



Business Environment Reform Facility

Investment Climate Review, St Helena

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About Business Environment Reform Facility (BERF)

BERF is funded by the UK Department for International Development (DFID) under the Business Environment for Economic Development (BEED) Programme. BERF is a central facility responding to demand from the DFID's priority Country Offices and stakeholders to initiate, improve and scale up business environment reform programmes. BERF is managed by a consortium led by KPMG LLP. The programme started in January 2016 and will finish in January 2019.

We provide expert advice, analysis of lessons learned, policy research about what works and what doesn't and develop innovative new approaches to involving businesses and consumers in investment climate reform.

BERF has a strong emphasis on strengthening the Business Environment for women and girls, as well as for young adults more generally. It is also aiming to improve the relationship between business and the physical environment including where relevant through linkage to climate change analysis. BERF recognises the need for appropriate political economy analysis in order to underpin business environment reform processes and interventions.

About this Report

Research for this study was conducted by Kongkona Sarma of DAI.

The views contained in this report are those of the author and do not necessarily represent the views of KPMG LLP, any other BERF consortium member or DFID.

This is a working paper shared for discussion purposes only. No reliance should be placed upon this report.



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Acronyms and Abbreviations

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BEE	Business Enabling Environment
BER	Business Environment Reform
BERF	Business Environment Reform Facility
CDA	Community Development Areas
DFID	Department for International Development
ESH	Enterprise St Helena
EEZs	Exclusive Economic Zones
FDI	Foreign Direct Investment
LEGCO	Legislative Council of St Helena
LNDP	Land and Buildings Disposal Policy
NGO	Non-Governmental Organisation
OTD	Overseas Territories Department
PPD	Public Private Dialogue
RMS St Helena	Royal Mail Ship St Helena
SIDS	Small Island Developing States
SHFC	St Helena Fisheries Corporation
SHG	St Helena Government
TC	Technical Consultant
TVET	Technical and Vocational Education and Training
UNEP	United Nations Environmental Programme
VAT	Value Added Tax

Executive Summary

This report was prepared by the Business Environment Reform Facility (BERF) in response to DFID Overseas Territories Department's (OTD) request to undertake a review of the business environment (BE) in St Helena to identify key areas for reform, make recommendations to create a favourable investment climate and obtain stakeholder support for high priority reforms. The report outlines key constraints to an enabling business environment and makes recommendations on feasible reform areas, taking into account the capacity and readiness for reform in the island.

Background and context

St Helena is a small self-governing UK Overseas Territory in the middle of the South Atlantic Ocean. The remoteness of the island coupled with lack of accessibility to a wider market has severely affected its economic growth. Recent reports¹ highlighted the importance of undertaking a business enabling environment (BEE) and investment climate assessment to promote inward and local investments in the island. It is against this background that BERF was commissioned² to undertake an investment climate review of St Helena. A desk review and field trip was undertaken in September 2016 to inform findings of this review. Listed below are the key constraints identified and possible reform areas recommended.

Key Business Environment Constraints

- 1) **Limited skilled workforce:** Investors in any market seek a reliable and steady supply of trained and skilled workforce. This has been a limiting factor in St Helena, the primary reasons being a) a narrow economic base³ b) limited opportunities in the private sector for decades and c) reliance on overseas short-term (2-3 year) technical consultants. Any reform process in the island will have to work around the first constraint while at the same time implement reforms to address the other two.
- 2) **Limited access to land:** In discussions with private investors, limited access to land has emerged as a key constraint across all sectors. As a volcanic island, much of the island consists of steep rocky terrain with little flat land. The government owns around 80% of acreage. This coupled with a still developing land management policy has meant that the private sector and general population do not have easy access to land for commercial and residential purposes.
- 3) **High cost of utilities:** This is a big disincentive for private sector investment and all stakeholders consulted have identified as one of the top priority areas for reform.⁴ The

¹ 2014-15 Annual Review of ESH and recent National Audit Office Review (May 2016) of the St Helena Airport project

² Appendix 3, Terms of Reference

³ Census 2016, Population of around 4500

⁴ Meeting with Chamber of Commerce



main factors for the high cost are the island topography and sparse population spread over the island, which adds to the distribution cost of utilities. Efforts to increase the use of renewable energy, which could reduce cost in the long term, are yet to have an impact.

- 4) **Lack of competition:** St Helena, like many other small island states, is characterised by the presence of monopolies. The sole insurance provider for the island is Solomons Plc which is 63% owned by the St Helena Government (SHG). It is also involved in a host of businesses ranging from wholesale, retail, fuel distribution, farming to bakery. Connect, also government owned, is the exclusive utilities provider. Other monopolies are Sure South Atlantic (telecoms) and Bank of St Helena (BoSH). The presence of these monopolies, in some cases, has had the effect of crowding out the private sector, limiting local entrepreneurship in the island and discouraging inward investment.
- 5) **Inefficient Financial markets:** Though BoSH offers a good range of financial products and services, its small customer base makes it difficult to achieve economies of scale and adopt efficient technologies in its operation. The cost of transferring funds to the island and the time taken are all hindrances for international tourists and investors and should be addressed urgently before the airport is fully functional.

Other constraints

- 6) **Access to island:** In addition to the above BER constraints, the biggest challenge facing the island now is uncertainty over access to the island. This is due to the delay in opening the airport to commercial flights and the short-term extension of the schedule of RMS St Helena to July 2017 – particularly as the travel trade books 12 months or more in advance. This has affected not only the tourism industry but also various other stakeholders and has made planning more challenging for the government. Stakeholders interviewed have expressed dissatisfaction with the lack of information disseminated on the opening of the airport or the future of the RMS.

Feasible Reform Initiatives

This review recommends a number of measures to remove the constraints identified above:

- 1) **Develop capacity of workforce:** Capacity development intervention by the government at two levels a) managerial level for the various government bodies and b) develop a forward-looking workforce development programme, addressing the existing vocational skills gap and the future demand for specific skills sets in key sectors.
- 2) **Improve land management system** and develop the land market to facilitate easy access by the private sector for residential, commercial and agricultural purposes.
- 3) **Support to the private sector:** Key reform areas would be a) for ESH to focus more on its advisory role and scale down on direct investment in the private sector and b) divestment of Solomons and off-load some of its non-essential business units.

- 4) **Improve access to finance BoSH and ESH** should coordinate providing financial assistance to lenders. They should consider sharing information on credit history of lenders, and ways in which loan applications from BoSH and grant applications from ESH could be synchronised to help small business access funds from the two institutions..
- 5) **Public Private Dialogue** (PPD) to incorporate views of key stakeholders like SHG, ESH, private sector, associations and Non-Governmental Organisations (NGOs) in the planning process and improve the confidence of investors. A formalised structure of dialogue is also needed urgently to disseminate information to all stakeholders about government plans for air access. ESH should drive this process and provide a consultative platform for the various stakeholders.

This report looks at the key constraints and concludes with recommendations to promote St Helena as an investment destination for inward investors. Where applicable, examples of successful strategies in comparable economies are given. Although it should be noted that St Helena, due to its very small size⁵ and unique political status as an Overseas Territory of the UK, faces its own set of unique challenges and care has to be taken while adapting successful examples elsewhere.

⁵ The average population in Small Island Developing States (SIDS) is 100,000 while the population in St Helena is around 4500.



1. Introduction

1.1 Background and context

St Helena, a UK Overseas Territory, which also comprises Ascension and Tristan da Cunha, is a remote volcanic island in the South Atlantic Ocean, 1200 miles off the coast of Namibia. With a total area of 121km² and a population of around 4,500 (including Saints⁶ and other nationalities),⁷ much of the island consists of steep rocky terrain with little flat land and limited economically viable natural resources.

The remoteness of the island, which limits accessibility to a wider global market, small population and its unique political situation, has severely impeded its economic growth. Decades of aid dependency and lack of any significant industry since the collapse of the flax trade in the latter half of 1960s has had detrimental effects on the private sector. The island has been in economic decline for over 40 years and its population shrank by 20% from 1976 to 2008, a trend that has seen slight improvement in the past decade.

The island's connectivity to the rest of the world was supposed to improve with the construction of the new airport and scheduled weekly flights from South Africa. However, the opening of the £285 million airport, originally planned for February 2016, has been postponed twice because of safety concerns over wind shear. Work is currently underway to overcome the challenges posed by weather conditions.⁸ For the time being, the Royal Mail Ship (RMS) St Helena⁹ remains the island's sole means of tourist access and uncertainty over the airport access and extension of the RMS has affected the island's ability to make long-term investment decisions.

While there have been some changes in the investment climate of St Helena in the last few years, both of the key agencies involved in economic development, the St Helena Government (SHG), and its economic development agency Enterprise St Helena (ESH), are aware that further improvements aimed at attracting investors could be made. Anecdotal evidence from the domestic and international private sector suggests that the need for change is both urgent and important.¹⁰

The DFID/SHG programme "Support to Enterprise St Helena 2014-16" includes a range of support to economic development outcomes, including job creation and skills development. The 2014/15 Annual Review recommended that "a business enabling environment and investment climate assessment should be undertaken with urgency, with prioritised recommendations aimed at SHG, ESH, DFID and the private sector (including private sector

⁶ Residents of the island are known as Saints.

⁷ 2016 St Helena Housing and Population Census, Summary Report, St Helena Statistics office

⁸ It is to be noted that the airport is open for medevac and smaller chartered flights.

⁹ RMS St Helena provides the only regular cargo and passenger services to the island.

¹⁰ Terms of Reference, Investment Climate Study, 2016 BERF



membership organisations)". A recent National Audit Office Review¹¹ into the St Helena Airport project notes previous DFID concerns about the importance of a favourable investment climate for inward and domestic investors. Recommendations from this study should inform options for a new approach to attract inward and domestic investment, which can be appraised in the next phase of DFID/SHG ESH intervention (2016-17 to 2018-19).¹²

1.2 Objectives of the report

DFID Overseas Territories Department (OTD) commissioned BERF to undertake a review of the business-enabling environment (BEE) in St Helena with the aim of identifying key areas for reform, to make recommendations for reforms and to obtain stakeholder support for high priority reforms.

The main objectives for this review are:¹³

- 1) To identify through a diagnostic process the key reforms that the local and international private sector would look for under a refreshed investment strategy for the island; and
- 2) To identify gaps and make recommendations for further investment promotion services to attract more inward investors.

1.3 Approach to the Study

Two main research methods were used for this study: desk research and structured interviews. The assignment reviewed investment climate related SHG and ESH policy documents, which have already been produced and implemented. A separate study was undertaken by BERF with the primary objective of determining the key factors for attracting investment and stimulating business development in similar small islands. This assignment reviewed findings from that study in order to make recommendations for St Helena based on experience of other Small Island Developing States (SIDS) in investment promotion.

An 8-day field visit was undertaken to the island in September 2016. Structured interviews¹⁴ were held with key island stakeholders, including elected officials and SHG staff, investors across all private sectors (retail, tourism, fisheries, services, construction, agriculture, telecoms, and renewable energy) to test their reaction to implementing reforms in areas identified by the private sector and to obtain stakeholder support for reform areas. At the end of the field trip, a meeting was held with members of the Legislative Council to assess their readiness for reforms and get their views on reform areas that was highlighted at the various meetings with SHG and private sector.

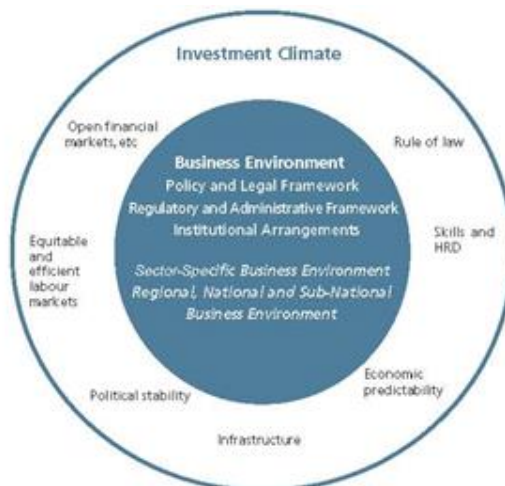
¹¹ National Audit Office Review, May 2016, Realising the benefits of the St Helena Airport project

¹² Annual Review- Support to Enterprise St Helena 2013/14-2016-17

¹³ Terms of Reference, Investment Climate Review, St Helena, BERF, July 2016.

¹⁴ The structured interviews and focus group discussions were undertaken in lieu of the e-survey that was part of the methodology for the fact-finding mission.

DCED¹⁵ defines business environment as a set of complex policy, legal, institutional and regulatory conditions that govern business activities. It is a sub-set of investment climate and includes administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence the way key actors operate i.e. government agencies, regulatory authorities, business membership organisations, civil society organisations, trade unions etc.¹⁶ This report follows the DCED guidance which can be a useful framework to review investment climate issues and reforms in St Helena.



Investment Climate and Business Environment

1.3 Structure of the report

The report is structured as follows:

Executive Summary

Section 1: Introduction, including background, context, methodology

Section 2: Political Economy Analysis of St Helena

Section 3: Constraints and key areas for reforms

Section 4: Investment promotion in St Helena

Section 5: Conclusion and Proposed Implementation Plan

¹⁵ The Donor Committee for Enterprise Development (DCED) is a forum for inter-governmental agencies supporting a vibrant private sector. DCED regularly publishes guidance on various themes like Results Measurement, FCAS , and Business Environment etc

¹⁶ DCED Practitioners Guidance, 2014

2. Political Economy Analysis

Business environment reforms are constrained by a country's political economy and reforms are more likely to succeed if they are based on an understanding of local political economy factors; conversely reforms failing to consider these may fail. The DCED Guidance Note 2008, states, "Business environment reform processes are intimately connected with the political economy of change."¹⁷ This report follows the DCED guidance for reviewing investment climate issues and reforms.¹⁸

A better understanding of political economy issues in St Helena (including system of accountability and governance, extent to which the government is open or closed, the extent to which policy-making processes are open to influence) has helped inform the recommendations for reform as outlined in Section 4. Extensive stakeholder consultation and review of background documents helped identify three key Drivers of Change¹⁹ and the interaction between them:

- a. **Individuals and organisations** – SHG and its various units, ESH, Chamber of Commerce, overseas technical consultants, the few private sector firms and CSOs which pursue their particular, often conflicting, interests.
- b. **Institutional behaviour** – The formal and informal rules that govern behaviour of different public and private institutions and their link with UK government (DFID) partly defined by the Memorandum of Understanding (MoU) between the St Helena Government and DFID.
- c. **Structural features** – The geographical remoteness of the island, its history and importance in UK trading route, its unique political structure, which has influenced its relationship with the UK government.

Governance Structure: A political economy analysis becomes crucial in the case of St Helena, which is an Overseas Territory that is self-governed under the provisions of the St Helena Constitution Order of 1988. The Order provides that there shall be a Governor and Commander-in-Chief (appointed by the Crown). The Legislative Council consists of 12 elected members from the public (councillors) who elect five members amongst themselves to form the Executive Council, which is the highest policy-making body. The government has seven Directorates, which encompass Corporate Services, Air Access, Education and Employment, Health, Environment and Natural Resources, as well as Police and Safeguarding.²⁰

Relationship with UK Government: The MOU signed between the SHG and DFID in December 2010 set the framework for future reforms in the island. The MoU outlined SHG's commitment to open its economy to inward investment and increased tourism as a pre-

¹⁷ DCED: Supporting Business Environment Reforms: Practical Guidance for development agencies, 2008.

¹⁸ DCED: Political Economy of Business Environment Reform: An introduction for Practitioners, May 2011.

¹⁹ As outlined in DCED, Political Economy of Business Environment Reform-An introduction for Practitioners, May 2011.

²⁰ SHG Structure 2016, <http://www.sainthelena.gov.sh/government-structure>.

condition for the building of the airport in the island. The MoU concentrated on the development of the economy through “inward investment and increased tourism” with a narrower focus on other sectors and the role of local investors.

Reliance on foreign aid: The Island is still heavily dependent on UK aid. DFID provides financial and technical assistance to St Helena as one of the three overseas territories, which are eligible for official development assistance. The financial support, provided through a mix of annual subsidies and multi-year funding, has increased over the last 30 years. In 2015-2016, DFID gave St Helena a subsidy of approximately £17 million to bridge the gap between SHG domestic revenues and costs of delivering its public services.²¹ Total estimated financial support for 2015-2016 is estimated to be around £28mn, and this includes technical cooperation (£1.6mn), capital expenditure (£5.6mn), RMS subsidy (£2.7mn), and contingency fund (£1.2mn). This is a significant investment for an island the size of St Helena and demonstrates the urgent need for reforms to enable the island to move towards self-sufficiency.

Role of ESH: In addition to the above-mentioned government directorates, in 2012 SHG established ESH, a statutory body. ESH is the lead body responsible for promoting and enabling private sector development. ESH is also responsible for tourism and economic development of the island.²² While the stated objective of ESH is to promote the private sector, over the last couple of years, it has played more of a direct investor role especially in the tourism sector.²³ The primary reason behind this was the anticipated increased flow of tourists with the new airport. However, with the airport not being operational, the island now has excess accommodation capacity and ESH may well find itself in direct competition with local accommodation providers.

Role of CSOs: The Island also has a significant number of Civil Society Organisations such as National Trust, Heritage Society, National Amateur Sports Association (NASAS), the youth organisation New Horizons and SHAPE, involved in various aspects of community life. Some of these, such as the National Trust and Heritage Society, are consulted by the Government and ESH in developing the tourism industry in the island. Any future reform process has to continue to involve the relevant CSOs in the decision making process.

Dynamics within the workforce: Human capital is scarce in the island. The island has a small population and the working age group often migrates to Ascension Island, Falklands or even UK for better-paid jobs. This has several ramifications including a small tax base and loss of a skilled workforce. As in many other small islands, administrative capacity is restricted by size and it is not unusual for skilled and trained Saints to hold several positions within government and other organisations. Several individuals hold very influential positions in

²¹ Realising benefits of St Helena Airport project, NAO, 2016.

²² <http://www.investinsthelenahelena.com/esh/about/>.

²³ Through Bertrand's Cottage and 1-2-3 Main

different institutions thereby giving rise to potential conflict of interest. This also creates asymmetric information flow and individuals who are deeply embedded in various SHG units or ESH often receive information to which members of the public are not privy. For instance, at least one member of Executive Council sits on the board of ESH and chairs the Chamber of Commerce. Another member on the Board of ESH is the owner of a tourism firm, which has received grants from ESH.

Due to limited human resources, the island also has to rely on trained personnel from outside, mostly from the UK. The latest census shows almost 10% of the total population are expatriates, which includes short-term (2-3 year term) contractors (and their families) with SHG, and these staff hold many crucial and senior positions in the island. Having short-term consultants within the government has affected long term planning. While bringing in external short-term consultants has improved policymaking, it has also had the undesirable effect of loss of institutional memory due to the regular change in staff. There is a tendency among new appointees to start afresh instead of building on the work done previously. With the constant change of personnel, it is difficult to identify champions within the government who can drive various reform initiatives. Getting longer-term appointees to the island is not easy, which makes it even more important to work on a clear-cut handover plan to local staff.

Structure of the private sector: The Government is one of the largest employers in the island and plays a dominant role in the private sector through its subsidiary companies. Like many other small island developing states (SIDS), the economic landscape of St Helena is characterised by monopolies in crucial sectors like utilities (Connect), insurance (Solomons Plc) and telecommunications (Sure South Atlantic). Of these, Solomons is 63% government-owned and Connect is a 100% subsidiary of SHG.

The practical challenge in the island is how best to achieve market efficient outcomes through regulation and competitive tendering and the roles the public and private sectors should play. The island faces certain unavoidable impediments to growth because of remoteness and sparse population but other constraints outlined in the next section could be addressed through structural reforms.

The reform areas recommended in the next section take into account the appetite for change and the island's readiness for reform. A sustainable process has to be led by SHG in collaboration with ESH and with appropriate support from DFID.

3. Key constraints identified and recommended areas for reform

Research in the 2015 DFID Rapid Evidence Assessment on business environment and investment promotion states that ‘there is relatively consistent evidence that shows how the state of a country’s BE is often considered by investors to be more influential than investment promotion agencies (IPAs) or investment incentives, such as tax incentives.’²⁴

While Investment Promotion Agencies (IPAs) and promotion programmes (discussed in Section 5) are important to attract foreign investors to new destinations like St Helena, the enabling business environment is more likely to increase and sustain investment levels.

DFID Business Environment Reform and Investment Promotion and Facilitation, Rapid Evidence Assessment, 2015, highlight interventions that are likely to promote inward investments. Key recommendations based on evidence of what has worked and what did not in other economies, are:

- Improving tax administration: a streamlined tax system can increase the number of firms in the formal economy, facilitate investment, widen the tax base, and rationalise a company’s tax compliance cost;
- Improving access to markets: markets remain the number one factor guiding investment decisions;
- Developing an integrated framework for investment-oriented reforms: BER affects a wide range of stakeholders in positive and negative ways, and it is important to understand the political economy of these processes and to integrate these into reform design;
- Bridging the gap between the need for reform and current investor needs: While a poor BE is the reality on the ground in many developing economies, investment promotion and facilitation services are needed to help bridge the gap between the current needs of investors and the future need for reform
- Establishing one-stop shops: These facilities create a useful mechanism for to help investors navigate the bureaucracy and it can also be used to stimulate reform efforts.

This section, through a combination of i) stakeholder consultation, ii) desk research of policy documents and prior studies, and iii) literature review of experience of business reforms in comparable economies, attempts to:

- Identify prevailing constraints in St Helena;
- Assess existing capacity and appetite for reforms; and
- Based on the above, provide targeted recommendations for reforms in a short, long and medium-term policy framework.

²⁴ DFID Business Environment Reform and Investment Promotion and Facilitation, Rapid Evidence Assessment, 2015

3.1 Under-developed land management system

The critical requirements for a well-functioning land administration system, which is a prerequisite for an efficient land market, are:²⁵

- Clear legal basis of ownership and ease of transfer of ownership rights
- Balanced supply and range of property types
- Adequate security for leasing including protection of landlord and tenant interests
- Transparent information flows relating to property prices and availability of assets
- Adequate financing for investment including the ability to borrow capital secured on mortgage
- Clear regulation of the planning and development process for property development

A sustainable solution in this context means that the land administration system is funded adequately, government policy is consistent, the legal framework is clear and provides the right kind of supporting environment, and that the organisation has the resources to support long-term system upgrade.²⁶

Findings and Analysis

Much of St Helena consists of steep rocky terrain with little flat land. The government owns around 80% of acreage and Solomons Plc owns around 1000 acres of land in the island. This coupled with a developing land management policy has meant that access to land for the private sector and public for commercial and residential purposes respectively is limited. Local investors in real estate, retailers wanting to expand, accommodation providers and even St Helena Fisheries Corporation (SHFC) have all raised issues about the non-transparency of the land disposal system.

Investment in land ownership and development will play a key part in realising the vision for the economic and social development of St Helena. As a major landowner on the island, SHG should recognise the need to set out a land regulatory framework²⁷ that meets the demands of the private sector and continues to support the island's targets for sustainable growth.

²⁵ Presented at the BERF Consultative Advisory Panel Session by Richard Baldwin, DAI Land Practice Lead, 2016

²⁶ Land Management Diagnostic Tool @ BERF 2016

²⁷ Details of Land Regulatory Framework in Text Box 1

Within a particular country, a land regulatory framework describes how land and property is legally defined, how it can be held (ownership, leasing, rental), and how it can be transferred (sale, inheritance, expropriation etc). It also sets out the permitted usage, development controls, and may place limits on what kind of legal or physical person may hold different kinds of land. The decisions about development rights, conditions under which there can be a change of purpose (for example, changing agricultural land to building land), permitted usage have a huge implication for land values and hence how the land market will work also comes within the framework.

Generally speaking, within a mature land market, there will be a range of property types or asset classes available; there will be accessible finance (for example mortgages or loans backed by securities) and there will be clarity and transparency of information and in the processes that underpin the land market. On the demand side, the private sector (including people and commercial entities) need land for residential, commercial, agricultural, industrial purposes and the state needs land for public interest purposes. The state is often the largest single landholder, through various mechanisms. How the state manages its land interests will be a big factor in a land market.

Text Box 1: Overview: Land Regulatory Framework

Land and building disposal as well as affordable housing on the island are significant concerns for the community, SHG and ESH. The current system of land and property purchasing is difficult for the public and inward investors to navigate. Under existing provision, it is possible to hold any amount of land without immigration permission provided the land is on a leasehold basis. Freehold land is subject to the licence requirement i.e. for any land over two acres, the buyer has to get special clearance.

Experience of SIDS

Land policy is important for SIDS where land is scarce. Also for many of these islands relying on tourism, it is important for land planning to be taken into consideration. Though the BERF study on Business Environment Reforms in SIDS (2016) provides instances of good land policies in other countries, there are very few examples similar to the Crown Land structure in St Helena. However, land regulation techniques²⁸ employed in other geographic locations can be guidance for the island:

- 1) Land zoning, designating the use to which land in different areas of the island can be used e.g. habitat for endemic species such as the Wirebird is to be protected. This is already done for land near the airport to protect endemic species of the Island.
- 2) Permits for visitors to access ecologically sensitive sites which require significant maintenance to preserve the natural habitat and visitor experience.

Recommendations

Key reform areas that can help improve the land management system in St Helena:²⁹

²⁸ Summarised from the BER study on SIDS

²⁹ In consultation with Robert Bryson, Head of Property, SHG



- Implement a transparent process of land disposal, including a procurement process with weighted evaluation criteria to award suitable bidders. SHG should consider a) undertaking an internal inventory of land availability, which includes state land potentially available for disposal, and b) undertaking a market assessment to understand demand and to ensure that when presented to the market, SHG land and buildings are matched to demand and packaged appropriately. In the longer term, a range of tenure types (freehold, leasehold, community land trusts, etc) can be drawn up, as well as possible shorter term leasing for specific groups which takes into consideration sizes and types of asset, including land for development or land already developed and divided into smaller units.

SHG has initiated efforts to address some of the issues, and a new Land and Buildings Disposal Policy (LBDP) was drafted and finalised in February 2016. The LBDP document sets out a process and has clear evaluation criteria, which can be adapted for different property types.

The procurement process can support wider economic development policy, and each tender can be set up to attract particular kinds of user/occupant, primarily by regulating the intended use of the site. The evaluation criteria should be used only to define the most suitable and responsive tender to the requirements stated in the tender and there are two basic approaches a) compliance and then price, or b) quality and cost where the quality of the tender is given 80% weighting and the cost 20%.

- A direct link for planning to GIS mapping should be prioritised immediately, with further integration and efficiencies facilitated through the adoption of an online land registry system.
- Crown Estates St Helena (CESH) needs to modernise practices, improve resources and should work in closer partnership with ESH in accordance with the framework agreement,³⁰ maintaining its own independent identity.
- During consultations, the need for a one-stop shop³¹ for all prospective buyers has been highlighted. A one-stop shop will help attract prospective inward investors by providing complete bespoke service from the initial enquiry to the completion of the sale/agreement. The proposed one-stop shop can build on the proposed digitisation of the land registry to create a virtual database of the property portfolio. ESH can potentially be in charge of managing this as part of their overall work as the island's investment promotion agency.
- The new LBDP guidance for inward investors is '*Decision-making processes with regard to inward investment will be in accordance with the procedures set out in the General Principles. The Community Development Areas CDA's are a primary resource on the island for both economic development and housing and an important asset to support*

³⁰ FRAMEWORK AGREEMENT BETWEEN SAINT HELENA GOVERNMENT ("SHG") AND ENTERPRISE ST HELENA ("ESH"), July 2012.

³¹ Discussed in meeting with Land Property Unit, SHG.

affordable housing to secure access to housing for the local community. As such, any land sale in excess of one acre is automatically referred to Executive Council for a final decision. Any decision to open a CDA to development will be made by the Executive Council based on design and plot size specification. Any purchase of more than four housing plots from a single developer will be similarly referred to the Executive Council for a final decision, even if the total area is less than one acre. While a step in the right direction, there is no guidance for the Executive Council to take decisions, leaving the decision to be made on a case-by-case basis. Land disposal for both local and international buyers should instead follow an objective rules-based evaluation system with weights assigned to criteria and should not be discretionary.³²

- If the island is to market itself as a unique eco-destination, it has to strive for a land management policy, which puts environment conservation at its heart. Engaging with Civil Society Organisations (CSOs) like National Trust early on in the policy process or actual land disposal to ensure environmental and heritage issues are taken into consideration.

3.2 Inefficient financial market

A well-functioning financial system is a prerequisite for a better business environment and a pre-condition for inward investors. Borrowers need property to use as collateral, the financial system requires sufficient liquidity, and lenders need an adequate appetite for risk.³³ Entrepreneurs should be able to obtain loans in order to form new businesses, or to expand existing firms.

Findings and Analysis

The Bank of St Helena (BoSH) dominates the financial sector in St Helena. BoSH is a limited company owned by the government as majority shareholder, and is the only bank on the island. The bank offers a good range of products and services (Current, Deposit and Savings Accounts and Personal, Housing and Commercial Loans) that is geared to all ages. The Bank has taken steps to improve its services like rolling out online banking, SWIFT services for international transfer of services. The Bank will roll out its pilot on local debit card by end of November 2016 and is in final stages of decision on an international prepaid cash card to create a safe and efficient means for customers to travel overseas and to make international purchases online. A feasibility study undertaken in 2015 indicated that ATMs may not be a viable option (The cost of adding a bespoke ATM for the St Helena notes is around £250,000) and will be heavily dependent on future access to the island.³⁴

International online transfer of money is cumbersome and not cost-effective, e.g. tourists can incur a cost of £40 to make online payments to island hotels. The Bank does not offer offshore

³² Current policy has a list of criteria but this is just indicative with no weightage given to each criteria.

³³ Business Environment Reform in Small Island Developing States - Implications for St Helena, BERF, 2016.

³⁴ This study was not available for review at the time of this assignment.

banking services and customers must have right of residence in St Helena or Ascension Island. Very few establishments accept card payments. These are hindrances for international visitors, particularly tourists. The Bank of England's continuing low official bank rate directly influences credit interest rates on BoSH's overseas investments and returns on investments remain extremely low (0.5%). The Bank continues to offer a reduced interest rate for commercial lending, and has introduced a further reduced interest rate of 5% for funding required for tourism-related accommodation. During 2014/15, the Bank received few requests for commercial loans (a decrease of 0.8% in 2015) which reflect the low level of economic activity. This rather unresponsive period of economic growth makes income generation for the Bank even more challenging.³⁵

Recommendations

There is a need for an institution to play the role of a development bank to extend loans to relatively risky and new ventures, but has the potential to generate positive externalities. At present ESH is playing that role in a limited way. In 2015, ESH engaged with 154 local businesses, providing financial grant support to 46 businesses, of which 28% are in the tourism sector.³⁶ ESH provides grants of £5,000 to new businesses. The private sector complains that the grant is not substantial enough to start a new business and the ESH grant process is not sufficiently flexible for changing business needs.

- ESH and BoSH should work together to upgrade the Bank's risk management system mitigate operational and credit risk in particular. Credit Risk is the risk that a borrower will default on their contractual obligations relating to repayments, resulting in losses to BoSH. To manage this risk the Board approves and periodically reviews the Bank's Lending Policy. In the absence of credit information, the bank has to do a manual and often subjective review of applicant's credit worthiness. The bank has to work towards developing strong credit information sharing platform bureau, which can also be used by ESH when it considers applicants for its grants.
- New entrepreneurs on the island apply for loans to supplement the grant of £5,000 from ESH, which means the same individual is assessed by two different entities. BoSH has limited capacity for credit assessment and ESH should step in to fill this gap. ESH can also help young entrepreneurs develop their loan applications and draft business plans. ESH provides this service, but their staff should be trained in providing financial advisory services.
- ESH should adopt a more flexible grant mechanism and the amount should depend on the business, as some initiatives require more upfront capital. ESH should consider the option

³⁵ Director's Report & Audited Financial Statements, FY 2014-2015

³⁶ Budget Speech, SHG, 2016.



of Challenge Funds/matching grants to ensure sustainability and help is provided to genuine entrepreneurs.

- The Bank currently enables businesses to accept international credit/debit cards via its 'Card Not Present' facility. This facility can be a major source of credit card fraud, especially as merchants will find it difficult to verify cardholders many of whom are likely to be international tourists. Instead, the Bank should look for other efficient solutions such as electronic funds at point of sale.

3.3 Skills shortage and capacity development

Experience of SIDS

Despite relatively high investments in education and high levels of access to basic education in most of the SIDS, educational quality is low as measured by test achievement and levels of skills acquisition. There is an apparent mismatch between the outputs of the formal education system and the requirements of the labour market.

A USAID (2008) assessment in the Eastern Caribbean identified the lack of skilled workers as the greatest obstacle to competitiveness in all industries and indicated that the formal labour market tended to bypass those lacking basic soft and technical skills relevant to the job market. According to findings from 2010 Enterprise Surveys³⁷ conducted in some SIDS, private firms rate an inadequately trained work force as the third most important constraint to their development. The skills issues in the Caribbean co-exist with high levels of unemployment and particularly high levels of *youth* unemployment (34-42% in the OECS).³⁸ Available evidence suggests that in the Caribbean, the main driver of unemployment is job-relevant skill constraints.³⁹

Findings and Analysis

St Helena has amongst the highest age dependency rates in the world, with a working population of around 51% of an already small base. The latest unemployment figures⁴⁰ indicate that 78 people are unemployed (although only seven are claiming benefit). The key reason for the labour market operating at almost full employment capacity is work opportunities on the airport. In addition, the island has seen a high rate of emigration in the

³⁷ An Enterprise Survey is a firm-level survey of a representative sample of an economy's private sector. The surveys cover a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition, and performance measures. Since 2002, the World Bank has collected this data from face-to-face interviews with top managers and business owners in over 155,000 companies in 148 economies.

³⁸ World Bank OECS Regional Partnership Strategy, 2014

³⁹ Inter-American Development Bank (IDB), Community College Models in the Caribbean: Baseline Study and Consultancy Report, 2003; Caribbean Knowledge and Learning Network, Labour Market Survey, January 2006; Skills Strategy Options for the OECS, Report to the OECS and the World Bank, Middleton, John, May, 2011.

⁴⁰ 2016 St Helena Census

past few decades as many Saints have moved to Ascension Island, the Falklands and the UK for better and higher paid jobs.

Consultations with the private sector and the Legislative Council have highlighted different types of capacity building:

- a. Capacity building of SHG units: St Helena is a unique case where a population of the size of around 4,500 people, including dependents, has to self-govern. There are bound to be skills shortages and hence the need for short term Technical Consultants (TCs), who come to the island on 2-3 year contracts. The lack of proper capacity building plans means skills have not been transferred to local staff. All TCs need to have a 6-month handover plan in their contract in which they identify a local staff who will take over their role and function and help build capacity while embedded within a SHG department. This challenging task will require careful planning and will require additional resources.
- b. Consultations with members of the Legislative Council of St Helena (LEGCO) have highlighted a strong need for evidence based planning and policy making on the island. Use of data in policymaking is limited. There is no regular monitoring and evaluation of the various programmes and interventions to assess its efficiency. The Statistics Office is part of the Policy Unit, but in the absence of proper Management Information Systems, information gathered is not being leveraged at the policy making level. The Statistics Office has a strong operational role but limited technical capacity for data analytics. External support should be provided to build capacity.
- c. Technical/vocational and allied training: The private sector across the board (tourism, fisheries, renewable energy, construction) has stated that trained personnel, technicians, electricians, front office staff, waiters, chefs are in short supply on the island. Most of the private sector believes that new entrants into the market need training in 'soft skills'. In addition, young (and some mid-level) entrepreneurs need training in business management.

There are a few skills development programmes run by SHG and funded by ESH. Hospitality training has received a negative response from accommodation providers were not impressed with graduates of "2-On-Main", an earlier hospitality training facility. They also felt that the tourism industry would be better served by training housekeeping staff than training of high quality chefs who are more likely to migrate once trained.

Recommendations

For sustainable results, there needs to be a skills development system in which both SHG and the private sector is involved. As a next step, SHG should invest in a training programme that focuses on two components:

- **Skills for Growth:** Under this component, support would be provided for the development of technical skills for employment in specific sectors of the economy, through a model that would allow for collaboration and participation of industry partners and training providers.
- **Transferrable and Foundation Skills for Growth:** This component would focus on entrants to the labour market who lack the required employability skills (e.g. problem solving and team working), and would seek to help build these through a variety of methods (e.g. training, counselling, mentoring and attachments).

A good starting point to understand the skills gap on the island is the Shortage Occupation List, based on St Helena Statistics Office Labour Market Survey. The Chambers of Commerce can also provide input regarding skills shortage in different sectors from their membership. However investment in human capital must be complemented by productive investment in the real economy to create employment opportunities.

3.4 Reform of the taxation system

Tax reform, by its very nature, has significant distributional effects, and those expected to be made worse off will oppose proposals. In addition to political resistance other constraints⁴¹ to reform in the tax structure include a) lack of autonomy b) technical complexity (coupled with shortage of trained staff, this is a key constraint in St Helena) c) Communication (can be an issue in St Helena where there is an already existing high level of distrust among the key stakeholders) and d) lack of technical assistance (short term contracts of key technical consultants leaves the local staff inadequately prepared).

Findings and Analysis

St Helena currently has corporation tax of 25%, withholding tax is 10% and capital gains tax is 10%. Service tax is 10% and covers telecoms and insurance services. The personal allowance is £7,000 and various tax bands with corresponding income tax rate are - £18,000 (at 26%) over £18,000 (at 31%). The biggest revenue generator is customs duty (indirect tax) which is 20% of the value of most goods. Certain commodities are charged at 5% such as clothing, baby items and foods, agricultural equipment and supplies, basic foods e.g. pasta, milk, eggs, flour. Custom duty on specific items like alcohol, tobacco and fuels is applied on a fixed rate per quantity rather than value. The tax base for Pay-As-You-Earn is about £2,500 for individuals and for service tax on telecommunications and insurance service it is £1,800 each.

In June this year, SHG implemented the UNCTAD Automated System for Customs Data (ASYCUDA) World,⁴² which is an integrated customs management system for international trade and transport operations in an automated environment. ASYCUDA will help St Helena

⁴¹ BERF, Business Environment Reforms in SIDS, 2016

⁴² <https://www.asycuda.org/>

modernise its customs operations and improve revenue collection. It will facilitate trade efficiency and competitiveness by substantially reducing transaction time and costs.

Experience in SIDS

The BERF study looks at specific considerations for tax reform that are particularly relevant for SIDS, of which two of importance to St Helena are

- i) Striking the right balance between the efficiency of a tax and its simplicity to administer in small countries, where administrative capacity is constrained.
- ii) To what extent can a particularly industry, tourism in this case, be taxed without hampering growth and success.

Some of the lessons⁴³ that can be learnt while proceeding with further tax reforms in St Helena are:

- i) Rationalising and formalising the process of revenue collection, often splitting or redistributing powers between tax and customs agencies
- ii) Clear messaging to make a clear and consistent case in favour of an impartial system
- iii) Improving customer service and disseminating better information about tax compliance.

Text Box 2 illustrates examples where VAT has been successfully introduced in SIDS.⁴⁴

The Pacific VAT reforms have been consistently successful. Everywhere that they have been implemented they have become a major source of revenue, varying from 19 percent in Papua New Guinea to 49 percent in the Cook Islands. On average, Pacific island countries have achieved a higher level of proportional revenue from VAT than the global average.¹ The same is true for the global group of small island states. This suggests that VAT is more suited to application in small island countries than many other forms of tax.¹ The smallest Pacific island to have introduced it is Niue, with a population of 1,610.

⁴³ Summarised from the BER study

⁴⁴ Summarised from the BER study

Text Box 2: Experience of implementing VAT in Pacific island states⁴⁵

Recommendations

Based on the experience of other small island states in introducing rolling out VAT, there may be a case of implementing VAT in St Helena. A more detailed study is required, which will assess the feasibility and trade off from the increased administrative cost with the potential benefit from increased tax revenue. The island is heavily reliant on imports and the current system of customs duty (covering goods) and service tax (covering services) may be considered a suitable proxy for VAT.⁴⁶ For the medium term, what can be considered is expanding the service tax base to incorporate more sectors over and above the current two i.e. telecommunications and insurance.

- The last round of reforms in the regulations around the tax system was in 2011. A Tax Reform Working Group consisting of representation from Corporate Finance, ESH, elected council members etc is reviewing current tax structure. The group should focus on tax incentives for new sectors especially renewable energy to help the island reach its vision of 100% self-sufficiency in renewable energy.⁴⁷ SHG needs to develop the appropriate regulatory framework to create an enabling environment whereby private investors are encouraged to invest in renewables and consumers are incentivised to move towards a more climate friendly source of energy. Support should be given for early adopters to ensure SHG does not lose potential revenue generation in the long term.
- The Investment Tax Credit (ITC) as outlined in the Income Tax Ordinance 2012 benefits businesses that are already established and looking to diversify into new sectors, as they will have profits from their existing business that the ITC can be easily offset against in the current year. New businesses to the island are unlikely to be able to receive the benefit of the ITC. The Investment Tax Credit should be amended to attract new foreign investors.
- The SHG consider tax concessions to inward investment on a case-by-case basis e.g. in the case of the investment on Hotel 123 Main Street an exemption on customs import duty on materials was given to support the investment. However to attract foreign investment at large scale, tax credits should be clearly outlined at the outset. Foreign investors will take into consideration the existing regulatory structure before making an investment decision.

⁴⁵ BER in SIDS, BERF 2016

⁴⁶ Discussions with Financial Secretary

⁴⁷ St Helena Energy Strategy, 2016

3.5 “Crowding out” local and inward investors

Findings and Analysis

Like many other SIDS, the economy of St Helena is marked by the dominant presence of the government and government owned monopolies such as Connect St Helena (sole provider of utilities), Sure South Atlantic (sole broadband provider) and Solomons Plc. Some of the monopolies may have come about due to lack of competition and interest from private sectors in investing in capital-intensive sectors.

SHG is a 63% shareholder of Solomons Plc, and the company is involved in a wide range of activities from selling insurance (again the sole insurance provider on the island), to wholesale, retail, fuel distribution, farming and bread making. ESH has moved beyond its stated role as enabler of private sector and has been involved in private sector ventures especially in the tourism sector. With all these activities, it appears that instead of encouraging more private sector participation, there has been a crowding out effect. The private sector is forced to compete directly with the government and other monopolies that enjoy inherent economies of scale and inherent advantages that come with being a government owned entity including easy access to information.

Recommendations

SHG should look to divest some of its shareholding in Connect and instead set up a regulatory framework, which will allow Connect to run a profitable venture while at the same time bringing down the cost of utilities. The regulatory framework should focus on increasing supply via the renewable energy route by providing incentives to develop the renewable energy market.

SHG should offload the units of Solomons that are best run by the private sector – such as the retail outlets, farms and the bakery. (As per information from the office of the Financial Secretary,⁴⁸ there is an assignment ongoing for the valuation of Solomons including valuation of its land and property. The valuation aims to inform any proposals to sell off some or all of Solomons. This valuation should be kept as independent as possible from SHG and its agencies so that a fair assessment can be done.)

ESH should refrain from playing the role of direct investor getting into direct competition with the private sector, and instead continue to focus on its advisory role to promote private sector participation. ESH should now devise a mid to long term plan to transfer its operations in tourism (e.g. Bertrand’s cottage, Longwood Enterprise Park etc) to the private sector.

⁴⁸ Meeting with Finance Secretary, Sept 2016

3.6 Dialogue on investment climate reform

Public-Private Dialogue (PPD) to advocate for reform can be highly beneficial, especially if businesses depend on substantial reform of government-controlled sectors or there is a need to raise government awareness of specific inclusive business constraints.⁴⁹

Findings and Analysis

The stakeholders acknowledged that there exists a gap in communication between private sector operators and SHG and, by extension, other government agencies. They welcome any form of structured dialogue that will build bridges of engagement and platforms for business regulatory reforms.

As seen in section 2, even for an island the size of St Helena, there is a multitude of stakeholders with clashing interests, and a certain degree of distrust between them. PPD is seen as a valuable tool in overcoming resistance to reform. It is important that PPD process is not concentrated only with the top level of SHG or ESH or prominent associations but also include the public and Bank of St Helena. The greater and more varied the contributions to the dialogue, the more likely will it be for stakeholders to own the reform process.

Experience of SIDS

Challenges and constraints in public-private dialogue (and even intra-governmental communication) are widely acknowledged in many SIDS.⁵⁰ Most of the SIDS have capacity constraints and unable to devote the required resources and time for a proper consultative process. Underestimating the time and human resources needed for an effective PPD can make it ineffective.

The BERF study includes a case study of Vanuatu's experience with the PPD process. One of the challenges faced is particularly important for St Helena:

*'The type of consultation necessary, building on individual talks to discover private views prior to national seminars aimed at narrowing differences of opinion, were often beyond the capacity of a very small staff. The small size of government departments also meant that officials had to switch subject areas in order to obtain promotion, so that hard-gained expertise could not be retained. Of the original five-man negotiating team formed in 1995, three had moved on by 2004, leaving technical expertise "little better" than at the start of the process.'*⁵¹

Recommendations

The process should start immediately and should involve all units of the SHG, ESH, the private sector, Chamber of Commerce and other CSOs. Dialogue can assist at all stages of policy reform, from identification of problems, through design of reforms, legislation of,

⁴⁹ DCED Creating and Enabling Environment for Inclusive Business, Oct 2016.

⁵⁰ BERF, Business Environment Reform in Small Island Developing States - Implications for St Helena, 2016

⁵¹ Gay, 2005, Coping with limited capacity

implementation right to the monitoring and evaluation of the reforms. In general, the earlier government brings key stakeholders into the process, the better.

- The PPD process should have an effective champion from both the public and the private side. Ideally ESH in its capacity as ‘enabler of private sector’ should be taking the lead in facilitating the PPD process, but given ESH’s involvement in private sector activities it might be prudent to have an external agent who will be perceived to be neutral to ‘host the process’.
- Ideally, all issues relating to the growth and the development of the island should be discussed. In the case of St Helena given the uncertainty around air access, which has led to a lot of mistrust among various entities in the island, this could be the starting point of the dialogue.
- A stakeholder or influence mapping exercise should be used to identify champions and help understand their motivations. In the case of St Helena, there is a risk of the dialogue being appropriated by the more vocal individuals of the island. Engaging members from the EXCO and LEGO who understand the importance of the private sector can give a PPD important momentum. Senior but less visible public sector officials are helpful for behind-the-door facilitation.⁵²

⁵² www.publicprivatedialogue.org

4. Investment Promotion and Facilitation in St Helena

Investor promotion can be defined as efforts by a government to communicate to foreign investors the nature of the country's investment climate, and to persuade and assist these investors to invest or reinvest in the country'.⁵³ While a strong business environment is important for attracting inward private investment, increased investment facilitation and promotion activities have a positive correlation with increased Foreign Direct Investment (FDI).⁵⁴ Government-provided information and assistance significantly influenced investor decisions especially while choosing new destinations.

Most countries establish investment promotion agencies (IPAs) which support inward investment in two major ways a) addressing information agencies by a) addressing information asymmetries and b) providing a facilitation service to help investors navigate the regulatory framework.⁵⁵

A recent study⁵⁶ on understanding investment decisions of foreign entities, identifying key drivers and constraints impacting Foreign Direct Investment in Africa, shows that private investors/associations and Investment Promotion Agencies (IPAs) need governments to focus more on addressing regulatory issues including contract enforcement and transparency rather than focusing on short-term tax incentives for foreign investors.

Recommendations include: i) moving governments beyond tax incentive schemes to strategic planning for increased FDI, ii) acting as a broker between inward investors and government, utilising imminent deals to drive dialogue and facilitate change, iii) public-private dialogue to inform effective economic planning, and iv) increasing the ability of foreign and local companies to start quickly and cheaply. The main theoretical justification for providing FDI incentives is to capture the spill over effects from foreign investment. However, for this to happen, local firms also need to be able to absorb foreign technologies and skills from new entrants.⁵⁷

DFID Rapid Evidence Assessment on BER and Investment Promotion provides evidence to understand the relationship between BER, investment promotion and investment facilitation services.

IPAs have worked particularly well in economies where information is not easily available widely which is the case with some SIDS and definitely St Helena. The OECD provides

⁵³ Wint, A.G. (1992) "Public Marketing of Foreign Investment: Successful International Offices Stand Alone", International Journal of Public Sector Management 5, no. 5.

⁵⁴ *An analysis of 30,000 high value-added FDI projects shows that government-provided information and assistance significantly influenced investor decisions to locate in one economy or another.* Kusi Hornberger, Joseph Battat, and Peter Kusek, "Attracting FDI: How Much Does Investment Climate Matter?," World Bank Group Viewpoint, no. 327 (August 2011)

⁵⁵ BER and Investment Promotion and Facilitation, REA, DFID, 2015.

⁵⁶ Understanding Multinational Enterprise Investment Decisions in DFID Focus Countries, 2016, Palladium

⁵⁷ BERF, Experience of BER in SIDS, 2016.

guidance to countries considering their investment incentive policy in its *Checklist for Foreign Direct Investment Incentive Policies* (2003).

Incentive programmes are resource intensive to finance and manage, and, in particular, most incentives are administratively burdensome...
Negotiation of incentives requires special negotiating skills and expertise in the application of particular instruments... [In addition] investors... expect... a speed of decision-making that exceeds normal bureaucratic standards

Text Box 3: OECD, Checklist for Foreign Direct Investment Incentive Policies (2003)

The World Bank Global Investment Promotion Best Practices (GIPB) project examines best practices that most successful IPAs follow. The 2012 report shows that Latin America and Caribbean IPAs ranked second in terms of service provided to potential investors. This shows that IPAs in small countries with limited resources can produce results provided they are being managed effectively i.e. able to serve the potential investors.

The BERF study includes two case studies of relevance to St Helena. Nicaragua’s IPA PRONicaragua achieved the best overall results in Global Investment Promotion Best Practices (GIPB) 2012, despite a relatively modest budget of US\$900,000 and staff of 25. Grenada is another example of how an IPA can be managed effectively in small states with limited resources.

Grenada achieved the best score amongst the ACP group of countries in 2012, despite an investment promotion department of only five people, with a single person in charge of research, website maintenance and enquiry screening.

Consistently providing rapid responses requires a substantial store of high-quality content available to the IPA. Grenada has approached this steadily, accepting that a one-person research department can only amass this material on an ongoing basis, one piece at a time. Whenever new information is requested, the researcher works with other ministries and even private sector partners to generate a tailored response that is nevertheless formatted to be useful for future enquiries.

In 2009, a regional light manufacturing company that needed to set up a new plant within eight months approached the Grenadian IPA. Within this timeframe, the government supported the company from initial enquiry to operation, including constructing a factory, getting all licenses issued and workers hired. The speed and agility of the IPA is even more valuable because the government as a whole is able to respond to investors in this way, and has therefore built a regional reputation amongst the business community.

Text Box 4: Grenada (From Business Environment Reform in Small Island Developing States - Implications for St Helena, 2016)

Business Development in St Helena and recommendations for increased inward investment

Over the last few years, ESH has taken the lead in promoting St Helena as an investment destination. They have been successful to an extent but there are further steps to be taken.



While there have been reviews of tax policies (details in section 4) to attract foreign investment, interested investors have to navigate a myriad of formal and informal rules before making any investment decision. Recommendations provided below look at two possible areas of reforms:⁵⁸

- a. Investment promotion services: providing timely and tailored information to potential investors and administrative assistance in dealing with other parts of government
 - b. Encouraging foreign entrepreneurs: governments adopting innovative policy to encourage foreign entrepreneurs
- The Immigration Ordinance went through a complete overhaul in 2011. Since then it has been reviewed twice more with an emphasis on making more investor friendly and transparent with less discretion. It is undergoing a further review to make the immigration process less cumbersome for inward investors. The current rule that requires special permission to own land over two acres should be replaced. Under existing provisions, it is possible to hold any amount of land without immigration permission provided the land is on a leasehold basis. It is only freehold land, which is subject to the licence requirement (over two acres). However, a non-Saint can buy land directly from a Saint. Instead a general 'licensing authority' should be established to cover different investment activities and complete proportionate due diligence checks around those potentially seeking to invest in St Helena. The Authority should be jointly represented by SHG units and ESH. Immigration Office also reportedly receives regular requests from potential immigrants.⁵⁹ The Immigration Office and ESH have to work in close coordination for requests from investors and ensure they are directed to ESH who should be better able to respond to these queries, within an acceptable timeframe.
 - ESH can draw lessons from Grenada's strategy⁶⁰ of combining speed as a competitive advantage with relevant and updated quality it shares with investors. The IPA in Grenada has a commitment to a) Respond to all enquiries within 48 hours with the CEO copied in b) for enquiries relating to real investment projects, the first response may be an acknowledgement, with an initial response by a project manager within five days, c) a full response covering "incentives, concessions, and any other critical, project-specific, government-negotiated deals within 20 days. ESH can work towards reducing the response time (to within 30 days) and preparing an investment package with all up to date information on land, immigration, tax from all relevant units of SHG.
 - Setting up a Monitoring and Evaluation system with proper KPIs to assess its performance in terms of a) increased queries in terms of number and potential investment amount b) conversion ratio and c) sectors. St Helena is a unique destination not as widely known as

⁵⁸ BERF study on Business Environment Reforms in SIDS, 2016

⁵⁹ At least 15 queries in last 5 months and around 180 per year from US, UK, Nigeria, and Namibia etc.

⁶⁰ BERF 2016, BER in Small Island States, 2016

some Caribbean destinations. ESH is rightly focussing on investor roadshows to promote the island but there needs to be regular value for money assessment of money spent on promotion activities.

- Overall, the approach needs to be one of rule based approach rather than discretionary approach that seems to be the norm in St Helena. Foreign investors would want information on general business environment including cost of doing business and any incentives they might get from the local government before making any investment decision.

While investment promotion services has an important role to play in developing economies, marked by poor business environment and lack of information, this role does not remove the need for sound business environment reforms to attract private investment.⁶¹ A poor business environment undermines investment promotion efforts and while IPAs can provide facilitation services to help guide investors through legal and regulatory challenges they may face, in the long-term investors will be disinclined to continue.⁶² Hence, investment promotion should be looked at as a relatively less expensive option to governments, in less developed or emerging economies, wishing to stimulate economic development. If not effectively backed with substantial business environment reforms, it is unlikely to lead to sustained FDI to the economy. “When investors get disappointed on their first contact, they are likely never to return, but they may also discourage many other potential investors”.⁶³

⁶¹ Based on evidence provided in DFID REA BER and IP and services

⁶² DFID Business Environment Reform and Investment Promotion and Facilitation, Rapid Evidence Assessment, August 2015.

⁶³ Outreville, F. 2007 “Foreign direct investment in the health care sector and most-favoured locations in developing countries”, *The European Journal of Health Economics*, Vol. 8, No. 4, pp. 305-312.



5. Conclusion and Proposed Implementation Plan

Based on the recommendations in Section 3, an indicative implementation plan is proposed for key interventions in investment reform areas. The plan provides a general framework to guide the progressive development of St Helena, in the short and medium term, and provides suggestions as to which agency in the island can take the lead on the various interventions

Table 1: Proposed Implementation Plan (Indicative)⁶⁴

Top 5 interventions for Investment Climate Reforms	Led by
A. Key interventions for Land Management:	
1. Integrate GIS mapping and planning	SHG
2. Implement a transparent process of land disposal system, including a procurement process with weighted evaluation criteria to award suitable bids	SHG
B. Key intervention for Financial Markets	
3. ESH to adopt a flexible grant mechanism dependent on the nature of the business	ESH
C. Key intervention for Taxation	
4. Amend Investment Tax Credit to attract foreign investors	SHG
D. Key interventions to attract and retain private investment	
5. ESH to devise a long term plan to transfer its operations in tourism	ESH

A favourable investment climate in St Helena can therefore be achieved through i) a Business Environment Reform process that is led by SHG, supported by DFID and is ultimately able to improve conditions⁶⁵ for private investors and ii) continued investment promotion activities that is able to attract additional investment to the island.

⁶⁴ Timeframe can be included after consultation with SHG and ESH.

⁶⁵ i.e. reduce business costs and lower entry barriers, reduce macroeconomic risks, & increase fair competition

Appendix 1 List of Stakeholders Consulted

Date	Organisation	Name, Designation
	DFID	Richard Boulter
	BERF	Peter Wilson, Team Leader, BERF
14.09.2016	Enterprise St Helena	Dr Niall O’Keeffe, CEED, ESH
		Susan O’Bey , Deputy CEED, ESH
		Robert Midwinter , DPSE
		Michelle Yon, DoR
	Business Development Team, ESH	Ryan Belgrove, Justine Sim, Cara Joshua, Delia Dupreez, Belinda Peters
	Immigration Department	Lewis Evans, Immigration Executive
15.09.2016	SHG	Paul McGinnity Asst Chief Secretary
	SHG	Lisa Phillips, Governor
		Sean Burns, Deputy Governor
	Taxation	Dax Richards, Financial Secretary
		Nicholas Yon, Assistant Financial Secretary
	Attorney General	Angelo Berbotto
	Head of Property	Robert Bryson
	Head of Planning	Riana De Wet
16.09.2016	Private Sector (ProArc)	Paul Scipio, ProArc
	Airport Director	Janet Lawrence
	Bank of St Helena	Rosemary Bargo
	Private Sector (Tourism)	Basil George
	Sure SA Ltd.	Christine Thomas
	Retailers	Greg Cairns-wicks & Anita Magellan, owner Queen Mary Store
	Private Sector (Printech)	Clint Beard
	Private Sector	Jan Diergaardt, Smith and Watson
	Private Sector (Retail and wholesale)	Henry and Nick Thorpe, WA Thorpe & Sons
	Private Sector (Tourism)	Anthony Thomas, Sub Tropic Adventures
17.09.2016	Private Sector (Accommodation)	Hazel Wilmot, The Consulate
	Private Sector (Accommodation)	Steven Biggins and Maureen Biggins, Farm Lodge
19.09.2016	St Helena Fisheries Corporation	Mr. Terry Richards and Steven
	ENRD	Mr. Derek Henry
	Market Tenants	Earl Henry (St Helena Growers Association), Garron Yon(GK crafts), Jeffery Francis (Atlantic Appliances)
	St Helena National Trust	Jeremy Harris, Rebecca Cairns-Wick
20.09.2016	Local Investors	Rodney Yon, Roddy’s Chicken Farm
	Fisheries Working Group	
	Connect, St Helena	Leon De Wet, Chairman
	Economic Development Committee	Hon Lawson Henry (Chairperson)

Date	Organisation	Name, Designation
	ESH Board of Directors	
	Chamber of Commerce	
21.09.2016	Statistics Unit	Paula Mcleod
	Solomon & Company	Mandy Peters, CEO
	Legislative Council Members	Chaired by Hon Lawson Henry

Appendix 2 Documents Reviewed

Reports

- Palladium (2016) *Understanding Multinational Enterprise Investment Decisions in DFID Focus Countries*
- DAI (2006), *Consultancy Services to Develop an Investment Policy for St Helena*
- Wilson, P. (2015) *Enterprise Saint Helena (ESH) 2014-15 Annual Review and 2014/2015 Annual Review Narrative Report*
- Hayes, J. (2008). *Revision of the Income Tax Regime in St Helena, Inception Report*
- DAI (2016) *Land Market Diagnostic Tool*
- Overseas Territories Department, Development for International Development (DFID), 2005 *St Helena: Access, Project Memorandum (Edited for the Public Domain)*
- (2007). *St Helena Access Feasibility Study, Review of the Economic Model*
- *St. Helena Investors Prospectus,*
- National Audit Office (2016), *Realising the benefits of the St Helena Airport project, May 2016*
- BERF, *Business Environment Reform in Small Island Developing States - Implications for St. Helena, 2016*
- Land Registry Report, *Land Registration in St Helena, Scoping Visit 2013*
- World Bank/IFC/MIGA *Global Investment Promotion Best Practices 2012,*
- UNDESA *Partnerships Briefs for Small Island Developing States, 2014*
- DCED, *Business Environment Reform and Investment Promotion and Facilitation, 2015*
- DCED. *How to create an enabling environment for inclusive business? Learning from experience and debates in private sector development*
- DFID, *Systems change in the Business Enabling Environment Investment Climate Practice Note, 2015*
- DCED *Political Economy of Business Environment Reform, An introduction for Practitioners, May 2011.*

Policy documents

- St Helena Government (2016) *St Helena Energy Strategy, Draft Document*
- St Helena Government (2011) *Investment Policy 2011*
- St Helena Government (2011) *Memorandum of Understanding (MOU) between the Government of St Helena (SHG) and the Department for International Development (DFID)*
- *Guide to Changes in the Tax System from April 2012*
- *Chapter 166, Enterprise St Helena Ordinance*
- *Income Tax Ordinance, (Chapter No. not allocated yet)*
- *Income Tax Amendment Bill 2015*
- *ESH Annual Progress Report 2015-2016*
- *St Helena Island 10 Year Plan 2017 -2027*
- *St Helena Government, Land & Buildings Disposal Policy, February 2016*

- Financial Services (Amendment) Ordinance & Regulations
- Immigration Ordinance 2016 September, (Chapter No. not allocated)
- Customs and Excise Ordinance- Chapter 145
- Bank of St Helena Director's Report and Audited Financial Statements, 2014/2015
- St Helena Census Report, 2016
- Land Development Control Plan, 2012-2022
- **Internet articles included in desk review**
- FAO: <http://www.fao.org/docrep/>
- UN WTO: <http://www2.unwto.org/content/who-we-are-0>
- FIAS, WORLD BANK:
<http://www.worldbank.org/en/topic/competitiveness/brief/investment-climate>

Appendix 3 Terms of Reference

The BERF study looks at specific considerations for tax reform that are particularly relevant for SIDS, of which two of importance

Overview

St Helena is a UK Overseas Territory, which also comprises Ascension Island and Tristan da Cunha. This assignment is primarily centred on St Helena, but may be of value to, for example, immigration approaches on Tristan da Cunha.

Up until mid-2016, St Helena has only been accessible by boat. With its new airport built, and certified to international standard, regular air services should be in place by the end of 2016. With the coming of the airport, both domestic and international investment potential is likely to take a step change, with consequent beneficial impact on economic development and government revenues, and on an eventual reduction in the need for UK aid.

While there have been some changes in the investment climate of St Helena in the last few years, both of the key agencies involved in economic development, i.e. the St Helena Government (SHG), and its economic development agency, Enterprise St Helena (ESH), are aware that further improvements aimed at attracting investors could be made. Anecdotal evidence from the domestic and international private sector suggests that the need for change is both urgent and important.

The outcome of this Review is expected to be a timeline and activity plan, identifying key areas for reform, recommendations on the shape of reforms, and summarised in a formal investment strategy document available to investors. This outcome should be agreed with key stakeholders on island including SHG, ESH, and the Chamber of Commerce.

Objectives

- To identify through a diagnostic process the key reforms that the local and international private sector would look for under a refreshed investment strategy for the island
- To determine what factors are key to attracting investment and stimulating business development within similar countries or territories (including Small Island Development States), and what benefits/incentives are offered by enterprise development agencies in these locations to assist in this process (this objective will be met by a separate study (and fed into this review))
- To meet with key island stakeholders, including elected officials and SHG staff, to test their reaction to implementing reforms in areas identified by the private sector (2.1 above), or through comparisons from elsewhere (2.2 above), and to obtain multi-stakeholder support for a short list of high priority reforms;

- To identify gaps and make recommendations on how investment promotion and further business development efforts could be strengthened;
- To lead an initial workshop with key stakeholders on island (including Enterprise St Helena, as well as elected members, SHG officials, Chambers of Commerce, key investors and business people) to achieve ownership of the assignment findings, and to agree a timeline and activity plan on investment climate and promotion improvements, including identification of quick/early wins which can be implemented within the first six months, and that will form part of DFID's second phase of support to Enterprise St Helena.

Link with BER/investment/jobs/poverty (Theory of Change)

The DFID/SHG programme "Support to Enterprise St Helena 2014-16" includes a range of support to economic development outcomes, including job creation and skills development. The 2014/15 Annual Review recommended that "a business enabling environment and investment climate assessment should be undertaken with urgency, with prioritised recommendations aimed at SHG, ESH, DFID and the private sector (including private sector membership organisations)". A recent National Audit Office Review into the ST Helena Airport project notes previous DFID concerns about the importance of the investment climate.

ESH is best placed to co-ordinate a multi-pronged approach to investment climate improvement, although a number of specific agencies will need to take the lead in their own specialist areas, typically under the responsibility overall of SHG. For example, immigration, land title and transfer, and tax authorities are key areas to focus on.

Improving the investment climate on St Helena will lead to additional investments, and a consequent effect on job creation and increases in income, particularly in tourism and tourism-related sectors.

This assignment will provide expert external assistance to SHG and Enterprise St Helena, and does not replace the work of DFID civil servants.

Client and Beneficiaries

The client is Enterprise St Helena as the economic development agency of the St Helena Government. The beneficiaries will be, directly, existing and potential domestic and international investors in St Helena. The indirect beneficiaries will include St Helena residents who obtain part-time or full-time jobs in the business investments made because of improving the investment climate and SHG, which will raise revenues from taxes and fees arising from additional investment.

Scope

The assignment team will need to look at investment climate related SHG and ESH policy documents, and ESH promotional materials, as well as holding consultations with ESH prior to carrying out the proposed survey of existing and potential investors.

The consultant should also include a review of relevant reports and policies, which have already been produced and implemented.

The assignment team will need to look across at other international experience in terms of investment promotion and incentives, and compare St Helena with similar locations. International SIDS experience will be reviewed in a separate study under BERF: Activity A (Evidence and Learning), which will feed into this assignment.

The on-island implementation experience of investment climate reforms so far should be derived from discussions with ESH and SHG staff, and with private sector stakeholders. While some information will come out from the survey, direct discussions will also be useful.

ESH's experience on gender monitoring should also be explored, and the assignment team should look out for other crosscutting issues of relevance to investment climate reforms.

Method

The key to the successful implementation of business environment reforms is partly about the technical identification of which are the important and high impact reforms to pursue. Equally important is an assessment, informed by and shared with local stakeholders, as to which of these reforms is most achievable to a realistic timetable, given the local economic context and political environment.

Consequently, this assignment starts with a survey of the private sector, through a short survey incorporating e-mails and phone discussions with a sample of recent and prospective investors in St Helena (allowing for a collective response from institutions such as the Chamber of Commerce), but should then also include a careful stakeholder analysis of the key decision makers and opinion formers on island. This will require an island visit, and a process to generate understanding and ownership amongst key sets of people including elected members, private sector membership organisations, and SHG senior and middle level staff.

The assignment methodology is likely to include (a) desk work prior to departure to St Helena including dissemination of the survey – to be facilitated by ESH; (b) desk work on comparisons from other small island states (in a separate study supported by BERF); (c) visit to St Helena incorporating meetings and workshops; (d) a presentation of preliminary findings and recommendations on island, and then a draft report to DFID and ESH, including timeline implementation plan.

On deskwork, outcomes from the recent Census, such as projected working population statistics over the next 10 years, could be relevant to, for example, key issues such as immigration. On comparisons with other islands, a list of key comparators (such as tax regimes, immigration laws, incentive schemes or benefits, and so on), should be shared with DFID, SHG and ESH for sense checking in the context of St Helena.

Timeframe

The timeframe will be partly determined by travel availability to St Helena. However, the deskwork could start earlier, and ideally by 1st July. It is important to have the assignment completed by 31st October, as the investment climate strategy and implementation plan agreed could be linked with the annual financial aid talks with SHG towards the end of the calendar year.

Deliverables

- Assignment plan and resources to be used, including on-island resources.
- Survey report summarising e-mail and phone call discussions.
- Presentation at end of visit to St Helena.
- Draft report and implementation plan.

Dissemination

The final report and implementation plan will be disseminated by ESH throughout St Helena, and placed on the existing ESH and SHG websites. It will also be made available on the BERF website, and will be shared by DFID with staff in Montserrat and, possibly, other Overseas Territories. Opportunities to disseminate the findings to other small island states will be utilised via the Commonwealth Secretariat and the UN.

Workplan (schedule)

Workplan			
Item/Activities	Location	Responsibility	Timing
Design and dissemination of survey (2 days)	Home Based	Kongkona Sarma	25-26 August 2016
Desk Research (6 half days = 3 days)	RMS	Kongkona Sarma	9-14 September 2016
Stakeholder Consultations (7 days)	St Helena	Kongkona Sarma	15-21 September 2016
Stakeholder Workshop	St Helena	Kongkona Sarma	21 September 2016
Data analysis and report drafting (6 half days = 3 days)	RMS	Kongkona Sarma	22-27 September 2016
Final report submitted for QA	RMS	Kongkona Sarma	27 September 2016
Final report submitted to ESH	Home Based	Katja Silva-Leander	4 October 2016

Competencies Required

- Expertise in business environment reform

- A track record in investment promotion
- Experience in small island developing states
- Completed assignments involving political economy analysis
- Project management overseas

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