap’ between small-scale investment and larger foreign based initiatives. Most investment is actually “Bespoke/lifestyle” and the present environment is not conducive to attracting serious outside equity investment.” The same expert noted:
“We have had a lack lustre period. There has been organic growth. However, issues around land system. Limitations, perception of foreign ownership, lack of incentives and lack of product match to the market.”

Even in a small economy like Niue there were some significant differences in perception of the local investment climate. From a government perspective, there was the frank assessment that things are: “Very stagnant at the moment. It needs new energy to help boost it and a refocus to create opportunities that contribute to sustainable economic growth”. On the other hand, the perspective from the banking sector was a little more positive:

“Despite the challenges, investment climate is favourable given the support available for investors. Like other developing countries, Niue has many common challenges – labour shortages, access to land, high vulnerability to natural disasters and effects of climate change. However, Niue has an abundance of investment opportunities.”

For the larger economies in the region there were generally more positive perspectives presented:

“Fiji’s investment climate is very strong. Fiji has encountered heavy investment levels that have not been seen for some time. Once the country was restored after elections, investment started flowing strongly i.e. in hotels and construction. A setback was Cyclone Winston but there has been much local rebuilding of schools and homes. Although Fiji is starting to face capacity shortages in skilled labour, Australian investors are still enquiring about setting up businesses. Reserve Bank has facilitated setting up businesses in Fiji e.g. consultancies/branches for mechanical engineering. In comparison to other countries, Fiji is doing quite well.”

For some survey respondents, the tyranny of distance overcomes other dimensions, reducing the ability of government to make a difference: “Investment climate is very liberal and excellent incentives availed to investors, however, isolation of the region to markets remains the main obstacle to securing large investment into the region.” Interestingly there were others, especially those in countries where tourism activity was growing, who felt that air transport connectivity was growing and actually reducing the negative impacts of isolation. In some instances, most notably from the Cook Islands, there were even arguments that air capacity was potentially beginning to outstrip the ability to host visitors in a sustainable fashion.

**Investor Perspectives**

Investors tended to focus less on the broader climate and more on their own experience in investing and the current operational context. We have summarised the overall feeling about the experience into a simple negative/positive breakdown for the 24 cases covered in the tourism, agricultural, renewable energy and telecommunications sectors (Table 4.1). Several investors had a mixed experience – with some factors, such as access to land and finance, progressing well but others, for example finding suitable staff, proving to be more problematic.
Investors generally had a good investment experience in the Pacific with over three quarters (76%) of respondents noting a positive experience and less than a quarter (24%) describing a negative experience. Investors in the Cook Islands, Niue and Vanuatu generally reported more positive experiences, with their counterparts in Tonga and Fiji having a more mixed set of experiences. Despite a number of challenges the sole investment case in Niue also fell into the positive category.

There were numerous short statements from those who had found their investment to be a positive process with terms like “easy”, “no problem” or “a piece of pie” being commonly used. In general, most investors had encountered a few challenges along the way - but overall had found these hurdles to be surmountable. In these instances, people tended to qualify their experience with terms such as “relatively smooth sailing” and “relatively easy”.

Investors tended to talk at length when discussing the less positive aspects of the investment experience. For example, a larger investor in Fiji noted that the initial years were akin to the “wild west” with sources of capital in Fiji very limited and restrictions on capital flows between countries prohibitive.

In discussing the general investment climate there were also inevitably comparisons made across the region. In particular, larger investors tended to compare processes in New Zealand and Australia with what they had found in the Pacific. One large investor in Fiji described a lack of transparency in the legal system and a banking system and noted that both lagged significantly behind New Zealand and Australia.

Nevertheless, from a regional PIC perspective Fiji was seen by some to be the “easiest” as it was more direct and transparent when it came to market enablers and regulatory environment. PNG and Vanuatu did not tend to be rated as highly. Several cases in the Cooks noted the similarity between investment processes in the Cook Islands and New Zealand. Likewise, there were a number of comments made on the comparative ease of investment in both Samoa and the Cook Islands: “There are many regulatory approvals needed in American Samoa. The investment process is similar in the Cooks and Samoa - easy.” Other investors with a regional perspective highlighted the challenges associated with specific countries: “Tonga would be the most challenging experience for our group in the Pacific” and “Vanuatu is bad from an investment perspective, too much uncertainty.”

One further way to gauge investor perspectives on the investment climate is to examine whether they would recommend investment in the country they currently operate. Three quarters of respondents say that they would recommend their national setting to potential investors. In general, there is a sense that the climate is supportive and that real opportunity exists:

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Table 4.1 The overall investment experience (Investors)

<table>
<thead>
<tr>
<th>Experience</th>
<th>Tonga</th>
<th>Cook Is.</th>
<th>Fiji</th>
<th>Vanuatu</th>
<th>Niue</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>3</td>
<td>6</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Negative</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

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“I would ‘definitely’ recommend the Cook Islands to investors because the tourism industry will grow substantially in the future. The need for people to take a holiday will triple. The Cook Islands is easily accessible to the New Zealand market.”

Only one of the 24 cases stated that they would not recommend investors to pursue activity in their country of operation. In this instance, the case was a smaller operation in Fiji. A further five investors were somewhat equivocal in their recommendations – usually portraying some sense of uncertainty over governance and natural disaster related issues.

The Motivation for Investment

The case study interviews attempted to gain insights into the motivations that underpinned investment decision making. Inevitably, a complex array of responses were provided, but some common themes emerged. Core motivation can be seen in responses to questions about how the success of the investment is/will be defined. Investors were asked to define whether they felt their investment had been a success or not. In nearly three quarters (18) of the cases interviewees stated that they felt their investment had been a success with a further three stating it had not, and the same number saying that that were undecided. Return on investment was the number one factor to be highlighted – with half of interviewees focusing on this dimension. The other group of investors were split evenly between those who were focused on increasing market share and those that were emphasising expansion into new markets or geographical areas.

For some motivation stems from a desire to develop an existing investment. For an agricultural investor in Vanuatu the focus is on:

“Developing a fully vertically integrated supply chain, where there is control of each component of the activity from raw materials and production through processing to sales and marketing, with a focus on establishing solid and reliable cash-flow.”

For others, the measure of success relates to spatial expansion – this was especially the case among larger investors in the accommodation and telecommunications/renewable energy sectors. In every instance, however there was a focus on ensuring that investments would generate “healthy returns” through good corporate management and understanding of local context.

The desire to grow market share and return on investment is often driven by a realisation that there is a gap or opportunity in the market that has not been seen by others, as one Cook Island tourism operator noted:

“Cook Islands tourism was characterised by poor value for money - there was a clear niche for good quality offerings at mid-range pricing - with a focus on service excellence and good quality product. The industry was (and still is) characterised by a lack of ongoing investment and improvement, a cycle of initial purchase and then neglect. Competitors were also not doing a very good job in their marketing - often over promising and under delivering - leading to poor return visitation and limited positive word of mouth. It is vital to invest in both plant and staff and keep up with international trends.”
In a similar fashion, we see companies adding value to coconut oils and other local produce and others identifying opportunities in areas as diverse as solar power and whale watching. In the case of one small accommodation provider it was about having the vision to develop budget accommodation for the newly emerging upscale or luxury backpacker market.

For other small investors, the focus is often on generating income that can act as a supplement or support to other forms of income. For some of the cases in the tourism sector in particular, the initial investment, is regarded as a form of self-funded life-style change/retirement-related opportunity that appears as an attractive alternative to other options, without causing over-exposure to risk.

In most cases the focus on ROI, market share and simple income generation is also cross-pollinated with a broader range of motivations. For some the additional drive is borne out of existing family ties and business commitments and the desire to provide a legacy of financial stability for children: “a main objective of investing in the tourism sector in Rarotonga was to set up a successful business for the family, and this has since been achieved.” The lifestyle of operating a family business also suits operators especially when it comes to family and other commitments “it’s flexible, I don’t have to be here 8-5pm.”

In some cases, motivation is about proving to family members and communities that an investment of money and time can lead to successful outcomes. “My main motivation to make the business a success has been a desire to (show) my father who always told me that I was never going to make a go of it! And to be able to pass this legacy on to my own children.” There may also be a determination, in some cases of local/Pasifika returning investors to prove to the broader community that they could invest in and develop successful businesses, this was, most notably, a driving factor among women, who had a clear desire to show that “women don’t just have to find rich husbands with land.”

In some cases, a desire to invest with lifestyle motives in mind can evolve into something more than expected. One small investor noted she wanted to give something back to the country of her birth, rekindling skills among youth and linking tourism and agriculture more closely:

“I didn’t want to retire just yet – my plan was just to set up a small business but I had no idea it would blow up to a point where I needed to have 10 hands to manage things.”

Several returning Pasifika investors noted that while the investment was primarily a way to generate recurring revenue in their home country it also represented an important way to ‘give something back’ to the local economy through employment and local linkage creation.

Clearly another motivating factor lies in a deep-seated passion for the sector attracting the investment. For some investors in the tourism and agriculture sectors this relates to a passion for food and the desire to find uses and applications for local produce to make healthy and nutritious meals. Others were passionate about the simple area of travel and tourism – providing quality service and product and drawing on personal experience in the industry.
For some it is ownership or access to land that is a key motivating factor. This is something beyond simply land facilitating a business venture – it is about wanting to add something to the landscape and local economy, showing that a family resource is being put towards productive ends. The ability to invest time and energy in developing a family resource for broader outcomes is something that often resonated deeply.

This desire to “give something back” also translated, on occasion, into deeper motivations relating to contributing to the broader community, supporting the education and development of local staff and building environmental awareness and resilience. There is often a strong desire expressed to be seen to be connected to community – with this providing a deeper sense of purpose for some.
5. Investment Facilitators and Constraints

Both investors and experts were asked to discuss the constraints to investment in the region in some detail through the interview and survey instruments. Wherever possible in the ensuing discussion we attempt to highlight the commonalities and contrasts that exist between experts and investors and between the countries and sectors that make up the set of cases. Niue is excluded for reasons of confidentiality in any figures focused on cross-national comparison. All rankings of factors presented are based on a review of the frequency and nature of the comments made.

Facilitators of Investment

A review of the key investment facilitating factors raised by investors is presented in Table 5.1. When looking across all four national contexts we see local knowledge and networks emerging as the most commonly mentioned facilitating factor for investment in the Pacific. The second most frequently mentioned facilitating factor is the support provided by the Government and Investment Agency. Being a local was also a factor considered important along with industry experience. Government incentives, family links and land ownership were the next most commonly mentioned responses.

Table 5.1 Facilitating factors of investment in the Pacific (Investors)

<table>
<thead>
<tr>
<th>Facilitating factors</th>
<th>Tonga</th>
<th>Cook Islands</th>
<th>Fiji</th>
<th>Vanuatu</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local knowledge and networks</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>5</td>
<td>21</td>
</tr>
<tr>
<td>Government/Investment Agency</td>
<td>5</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Being a Local</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Industry experience</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Family links</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Government incentives</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Land ownership</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Self-funded</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Bank funding</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Investment/Government experience</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Land lease benefits</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Advice</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Research</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

There is a high degree of consistency among investors in the standing given to investment facilitating factors across the case study countries. Tongan cases tended to
rank government incentives higher than their counterparts, while family links were ranked as particularly significant by Vanuatu. Land ownership was raised most commonly by the Cook Islands investors. Being a local is not seen as particularly advantageous in Tonga and Vanuatu, but is rated more highly in the Cook Islands and Fiji.

There is a very high level of consistency across sectors, with local knowledge and networks and government/investment agency support continuing to be ranked as the two most significant factors. It is interesting to note also that there is very strong consistency in ratings exhibited across large and small investment cases. Local Knowledge and networks is the dominant factor raised by both large and small groupings with the role of government and investment agencies again ranking second.

For reasons of time, emphasis was placed in the expert survey on factors that constrain investment – nevertheless there were key themes that emerged around facilitating factors and these can be grouped into the following three areas:

1. **Good Governance:** providing strong and consistent governance and ensuring corruption is dealt with effectively; gathering and disseminating reliable information that can guide investors and also government policy on investment; the need for good strategy and big picture thinking including the targeted and effective use of incentives

2. **Resources:** ensuring that there is good access to land; finance; transport and a suitable workforce – the role of government is again critical here

3. **Ensure that Infrastructure is well maintained and try to reduce costs through efficiency and the introduction of competition where appropriate.**

Several survey respondents summed this up succinctly:

“Good reliable infrastructure (e.g. airlines, ports, roads, power, telecommunication etc.), skilled and affordable labour, stable government, tax incentives, high standard facilities (e.g. hospitals and clinics), Competitive markets (e.g. as a tourist destination); integrity of the financial system.”

And,

“Robust investment policies, access to funds/high bank loan interest, land ownership, cost of doing business in the islands, labour needs.”

It is notable that unlike with the investors local knowledge and networks do not emerge strongly from the discussions with experts.

**Local Knowledge, Networks and ‘Being Local’**

There is no question that having good local knowledge and networks is seen to be an advantage in the investment process. In many cases this can go hand in hand with also ‘being local’ but the two are not entwined. The owner of small scale accommodation highlights the importance of knowing how to operate a business prior to investment in the Pacific and understanding the context well:

“I think the days of setting up a business and hoping for the best are dead and gone. It’s a lot of effort, a lot
of planning, and a lot of know-how to run a small business in the Pacific. 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.”

A small agricultural producer in the Cook Islands also stressed the importance of local connections: “It was easy. It was no problem at all, mainly because I’m married to a local.” This operator was also able to avail himself of local advice and knowledge that he was able to gain access to through his local networks. The notion of being supported and mentored by local networks was of great significance for both local and non-local investors: “We certainly drew from people we knew who could assist and help set us up.”

One key area of local networking is found in local supply chains. When asked to characterise their local supply chain 16 cases talked about local linkages being strong and a further seven respondents noted that their investment was characterised by a relatively weak supply chain (Table 5.2). Cases situated in Vanuatu and Fiji feature the strongest supply chains with the Cook Islands featuring a more mixed set of responses. The cases from Tonga and Niue tend to have the weakest supply chain strength.

There is some sectoral variation in the perceived strength of supply chains (Table 5.3), with nearly half of the tourism cases outlining relatively weak linkages while agriculture and renewable energy tended to characterise their investments, as having relatively strong local linkages.
Table 5.2 Strength of supply chain (Country)

<table>
<thead>
<tr>
<th>Strength of supply chain</th>
<th>Tonga</th>
<th>Cook Islands</th>
<th>Fiji</th>
<th>Vanuatu</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>Weak</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Unsure</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 5.3 Strength of supply chain (Sector)

<table>
<thead>
<tr>
<th>Strength of supply chain</th>
<th>Tourism</th>
<th>Agriculture</th>
<th>Renewable Energy</th>
<th>Telecoms</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>6</td>
<td>7</td>
<td>3</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>Weak</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Unsure</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

There was a clear sense that whether big or small, an investment benefits from strong supply chains and for some investors these networks had been key in facilitating the successful establishment of their operations. Over a number of years one hotel case has built up strong local supply networks, with approximately 60% of their food and beverage requirements being imported through local retailers, and about 40% being direct local produce, mainly fruit, vegetables, meat and eggs. Seasonality of supply is however an issue, so they have to adapt their menus accordingly.

The importance of the development of linkages between tourism and agriculture was a theme that was commonly raised. One case noted the fact that some from the local community found it hard to understand that tourists would actually be interested in drinking from coconuts or eating pawpaw and that developing these links has caused some local jealousy, nevertheless persistence had turned some people around who are now also selling produce to visitors or the supermarket.

Broader industry networks are also critical to develop and foster if one wishes to facilitate and develop investment. One tourism attraction in the Cook Islands established credible working relationships with accommodation providers, as they are the ones who promote tours. As the manager notes: “It’s important to have good relationships with hotels and resorts as they provide us with a lot of business”.

The Role of Government Support/Investment Process

Many cases highlighted the support they received from Government offices as facilitating the investment process. As one Tongan investor noted:

“Commerce and Industry was a useful resource during the investment process. They provided information about investment incentives for small
businesses in Tonga. Private sector investment in Tonga is encouraged by the Tongan Government through incentives such as concessions in tax, GST and goods purchased overseas...businesses pay no duty on imported water tanks. These incentives help to make the investment process easier in Tonga. Investment laws and legislation will change every now and then so it’s best to continuously seek advice.”

In a similar vein, a significant international investor in the Cook Islands felt the Business Trade and Investment Board (BTIB) were key facilitators in the investment process. They have “well defined and clear guidelines,” that inform investors what areas they can invest in and how they can invest. They felt well supported by government during the investment process. There was a sense that in most cases:

“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.”

Several investors and survey respondents stressed the benefits of having well-coordinated investment processes. The term “one stop shop” was often used to convey the benefits seen in effective government facilitation:

“A one stop investors shop or office needs to be established or organised within the Ministry of Commerce which encourages fast tracking of investment proposals requiring the registration of companies, business licences, income tax, company tax, and consumption tax registration IDs.”

For some investors, the one stop concept needed to be broader in scope, with suggestions that:

“New entrepreneurs need more assistance. Marketing is one area that is particularly important, perhaps organisations such as the Forum Secretariat could provide small grants to support development in this area.”

One Vanuatu investor noted the importance of making use of recommended local professional advisers, who can handle not only investment promotion authority requirements, but also residency issues, finance and legal advice:

“We used a Vila-based solicitor for the acquisition, and went through the normal overseas investment consent process with the Vanuatu Investment Promotion Authority (VIPA). We filled in the forms correctly and supplied all the required information, there were no difficulties. The vendor also gave us a lot of assistance with the legal paperwork and processes, so aside from the usual elements of bureaucratic delay, we did not encounter any major issues, and the necessary approvals for the development project came through without any problem.”

For expert respondents, the key themes raised tended to revolve around political stability and also transparency around governance. As two of the respondents noted:

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

“Stable government with good ethical practices.”

There was also some focus on the investment facilitation needs of locals and the fact that government can provide targeted assistance: “Compatible government policies, incentives for returning Niueans/potential investors.” Another respondent noted: “Government could certainly free up cash invested in some of these enterprises by offering partial equity to local investors, or local Retirement Funds if it meets their investment criteria.”

The bottom line for most respondents is that Government is seen as a critical facilitation agent that needs to make it as easy and transparent as possible for both local and foreign investors to invest and create jobs and economic opportunity. It is also essential where possible to work together across the region:

“Investment Promotion Agencies of the Pacific need to work collaboratively in order to secure investment into their respective countries and region. Secondly, there needs to be a strong networking arrangements put in place for investment information/opportunities sharing and exchange.”

**Industry Experience**

There is considerable value attached to prior industry knowledge and experience as a facilitating factor in achieving successful outcomes from investment. For some, this experience was based on achieving sustained growth from an initial core business. For example, a large agricultural business in Fiji has evolved from a small farm produce
distribution business into an entity engaged in the production, retailing, wholesaling, distribution, importing, exporting, and re-exporting of farm fresh produce, making them one of the largest retailers and distributors of tropical produce in the south-western Pacific region.

Experience can also be accumulated in other areas and then applied in new ways, for example the investor in a small accommodation operation had accumulated a very good understanding of the industry and of tourist behaviour while playing various senior public and private sector roles in the industry. Cross-sectoral experience can also be very valuable with, for example, experience in the North American hotel and hospitality sector being very useful for a Fijian investor looking to expand local organic produce based products into the US market.

Industry experience from outside the local context was also seen as being very valuable. There were numerous examples of overseas experience in tourism and agriculture being translated into Pacific investment initiatives, as one industry expert noted: “skills gained in hydroponics and accommodation operations in New Zealand, Australia or elsewhere are so valuable in the Pacific.”

**Land**

“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”. At the same time, he noted that being Fijian with experience of the Fijian context was also something of an advantage when it came to investing at a small or large scale in Fiji.

While it can be difficult to disentangle the overlapping concepts of being ‘local’ and having access to land, there is no doubt that for some of the cases relatively easy access to land had been a major facilitating factor in their investment. For small investors, there is no question that access to land provides both a motivation and enabling force for investment activity.

For some investors access to family land facilitates a desire to ‘return home’ and ‘give something back’. The relationship to the land goes far deeper than simply being a site for a building:

“One arrived, there was just bush (family land) – I cleared an access path and then began to build the two accommodation units. I also planted a garden with pawpaw, flowers and coconuts.”

This is a chance to add value to a family legacy and to create something of lasting value to the broader community and country. Of course, there are challenges even when access is facilitated through family contacts: “Family land ownership passes through the male side, but only my mother comes from here, so I have no customary entitlement to land”. In this case land from the matrilineal side of the family was eventually acquired through a more conventional commercial route.

Those experts who mentioned the land dimension tended to focus on the need to build capacity of local land owners and to reduce rigidities in the system:

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

Finance

Very few of those interviewed discussed access to finance as being a facilitating factor - although in numerous instances personal funds had been used to fund the investment and this had enabled some dis-engagement from the traditional sources of finance which many find are difficult to access:

“Having access to family funds enabled us to build the hotel without too much need for recourse to external lenders or outside investors. This has meant that we have always been in total control of the development process and the management of business.”

Several of the investment cases covered in this report have been funded out of existing cash flow:

“I used my own capital initially and vendor finance in a number of instances, particularly where the vendor was under pressure to sell, and I learned to take advantage of the low entry cost in acquiring the necessary ground-leases. The only investment that we obtained from the bank we knew we could repay the bank over a short period out of the cash flow from the business.”

In relatively few cases people found the banking system to have been supportive and instrumental to the success of their investment. As one small agricultural sector investor noted:

“We acquired an existing registered lease, and based on our previous relationship with the bank, they provided initial funding to rehabilitate the land and build the factory. They provided 100% finance over a 20-year loan period, based on a LVR (Loan-to-Valuation Ratio) of between 60% and 70% of the “as-finished” development. We would not be where they are today without the support of the bank.”

Availability of Information

The availability of good data is critical to support the investment process and the evaluation of investment performance and outcomes. The following quote from one of the experts: “Data on FDI is abysmal” points to the fact that relevant information of a robust nature is often lacking. In particular, it is difficult to access solid time series data.

Despite these data inadequacies, some investors, usually larger in nature, spoke of the importance of using background research and data gathering in facilitating investment decisions. Some smaller investors also noted that background knowledge of the industry or close connections to government can assist in accessing information but that in general “it can be hard for newcomers to find out how and where to access it”. As one investor noted:

“In general, there is a void in information to inform investment decision making. Luckily I was in the position to know about trading performance in other hotels given my previous roles in banking and regulation.”

There were some positive comments made about new initiatives to generate data and information of relevance to investors:

“More accurate and up to date trade statistics. Better banking statistics.”
Information needs to be provided outside of the Cook Islands about opportunities for tourism FDI in the Cook Islands” .... “An investment prospectus for the tourism sector has been developed and tourism investment seminars being held in the Cook Islands and abroad.”

The Cook Islands government had also decided to invest in an International Visitor Survey and Business Confidence Index that can provide pertinent and timely information for investors.

Experts also indicated that recent initiatives are being undertaken to enhance data availability for key sectors such as tourism:

“IFC and others are quantifying how big the tourism markets are in order to help Pacific Island countries better position themselves in a highly competitive tourism market. Essential to know basic statistics. Overall, the data in the Pacific is weak and hard to collect when people live on outlying islands, no national identity numbers, etc. The more data the better. There are some credit bureaus collecting data which is good.”

**Constraints to Investment**

Both investor interviewees and expert survey participants were asked to give their perspectives on the key constraints facing investment in Pacific Island Countries. We have categorised the responses into a number of key thematic areas and ranked the responses based on the frequency with which they were raised.

For both investors and experts, the area of governance emerged as the number one constraining factor (Figure 5.1). Environmental factors emerged as the second most important constraining factor among investors but ranked well down the list for experts. Among expert responses ‘land’ ranked second whereas for investors this was placed in sixth position. Financing and security received considerable attention from both groups (ranked third for both) and the ‘top five’ was rounded out by high costs and workforce capacity.

A number of other factors received the attention of participants: with isolation from markets, marketing and promotion, supply chains, market compliance lack of available data/information and infrastructure the next most commonly raised.

**Investor Perspectives**

Among investors there was considerable consistency in the investment constraints identified across national boundaries (Table 5.4). Governance again emerging as the clear number one in all settings, followed by environment and finance/security. Workforce capacity issues were raised in all instances. There is some important variation among other variables with workforce and supply chain dimensions being of particular concern for Cook islands, while marketing and promotion constraints are highlighted in Vanuatu. Land was not specifically raised as a contraint by Tongan investment cases - market compliance and uncertainty, isolation from markets and supply chain issues tended to feature instead.
There is also considerable consistency across sectors (Table 5.5) although some variation is worth highlighting. All sectors raised governance issues as the key factor in constraining investment but they varied in their focus on other themes. Tourism related cases tended to place a greater emphasis on labour related constraints to investment - with a focus on skills, general aptitude/attitude and availability of the workforce. For agriculture, workforce capacity does not feature as a major theme. Land is featured as a key constraint for agriculture and renewable energy/telecom but not for tourism investors.

A review of case content also reveals considerable differences in the perspectives on investment constraints offered by small and large firms (Table 5.6). Large investors place an overwhelming focus on governance and then turn their focus to workforce related issues. High costs and issues relating to finance, supply chains and land receive considerably less attention.
Table 5.4 Constraints to investment by country (Investors)

<table>
<thead>
<tr>
<th>Constraints</th>
<th>Tonga</th>
<th>Cook Islands</th>
<th>Fiji</th>
<th>Vanuatu</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>4</td>
<td>5</td>
<td>9</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Environment, climate change, natural disasters</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Financing and Security</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>High costs</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Workforce – capacity</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Land</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Marketing and promotion</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Market compliance and uncertainty</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Isolation - distance and scale of markets</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Supply chain</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Technical issues</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Maintenance</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Legal concerns</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Cultural and social</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
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<tr>
<td>Lack of incentives</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Infrastructure</td>
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<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 5.5 Constraints to investment by sector (Investors)

<table>
<thead>
<tr>
<th>Constraints</th>
<th>Agriculture</th>
<th>Tourism</th>
<th>Renewable Energy/Telecoms</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>8</td>
<td>14</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>Environment, climate change, natural disasters</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>Financing and Security</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>High costs</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Workforce – capacity</td>
<td>0</td>
<td>7</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Land</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Marketing and promotion</td>
<td>3</td>
<td>4</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Market compliance and uncertainty</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Isolation - distance and scale of markets</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Supply chain</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Technical issues</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Maintenance</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Legal concerns</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Cultural and social</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>
Lack of incentives | 2 | 0 | 0 | 2
Infrastructure | 1 | 1 | 0 | 1
Total | 36 | 62 | 11 | 109

Table 5.6 - Constraints to investment for large and small businesses (Investors)

<table>
<thead>
<tr>
<th>Constraints</th>
<th>Large</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Workforce – capacity</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Environment, climate change, natural disasters</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>High costs</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Financing and Security</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Land</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Marketing and promotion</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

Among smaller investors, concerns over environment and climate are almost on a par with governance issues and are followed reasonably closely by concerns over financing and high costs. Issues relating to land, marketing and isolation from markets are also raised among the smaller investment cases. Two smaller cases were the only ones to mention a lack of government incentives specifically.

While governance and financing/security clearly dominated the responses among the surveyed experts this group showed considerable variation when we compared those focused on national level investment facilitation and promotion, and those that take a more regional perspective (Figure 5.2).

Experts who play country-focused roles raised land as the second most significant constraint to investment whereas their regionally focused counterparts only rated this in seventh among variables discussed. Both groups are in agreement in the significant role they ascribe to workforce capacity (ranked 4), isolation (5/6) and the impact of limited information/research (5/7).

Regionally focused experts tend to place a greater emphasis on the challenges associated with high costs and were also more likely to emphasize the environmental constraints to investment. For their part, country specific experts are more likely to mention issues around a lack of national strategy and a lack of incentives to attract investors.

Clearly, there are a complex array of investment constraints identified by both experts and investors. In many cases the specific feedback we received would encompass a range of far-reaching themes that need to be addressed:

“Bureaucracy. Lack of investment-ready projects. Foreign exchange fluctuations (depending on business to invest in). Cost of business can be high – for shipping goods into the country. Access to finance. Many businesses do not have the collateral but they can apply to banks to offset the risk. Lack of asset registers (ADB doing work here). Businesses not audited or highly numerical/financially savvy – if
businesses cannot present a good strong set of accounts/cash flow at minimum – an investor doesn’t have basic information to do calculations to see if there is an investment opportunity or a good return.”

**Figure 5.2 Top ten constraints to investment by region and country specific Experts**

*Frequencies for Figure 5.2 are shown in Appendix 8.2.2.*

**Governance**

The need for strong, transparent governance and political stability was raised more often than any other theme and was a constant across all sectors and contexts. There is a realisation that the very nature of Pacific politics and population bases means that: “The government sits on a tenuous majority like a lot of Island governments, so it only takes a couple of votes and one seat before there is a change of government”.

Political change, or even a lack of focus and stability within government, can lead to confusion and a lack of clarity on the part of
investors – factors that can certainly slow or even jeopardise investment processes.

“At the time of acquisition, the government sent out confusing signals as they proposed changes in the current legislation but were unable to define what those changes would be. For that reason, there was a defined risk that was not able to be qualified in terms of what the new market was or what the new legislation was going to be and how that would affect the buy price/value of the purchase. This created uncertainty in the market.”

One investor noted that the Pacific faces an extra layer of complexity given its: “over reliance on consultant’s advice” with large donor organisations being argued to exert “undue influence in the political sphere”.

At a national scale, a commonly raised theme among investors is that “everything takes time” and that there can be a tendency throughout the region for over-regulation through legislation. Some investors also noted challenges in gaining access to the courts and legal systems, which they noted, could make it difficult to enforce contractual obligations. The introduction of compulsory arbitration processes has helped address the latter issue in some instances.

The issue of political stability causes challenges across all sectors but tourism appeared to be perhaps the most sensitive to the issue – with a realisation that visitors tend to be risk averse and open to influence from media and potential travel advisories. Of course, instability also influences sectors beyond tourism with respondents from the agriculture sector noting that downturns in visitor arrivals due to travel advisories for example lead to a concomitant decline in demand for fresh, locally grown, produce on the part of the tourism sector. Political and economic uncertainty can also, of course, add to difficulties for investors in selling for a reasonable gain.

It was not uncommon to hear smaller investors express disappointment with the level of support they had received from the Government in the past.

“We had an opportunity to meet with some Fiji exporters, who get a grant from their government when they exceed their export targets, which they can use to buy more machinery. There is no such assistance in our country.”

Others simply felt that as business people they were easy targets in terms of government revenue generation. Again, this was a theme felt most acutely by the tourism sector with some arguing that tourism is “a soft hit for tax dollars” vulnerable to a “Robin Hood government” that focuses on departure and bed taxes and other measures that “will kill small businesses”.

Another area of concern related to the potential for investment processes to be tainted by corruption. Several survey participants alluded to the “Negative impact of corruption at a high level in government”. Certainly, there is a clear message from both expert and investor that it is vital to ensure that all investment matters and processes are above board: “Transparency is an issue...”

The issue of corruption was sometimes raised in conjunction with the need to ensure that investment partners are reliable and reputable. There was some concern expressed by both experts and investors over the challenges that may exist in this respect, with investment flows from China receiving
particular mention. More generally there is a sense that regardless of the origin of investment it is critical for government to:

“Get the right kind of foreign investment because the Pacific often has people operating scams/ripping people off/making money quickly. There are a lot of shady operators in the Pacific so it’s important for the Pacific to differentiate between the type of investment coming in so they welcome investment that offers substantial opportunities, respects their culture, and regulates/prohibits operations that will rip them off.”

Some in the tourism sector also expressed concern about the increasing rentals of privately owned villas and entry of intermediaries such as Airbnb. Some saw these emerging accommodation options as being associated “with a lower economic retention rate as rental incomes stay overseas and owners have few if no compliance costs, yet their customers consume public-sector infrastructure”.

Some respondents focused on the need for government to take a more strategic perspective on investment at a range of scales. In particular, there were calls for ‘one stop shop’ approaches to facilitating investment to be developed and for coordination between key agencies to be strengthened. One small investor outlined the steps they needed to take in addition to standard investment procedures:

“1) Land must be surveyed by the Ministry of Environment, 2) building consent must be attained by the Ministry of Infrastructure and 3) the Ministry of Health is required to do an assessment of various factors of the land such as the use of water and whether the building will affect neighbours. Tourism Investors can also choose to be
accredited by the Cook Islands Tourism Corporation."

Another investor bemoaned the fact that the recent introduction in Fiji of occupational safety and health requirements based on New Zealand and Australian legislation is simply not fit for purpose in Fiji and the compliance costs around these are high and frustrating, representing an important constraint to investment.

There were also occasional calls for government to think more broadly about supporting investment through monetary policy:

“Exchange control is an impediment to investment in Fiji. In a small open economy, you cannot float the dollar or the country may suffer. If there is exchange control, investors are not 100% sure about investing because if the country becomes unstable, investors may not be able to withdraw their money. This is the difference between a country with exchange control and a country with freely flowing capital.”

There were mixed feelings about the role of Trade Agreements in supporting investment. Some made a strong case for the value of more open markets and broader investment opportunities:

“There are limitations e.g. reserved lists of investment - not helping FDI. Pacific Island markets are so small; they need to open up as much as they can. Need to break down barriers.”

Others chose to outline a broad range of constraints:

“No harmonised framework for investment in a region made up primarily of Small Island Developing States (thus a lack of internal capacity to manage this sort of investment added to the need for an investor to adapt to different frameworks depending on the country it is dealing with). Lack of agreements ensuring the protection of direct foreign investment. Lack of knowledge about what opportunities there truly are to invest. Lack of a robust system of dispute resolution for investment in the Pacific (only 5 Pacific island countries are party to the ICSID Convention and 3 to the New York Convention for example).”

Others feel for example that bilateral trade agreements are not adequately addressing investment and related incentives. For example, one expert argued that bilateral agreements between Samoa and New Zealand should have a focus on “climate change adaptation, improving the investment climate and building the capacity of the private sector who are actively participating in import substitution and export development.”

Environment, Climate Change and Natural Disasters

Several investors focused on environmental constraints to investment with many reflecting on their personal experiences of recent cyclone and other climate change related events: “It’s hurting”. The country has not yet recovered from Cyclone Pam”. In addition, the “Main challenge is weather, natural disasters e.g. Cyclone Pam and Winston in Fiji and Vanuatu. Had recent floods in Fiji. Huge risk.”

Investors are facing at first hand the challenges of operating in shifting environmental contexts. The extra costs and
uncertainty represents a constraint to successful investment outcomes. For tourism and agriculture operators the issue of drought and unusual rainfall patterns was raised as a concern with accommodation operators discussing the need for back-up water capacity. More generally tourism operators expressed concern about what mosquito borne diseases will spread through the region: “the Zika virus posed a huge threat to the tourism industry as it is a serious disease and there was a lot of media coverage around the topic.”

Food producers tended to emphasize the impact of changing climate on pests and the efficacy of growing techniques: “sometimes the heat makes the lettuce shoot up and become too stalky” and... “Botrytis gets worse and stops me selling lettuce for the past month”. Investors in agriculture who are not financially self-sufficient will struggle to be successful if they are not fully aware that climate-related issues are affecting crops.

Business “can be rough” when you have the uncertainty and devastation associated with cyclone events and other natural disasters. For some this uncertainty is an incentive to diversify investment portfolios “to survive I need my other businesses to supplement my main interest and passion – agriculture.”

The high degree of likelihood surrounding environmental constraints did prompt some experts to suggest that more could be done in the space of mitigation and ensuring that investors are made fully aware of the ‘all of country’ responses that are needed (but may not always exist) in the face of disaster: “The region is hit by disasters often – risky investment in this region, not adequate disaster procedures in Pacific Island countries.”

Likewise, it is critical for investment to be encouraged and channelled into areas that are less likely to be negatively affected by climate change:

“Climate change – some sectors are resilient but investment could be directed to this area. Samoa needs to look at their policies for foreign aid e.g. the money could be invested into Climate change-related sectors.”

Clearly though, both investors and experts are aware that environmental constraints to investment go beyond the broad processes of climate change and can be localised as well. There was a clear sense from investors that environmental impact assessments where required were a necessary part of doing business and that to avoid such processes would not show good corporate citizenship. On the other hand, there were occasional comments made about the EIA processes involved and in particular, the challenge of implementing government policies on broad based sustainable development issues and an enterprise level. As one expert noted: “Environmental impact needs to be managed carefully from the outset (under Government infrastructure planning).”

During the research phase for this work the issue of national environmental standards and their impact on investment came to the fore in the Cook Islands as a significant algal bloom appeared in the Muri Lagoon area of Rarotonga. As one operator noted: “The algae bloom issue in Muri lagoon is not good, something needs to be done” as “It will affect everyone in Rarotonga.”
This issue has been mirrored in the past three Cook Islands Business Confidence Index reports where businesses have highlighted environmental issues as the number one concern among business across the economy (Cook Islands Tourism Corporation, 2017).

**Financing**

Access to finance was raised as a significant constraint to investment by both investor and expert alike. As one regional investment expert noted:

“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 is easier to invest.”

In many cases the focus was on the challenge faced by investors in accessing finance from the banking sector. Among smaller investors it was not uncommon to hear of ‘mixed’ approaches to financing involving family money, cash flow and bank finance:

“Because of the high cost of borrowing, when the additional eight garden rooms were added, they were funded out of cash flow from the hotel operation”. Some were less than complimentary about the banks saying that it is “hard to find a bank that is prepared to support a new idea”. Some noted that banks became easier to deal with once the start-up phase was completed and there was a chance to build a better understanding built on confidence and trust.

One successful investor talked about what she described as a “patriarchal” banking system that was reluctant to loan money to a woman when she first sought funding for the business. The bank’s attitude changed significantly however once they realised the business’ success and they “came down [to their home] with the papers” when they took out a major loan for construction of a new plant a few years later.

A larger investor described a “wild west” situation when it came to financing investments with sources of capital very limited and restrictions on capital flows between countries prohibitive. Transparency of the legal system was described as “not very clear” and the banking system as being years behind that of New Zealand and Australia. The banks were described as being:

“Security focused with access to capital being available primarily for existing businesses, not new start-ups. As a result, although Pacific countries want foreign investment, it is hard for new entrants to start from nothing; initial capital is generally required.”

The lack of long-term development finance available and the difficulties and expense involved in fund-raising were highlighted by both large and small investors. As one investor who is looking at new investment elsewhere in the region noted: “It is a challenge to find sufficient security to raise
finance from the banking sector – in general it is difficult to get the support needed from banks – they are very risk averse.”

The following quote from a regional investment expert sums up the core challenges that exist in this area:

“1) There aren’t enough bankable projects for a business proposition. 2) When people invest, they want reasonable assurance that the investment will come back i.e. generate return or gain protection – so from a financial institutions perspective, they often don’t have collateral to give them protection. Most of the land is under a customary land tenure system so cannot be commercially loaned as collateral. 3) Business investors/sponsors quite often don’t have enough equity. So, it’s a combination of bankable proposals, the quality of the sponsors technical know-how + availability of collateral. Creates a problem for channelling investment into this sector.”

In simple terms: “risk affects how attractive investment is and if you can’t raise enough capital – opportunities will pass you by.”

Given these challenges some of the experts surveyed argued for the implementation of policies designed to ease the difficulty of accessing funds by small businesses.

**High Costs**

The high cost of doing business is something that can often pass one by unless you are at the coal face of running an enterprise and this area was certainly seen as a mid-level constraint to attracting and developing investments.

For small business, simple things like exchange and interest rates become a concern:

“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 same theme was returned to from a different perspective by a regionally focused investment expert:

“Banks have inflated interest rates. A lot of the banks make their money purely on foreign exchange, their spread is wide - they make money when you bring it in, they make money when you take it out. They probably don’t need the commercial rates they’re offering. Interest rates of 10, 11, and 12% are not uncommon. The other aspect e.g. in PNG is that there’s no reserves. There’s no foreign exchange of about US$10,000 a day – so if your company try to buy equipment, it’s very difficult, as they’re being hammered on the exchange rate. Also, you’ve got to buy into a country with foreign currency – in PNG you’re not sure if you’ll be able to get that money out. For the other countries, the volatility in those countries might wipe out any potential profit.”
Maintenance is a challenge regardless of the size of business. One small business investor in Tonga noted that in his experience “It’s just continuous maintenance in the islands ... every couple of years you need a new coat of paint”. This feeds into a broader issue raised by both experts and investors: in some situations, sectors such as tourism become trapped in an ‘invest - rundown - sell’ cycle that means a reduction in overall plant quality and sector competitiveness over time, therefore diminishing further likelihood of investment.

The cost of utilities also received attention from both investors and experts. The cost and reliability of power generation featured in several discussions as did the theme of telecommunications access and cost. In several instances, investors were either attempting to supply/produce ‘green’ energy or were actively engaged in cost cutting using green technology. One small accommodation operator noted that:

“To reduce high energy costs, we encourage guests to conserve energy by displaying signs asking them to “Please turn off the fan and lights when you leave us”. Unfortunately, investment in sustainable energy has not paid off as quickly as we would like. We tried installing solar panels on the property but they cost an arm and a leg and the whole lot needed to be replaced as they only lasted 4 years.”

For some investors, additional ‘national service’ costs come as part of the broader agreement of operations, for example, under its joint venture agreement with government, Bluesky Cook Islands deliver telecommunications access to all Cook Islanders. One major challenge is that there are very high operating costs associated with building networks in and to isolated outer islands. Optex is also a challenge because everything is delivered by satellite. Transporting equipment to and within the Cook Islands has high airfreight or shipping costs. Yield per customer in the outer islands is very low and it is challenging when there is a requirement under a joint venture agreement to provide same priced services.

Inevitably, the theme of taxes was raised in both discussions of costs and governance. As noted above there were criticisms of attempts to target visitors through hotel turnover taxes, bed taxes and similar.

Broader comments were also raised about the introduction in 2016 of a 9% Government Value Added Tax (VAT), which is applicable to all goods and services in Fiji. Several businesses were also critical of the impact of increasing airport departure taxes on visitor arrivals “Fiji is being sold as a high-end destination, but it has traditionally been a family destination for Australians and New Zealanders. With a departure tax of $200 the budget market is now becoming priced out”. In the case of Vanuatu some believe that proposals to introduce income and corporation tax, if implemented, will prove to be a major barrier to future investment.

Land

Land is an issue that cuts across discussions of investment constraints in all countries and sectors covered in this report, as one regional expert noted wherever you are in the Pacific Islands:

“Customary land issues create obstacles, whether building a home or hospitals or a power plant.”
In national settings, land was discussed and outlined as a constraint from several perspectives.

“Land issues in Tonga are different from land tenure systems in other Pacific Island countries. Finance – it is a small financial institution in Tonga. Hard for local people to invest given the financial climate and interest rates. Trying to secure a loan with land is a problem.”

Land in Tonga is a significant barrier to investment in tourism first and foremost because it is very difficult to acquire. As one investor explained “There is no such thing as freehold land in Tonga, it is all crown land”. While this particular investor was gifted a piece of land by the Crown, it is “a bit tough on a local investor” because “when you own land in Tonga, you can’t sell it. You can sell your business but not the land so it’s a bit tricky”. The other concern with land ownership in some areas is inheritance. For example, only males can own and inherit land in Tonga and this creates challenges for women. Another drawback with land inheritance regulations is that if a land owner has no children and passes away, the land goes back to the Crown. For investors like those investing in large hotels, the Crown allows 45 or 99 year leases under certain circumstances.

Land issues can necessitate broader community engagement. For example, in the Cook Islands a key challenge for investment in solar power has been accessing land to set up a solar power system. There has been a need for government to work closely and respectfully with landowners.

The challenge and cost of land disputes for local small investors can also be a crippling factor. In one case from the Cook Islands:

“The considerable barrier to their investment occurred nine months after they had built their house and set up shade houses on their land. Surprisingly and once the investment was complete, another local landowner claimed his family owned the land that this investment was on.”

In Fiji, another tourism investor noted:

“Even as a local with land, I found the level of bureaucracy very disheartening as an entrepreneur who wanted to “come in and get going.”

The land situation in Vanuatu received a range of comments from both investors and experts. One investor noted that the process of obtaining assignment of rural leases was difficult, but had improved over time, until the reforms of 2013, which have brought the issue of new leases to a halt. The new process is unworkable, and they estimate that it could take 2-3 years to go through a normal negotiation process now “if you are lucky and sufficiently determined”. They consider this is one of the biggest obstacles to new investment in Vanuatu. Another investor noted that she sees land issues as being “the biggest roadblock”, and they are certainly “holding back rural development”.

Finding the right location and viable leasehold structures constrains a lot of potential investment.

There will also be cultural issues for investors to address. One investor purchased land close to a cemetery, and a lot of families in the village felt uncomfortable about having a commercial undertaking
operating so close to the remains of their ancestors. The investor has had to deal with some local opposition and find ways to work effectively to reduce community concerns.

Another factor raised is the simple matter, in some areas, of shortage of available land. For some, this means that significant packages of land are difficult to find to meet the needs of larger scale overseas investment. But even for smaller agricultural investors, the shortage of land can become an issue, as one Tonga investor noted: “farming land is decreasing, eaten away by residential construction.”

Some argued that the ‘land challenge’ needs to be met head on: “Land laws need to be changed so that leases can be given by the landholder for much longer periods” and the “Land leases Act (needs to be changed). Currently in Vanuatu, if you do not develop your land by 50% from the date of purchase, you will lose your land.”

Others suggested looking to other solutions, perhaps trying to remove land from the mix when it comes to finding security to gain access to capital:

“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. Reasons for this are: land ownership, communal ownership etc. How can you secure access to capital?”

**Lack of Reliable Information and Data**

While not mentioned as other investment constraints there is no question that lack of access to relevant information and data represents a challenge. For some, this is about an inability to draw on information that can inform estimates of return on investment:

“Difficulty in articulating what return on investment will be. People are not in a position to understand the climate of opportunity cost that you can invest into Australia and get a 6-7% franked dividend – whereas if you invest in a PNG agricultural project, which is hugely risky – they can’t articulate ROI.”

The inability to access good data and information affects all types of investment but can be argued to be felt disproportionately by smaller operations and those with a limited set of local networks and advisors.

“The reason I completed my own research by visiting places to learn about different farming techniques, how to target market trends and meet specific requirements was because Tonga lacks good information on the agricultural sector.”

As a local, one investor described his experience in Tonga as being “slow at times” and explained how there was a lack of information about how to set up a business and access government incentives and that “government policies were not clear”. There were similar issues with gaining access to basic information of regulations and processes elsewhere in the region, as a small Fijian accommodation operator noted: “it was a challenge to get clear information from government around this investment process and regulations”.

Several investors, focused on the need to generate and disseminate timely supply and demand information of relevance to key
sectors. This was an issue felt particularly by
the tourism and agriculture sectors. In some
instances, there was a clear sense that while
some relevant information and data may
exist but it is simply not disseminated
effectively or is presented in a manner that is
of limited value/use to potential and existing
investors.

Isolation, Transport

The intractable problem of isolation and
distance from markets was raised as an
investment constraint on several occasions.
For experts, the focus tended to be on
“structural issues – the smallness and
remoteness, increases the cost of doing
business. Makes is harder to get to markets.
Makes it more expensive to get inputs. The
issue is scale.” In simple terms, “Distance to
markets makes it very expensive for
businesses.” As one expert noted:

“This of course, translates into signifi-
cant ongoing costs that must be factored
in by any potential/existing investor.
Distances and logistics e.g. it will cost
you $5,000 to ship a container from
Europe to Australia, it will then cost you
another $10,000 to ship that from
Australia to Honiara. Everything is
expensive. A lot of added costs that
result in businesses that may not be
viable.”

Isolation can act as a barrier to investment in
tourism. One small tourism operator recalls
Tonga having problems with accessibility
prior to the upgrade of the international
runway. Low season is a challenge to tourism
businesses as patronage is required during
this time to sustain investments, “My
concern with my small business is the off
season. What do I do between October and
March?” A relevant further consequence of
inaccessibility is that Tonga runs out of every
day products: “It’s a problem typical of small
Pacific islands”. In the past, Tonga ran out
of sugar for two months as well as instant
coffee. As the operator noted: “These types of
goods are necessary to run tourism
businesses so this can definitely be a
challenge to a tourism investment.”

Supply Chains

For a large telecommunications operation in
the Cook Islands, supply chains are limited
due to an absence in technology companies.
The size of the investor means however, that
limited local supply networks do not
represent a major issue: “I would never buy
from a local agent because that just adds cost
with no additional value”. Instead, the
company goes direct to the source, as “the
cheaper we build the networks, the better
pricing we can offer our customers”. “What
drives our price is our cost and we do as
much as we can to keep our cost down”. As
a technology company, all equipment and
specialist support comes from offshore.
From a group perspective, they have a
centralised procurement process where they
purchase a lot through a procurement agent.
One point of using a group purchasing
approach relates to economies of scale, as it
is easier to get better pricing in this way.
“Size matters in procurement” and this is
where larger investors have an advantage.

Food supply chains are relatively weak for
many working in the tourism sector but in
some cases, this has fostered attempts to
improve linkages. While one investor in the
Cook Islands still imports more than 90% of
his food (by value), he has been focusing his
efforts on producing high value vegetable
items using both hydroponics and in-soil
methods on nearby land holdings.
“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. I have some livestock (pigs) but these are usually used for one off functions not as a regular feature on the menu. We plan to do much more in telling the story of local food through our menus and marketing.”

With regard to challenges to investment in Tongan tourism, high operating costs link to supply chain impediments. At times, the local food supply in Tonga is inadequate when for example, tropical fruit like watermelon and pawpaw is out of season (Milne, 2009). One operator advises that the best way to alleviate this issue is to “grow your own and have your own little farm”. In relation to other goods, it is sometimes more economical for returning Pasifika investors to purchase goods from overseas and ship them back home rather than sourcing them locally.

Some larger investors also focus on vertical integration as a tool to overcome local supply issues. For example, Unelco buy all their diesel requirements locally from a local fuel company. All their bio-diesel is sourced from coconut oil within Vanuatu, but the current availability and supply is still unreliable, so they are looking to address this by going into the production and manufacture themselves.

For many operators, the key factor is building and sustaining key elements of the supply chain. A small agricultural concern in Vanuatu is, for example, entirely dependent upon the reliability of their buying agents in the islands for their sources of kava, as it would be logistically impossible for them to try and undertake a direct buying operation. The buyers themselves are licensed and approved by their own local councils.

**Infrastructure**

Infrastructure was a theme often addressed in comments on the constraints facing investment in the region. There is concern on the part of experts about a:

“Lack of critical infrastructure to support businesses.”

And the uncertainty that surrounds the reliability of key infrastructure:

“From an investor’s point of view, you need certainty. The Pacific doesn’t offer that at the moment. Look at the runways in Port Vila. Because of these reasons, banks have inflated interest rates.”

In some cases, infrastructure development must come from the investor themselves: in the Cook Islands, the local electricity company’s original grid and equipment was not designed for solar – it was designed for diesel power, so it has had to invest in improving its infrastructure. Overtime this will mean the ability to accept more private sector investors as more users will be able to connect to the grid.

For small and large investors alike, there is also considerable concern expressed associated with the constraints generated by internet access:

“A major challenge related to infrastructure is the expensive and inefficient Internet in Tonga”.

Some also commented on the fact that local suppliers and customers are yet to get into e-
commerce and that to a certain extent this has been hampered by the local banks and limited information technology access:

“Although the ANZ and Westpac banks are present in the Cook Islands, they have not yet rolled out the same e-commerce payment capabilities that countries like New Zealand enjoy. An issue with lagging technology is that in the Cook Islands on the 20th of every month, we have to clear out the offices because people are still coming in to pay by cheque or cash.”

Nevertheless, this particular investor remains optimistic about the movement towards e-commerce and he believes the Cook Islands will “eventually get there”.

**Labour**

Difficulties in accessing labour - skilled or otherwise - characterise some of the cases and this represents an area of concern for experts as well. There is a strong sense that labour market issues constrain investment, both local and foreign.

“Limited human resources available for sizable FDI e.g. PNG experience in the first PNG LNG (Papua New Guinea liquefied natural gas project) where we could not possibly provide all the technical expertise in terms of workforce during the project development/construction phase.”

For one large investor in the Cook Islands, the challenge lies in simply “filling roles”. They struggle to fill vacancies in a range of positions “from a field force worker, to a retail sales person through to a Financial Controller”. They have taken actions to make the job and remuneration more attractive and the company pays employees above minimum wage. Unfortunately, Cook Islands Maori still feel “the grass is greener in Australia and New Zealand”.

A large investor in Vanuatu also notes that they find it difficult to recruit good staff, as the market is very small and there is not a great deal of choice. However, they have no problems
with the competence or ability of their staff, many of whom have been trained in Australia, New Zealand, Fiji or New Caledonia. It is however, hard to find more senior technicians.

Small investors can also struggle to fill roles - especially in places with very limited labour markets such as Niue and the Cook Islands. One small accommodation operator is “still trying to understand how she can get people to show loyalty and commitment”. The problem in her eyes is that: “Young people don’t need to work - someone will always look after them - they won’t starve for food without work. It is hard to motivate people who don’t need to work to survive” Interestingly she has found someone who has come back from New Zealand who is working out well “who is used to working without being told what to do.”

Language and communication deficiencies among workers are seen to be critical issues to be addressed by a number of tourism investors. One investor stressed that it is essential for employees to be able to speak good English in order to effectively communicate and interact with a range of guests.

For some the issue of suitable labour skills moved beyond their own workplace - with the focus placed on the calibre of those charged with facilitating the investment process.

“Investment Agencies don’t have the capacity or skills within their staff to be able to do their roles.”

**Social/Cultural Dimensions**

A small number of investors focused on the social and cultural impediments and constraints that they faced in making their investment. Without exception, the focus here was greatest on the part of small investors and in particular, Pacific Islanders returning home to invest.

One small accommodation operator returning to her home country found it: “Difficult as a woman returning - there is some negativity from local people (men in particular) about this - they feel a bit threatened”. Locals find it hard to accept her, a woman, returning home to set up a business. They were fine when they thought she would fail but now she is doing well this has led to negativity.

“I have gone backwards with local community relations, it’s ‘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.”

One additional challenge is that the introduction of new investment in a quiet village can also cause disruption to existing dynamics:

“When it is dark, people are used to peace and quiet and go to bed. The property has changed that dynamic a bit with our lights on at night and people eating and talking in the café. This is also a big change for my brother and sister who live nearby on the family land.”

Others find it easier to separate business and community dimensions. One investor held
discussions with local villagers about starting a market garden to supply his accommodation with fresh produce, but in the end this became “talk but no action”. The investor accredited this to kerekere, the Fijian system of borrowing, saying that the closer the gardens are situated to the village, the harder it is for growers to avoid their cultural obligations. As a result, there is a lack of interest in being involved in this type of enterprise. For many years, he also offered guests the opportunity to visit the local school at the nearby village as an activity, but this has now ceased as in the end it was easier to “keep a separation” between the business operation and the local community.

Interestingly, larger investors spoke of positive relations with the surrounding community and rarely spoke of issues relating to social/cultural constraints to investment. Once initial investment processes were complete, most had made it a focus to build strong links with community through local employment and training and had attempted to emphasise the importance of supporting community in broader ways.
6. The Impacts of Investment

Having explored the facilitators and constraints influencing investment in the Pacific, the focus of the surveys and case study interviews turned to the impacts associated with investment. This section outlines the key impacts identified by the investor and expert groupings – beginning with an overview of the benefits and then placing an emphasis on the costs and risks associated with investment. We also present a breakdown of how responses varied within survey and case study groups. We also examine perceptions of the different impacts associated with foreign direct rather than local investment.

Benefits of Investment

Both investor and expert groupings identified identical 'top three' areas of benefit associated with investment (Figure 6.1). Broad based economic development, employment creation and the transfer of knowledge and skills were seen as central positive outcomes stemming from investment processes.

![Figure 6.1 Top Benefits of Investment Identified by Investors and Experts](image)

*Frequencies for Figure 6.1 are shown in Appendix 8.2.3.*
Variation between the investor and expert groups was more evident in the themes that were less commonly raised. Investors tend to place more focus on benefits related to community involvement and developing local investment opportunities. On the other hand, the experts tend to emphasise greater access to markets and greater networking and local entrepreneurial opportunity.

There is considerable consistency in the ways in which investors from different countries evaluated the benefits associated with investment (Table 6.1). The creation of economic development outcomes, and in particular, employment, ranked very high across all of the case study settings. Other areas that received considerable attention are the ability for investment to stimulate the transfer of skills and knowledge, strengthening local supply chains and leading to improvements in infrastructure. Attention was also placed on broader dimensions of community involvement.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Tonga</th>
<th>Cook Islands</th>
<th>Fiji</th>
<th>Vanuatu</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>7</td>
<td>24</td>
</tr>
<tr>
<td>Employment</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>Transfer of skills and knowledge</td>
<td>3</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Strengthen local supply chains</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Improved infrastructure</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Community involvement</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Provide income</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Self-sufficient businesses</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Local investment opportunities</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Innovative thinking</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Opportunities for women</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Preserving culture</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Import substitution</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>In country profit</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

A breakdown of the investor interview data allows for a sectoral perspective on the beneficial impacts associated with investment (Table 6.2). Economic development and employment creation again dominate, with the transfer of skills and knowledge and strengthening of local supply chains continuing to rank highly across sectors. For investors in the tourism industry, skill and knowledge transfer and strengthening local supply chains were prominent themes. Similarly, strengthening local supply chains and community involvement were important for investors in agriculture. By way of contrast, improved infrastructure was mentioned far more frequently by those in
the renewable energy and telecommunications sectors.

Table 6.2 Benefits of investment to the Pacific by sector (Investors)

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Tourism</th>
<th>Agriculture</th>
<th>Renewable Energy/Telecoms</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic development</td>
<td>12</td>
<td>8</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Create employment</td>
<td>12</td>
<td>7</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>Transfer of skills/knowledge</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Strengthen local supply chain</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Improved infrastructure</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Community involvement</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Provide income</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Self-sufficient businesses</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Local investment opportunities</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Innovative thinking</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Opportunities for women</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Preserving culture</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Import substitution</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>In country profit</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>28</td>
<td>18</td>
<td>96</td>
</tr>
</tbody>
</table>

When broken down by size of business (Table 6.3) economic development and employment creation were again the most commonly cited benefits associated with investment. Notably skills transfer and the strengthening of local supply chains were given more attention by small investors than by their larger counterparts. Larger investors tended to place more emphasis on the infrastructural benefits flowing from investment, they were also relatively more likely to mention the broader community involvement and engagement benefits that stem from investment processes.

Table 6.3 Benefits of investment to the Pacific for large and small businesses (Investors)

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Large</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic development</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Create employment</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Improved infrastructure</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Community involvement</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Strengthen local supply chain</td>
<td>2</td>
<td>6</td>
</tr>
</tbody>
</table>
Survey participants also provided perspectives on the comparative benefits associated with foreign and local investment (Figure 6.2). Economic development and the creation of employment opportunities both dominate again. Local investment is seen to have a greater impact on the development of local culture and broader community benefit whereas there is less focus on the transfer of knowledge, technology and innovation. Experts associate foreign investment with stronger benefits than its local counterpart in the area of improved infrastructure.

When examining the benefits associated with foreign investment there was no real variation in the emphasis given by experts who were focused on national dimensions and those that had a broader regional perspective. Greater variation in response was evident when the regional/country specific experts provided their thoughts on the benefits of local investment. Regional experts tended to place less focus on the employment benefits while still placing economic development as the number one

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Figure 6.2 Benefits of local and foreign investment (Experts)

*Frequencies for Figure 6.2 are shown in Appendix 8.2.4.
outcome. On the other hand, those with a regional focus tended to highlight linkages to local networks and culture as key benefits associated with local investment, along with the transfer of skills and technology (Figure 6.3).

We now move on to explore in more detail the key issues and themes that underpin these categories. Using the research participant’s perspectives and comments we paint a picture of the benefits of investment.

**Economic Development and Employment**

The broad-based benefits of investment were given considerable attention by both experts and investors. There was a tendency in some of the survey responses to ascribe a range of economic development benefits to both FDI and Local investment. Some experts placed a focus on foreign involvement:

“FDI can bring in new technology, create employment and facilitate transfer of skills.” .... “FDI can bring a variety of gains including foreign capital, which in turn will be spent on
infrastructure projects most likely creating tourism developments. These developments will in turn provide significant employment opportunities in both the development phase of a project and the ongoing operational phase, as well as creating economic growth in the industry.”

Others outlined a broad range of benefits:

“Additional finance benefits that flow, infrastructure (linkage and physical e.g. ports), employment, connectedness (or lack thereof) to markets, capital, technology transfer and skills. If you can find a way to invest in these sectors where the Pacific Island countries have a comparative advantage in e.g. fisheries, tourism – you could improve the livelihood of citizens with education and address some of the issues.”

The broader downstream benefits of investment were often alluded to: “More taxes and revenue for government for development and provision of services. Allows access to foreign markets.” Others focused on the benefits that FDI brings in terms of international networks and links: “Stability in supply to market leading to price stability and security, development of partnerships with local participants leading to local ownership succession.”

For some experts, the focus was on what FDI can achieve for trade balances and, in turn, broader community development outcomes:

“FDI reduces the gap of what needs to be imported, whilst enhancing the livelihood of the local communities, and sustains economic development. Climate change is affecting Pacific Island countries as they need to rely on handouts for their own development but FDI in sectors that have export capacity will increase sustainability of livelihoods and alleviate poverty in rural areas. If Samoa can reduce what is imported and increase import substitution and export, benefits from foreign exchange savings and reserves plus employment are significant direct benefits.”

FDI can clearly create broader spinoff benefits for the local business community and can certainly stimulate new local investor activity:

“Builds up an economic base of suppliers and SME businesses that can provide support for export-oriented business. There’s an interplay between the local and foreign investor – which should be more productive than it is. The importance of the domestic investment is underplayed because people want FDI.”

This point was seen clearly in examples from our cases, for example in the interlinkage between foreign owned hotels and local suppliers of agricultural produce.

Another survey respondent stressed the fact that local investment can also represent an effective stepping stone to regional expansion within the Pacific and there were numerous examples of this scenario within the case studies.

“Lower risks as locals understand the marketplace, culture and sensitivities. Get involved in the operational side of the business. Natural synergies happening within country and regionally e.g. from Fiji into PNG, Samoa and
Vanuatu. Inter-regional investment is a highly positive trend.”

In general, there was a sense that local investment can achieve just as much, if not more, than foreign investment:

“There isn’t a lot of capital in these countries and this results in the role of the local investor being somewhat muted, local investment can achieve very much the same as FDI (i.e. healthcare, educational services, labour, job creation, etc.) apart from technology transfer.”

Similarly:

“Local investment can utilise local knowledge and can bring employment opportunities“ “Local investment... can significantly contribute to the economy through import substitution, and the agriculture sectors.”

Some chose to highlight the role of returning nationals or ‘repatriates’ in their discussions of local investment impacts, seeing this area as one of considerable potential for the future:

“Local investment ...Same as FDI. Local enterprises have already invested in establishing industries, they are now currently participating in the value exchange, export market and import substitution. Any investment in those industries will increase the level and performance and as such, increase productivity and turnover which will benefit existing enterprises and provide an incentive to increase other investment in local enterprises. E.g. Returning Samoans from NZ are interested in retiring and investing in Samoa, have Superannuation etc. These channels could encourage increased investment from the private Sector. FDI and local investment will lead to the same channel, provided there are appropriate government policies.”

Some pointed to the potential opportunities provided by local investment funds:

“There is not enough local investment - problem. It’s a slow process. But now you can see companies in Fiji invest in PNG. Benefitted from the unlocking of the pension fund in the region to direct it towards hotel development in Fiji, PNG, Solomon’s, and Vanuatu. Countries that have limited access to credit funds are able to access large amounts of pension funds from other countries - which has been useful for building an Investment base in some of these Pacific Island countries.”

Other experts suggested that local funds could be used to invest in major Government building projects and be owned by the financial institutions (e.g. Retirement Funds). This means that the projects would be constructed by a local contractor using predominantly local labour, engineers and suppliers and Government pays rent to a local Institution in local currency. Thus, “They have no exposure to foreign rates on loan principal and interest repayments, and the funds stay in the country.”

The positive impact of FDI and domestic investment on infrastructure was also noted by experts:

“FDI Increases a country's investment in supporting infrastructure and that will in turn have substantial impact on market development and product
enhancement in Pacific Island countries.”

The benefits of domestic investment in this respect were outlined:

“If you want the comfort of physical infrastructure, your building capability and workforce are more likely to remain committed to that through domestic investment.”

The creation of employment and better paying jobs through investment is seen as a major positive impact of both foreign and local investment. There are numerous examples in the case studies of significant growth in investor related employment with, for example, a Fijian Marina development growing from just three staff to 36 (all local bar one expatriate), and engaging up to 300 workers if both indirect and direct employment are considered. Agricultural investors highlighted the range of support that they provide through purchases from the surrounding community, for example one Fijian investor boasts 1470 farmers on its database.

Discussions with investors also focused on the broader employment benefits associated with investment (both foreign and local):

“Returning Pasifika investment in tourism in Tonga means that employment and educational opportunities are created for local Tongans...” Investors noted the benefits associated with offering personalised tourism and hospitality training to staff, which they feel benefits the overall quality of the labour force. “There is a sense of satisfaction, that you are giving something to the local community”. There is a strong belief in this case that employees can play a key role in optimising the visitor experience by immersing guests in the local Tongan culture and language as this makes their experience more authentic: “The guests want to learn about you and if you convey it to them, they will appreciate their stay”.

Investors, both local and foreign, also emphasised the importance of hiring local staff and treating workers in a way that respected local culture while also emphasising good workplace performance. Employees are key assets in the investment process and can be very difficult to replace: “The key thing with Tongan staff, is to make sure you look after them.”

One small investor in the accommodation sector, noted that she provides all of the training ‘on the job’: “I do my best to prepare them but the main gap is customer service – they are quite shy and reticent to engage with the guests.” She tries to train staff by building up their confidence “don’t think too much about who you are serving - don’t be intimidated”. She notes that “Visitors appreciate being served by local staff, they like having a local person making coffee – visitors like to see progress and local people benefitting from tourism.”

Transfer of Skills and Knowledge

“Transfer of skills and knowledge - improves local capacity e.g. ANZ outsourced jobs. Important for investors to provide a high level of skills (not low level).”

The transfer of skills and knowledge happens in a number of ways - FDI can bring in new ideas and skills as can locals who are returning from overseas. At the same time, it is clear that investors can gain from networking and engagement with the local economy and people – benefitting in particular, from learning about culture and
“everyday life.” In a sense, this is what one expert calls “A two-way engagement: Market knowledge and cultural advice/direction.”

There are numerous examples of investors actively seeking out new knowledge and applying it in their business and also sharing information and knowledge within the broader sector and community they operate in. One food processing related investor noted she had received advice from numerous overseas universities and also, the local Ministry of Agriculture on kava, cassava (manioc) and taro. She spent six years having her products analysed and tested through various agencies, including Government research facilities and the University of the South Pacific, to try to develop the healthiest and most nutritional options. She is now transferring this knowledge and relevant information to her suppliers and customers.

For some investors, the sharing of knowledge and research is driven by a desire to maintain the resources upon which they depend. For example, a whale watch operator believes that the general guidelines for whale watching should be improved and need to be refined through future engagement with marine biologists and other experts. He is also looking forward to participating in the 2017 Whale Watch Conference to develop sustainable solutions for the whale watch/tourism industry and to share information with the broader sector who may not be able to attend. He wants to drive home the message that: “A smaller number of boats in the water at low engine speed with minimal noise means less disturbance to the whales during whale season.”

For some, knowledge transfer cuts across sectors. One accommodation/restaurant operator spoke of his passion to develop the Cook Islands as a cuisine destination. He has been pushing for the formation of a cuisine strategy for the nation. He believes that a food awards system should be set up - with awards spread across different sub-sectors of the industry. To this end, he has been instrumental in building stronger links to the Cook Islands Chefs Association and has also developed a club for local people who love food. He wants to instil a passion for food and is attempting to mentor people wherever possible in the ways to grow, prepare and promote local food.

The transfer of knowledge by investors can also of course, cut across boundaries through inter-regional investment. For example, a large Fijian agricultural business has moved some time ago into hydroponics and has been instrumental in building capacity in this sector. They have installed and implemented a fully functional hydroponics system along with complete in-house training for staff on Lauala Island (one of Fiji’s top resort islands) and are also involved in similar activities elsewhere in the region.

**Entrepreneurial Opportunities**

“Above all, FDI can act as an anchor investment that will link up with SMEs which would be service providers to the anchor investment.”

These sentiments were echoed by several survey respondents and also investors. In some cases, the investment model has encouraged local engagement as a small scale, as an investor in Cook Islands solar power generation noted:

“Involving local Cook Island landowners in the investment process and offering them the opportunity to
become shareholders has resulted in a positive response from the private sector and it has also resolved the issue of accessing land to set up solar power systems.”

A Fijian accommodation operator stressed the fact that tourism in particular, can generate a range of opportunities for the surrounding economy – especially in areas such as local food and handicraft production:

“The backpacker market as a win-win for Fiji – it brings in valuable foreign exchange, but also reduces leakages seen in other sectors of the tourism industry; it is low on impacts, but high on local consumption.”

For some, the development of local entrepreneurial activity goes hand in hand with the building of local skills and capacity:

“In addition to reliability and quality of supply, I am looking for suppliers who are willing to step out of the mainstream by providing high value product. For example, many F&B operators struggle to have a reliable source of seafood. My approach has been to develop an exclusive relationship with three local fishermen. I’ll buy all of their catch even at times when immediate demand may be low (a large freezer is handy!). This means that with one phone call the fisherman is here.”

While this investor is not teaching these suppliers how to fish he is encouraging them to develop as entrepreneurs, to think about the importance of quality and consistency of supply, and to understand more about business – this is his way of giving something back to the broader community.

Community Links and Corporate Social Responsibility

There are numerous examples of investors seeing the value of engaging with community and embracing corporate social responsibility. They see this as a way to create success as a business (profit motive meets community development motive) and create a better opportunity for sustained growth.

For several investors, key community links were built through supply chains and networks. For example, one investor uses raw materials supplied by more than 1,000 villagers in rural communities (mainly women) to manufacture value added products. Likewise, a large Fijian agricultural business deals with over 1,400 small farmers.

Another critical area of community linkage, which is often overlooked, is that of local culture. One tourism operator has been instrumental in the development of a dance troupe that is made up of members from three local extended families. “I could see that young people were losing a connection to their cultural roots and that some were becoming wayward”. He saw the development of a high-quality dance troupe as an important asset to not only his accommodation interests but to the broader Cook Islands tourism product. The dance troupe now has 50 young members with parents providing coaching and guidance – reinforcing the inter-generational transfer of traditional knowledge. The young people are not just involved in dance but also in the making of costumes. This provides a reason “for people to come together and reconnect”. The troupe currently has three contracted shows per week, plus special events such as weddings and functions. Once a year, the troupe also has an opportunity to
travel and perform overseas (Europe, Asia etc.), this opens up an awareness of the young people of the outside world and introduces them to tourism from a personal perspective. The monthly payments that are received help to cover school fees and over an 8-year period the troupe has generated significant revenues. The investor is now encouraging the group to think about investing revenue into accommodation development or the construction of homes - to provide revenue-generating assets. The mothers in particular, are helping to drive this: “they are the movers and shakers - investing in their kids’ futures.”

For others, the connection to community has been also been brought to the fore during periods following natural disasters as one Fijian investor noted: “the focus in 2016 has been on assisting affected villages rather than on new product development.”

As one expert noted in terms of investor engagement with the broader community development arena:

“There’s relatively small incremental costs, and while it might not be a huge economic benefit (to the business) it has a significant corporate and social responsibility outcome to it. When you look at investments there are two sides to it, what’s totally commercially active, and what you can do to improve the livelihood to the countries. Both AU and NZ have a significant benefit in doing that, the more they can do to stimulate the economies the less they have to pay and fund in aid.”

Several investors also placed considerable emphasis on “giving something back” to the community and broader country in terms of environmental sustainability. For example, one Cook Islands operator contributes a percentage of their sales to the Rarotonga Lagoon Conservation Trust, which has been established to preserve Rarotonga’s lagoon ecosystem. They also assist in reef restoration projects with the Ministry of Marine Resources.

Foreign direct investors may also bring with them new and enhanced ideas on environmental standards. For example, several investors in Vanuatu and Fiji stressed a commitment to reducing overall carbon footprints and to ensuring that they operate “clean, green” operations, working to international (New Zealand and Australian) standards.

Costs and Risks of Foreign Direct Investment

Discussion of the costs and risks associated with investment focused mostly on foreign direct activity rather than its local investment counterpart. Among investors there were no costs and risks mentioned regarding local investment other than the obvious factor that investments can fail and then leave issues in their wake. The survey focused on foreign direct investment and that now receives our attention in the remainder of this section.

Financial outflows, foreign direct investment crowding out local opportunities, and cultural and social costs were most commonly raised when experts were asked to outline the costs and risks associated with FDI. There are, however, some significant differences between those experts playing country specific roles and those with a broader regional focus (Figure 6.4). Both groups placed considerable emphasis on the costs associated with financial outflows linked to FDI. The fact that FDI may crowd out local opportunities was also raised as a
significant factor. Environmental and governance factors were also placed fairly consistently by the two groups.

Country specific investors mentioned cultural and social issues more frequently than any other factors - in contrast to the much lower rating provided by their regionally focused counterparts. FDI’s negative impact on communities’ “social fabric” was of concern for some, others focused on broader societal risks such as the potential widening of social/wealth and cultural gaps.

A summary of the key themes and issues raised around the costs and risks associated with FDI is now outlined with a focus on three core areas: financial outflows and loss of control, the crowding out of local business and impacts on culture society and environment.

**Financial Outflows and Loss of Control**

Themes of economic leakages and losing control were often raised by experts as they discussed the negative impacts and risks of FDI in the Pacific.

Figure 6.4 Costs and risks of FDI: A comparison between regional and country specific Experts

*Frequencies for Figure 6.4 are shown in Appendix 8.2.6.*
“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.”

And,

“Leakage of cash/surplus funds to overseas accounts/ not reinvesting in the Cook Islands economy” .... “Revenues can flow offshore e.g. Palau and the Chinese investors. How much wealth is kept in country through the local people?”

The issue of ‘control’ garnered considerable attention with experts highlighting that:

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

There was also an emphasis on exposure to risk and the degree to which this is magnified in smaller economic settings:

“Major risk: increases volatility as FDI is involved with external market links, therefore volatility in external markets leads to volatility in smaller countries.” The concern over control often focused on the impacts on key components of the economy:

“Loss of control of key sectors - in particular infrastructure such as power & water supply with resulting monopolistic behaviours and poor regulatory environments/capacity leading to unsustainable prices.”

There were also issues raised around the scale of some FDI and how it can run the risk of overwhelming host economies, especially in times of failure or downturn:

“Given the size of PIC economies, if one big business (e.g. hotel) disappeared in that PIC, impact would be social disruption and unemployment. Pacific Island countries need to be aware of these risks.”

In a similar vein:

“Risk and costs can occur if a large FDI fails and the gap/vacuum or project left behind cannot be carried on by local or government business. We have seen a lot of this happen in other Pacific Islands with large hotels abandoned on islands yet the country’s government had put in a lot of funds to build the infrastructure to support it.”

There were also questions raised about some of the assumptions associated with FDI:

“Although there is domestic employment, you can only run the multiplier effect so far, likely to see SMEs emerge on back of FDI but it’s what comes next that’s important i.e. how much of that capital remains in that economy? Ideally you want FDI to boost economic activity and the financing/returns should return in that domestic economy. Can channel those savings into other types of business lending, which is when you get the big economic impacts.”

Concerns were also raised about the negative consequences of relying too heavily on incentives/concessions to attract FDI, in effect leading to further financial outflows:

“They tend to give a lot of concessions to attract FDI resulting in huge revenue foregone for the country. In some instances, exemptions run for as long as 10 years which
can be detrimental to the revenue generation efforts of small Pacific Island nations.”

This raises again the broader issue of good governance. It is argued by some of the experts that: “With FDI ... the costs or risks are minimal, provided they are managed by Government carefully. Risks or costs could arise where the review process or due diligence of the proposal is not thoroughly scrutinised or concerns made known to the investor.” So, in simple terms it is vital that government, in its role as final gate keeper on inward investment, focuses on mitigating any negative impacts from FDI:

“With the right policies in place – there is no negativity with FDI. It goes back to the government and a need to create the right policies as to where they want investment.”

Crowds Out Local Opportunities/Competition

The issue of FDI crowding out local investors and operators was raised on numerous occasions. There was a sense that “if they open the country up too much it will crowd out/neglect locals”. The tourism sector was particularly sensitive to this issue “The cost is that FDI crowds out the opportunity for smaller businesses c.g. tourism and can easily preclude domestic operation.” As one local operator in the Cook Islands noted: “Foreign investors own the larger hotels.... When you see overseas investors coming with wads of cash, it’s pretty hard to compete with something like that.” Another operator noted: “Competition is good for business in Tonga ...but for the Tongan small business owners, it’s a struggle.”

Concern was expressed by some investors that, over time:

“FDI displaces the local producers – you get a hollowed-out economy where the foreign investors get all the advantages and the local investors lose the ability to develop and play a role. It’s aided and abetted by inappropriate trade agreements. Not a fan of PACER plus as they don’t recognise the need for PIC governments to have a different policy towards foreign investment and to encourage the right kind of investment. The Trade agreements take away the ability of government to discriminate between good and bad investment and they give the rights to foreign investors to invest.”

Sometimes the feeling of being pushed out moves beyond the world of business competition. One small investor noted that “everything is changing” in the Cook Islands as he has been noticing a significant shift in the general population over the last decade. Local people migrate overseas and are replaced by Europeans.

“They’ve changed the rules now. They can live up here for either 6 months or a year...so what a lot of them are doing is renting and leasing some land and building a house. Then they come up here for the winter and they go back to New Zealand or Australia for the summer. Foreigners lease mass amounts of land and rent accommodation in Rarotonga, this will increase the cost of living in the Cook Islands.”

There was also a sense sometimes among investors, that investment processes and approaches were “set up to support offshore interests rather than local interests.”
There was concern expressed over Chinese investment in broader infrastructure and also sectors such as tourism. “Chinese bring their own people and there is not a lot of gain to be had for the locals. They employ Chinese labourers and there is limited opportunity for local staff.” These concerns were sometimes outlined in greater detail, in this case by one of the surveyed experts:

“Concern about Chinese Loan funded projects where, although China gives a soft loan for a Government project, the contractor is also allowed to bring in their own labour to complete the project. Many of the costs of these projects are not supervised by a third party or client project engineer, nor are the costings verified professionally or adequately. Such projects generally deliver very little economic benefit to the country, and in particular generally provide very little opportunity for employment of local construction staff.”

The same expert went on to note that some of these projects “could be funded by our own local Retirement Funds provided Government gave guaranteed investment income returns. These Government office projects would then be designed, engineered, built by local contractors and financed and owned by local investment institutions or Retirement Funds.”

There is also a clear concern about FDI impacts on levels of corruption and transparency: “Economies will be controlled by Foreign Investors which can bring about a lot corrupt practices with Government” and “politicians will get paid by foreign investors for access to resources.” Some saw this manifesting itself when foreign investors get involved in sectors that are supposedly restricted for local investors and in some cases overlooking perfectly good local investors:

“Somehow, foreign investors are finding loopholes and are being directly involved in restricted industries. The cost is that the locals lose out in terms of economic benefits and could marginalise the livelihood of local communities.”

Culture, Society and Environment

Concern was also expressed about the fact that not all foreign (and in some cases, local) investors create a positive legacy - socially, culturally or environmentally.

“Protection of culture. Pacific Islanders have a strong sense of identity, threat when bring in foreign investors (who are more sophisticated, bigger balance sheet, and calls shots). FDI can be challenging for domestic investors (competition) to sit equally across the table as locals don’t have the leverage.”

There was also the worry expressed that while FDI might create: “Economic growth, employment opportunities, and a more marketable country” at the same time “the social/wealth/cultural gap potentially widens.”

The negative impact of FDI on culture and society was also tied, on occasion, to the limited use of local labour and poor commitment to good employment. There were concerns expressed about what happens: “When they leave the country without any back up plans for employees.” There were also concerns expressed about the abuse of cheap labour in the Pacific Islands and the loss of local employment due to foreign employment. As one accommodation investor in the Cook
Islands noted: “If a large hotel is built ... who staffs it...you’re getting a lot of Fijian’s and Filipino’s working here now.” There was also concern expressed that foreigners living in the Cook Islands will lead to a “dilution of local culture” which will, in turn create significant changes in the social fabric of communities.

Concerns were also expressed about the ability of the natural environment and resource base to be able to withstand the impacts of large scale FDI. As one operator noted: “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.” Again, concerns often focus on large scale Chinese investment - especially in the tourism sector and how it may influence local society: “The Chinese proposals for large hotels do not fit – how could we handle a 200-room hotel? It changes the local village and the whole of Niue.”

There was real concern expressed also about FDI “Undermining resources and having a detrimental impact on the environment.” In some instances, this was borne out of knowledge and experience gained from elsewhere in the region:

“Depending on investment, there can be social, cultural and environmental effects. Can be positive or extremely devastating. For example, the Fly River in PNG is now poisoned from mining – that’s the other side of the coin.”

In the eyes of many of those included in the research managing the outcomes of investment comes down to good governance. Avoiding corrupt practices and ensuring that regulations and policies are implemented and enforced is critical but unfortunately this is not always the outcome that eventuates. One expert in particular, noted the example of the environmental consequences of FDI in the logging sector of Solomon Islands stating that, despite regulations existing, the effects of logging “were not well controlled” and represented an example of regulations needing to be backed up by implementation and enforcement.
7. Conclusions

This report has focused on providing evidence to inform New Zealand and Pacific Island Country policies designed to target and support foreign and domestic private investment and create related sustainable economic development outcomes. The report has focused on answering three key 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 FDI and how can these be avoided, reduced or managed?
- How can the growth/development impact of investment (both foreign and local) be enhanced?

In this concluding chapter, we review the key findings that have emerged from the research – looking at the investment climate, investment constraints and facilitators and related impacts. We draw together the core findings from our interviews with investors and phone/email surveys with investment experts and synthesise the main themes to have emerged. We then focus on the final and most important question listed above - providing recommendations on how the development impacts of investment can be enhanced. The recommendations provided are infused with the insights and voices of our research participants. Advice is provided by investors to those that are considering new investment opportunities. These are followed by broader based recommendations focused on assisting government in establishing an effective enabling environment directed at facilitating and strengthening investment flows and linking them directly to the achievement of sustainable development goals.

Synthesis of Findings

This research has aimed to fill a gap stemming from the fact that there has been a relatively limited amount of case study research conducted on understanding the processes and impacts of foreign direct and local investment in PICs. Our approach mixes qualitative research approaches in a systematic fashion to view the perspectives of two key groups of stakeholders: ‘investors’ and ‘experts’ whose role is to facilitate and encourage investment.

While experts surveyed generally held a negative view of the investment climate in the region and across specific national contexts, this stood in contrast to the opinions voiced by investors about their own experiences/situation. Investors generally had a good investment experience in the Pacific with over three quarters noting a positive investment outcome. The fact that 17 of the 24 cases were planning to invest further in their home country also tends to support this view. Investors in the Cook Islands, Niue and Vanuatu generally reported more positive investment experiences than their counterparts in Tonga and Fiji.

The report explored the motivations that lie behind investment decisions in the hope that this would shed light on later outcomes explored in the research. Core motivations for investment focused on return on investment, with half of the interviewees focusing on this dimension. The other group...
of investors were split evenly between those who were focused on increasing market share and those that were focused more on expansion into new markets or geographical areas.

The research did, however, uncover a broader range of motivations underpinning investment. In some cases, motivations are derived from existing family ties and the desire to provide a legacy of financial stability for children. Several investors also state that they want to “give something back” to the broader community by, for example, supporting the education and development of local staff and/or building environmental awareness and resilience.

This theme of connection to the local community and the broader benefits that it can bring resurfaces throughout the findings. A review of the key factors that investors saw as facilitating investment highlighted ‘local knowledge and networks’ as being the most significant. The second most frequently mentioned facilitating factor is the ‘Government and Investment Agency’. A stable political environment, with transparency of investment processes, clear and efficient administration of the laws and relevant regulations in all areas of Government is seen as vital. ‘Being a local’ was also a factor considered important in enabling investment, with industry experience also being seen as providing a distinct advantage. Government incentives, family links and land ownership were the next most common responses. In terms of land, motivations often went beyond just use of an asset, with some participants speaking of adding value to their home country through utilising the resource.

For both investors and experts, the area of governance emerged as the number one constraint to investment. There were, however, variations in the weighting given to other variables. Environmental factors, for example, emerged as the second most important constraining factor among investors but featured well down the list for experts. Among expert responses ‘land’ was seen as the second most important factor, whereas for investors this was placed in sixth position. Financing and security received considerable attention from both groups (third for both) and the ‘top five’ of constraints to investment was rounded out by high costs and limitations in the size and/or skills of the labour force.

Both investor and expert groupings identified identical ‘top three’ areas of benefit associated with investment. Broad based economic development, employment creation and the transfer of knowledge and skills were all seen as significant positive outcomes stemming from investment processes. Survey participants also provided perspectives on the comparative benefits associated with foreign and local investment. Economic development and the creation of employment opportunities both dominated the responses given. There are, however, differences that emerged in terms of perceived impacts of foreign versus domestic investment. Domestic investment is seen to have a greater positive impact on the development of local culture and to bring broader community benefit than its foreign counterpart, whereas there is less focus on its ability to bring benefits through the transfer of knowledge, technology and innovation. Experts tend to associate foreign investment with stronger overall benefits than its local counterpart and see it as a key driver in the area of improved infrastructure provision.
For many of those investors participating in the research it is their links to the local community that they see as generating the greatest benefits – both in terms of corporate financial performance and the broader development outcomes that have emerged. Many of those interviewed have established significant networks with the surrounding economy and play a significant role in the well-being and quality of life of local communities. This brings important benefits in terms of the transfer of knowledge and development of skills, the development of local entrepreneurship and the growth of broader trust and understanding. As Coates et al (2010) note the benefits of local connections flow two ways - with the business concerned inevitably benefitting from a closer knowledge of surrounding economic and community networks, while communities gain a range of capacity building and other benefits in addition to receiving income and employment.

The Return home of "local" investors/partners is also a feature highlighted in the research. This group is difficult to categorise as purely Foreign Direct Investors or as local investors; in many cases, they are a mix of the two spending prolonged periods in each country and with investment occurring over a significant period of time. These investors often bring experience in developed market environments and a “new set of eyes” when it comes to business practices and investment opportunities. These ‘repatriates’ often arrive with a motivation to bring deeper benefits to their home nation and culture. They can however face challenges in returning to an environment that will be unfamiliar in many respects to what they may have left in the past.

Financial outflows, the crowding out of local opportunities, and cultural and social costs are the factors most commonly raised when experts were asked to outline the costs and risks associated with FDI. Environmental and governance factors were also considered to be significant, with attention often focused on the increased likelihood of corruption and the need for full transparency of investment related processes. Social and cultural costs associated with FDI are seen by experts to revolve around impacts on the social fabric of communities with concerns focused on labour issues and the potential widening of social/wealth and cultural gaps.

In short, the findings reveal a complex and diverse array of issues that constrain and facilitate investment in the Pacific and which shape its eventual success and broader impacts on sustainable development outcomes. It is clear that connections and relationships between investment cases and the surrounding community/economy/environment are vital factors in motivating, facilitating/constraining and shaping the impacts (and perceived success) of investment. It is these cultural and environmental factors that give the Pacific a unique presence in the world. As one expert noted:

“That has to be the compelling story – that will be successful or not in creating high value opportunities. 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.”
Our research highlights the complexity of understanding the facilitators, constraints and impacts of investment in PICs. The work certainly supports the general view in much of the literature that investment requires an enabling government environment, access to capital and effective labour resources. Our ability to gain insights into the factors that investors and experts feel have supported or hindered investment outcomes also highlights the very real importance placed on local relationships and networks. This reinforces the emphasis placed by Gilbert et al., (2013) on taking a long-term approach to investment - creating knowledge networks through strong linkage formation and enhancing the skill base and resilience of communities.

The findings also reinforce the importance of supporting business models that move beyond the notion of profit taking enterprises viewing any broader developmental outcomes as simply being incidental bonuses (Gilbert et al., 2013, 44). It is vital that investors and those that facilitate and monitor investment outcomes incorporate in their business models and policies measures to minimise negative environmental, social and economic impacts as well as develop key dimensions of corporate social responsibility.

Recommendations

How can the growth/development impact of investment (both foreign and local) be enhanced? This is the key question that lies at the heart of this report. In drawing recommendations from our work, we have decided to split them into two components. First, we outline direct advice for investors - drawn from the investor interviews themselves. We then focus on the broader recommendations to both government and donors that stem from the research findings. In putting forward these recommendations, we are heavily influenced by the so-called ‘new generation’ of investment policies (UNCTAD, 2015, 6). Our research findings strongly support the value of such policies that emphasise a core role for inclusive growth and sustainable development in shaping efforts to attract and benefit from investment.

Advice to Investors from Investors

As they reflected on their future investment decisions, we asked the investors interviewed to think about what advice they might give to others (and also follow themselves) when it came to considering and pursuing future investment. The advice given was remarkably consistent across sectors and investor types: don’t rush in and take time to understand the local context.

“1) Start small (unless you’ve got plenty of money) ….. 2) Learn and know the local conditions and the local people and 3) be prepared to multi-task”

“Aim for quality offerings that reflect a sense of place - be willing to train your staff because customer service is critical in tourism.”

A Pasifika repatriate had specific words of advice for those returning home to invest: “just come back – don’t try to visualise from where you are”. She also stressed the importance of taking time: “settle in and learn about the place first. It is good to ‘chill out’ for 6 months – don’t be too gung-ho”.

These feelings were echoed by other investors, with a particular focus on the importance of being clear on land issues:
“Do your homework first, get the right advice from the locals and the local business community. Make sure that all your ground lease arrangements are properly documented and signed off before you start doing anything else.”

The importance of networking and building local links extends to both sectoral partners and government: “Look at existing markets and compliance issues as thoroughly as possible, and work collaboratively with other farmers and the Ministry of Agriculture to get as much advice from them as possible”.

Large investors emphasise the importance of managing and understanding the broader regulatory context:

“1) Be clear on understanding of existing legislative framework, 2) be clear that you can get a license to operate and 3) understand the operating environment you are coming into.”

Great store is also placed by larger investors on remaining politically neutral wherever possible: “be conservative, plan to be there for the long term, go for lower risk activities and avoid activities subject to excessive Government regulation”. As another investor noted succinctly: “follow the rules and avoid all political involvement”.

It is also vital to: “do your research and be well-funded”. Others focused advice on the high cost of doing business in the region, especially for smaller investors who may struggle to benefit from the bulk procurement options open to larger competitors:

“Whatever budget you set yourself, be prepared to double it, because things always end up taking longer to complete and cost more than you expect. Don’t undercapitalise. Work with the system, much as you might not like it. Get good advice from someone who knows, who has been in business and can provide that advice. Even if you have to pay for it, it is worth it.”

Passion and drive are also critical – it is not just about the money. Have a vision and follow it. Take risks. Recognise that there will be hardships and challenges. These include unexpected natural disasters (drought, cyclones) and market fluctuations:

“To deal with the challenges you need to be quite strategic and do your homework. A second income is needed to create cash flow during difficult times. Be prepared to start small and build the business and your knowledge. When you have this knowledge, be generous with it through capacity building, helping people and sharing your passion. Invest in staff training, research and development and take advantage of opportunities to learn and share with others in the industry.”

The importance of ‘giving something back’ to the local community, and the country more generally, was often stressed as being critical to successful investment outcomes:

“Take the risk to break into new niches and products rather than follow a ‘copy-cat’ mentality, do the research and due diligence to prepare well, work with local society and landowners, pay taxes in full and on time, give back to the country, and always look to provide the best to the broader community and country because in the long run this will also benefit the business.”
As an investor in the Pacific it is also vital to think about the market niches and opportunities that are emerging and how to catch these at the right time. On this front, several experts and investors stressed again the importance of linking investment to broader social outcomes and how this can make for strong performing investments both in terms of the corporate balance sheet and in the context of broader community benefit and support. As one regional investment expert noted:

“...The ethical impact investment space (a new investment class for the Pacific) - more funds flowing into this category. The Pacific is perfect for this. Capital investment needs to be patient, returns around 8-10% over time. Investors value the social impact side as much as financial returns - savvy investors.”

For the investor, there is a chance to focus on authenticity, local dimensions, and the building of a ‘sense of place’ into the products and experiences that they are providing to the consumer. Whether it is selling renewably generated electricity, producing hydroponic crops, or providing a deeper cultural experience for tourists, this research has clearly revealed that all investors can benefit from building local networks and adding value to not just their products/experiences but also to the broader community.

Further details on the journeys taken by the individual cases developed for this research are available at www.nzipr.ac.nz/research/private-sector-investment-in-the-pacific. Each of these cases provides a story of the investment and incorporates insights into the successes and failures that have occurred along the journey. A review of the cases also provides a deeper understanding of the complex mix of facilitating and constraining factors that help to shape investment processes and outcomes.

**Developing an Enabling Environment**

The following recommendations are aimed at those stakeholders who attempt to facilitate and grow investment in PICs and strengthen links between investments and sustainable economic development. The presentation of recommendations reflects the ‘flow’ of the investment process from initial attraction and decision making, through to approval and implementation and finally on to potential impacts and evaluation. In effect, what we are presenting below is the basis for an effective enabling environment for investment.

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

As one expert noted:

“I don’t think you can validly say those blanket statements: FDI is good or bad...it depends on what kind of FDI you’re talking about. The key to the Pacific Is to be able to understand and differentiate between FDI and to be smart about how their economies develop in ways that will provide benefits.”

It is critical that: “Strong due diligence be done right from the outset - of both the investor and investments proposed” and that all relations related to investments are transparent and open to accountability and review.

A further important option is to: “Work with more ethical impact investors.... Selecting the right partners and investors is very important”. In this respect, it is also
important to rely on external partners such as the World Bank, IFC and ADB:

“To play the honest broker role and facilitate investment in the Pacific ... if government is putting up a power plant, by having IFC in the investor mix - they diversify their reliance upon a large enterprise and can trust that IFC will do the right thing in terms of the development towards the country and local impact of an investment.”

2. Government and relevant stakeholders need to create policies that target investment at key development goals including supporting domestic investors:

At a regional level, it was argued that:

“The New Zealand government should be doing a better job of supporting the kind of policies that will build on the uniqueness of the Pacific Island countries and its stories. Foreign investors should also do this. There are opportunities to foreign investors and the New Zealand government to have policies. E.g. MFAT has a policy about economic growth in the Pacific but the growth they are talking about does not benefit the people, it is in a GDP term, that misses out most of the activity of the informal activity (women and rural), so it doesn’t benefit the people. You need a change in the kind of economic growth we are trying to support in the Pacific. If you build on the Pacific story - good opportunity for foreign investors and New Zealand government - but you have to get the approach right. A major problem is that people don’t understand the specifics of the Pacific situation - or the need to have differentiated policy.”

While at a national scale:

“Government needs to put in place a policy in regards to foreign ownership of some businesses, without discouraging foreign investment. Government needs to ensure that their list of ‘protected’ business activities specifically reserved for locals is in fact, policed adequately. Given the above, Government also needs to ensure that the prime objectives of obtaining foreign investment in a particular sector is to ensure that the investment establishes employment opportunities for local staff, upskilling the labour force, and creates economic growth for the country.”

In simple terms, as one expert noted: “It’s very important to direct investment in the right sectors and maintain the right balance, whilst ensuring the right policies are in place to direct investment in the appropriate areas, rather than just opening up the doors to anybody with the money.” Every context is different and it is vital that all investment strategies reflect the unique sustainable development context found in each PIC and that they be targeted to dovetail with broader SDGs as presented in national sustainable development plans and strategies.

3. It is critical that the investment process be simplified and that relevant information be made available in an accessible and user friendly fashion. It is vital to work where possible with the financial sector to ease access to finance especially for domestic investors.

The term ‘one stop shop’ was often used to describe the ideal scenario for investors in terms of accessing necessary resources, data
and approvals. This clearly stretches beyond just having a well-coordinated investment office – it is about taking an ‘all of government’ approach to investment which creates a more seamless process between various agencies and Ministries. Such an approach would include:

“1) Types of incentives available for sectors. 2) National policies, regulations, etc., on investment. 3) Clear government strategy on investment facilitation measures. 4) Information on the investment climate which is true and reflective of what is happening on the ground. 5) Clear guidelines on the steps for business set-up and process of obtaining permits and registration documents.”

It is also vital to work on multiple fronts:

“Identify the barriers at different levels: regulation, institutional, demand side: business. Work with the government to fix the regulations impeding investment. Work with the financial sector to manage constraints. Work with business entrepreneurs to help them develop their business cases.”

In addition, it is critical to embrace information and communication technologies in order to enhance the dissemination of relevant material and facilitate application processes.

4. Accept that land will remain a complex challenge for many investors and attempt to work with all stakeholders concerned to smooth out the process as much as possible while ensuring rights are not compromised.

There are no easy solutions to the challenges that surround land and investment but as numerous investors and experts noted there are opportunities to move forward:

“Land issue: identify areas for economic or tourism development, and have different policies for those plans. Financial institution is difficult for locals to start a business and get a loan. How does an investor use land for security? The Development Bank’s role has changed. The purpose used to be for development and have a low interest rate for loans but they have now become a commercial bank. Government incentives could change and encourage loans.”

What is certainly clear is that while there is no ‘one size fits all’ approach that can be taken there are ways to ease the process for all concerned and that again the building of strong relationships between investor and local community/economy is vital to successful outcomes.

5. Look to create positive local sustainable development spin-off effects from all forms of investment whether they be large scale, small, foreign or domestic. Prepare in advance for FDI so that maximum benefits are created and negative impacts minimised.

As one expert noted:

“1) Ensure proper labour and environmental laws are in place. 2) Support for the monitoring of the implementation of the above laws. 3) Foreign Investors to contribute to a pool of funds for the benefits of workers when they pack up and leave. 4) There should be social programmes put in place by the foreign investors for the development of the communities surrounding their project.”
This is very much about not just regulating to achieve broader development outcomes, it is also about facilitating corporate social responsibility in what may, for some investors, be an unfamiliar socio-cultural context. Government has a role to play in facilitating communication between investors and the communities with whom they will be interacting.

Our research shows that developing effective mechanisms to support investor-community engagement can reap benefits not just for community development but also for the success of the investment itself. It is also vital that these dimensions of corporate social responsibility be evaluated and monitored in the future.

It is critical to develop the two-way transfer of knowledge between investments and local community/economy: with skills and technology moving from the former to the latter and local networks providing, in return, deep insights into culture, everyday life and how business fits into the local ‘ecology and sense of place’.

There is an opportunity to build on the concepts highlighted by Coates et al (2010) that suggest that by utilising niche marketing, focusing on the Pacific brand (i.e. a unique, unspoilt, exotic destination), positioning products as high quality, and achieving certifications (e.g. Fair Trade and organic), this will improve access into higher-value overseas markets and enable Pacific organisations to command higher prices. In addition, regular engagement with communities enables investors to avoid potential tensions and identify new opportunities for marketing, supply chains, business growth and development.

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

As one of the investors interviewed noted: “Pacific people are changing, many are highly educated and they want to go back home”. It is critical to encourage this ‘return home’. There may be potential for seed funding and developing mentor programs for returning investors, building on existing Chamber of Commerce mentor programs for businesses in the Cooks Islands and elsewhere in the region. It is also “important to find a way to identify and nurture new ideas – not shoot them down because they are different or break the copy-cat mentality that is so prevalent in the region”.

It is vital to realise that this group of Pasifika investors often sit somewhere between foreign and local. They bring with them a mix of two worlds - an understanding of the local and also an awareness of a broader regional and global context. In this respect, they can be a particularly strong asset by combining broader external resourcing skills and knowledge with an understanding of local networks, links to land and a sense of place.

Pasifika investors also face some unique challenges. Tall poppy syndrome is a factor that all must contend with to some extent - with local suspicions and jealousy sometimes making it difficult to initially establish investments. Pacific women in particular are less likely to own land, they have limited access to financial and justice systems, and they can be burdened by prevailing family, marriage, and inheritance laws and practices, making it more difficult to partake in entrepreneurial activities. Additionally, there are few opportunities for businesswomen in
the Pacific to meet and network with one another. This is an area that requires further attention and development on the part of government and donor agencies, in particular it would be good if an informal mentoring scheme could be set up – offering support and mentoring from those who have faced similar challenges.

7. Ensure that investment related data and information is robust and readily accessible to all potential investors and those that work in the investment arena.

The Oxfam report ‘Learning from Experience’ (Coates et al., 2010) highlights the importance of research and development in Pacific Island agricultural-based investments and shows a need for more data in the Pacific region. The need for robust research data was a common theme raised across all of the countries and sectors covered in this report and was highlighted by both investors and experts. For many this is about first enhancing the capacity and capability of those involved in gathering and disseminating vital data:

“Upgrade the Statistics department so that more meaningful economic data is available to both the Government, Funding Organisations, and the Private Sector. Quarterly reports should be completed by ALL businesses, including importers, exporters, and manufacturers. Businesses should be required to report (on a confidential basis) such statistical information as sales turnover, local and foreign purchases, cost of investment in capital equipment, cost of salaries and wages (local and expatriate), number of employees, etc. ... will enable them to make better investment decisions.”

Of course, it is not only businesses who need this data, local investment officers and facilitators also:

“Need to understand their local investment climate. Understand where the investment opportunities are and what they have to offer the investor, what industries do they want to draw investors in?”

It is clear what types of information are required and unfortunately in some cases the information is simply not being disseminated effectively:

“General macro-economic information - info on the strength and size of economy. PIC’s have this – can get data from statistics offices, tourism and banks. Difficult for investors to get accurate info. Primary research is expensive. Having the right Information is a global problem. Pacific Island countries don’t have the people employed to address this.”

There was a suggestion from one expert that nations in some situations look to innovative solutions to gathering data and perhaps overcoming additional problems around access to credit: “Some countries have started forming credit bureaus. Sharing of information, to build a credit rating which will enable them to move up the credit lines - doesn’t happen in the Pacific. Bar Fiji recently.” The IFC and some national governments have also, for example, been pursuing new on-line approaches to gathering long term visitor and tourism industry data to help support effective decision making.
8. Develop effective tools and systems to evaluate investor performance across a range of variables that relate to business performance and broader sustainable development goals.

In addition to data being used to inform impending investment decisions on the part of both investors and local authorities it is also important to be able to track and trace the performance of investments over time. This is critical because it enables government to examine the ‘return’ it is getting from its approval and support of investment cases. Just as importantly this information can be used to build ‘stories’ of investment that can be shared as cases with future investors.

Closing Statement

This report has highlighted the complex issues that influence investment processes in the Pacific and the benefits and costs that stem from such investment. The diversity of the region and the investment experience itself means that no one path can be followed to achieving success both in terms of corporate performance and the achievement of broader sustainable development goals. The report has outlined a series of evidence based recommendations that can form and support an enabling environment that will foster investment flows, develop successful outcomes for investors and, importantly, create stronger sustainable development outcomes for local communities and PICs. As one of our research participants noted:

“There’s a wider story to 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.”

This report has adopted a methodological approach that has enabled us to explore Pacific Island investment processes through a new lens – one that attempts to embrace the complexity and diversity of stakeholder views and perspectives, it lays the ground work for future work across new sectors, nations and themes. What is critical is that we continue to learn and tell the stories of investment in the region and embrace the complexity and uniqueness of the context and cases that we encounter.
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Appendix A: Frequency Analysis Tables

Constraints to Investment in the Pacific (Investors)

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### Constraints to Investment in the Pacific (Experts)

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### Constraints to Investment (Country-Specific)

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### Benefits of Investment to the Pacific (Investors)

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<td>Transfer of skills and knowledge</td>
<td>9</td>
</tr>
<tr>
<td>Strengthen local supply chains</td>
<td>8</td>
</tr>
<tr>
<td>Improved infrastructure</td>
<td>8</td>
</tr>
<tr>
<td>Community involvement</td>
<td>6</td>
</tr>
<tr>
<td>Provide income</td>
<td>5</td>
</tr>
<tr>
<td>Self-sufficient businesses</td>
<td>3</td>
</tr>
<tr>
<td>Local investment opportunities</td>
<td>3</td>
</tr>
<tr>
<td>Innovative thinking</td>
<td>2</td>
</tr>
<tr>
<td>Opportunities for women</td>
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</tr>
<tr>
<td>-------------------------</td>
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</tr>
<tr>
<td>Preserving culture</td>
<td>1</td>
</tr>
<tr>
<td>Import substitution</td>
<td>1</td>
</tr>
<tr>
<td>In country profit</td>
<td>1</td>
</tr>
</tbody>
</table>

**Benefits of Investment to the Pacific (Experts)**

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development</td>
<td>49</td>
</tr>
<tr>
<td>Employment</td>
<td>31</td>
</tr>
<tr>
<td>Transfer of skills, knowledge, technology and innovation</td>
<td>24</td>
</tr>
<tr>
<td>Improved Infrastructure</td>
<td>16</td>
</tr>
<tr>
<td>Greater entrepreneurial opportunities for business and locals</td>
<td>11</td>
</tr>
<tr>
<td>Local knowledge, networks and culture</td>
<td>7</td>
</tr>
<tr>
<td>Access to Markets</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
</tr>
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**Benefits of Local and Foreign Investment**

<table>
<thead>
<tr>
<th>Foreign Investment</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>20</td>
</tr>
<tr>
<td>Economic Development</td>
<td>18</td>
</tr>
<tr>
<td>Transfer of skills, knowledge, technology and innovation</td>
<td>17</td>
</tr>
<tr>
<td>Improved Infrastructure</td>
<td>12</td>
</tr>
<tr>
<td>Greater entrepreneurial opportunities for business and locals</td>
<td>4</td>
</tr>
<tr>
<td>Access to Markets</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>83</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
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<th>Local Investment</th>
<th>Frequency</th>
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</thead>
<tbody>
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<td>15</td>
</tr>
<tr>
<td>Employment</td>
<td>11</td>
</tr>
<tr>
<td>Local knowledge, networks and culture</td>
<td>8</td>
</tr>
<tr>
<td>Greater entrepreneurial opportunities for business and locals</td>
<td>7</td>
</tr>
<tr>
<td>Benefits of Local Investment: A Comparison Between Country Specific and Regional Specific Experts</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Regional</strong></td>
<td><strong>Frequency</strong></td>
</tr>
<tr>
<td>Economic Development</td>
<td>8</td>
</tr>
<tr>
<td>Local knowledge, networks and culture</td>
<td>5</td>
</tr>
<tr>
<td>Transfer of skills, knowledge, technology and innovation</td>
<td>5</td>
</tr>
<tr>
<td>Employment</td>
<td>4</td>
</tr>
<tr>
<td>Greater entrepreneurial opportunities for business and locals</td>
<td>3</td>
</tr>
<tr>
<td>In country profit</td>
<td>3</td>
</tr>
<tr>
<td>Improved Infrastructure</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
</tr>
</tbody>
</table>

| **Country Specific** | **Frequency** |
| Economic Development | 8 |
| Employment | 7 |
| Greater entrepreneurial opportunities for business and locals | 4 |
| In country profit | 3 |
| Local knowledge, networks and culture | 3 |
| Improved Infrastructure | 2 |
| Transfer of skills, knowledge, technology and innovation | 2 |
| Other | 1 |
| **Total** | **30** |

<table>
<thead>
<tr>
<th>Costs and Risks of Investment (Country Specific)</th>
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<tbody>
<tr>
<td><strong>Theme</strong></td>
</tr>
<tr>
<td>Cultural and social</td>
</tr>
<tr>
<td>Theme</td>
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<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>Financial outflows</td>
</tr>
<tr>
<td>Crowds out local opportunities</td>
</tr>
<tr>
<td>Environmental</td>
</tr>
<tr>
<td>Governance</td>
</tr>
<tr>
<td>Opportunity costs</td>
</tr>
<tr>
<td>Labour</td>
</tr>
<tr>
<td>Loss of control</td>
</tr>
<tr>
<td>Low funds</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

**Costs and Risks of Investment (Region Specific)**

<table>
<thead>
<tr>
<th>Theme</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial outflows</td>
<td>4</td>
</tr>
<tr>
<td>Crowds out local opportunities</td>
<td>3</td>
</tr>
<tr>
<td>Environmental</td>
<td>3</td>
</tr>
<tr>
<td>Governance</td>
<td>3</td>
</tr>
<tr>
<td>Opportunity costs</td>
<td>2</td>
</tr>
<tr>
<td>Labour</td>
<td>2</td>
</tr>
<tr>
<td>Cultural and social</td>
<td>1</td>
</tr>
<tr>
<td>Loss of control</td>
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</tr>
<tr>
<td>Low funds</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
</tr>
</tbody>
</table>
Appendix B: Research Tools and Instruments

Invitation Letter

Name of person/business will be inserted
Dear Sir/Madam

Private Sector Investment in the Pacific

Date: (will insert date)

The New Zealand Institute of Pacific Research (NZIPR) is a collaboration between the University of Auckland, Otago University and the Auckland University of Technology. NZIPR is funded by MFAT and is designed to generate research led insights into challenges facing Pacific Island nations. Auckland University of Technology is leading a research program focused on Private Sector Investment in the Pacific: focusing on understanding the factors that enable and facilitate successful investment in the region.

Following an extensive review of over 100 cases of private sector investment across the Pacific in the renewable energy, agriculture and tourism sectors, your business has been identified as a potential case that can provide deeper insights of value to the research program.

We have had a positive response so far and we hope that you will be willing to spend some time with us discussing your business investment story. The interview will take the form of a semi-structured discussion and will last approximately 90 minutes. The discussion will cover topics such as the history of your investment, the opportunities and challenges you met along the way, and the lessons you have learnt. The cases will tell the story of your investment and as such, you will be asked if you are willing to have your name and business identified. You will also be able to review your investment case study once it has been written up.

You will receive a copy of the final report from the NZIPR in May 2017 and will also be invited to attend an online workshop that will present and discuss the findings.

Please do not hesitate to get in touch if you have any further questions about the research.

Sincerely,
Interview Guide

1. Introduce the project

2. Information about the person’s background in the sector
   - Please tell me a little bit about your background,
   - how long have you been involved with the XXX sector?
   - How long in Tonga/doing business in Tonga
   - What’s your role in the business?

3. Information about the business
   - Please tell me a little bit about what the businesses does. What products and services do you sell?
   - How long has the business been running for?
   - What markets are you focused on?
   - Where is your head office located?

4. Information on the investment
   - What is the nature of the investment we are discussing today? (size, period of time)
   - Who else is involved with the investment and in what capacity? What is the ownership of the venture?
   - What initially got you interested in investing in Tonga?
   - Why did you finally decide to invest in Tonga?
   - When did you first formally begin the investment process in Tonga?
   - Is this your/your company first investment in Tonga or have you invested before?
   - Are you/your company involved with any other investments in the Pacific? Or elsewhere in the world? (provide details)
   - Do you have other links with Tonga (family, business)?
   - When you set out, what were the key objectives that you wanted to achieve?

5. The Story of the Investment – challenges and opportunities
   - Tell us about your investment experience in Tonga – from the start of the process up to the present day.
   - What factors, if any, have made the investment process challenging/difficult?
   - What factors have facilitated the investment process?
   - Did you receive any advice before or during the process of investing in XXX? (Who from, was it helpful, how did you get it?)
   - Was there any information that you found to be lacking?
   - What information do you feel needs to be provided to investors?
   - Did you feel well supported during the investment process by the host government and related investment agencies.
• To what extent have local knowledge and networks assisted your investment in Tonga?
• If you have had investment experience elsewhere in the region how would you compare it to your experience in Tonga? How did it differ?
• If you could go back to the start, what would you do differently given the lessons you’ve learnt along the way?

6. Indicators of Success, Failure and Impact

• Looking back to your initial investment objectives, would you say you have met them, exceeded them or are still on the way to meeting them? Why?
• Would you describe your investment as a success? Why?
• Have you been happy with your return on investment to date?
• Are you happy with your market place performance (e.g. products sold, occupancy rate)? Why?
• How many staff do you currently employ? How many are Tonga?
• What positions do Tongan employees hold?
• How many of your employees are women? What positions do they hold?
• What are your greatest challenges as an employer? Then follow up prompts on skills and availability of labour.
• What is the nature and strength of your local supply chains?
• What do you think could enable or facilitate to your business to better link to local supply chains?
• Do you buy goods/services/equipment for your business locally? (what %) Would you like to purchase more locally? How might local linkages be improved?

7. Looking Forward

• Do you feel optimistic about the future of your business/investment over the next year/5 years? Why?
• What do you think are the key challenges that will face your business in the coming 5 years?
• What do you think are the key opportunities that will face your business in the coming 5 years?
• Are you planning to invest further in Tonga in the next 5 years.? What type of investment (new/green field; adding to existing plant).
• Are you planning to invest elsewhere in the Pacific Islands in the next 5 years.? Where? What type of investment (new/green field; adding to existing plant).
• Would you recommend Tonga as a place for other to invest? why?
• If you were giving advice to a new investor in XXX sector in XXX country, what would be the top three tips you would give them based on your experience?
Dear XXXXX,

Research: Private Sector Investment in the Pacific

A programme of research is currently underway to better understand the opportunities and challenges facing private sector investment in the Pacific, as well as the risks associated with investment and how these may be mitigated. The research is funded by the New Zealand Ministry of Foreign Affairs and Trade and is being conducted by the New Zealand Institute of Pacific Research. The research team is led by Professor Simon Milne, Auckland University of Technology.

You have been identified as an expert and opinion leader in the area of private sector investment in the Pacific region and we believe you can add significant value to this research. We hope that you will be willing to participate in a short phone survey that explores the current investment climate and related investment issues in the Pacific.

The survey involves a short telephone interview that should take about 15 minutes to complete.

The response to our requests has been extremely positive to date and we hope that you will also be willing to participate in this important research, please email me at jraymond@aut.ac.nz and we will arrange a suitable time to call you.

Participation is voluntary and your survey responses will only be presented in an aggregate form to preserve anonymity. Further information about this research is available in the Information Sheet attached to this email.

Thank you in advance for your time and support.

Best regards,

Jaimee Raymond
Research Officer
Private Sector Investment Research Program, NZIPR
Welcome to the Private-Sector Investment in the Pacific Survey.

The New Zealand Institute of Pacific Research (NZIPR) is a collaboration between the University of Auckland, Otago University and the Auckland University of Technology [http://www.nzipr.ac.nz/en.html](http://www.nzipr.ac.nz/en.html). NZIPR is funded by the New Zealand Ministry of Foreign Affairs and Trade and is designed to generate research led insights into challenges facing Pacific Island nations.

Auckland University of Technology is leading a research programme focused on Private Sector Investment in the Pacific. In particular, we are looking at the factors that enable successful investment in the region.

As an opinion leader/expert in this region you are invited to participate in this Survey. Participation is entirely voluntary; however, you must be 18 years or older. **The survey involves a short phone interview that should take about 15 minutes to complete.** To participate in this research, please email jraymond@aut.ac.nz and we will arrange a suitable time to call you.

All responses are confidential and your identity will remain completely anonymous. By taking the survey you are giving consent to be part of this research.

If you would like to receive the findings of this research, simply let us know when we call.

The New Zealand Institute for Pacific Research undertakes this research with the understanding that findings may be used in publications and presentations. A summary of the findings of this project will be posted on [www.nzipr.ac.nz](http://www.nzipr.ac.nz) by the end of 2017.

For further information about this research, please contact:

Principal investigator: Professor Simon Milne, New Zealand Tourism Research Institute, AUT University: email simon.milne@aut.ac.nz, phone 09 921 9999 extension 9245

Any concerns regarding the nature of this project should be notified in the first
instance to the Principal Investigator, Simon Milne: email simon.milne@aut.ac.nz, phone 09 921 9999 extension 9245

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTEC, Kate O’Connor, kate.oconnor@aut.ac.nz phone 09 921 9999 extension 6038.

Approved by the Auckland University of Technology Ethics Committee on 06/10/16, AUTEC Reference number 16/333.

Private-Sector Investment in the Pacific Survey

Information for participants

Welcome to the Private-Sector Investment in the Pacific Survey.

The New Zealand Institute of Pacific Research (NZIPR) is a collaboration between the University of Auckland, Otago University and the Auckland University of Technology. The NZIPR is funded by the New Zealand Ministry of Foreign Affairs and Trade (MFAT) and is designed to generate research led insights into challenges facing Pacific Island nations. Auckland University of Technology is leading a research program focused on Private Sector Investment in the Pacific. In particular, we are looking at the factors that enable successful investment in the region and/or your relevant country of expertise.

As an opinion leader/expert in investment to this region you are invited to participate in this Survey. Participation is entirely voluntary, however you must be 18 years or older and fit the criteria stated above. The survey asks a number of questions where you simply click into the box provided and type your comments. We would appreciate if you could answer each question and fill this survey out as accurately as possible.

To participate in this research, simply click the ‘Take the survey’ button below. The survey should take about 10 - 15 minutes to complete and will remain open to 5pm, 28th February 2017.

If you would like to receive the findings of this research, simply provide your contact details at the end of the survey.

All answers are confidential and your responses are completely anonymous. By taking the survey you are giving consent to be part of this research.

The New Zealand Institute for Pacific Research undertakes this research with the understanding that findings may be used in publications and presentations. A summary of the findings of this project will be posted on www.nzipr.ac.nz by the end of 2017.

For further information about this research contact:

Project Supervisor, Professor Simon Milne, New Zealand Institute of Pacific Research Institute, AUT University, Ph: 60 921 9245

Any concerns regarding the conduct of this project should be notified to the Principal Investigator, Simon Milne, simon.milne@aut.ac.nz, phone 09 921 9999 ext 9245

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTEC, Kate O’Connor, kate.oconnor@aut.ac.nz, phone 09 921 9999 ext 6038

Approved by the Auckland University of Technology Ethics Committee on 06/10/16, AUTEC Reference Number 16/333.
Survey Guide

About Your Organisation

1. What is the name of your organisation?

2. What are the key objectives of your organisation?

3. What role does your organisation play in investment in the Pacific and/or relevant country of expertise?

4. How many years has your organisation been involved with investment in the Pacific and/or relevant country of expertise?

5. Which countries does your organisation work in?

6. Which sectors does your organisation focus on?

About Your Role

7. What is your role (i.e. job title) in this organisation?
8. What are the main functions of your role?

9. How does your role link to investment in the Pacific and/or relevant country of expertise?

10. How long have you been working in this role?

About the Investment Climate in the Pacific

11. In general, what is your opinion of the current investment climate in the Pacific and/or relevant country of expertise?

12. What key factors do you think currently have the most impact on the investment climate in the Pacific and/or relevant country of expertise?

13. In general, what do you think the critical challenges facing investment in the Pacific and/or relevant country of expertise are?
14. In your opinion, what are the potential gains that a) greater foreign direct investment (FDI) and b) local investment can bring to the Pacific and/or relevant country of expertise?

A) 

B) 

15. In your opinion, what are the potential barriers or disincentives to investment in the Pacific and/or relevant country of expertise?

________________________________________________________________________

How can these barriers be overcome?

________________________________________________________________________

________________________________________________________________________

16. What do you think are the costs and risks to the receiving economies of greater foreign direct investment (FDI)?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

How can these be avoided, reduced or managed?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

17. What information and data do you believe is needed to help better inform investment facilitation in the Pacific and/or relevant country of expertise?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
18. Would you like to receive a summary of the findings from this research?

☐ Yes ☐ No

19. Would you like to attend the online workshop at the end of the research?

☐ Yes ☐ No
About NZTRI

The New Zealand Tourism Research Institute, based at the Auckland University of Technology, brings together experts in the tourism and hospitality arena. Our goal is to develop timely and innovative research solutions for the tourism industry and those who depend on it. Our focus is on helping to develop a profitable and sustainable industry which provides tangible benefits for business, residents and visitors. The Institute’s work in Pacific Island Countries focuses on linking tourism to broader economic contexts - focusing on building relationships to areas such as agriculture, energy and information and communications technology. NZTRI are also actively involved in facilitating business development and investment activities in the Pacific and have worked in the past on the EU funded Proinvest program.

Authorship

The New Zealand Tourism Research Institute (NZTRI) at the Auckland University of Technology (AUT) conducted this research on behalf of the New Zealand Institute for Pacific Research (NZIPR) for the New Zealand Ministry of Foreign Affairs and Trade (MFAT). The report was authored by Simon Milne, Jaimee Raymond, Carolyn Deuchar, Tracy Berno, Semisi Taumoepeau and Michael Pusinelli. Additional inputs were provided by Eilidh Thorburn, Michelle Hunt and Nathaniel Dobbin.

The authors would like to acknowledge and thank the investors and investment experts of the Pacific who so willingly gave up their time to participate in this research. We would also like to acknowledge the input of anonymous reviewers and the support of MFAT and Gerard Cotterell of NZIPR.