

Investment Policy 2011

Government of Saint Helena

23/06/2011

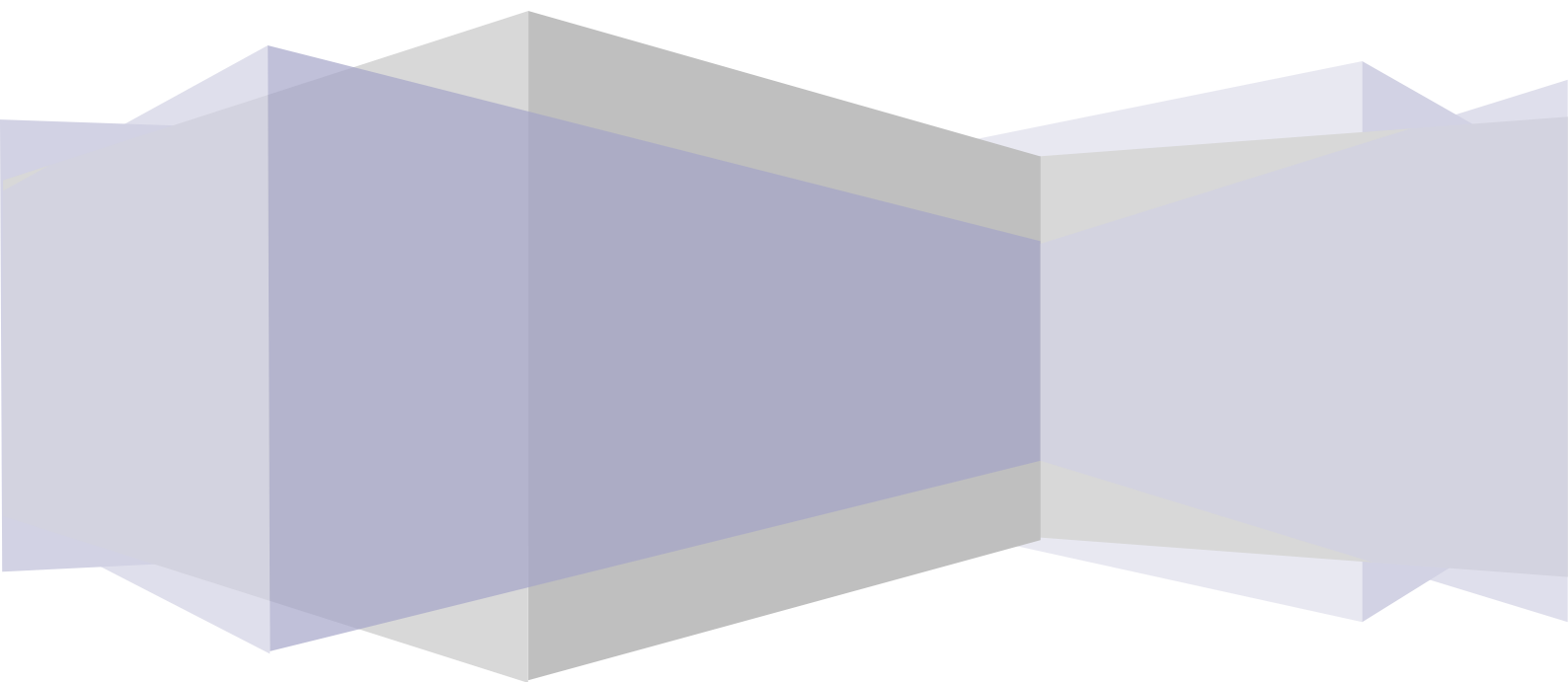


Table of Contents

Background and context.....	3
Vision.....	5
Aims.....	5
Saint Helena’s Investment Strategy 2011	6
Monitoring and evaluation	9
Contact details	9

Background and context

In July 2010 the UK International Development Secretary Andrew Mitchell announced that Saint Helena will be provided with the funds to construct an airport provided four conditions are met. The first three conditions were technical points related to the design, cost and risks associated with the airport.

The fourth condition, however, stated:

“Saint Helena Government must undertake to implement reforms necessary to open the island’s economy to inward investment and increased tourism”

DFID 2010

Saint Helena Government (“SHG”) and the UK Department for International Development (“DFID”) agreed a timetable for reforms which would satisfy the fourth condition. This was cemented by the signing of a Memorandum of Understanding (“MOU”) in December 2010. When signing the MOU, SHG set itself an ambitious timetable of reforms. To date most targets have been met and the outlook for achieving the balance is bright.

The main areas highlighted for reform were land, immigration, tax, government capacity, tourism, subsidies and the labour market. These areas are in the process of being examined to see what changes are required to promote inward investment and increased tourism. For further details of progress to date please see the figure 1 overleaf.

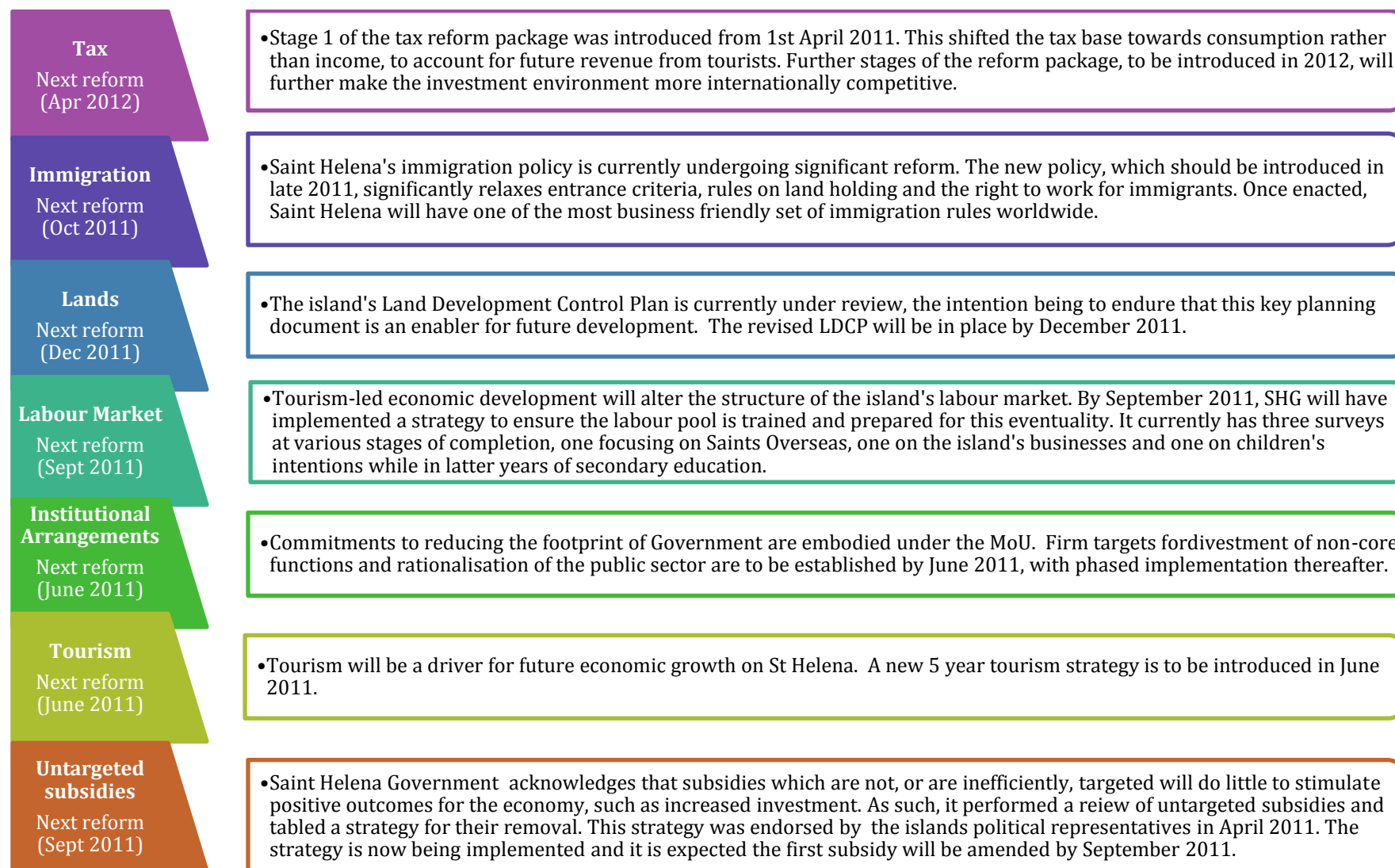
This investment policy, therefore, sets out the ethos with which these reforms should adhere.

This paper aims to clearly set out the government’s stance to investment and the principles by which policy makers should adhere when assembling future reforms.

In order for Saint Helena to be seen as an attractive place internationally to live, work and invest, many policies established prior to air access will have to be re-examined.

“When signing the MOU, Saint Helena Government set itself an ambitious timetable of reforms. To date most targets have been met and the outlook for achieving the balance is bright.”

Figure 1: Reforms update: Progress on implementing reforms necessary to open the island's economy to inward investment and increased tourism



Vision

Following the Access Decision in July 2010, it is envisaged that the construction of an airport on the island will commence in 2012. The Government of Saint Helena is preparing the ground by introducing a package of reforms. These measures will ensure the economy is stimulated by air access to the highest degree possible.

As laid out originally in the St. Helena Sustainable Development Plan 2007/08 to 2009/10 ("SDP"), SHG has an overall vision – as part of its National Strategy – to achieve:

“a prosperous, peaceful and democratic society for all achieved through sustainable economic, environmental, and social development leading to a healthy and eventually financially independent St Helena”

The purpose of this investment policy is contribute to the achievement of this vision by creating a vibrant economy on St Helena, thereby raising the standards of living providing sustainable business and employment opportunities, and increasing budget self-sufficiency.

In future, both foreign direct investment and local investment, will be key in bringing about economic growth and development.

Aims

The aims of the Investment Policy are shown below. The principles within this document which help to achieve these aims are noted to the right:

- i) Making the economy accessible to all potential investors by being an attractive destination to do business and encouraging a diversity of investors;
- ii) Ensuring maximum benefit from development for the island’s economy and people;
- iii) Setting parameters for development to safeguard what is important for the people of St Helena;
- iv) Assisting the locally based private sector to compete effectively and efficiently in an open economy;

Principles:
1,2,4,5,

Principles:
2,3,4,

Principles:
1,3,4,

Principles:
3,4,

In light of improved access to the island, while tourism is seen as the primary route for increased investment, Saint Helena Government is cognisant of the fact that a vibrant tourism sector will require all areas of the economy to reach a minimum critical mass.

Saint Helena's Investment Strategy 2011

Saint Helena Government strives to continually improve its investment environment. As such, this policy sets out how we plan to facilitate investment to the island.

In order to foster domestic business growth, as well as show the international community we are open for business, this investment policy sets out five principles which should shape all government policy on Saint Helena. The principles are:

1. Make Saint Helena a desirable and competitive destination to do business by removing barriers to investment.
2. Support an economy which is accessible to all potential investors and promote investments across the economy.
3. Support the locally based private sector to compete in an open economy but, where possible, avoid being overly protective.
4. Promote fair, consistent, timely and transparent decision making.
5. Encourage growth through import substitution, export promotion and domestic production.

In promoting the above principles, SHG recognises that reforms will only stimulate investment and development if they are workable for businesses and investors at the operational level.

The remainder of this section outlines the rationale for adopting these aims.

Reform Principle 1:

Make Saint Helena a desirable and competitive destination to do business by removing barriers to investment.

Barriers to investment are anything which unintentionally inhibits or prevents investment. This differs from a control, which is deliberately put in place to regulate investment in the public interest. It is our aim to, wherever possible and when it is in the public interest to do so, remove barriers to investment, in order to foster an active and business friendly investment environment.

Saint Helena Government recognises there are both "soft" and "hard" barriers to investment on the island. Hard barriers are normally easier to identify and include barriers created through legislation, formal processes and procedures. Soft barriers can be harder to identify as they normally evolve informally, such as not applying approaches or standards uniformly or in a timely and transparent manner.

Saint Helena Government will continue to ensure it protects the public interest. It is fully aware that any barrier it creates can have a negative effect on business; however, businesses may also create barriers to protect themselves from competition. Barriers can not only prevent some investments entirely, but in some instances create unnecessary business costs through added bureaucracy. As such, the Saint Helena Government will examine how it can reduce both soft and hard barriers to investment on the island.

Reform Principle 2:

Support an economy which is accessible to all potential investors and promote investments across the economy.

As a result of the Memorandum of Understanding, new regulations will be implemented which significantly relax laws on immigration, work permits and land holding. With the principles of this policy enshrined into these new regulations, the AIS scheme will become redundant, as the new environment will become investor friendly to all.

The introduction of an airport will also provide significant opportunities for tourism-led economic development. The tourism sector, however, need not be the only area to benefit. Indeed, it will be to the tourism sector's benefit if economic growth is achieved through a broad base, with different areas of the economy supporting growth in others. Tourism-led growth would be constrained if supporting sectors, such as agriculture and fisheries, do not realise their potential.

As such, Saint Helena Government will strive to promote investment growth throughout the economy as a whole. If there is a level playing field within each sector of the economy for investors, this will help prevent the island missing out on any opportunity arising from the airport's construction.

Reform Principle 3:

Support the locally based private sector to compete in an open economy but, where possible, avoid being overly protective.

Saint Helena Government respects that competition is a key energising force driving economic growth, innovation and the efficient allocation of scarce resources. In order for the economy to maximise the benefits that an airport will present and remove barriers to investment, protectionist policies and approaches to monopolies, duopolies and oligopolies must be examined.

In addition, for the island to get the most out of the opportunities presented by the airport's construction, investment in domestic firms will need to take place so that they can compete at international standards.

This aim, however, must be balanced against the fact that Saint Helena is a small economy. Concentrated markets, natural monopolies and protectionist policies are likely to emerge in such a situation. The government must therefore, wherever possible, ensure it injects competition into these markets, to obtain value for money for the public and protect the rights of the consumer.

Reform Principle 4:

Promote fair, consistent, timely and transparent decision making.

Throughout the history of the island, legislation has been written and amended in such a way that aspects of decision making are often discretionary, not allowing, before the fact, firms to judge the outcome of decisions. On occasion this has led to uncertainty, as sometimes regulations were not uniformly applied or they were interpreted differently by different individuals and/or departments, or long delays in making decisions resulted in real costs to investors.

Conducting business and investing in this environment is normally sub-optimal, as uncertainty creates risk. This creates costs for businesses, as they may insure against this risk, take a hit if it interprets regulations differently from the decision maker or simply not conduct certain business activities.

As such, Saint Helena Government will, where possible, remove discretionary powers from legislation, and will ensure decision making is fair, open and transparent, which will itself foster a business and investor friendly environment.

Reform Principle 5:

Encourage growth through import substitution, export promotion and domestic production.

While the construction of the airport and other linked investments provide the economy with a unique opportunity to grow, its impact on the island will be highly dependent on whether Saint businesses and individuals are in a position to meet the increase in demand for goods and services.

Tourists and international investors will require certain standards for goods and services. In many cases if these are not available on-island they will need to be imported. This will result in import leakage, with funds spent on-island going back out, in order to provide imports. By stimulating domestic production, SHG can help to minimise the use of imports, creating more value added on the island and a larger economy.

Increased domestic production will help prevent export leakage. This normally occurs when an international investor makes a profit in one country, but repatriates the funds, not investing it in the country where the profit was made. Local businesses, however, are more likely to keep profits and reinvest them on Saint Helena. As such, supporting domestic production will help to reduce export leakage.

In most economies exports are a significant element of the economy. This is not currently the case on Saint Helena, where in 2009/10 exports totalled £321,000, less than one percent of domestic expenditure. Improving this ratio will go some way towards making Saint Helena more self-sufficient and lead to a stronger and more stable economy.

Monitoring and evaluation

The Investment Policy 2011 is one of the key elements of the DFID's fourth condition for airport funding. Saint Helena Government recognises it is essential the principles outlined above infuse into all upcoming reforms. This will go a long way to making sure the island gets the most out of the airport as soon as the first flight lands.

To this end Saint Helena Government will continuously monitor and evaluate its achievements against this policy. As reforms come on stream and barriers to investment are reviewed (according to the accompanying action plan), the success of this policy in shaping the reform/review will be evaluated.

Under its remit of coordinating policy, the Strategic Policy and Planning Unit (SPPU) within Saint Helena Government will take the lead role in evaluating the success of this policy.

Contact details

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