

# Swimming Against the Tide?

An Assessment of the  
Private Sector in the Pacific

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Asian Development Bank

2004

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# Contents

FIGURES, TABLES, AND BOXES .....	vii
ABBREVIATIONS .....	ix
FOREWORD .....	xi
I. DIAGNOSIS AND SYNOPSIS .....	1
Constraints of the Private Sector in the Pacific .....	4
Conclusions .....	9
II. INTRODUCTION .....	11
Low Growth in the Pacific: Critiquing the Usual Assertions .....	12
The Private Sector in the Pacific .....	13
Private Sector Development, Growth, and Poverty Reduction .....	15
Private Sector Assessments in the Pacific: A Framework .....	17
Overview of the Report .....	18
III. ANALYTIC APPROACH .....	20
What Promotes Growth? .....	21
What Drives Private Sector Growth? .....	24
Business Dynamism .....	24
Transaction Costs .....	25
Institutions .....	27
IV. CHARACTERISTICS OF THE PACIFIC COUNTRIES .....	29
Small Size: Issues and Implications .....	31
Small Population .....	31
Small Local Market .....	32
Remoteness and Geographic Dispersal .....	33
Susceptibility to Natural Disasters .....	34
Limited Access to Capital .....	35
Reliance on ODA and Remittances .....	36
Large Presence of the State .....	36
Myths Concerning Small States .....	38

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V. MAIN ISSUES FACED BY THE PRIVATE SECTOR IN THE PACIFIC .....	42
State Interference .....	42
Relationship with the Public Sector .....	44
Public Goods .....	46
High Costs .....	46
Transport Issues .....	47
Finance .....	48
Natural Resource Issues .....	50
Investment Policy .....	52
Why Foreign Investment Is Good .....	53
Foreign Investment Regulation .....	54
VI. FINANCIAL MARKETS IN THE PACIFIC.....	56
Financial Markets and Economic Development .....	56
Financial Markets in the Pacific .....	57
Structure .....	57
Characteristics of Financial Markets in the Pacific .....	59
Interest Rate Issues .....	61
Expanding Collateral .....	64
Secured Lending.....	64
Overview.....	65
Secured Transactions in the Pacific Economies .....	68
Problems in Creation .....	69
Problems in Priority .....	72
Problems in Registration .....	74
Regulatory Framework for Publicity .....	75
Problems with Enforcement .....	75
Taxes that Affect Registration and Enforcement .....	76
Implications of a Defective Secured Transactions Framework .....	76
Need for Intermediation .....	77
Microcredit .....	78
The Role of Funding Agencies in Supplying Capital .....	79
Attempts to Substitute for the Lack of Financial Intermediation .....	79
Making Financial Markets Work .....	83
Reforms that Are Needed .....	84
Integration with World Capital Markets .....	85

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National Provident Fund Reform and Second-Tier Institutions .....	85
VII. LAND ISSUES .....	87
The Importance of Land Rights .....	87
Features of Land Tenure in the Pacific .....	89
Land Reform .....	90
The Problem .....	91
Recording/Registration .....	95
Transferability and Use of Land .....	95
Uncertainty of Land Tenure Rights .....	95
The Cost of Disputes .....	96
Conclusions .....	97
VIII. THE STATE AND THE PRIVATE SECTOR .....	98
The Role of the State in Private Sector Development .....	99
The State in Pacific Economies .....	99
The State and Low Private Sector Growth .....	99
Targets and Instruments of Private Sector Development	
Policy .....	102
State-Owned Enterprises .....	104
Infrastructure Provision: Issues and Approaches .....	105
Integrated Project Design .....	105
Choice of Techniques .....	106
The Legal Framework .....	107
Financing .....	108
Procurement .....	109
Operation and Maintenance .....	110
Decentralization .....	111
Financing Private Infrastructure with Output-Based Contracts .....	112
Privatization in the Pacific .....	112
Choice of Regulation .....	115
Local Regulation .....	116
Foreign Regulation .....	116
Competition .....	117
Governance and Public Goods Issues .....	117
Legal Framework .....	117
Policy Consistency .....	118
Corruption and Regulation .....	118

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A Dysfunctional State and Private Sector Development .....	120
Trade Policy for the Pacific .....	121
Tariff Levels .....	121
World Trade Organization and Regional Trade	
Agreement Issues .....	123
Free Trade Zones .....	125
Foreign Investment Procedures .....	126
Conclusion .....	127
IX. SECTORAL ISSUES .....	129
Tourism .....	129
Benefits of the Tourism Industry .....	129
Important Elements for a Properly Functioning	
Tourism Industry .....	130
The Tourism Industry: Other Issues .....	135
Agriculture and Forestry .....	138
Agriculture .....	139
Forestry .....	145
Challenges for the Rural Economy .....	146
Fishing .....	147
X. SMALL AND MEDIUM ENTERPRISE DEVELOPMENT .....	156
Providing Special Consideration and Assistance for	
Small-Scale Rural Enterprises .....	156
Is There a Need for Generic SME Policies? .....	157
XI. TOWARD A STRATEGY FOR PRIVATE SECTOR	
DEVELOPMENT IN THE PACIFIC .....	159
Considerations for Pacific Governments .....	160
The Countries and Private Sector Development Policy .....	160
Need for Interaction Between Government and Business .....	162
The Need for Analysis .....	163
Foreign Workers, Foreign Investment, and Incentives .....	163
A Schematic of Government Policy for Private Sector	
Development .....	164
An Agenda for Governments .....	165
Funding Agencies and the Private Sector .....	169
Considerations for Funding Agencies .....	170
Funding Agency Involvement in the Pacific .....	170
Need for Aid Coordination .....	171
The Voyage Must Begin .....	173
BIBLIOGRAPHY .....	175

# Figures, Tables, and Boxes

## Figures

Figure 1.	Comparative GDP Per Capita, Constant US\$, 2001 .....	29
Figure 2.	Sectoral Breakdown of GDP, 2001 .....	30
Figure 3.	Population of Select Pacific Countries .....	31
Figure 4.	Population Density, 2001 .....	32
Figure 5.	Unit Cost of Air Travel Regionally and between Sydney and Select Pacific Countries, 2001 .....	33
Figure 6.	Fuel Prices, Select Countries, 2001 .....	34
Figure 7.	Shipping Rates, Select Countries, 2001 .....	34
Figure 8.	Foreign Direct Investment, Net Inflows (% of GDP) .....	37
Figure 9.	Per Capita Official Development Assistance .....	38
Figure 10.	Government Current Expenditure, 2000 (% of GDP) .....	43
Figure 11.	Comparative Average Credit to the Private Sector (1996–2000) .....	60
Figure 12.	Real Interest Rates (%), 1996–2001, Select Countries .....	61
Figure 13.	Interest Rate Spread (%), 1996–2001, Select Countries .....	62
Figure 14.	Comparative Average Interest Rate Spreads, 1996–2000 .....	63
Figure 15.	Water Consumption Tariffs, Select Countries, 2001 .....	101
Figure 16.	Trade Balance, 2000 .....	122
Figure 17.	Welfare Gains from Full MFN Liberalization (% of GDP) .....	123
Figure 18.	Tourism, % of GDP, 1999 .....	130
Figure 19.	Tourism, % of Exports, Select Pacific Countries .....	131
Figure 20.	Travel and Tourism Employment (% of Total 2000 Labor Force) .....	133
Figure 21.	Agriculture, Value-Added (% of GDP) .....	139
Figure 22.	Rural Population, 2001 .....	140
Figure 23.	Arable Land, 1999 .....	141
Figure 24.	Forest Area, 2000 .....	144
Figure 25.	Contribution of Fishing to GDP .....	148
Figure 26.	Ranges in Annual Per Capita Fisheries Consumption, 1990s .....	148

Figure 27.	Estimated Annual Fisheries Production by Value, Late 1990s .....	151
Figure 28.	Estimated Access Fees from Foreign Fishing Vessels, 1999 .....	152
Figure 29.	Estimated Values of Fisheries Exports, Late 1990s .....	153
Figure 30.	Official Development Assistance Per Capita, Select Pacific Countries .....	171

## Tables

Table 1.	The Relationship Between Growth and Poverty .....	20
Table 2.	Human Development Indicators, 1998 .....	30
Table 3.	Foreign Direct Investment Outflows (US\$ Million) .....	36
Table 4.	Correlation Matrix of GDP Growth, 1990–2000 .....	40
Table 5.	Utility Costs .....	100
Table 6.	Labor Regulation/Conditions .....	118
Table 7.	Employment in Fishing .....	149
Table 8.	Land and Exclusive Economic Zone Areas for the Pacific .....	150

## Boxes

Box 1.	Business Dynamism .....	25
Box 2.	Examples of Transaction Costs .....	26
Box 3.	Mauritius: Small, Isolated, Successful .....	41
Box 4.	Lender/Borrower Transactions in Financial Markets .....	58
Box 5.	The Power of Collateral .....	65
Box 6.	The Inherent Problem of Offshore Ventures .....	67
Box 7.	Low Nonperforming Loan Rates: Cook Islands, an Outlier .....	72
Box 8.	Promoting Microfinance: The Multilateral Investment Fund .....	81
Box 9.	Lowering the Threshold or Raising the Rates .....	84
Box 10.	Who Owns the Land? Who is Chief? .....	94
Box 11.	The Impact of Political Instability: The Case of the Fiji Islands .....	132
Box 12.	Tourism Development, Cultural Preservation, and Environmental Protection: The Example of Cirali, Turkey .....	136
Box 13.	The Response to Overfishing in Vanuatu .....	154
Box 14.	The Impact of No Infrastructure .....	155

# Abbreviations

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BIS	Bank for International Settlements
CDC	CDC Group Plc. (former Commonwealth Development Corporation)
CIIC	Cook Islands Investment Corporation
CTC	Cook Islands Tourist Authority
DAC	development assistance committee
DBS	Development Bank of Samoa
EEZ	exclusive economic zone
EPC	Electric Power Corporation (Samoa)
ERI	Enterprise Research Institute
ESCAP	Economic and Social Commission for Asia and the Pacific
FDI	foreign direct investment
FFA	Forum Fisheries Agency
GDP	gross domestic product
GNP	gross national product
HDI	human development index
IFC	International Finance Corporation
IFI	international financial institution
ILO	International Labour Organization
MEC	Marshalls Energy Company
MFI	microfinance institution
MFN	most favored nation
MIVA	Marshall Islands Visitors Authority
MOWEPP	Ministry of Works, Energy, and Physical Planning (Cook Islands)
NBER	National Bureau of Economic Research
NGO	nongovernment organization
NHC	National Housing Corporation (Vanuatu)
NPF	national provident fund
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
O&M	operation and maintenance
PDMC	Pacific developing member country
PSA	private sector assessment
PSCE	public sector commercial enterprise

PSD	private sector development
PUB	public utilities board
SBEC	Small Business Enterprise Center (Samoa)
SME(s)	small and medium enterprise(s)
SOE	state-owned enterprise
SPBD	South Pacific Business Development (Samoa)
SPPF	South Pacific Project Facility
TA	technical assistance
UN	United Nations
UNDP	United Nations Development Programme
UNELCO	Union Electrique du Vanuatu (Electricity and Water Company in Vanuatu)
VAT	value-added tax
WIBF	Women in Business Foundation (Samoa)
WTO	World Trade Organization

# Foreword

A robust and vibrant private sector is vital to the Pacific region's long-term economic growth and improved quality of life, and is a necessary condition for sustained poverty reduction. When there is sustained economic growth, per capita incomes rise, employment is created, and government can access additional resources through taxation to provide bridging opportunities to disadvantaged and vulnerable groups who do not benefit immediately. But the private sector can only flourish and create employment opportunities when the environment in which it operates is welcoming to business.

The Pacific islands' natural impediments—such as small market sizes, remoteness, and susceptibility to natural disasters—do constrain business activity in the region. However, while not a great deal can be done to escape the costs associated with these factors, it is possible to create an environment that minimizes the cost of doing business, and encourages both business dynamism and entrepreneurship.

Yet, the economic performance of the Pacific has been disappointing over the recent past decades, despite relatively high public investment rates and generous external funding that are among the highest per capita in the world. The private sector in the Pacific is handicapped by common problems including a weak macroeconomic environment, poor governance, often political instability, extensive state involvement combined with weak regulation, underdeveloped financial markets, and a poor legal and investment policy environment for business.

These factors have created high-cost conditions for business. A combined impact of these barriers appears to be that rates of return on capital are low throughout the region. On a net basis, there have been outflows of private capital in many of the Pacific economies and even though real interest rates are below those in many developing countries in other parts of the world, many in the formal private sector maintain that they are still too high to yield an adequate reward for entrepreneurial effort.

These factors exist in one variant or another in most of the Pacific. A successful strategy to promote private sector development requires the formulation of policies that will reduce the high cost and disabling business environment that currently exists almost throughout the region.

The Asian Development Bank (ADB) has recently launched an initiative to gain sharper insights into the underlying issues inhibiting private sector development in the Pacific. This publication contributes to the discussion by taking a hard look at the problems, evaluating them against international experience and best practices, and raising critical issues. Options and potential solutions to address these are offered to the governments and their development partners.

The report was prepared by consultants with the Enterprise Research Institute of Washington DC, under the direction of Winfried Wicklein, Private Sector Development Specialist, Pacific Department. The project team and ADB are grateful to the myriad of businesspeople, government officials, and development practitioners who contributed through their valuable insights.

While this report does not represent the views of ADB, I am pleased to publish it under the Pacific Studies Series. I trust it will provide interesting, thought-provoking reading, and stimulate useful discussions toward progress in developing the private sector in the Pacific.



Jeremy Hovland  
Director General  
Pacific Department