



# Vanuatu Economic Report 2009

ACCELERATING REFORM

Executive Summary



**Australian Government**

**AusAID**

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Printed in the Philippines.

ISBN 978-971-561-826-7  
Publication Stock Number RPT101377

Cataloging-In-Publication Data  
Asian Development Bank.  
Vanuatu economic report 2009: accelerating reform (executive summary).  
Mandaluyong City, Philippines: Asian Development Bank, 2009.

1. Poverty Reduction 2. Economic Growth 3. Vanuatu. I. Asian Development Bank.

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## Currency Equivalents

(as of 30 June 2009)

Currency Unit - Vt (vatu)

Vt1.00 - \$0.009438

\$1.00 - Vt105.96

Note: In this paper, “\$” refers to US dollars.

This report contains information available as of 30 June 2009.

## Abbreviations

ADB - Asian Development Bank

AusAID - Australian Agency for International Development

CRP - Comprehensive Reform Program

GFG - Governance for Growth Program

GDP - gross domestic product

HDI - human development index

OECD - Organisation for Economic Co-operation and Development

PWD - Public Works Department

SOE - state-owned enterprise

# FOREWORD

**V**anuatu has made significant economic and social gains since 2003, with the rate of economic growth averaging 6% from 2003 through 2008. Construction activity, tourism, services, and a robust real estate sector were the main drivers of this growth. The achievement of strong economic growth has occurred on the back of improved economic policy and effective fiscal management. Greater political stability has also been important, bringing with it improved investor confidence, better policy outcomes, and stronger development partner support. Continued efforts to improve the enabling environment for private sector development will ensure sound economic and social outcomes as the nation continues to develop.

While recent gains have been impressive, more remains to be done to sustain growth, reduce poverty and ensure the benefits are distributed throughout the nation. More than three-quarters of the population resides in rural areas, and providing services to this widely dispersed population remains a crucial challenge for the government and its development partners. Employment and revenue reform, improved governance, and the need to give greater attention to the management of the natural environment, which underpins agriculture and tourism, are among the key development priorities. Quality improvements in the delivery of education services present special challenges, as does the delivery of health services. Transport and urban infrastructure are also important areas requiring urgent attention.

The *Vanuatu Economic Report 2009* outlines the state of economy and social development in the country and presents a road map for addressing key development challenges. It identifies the principal binding development constraints and opportunities in public sector performance, private sector and social development, and governance. The publication, a part of the Pacific

Studies Series, is made possible under a regional technical assistance for Pacific economic analysis and policy development, jointly funded by the Asian Development Bank (ADB) and the Australian Agency for International Development (AusAID). The report was prepared by a team comprising Derrin Davis, Sally Rynveld, Kevin Carr, and David Hill, and benefited from peer reviews by development partners and valuable contributions by ADB staff, including Eugene Zhukov, Jeremy Cleaver, and Elvira Rustamova. The team is grateful for the assistance and cooperation provided by the Government of Vanuatu, in particular by the Ministry of Finance and Economic Management.

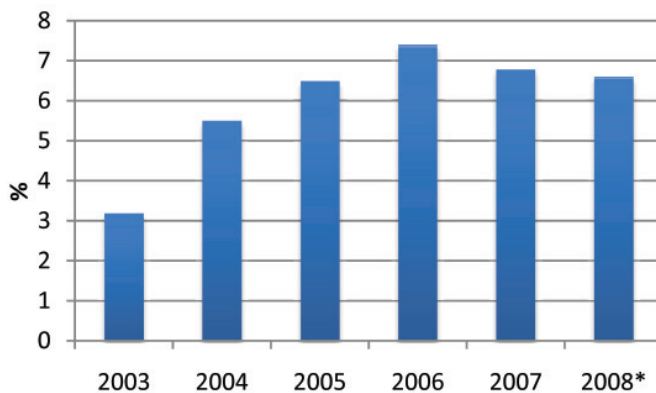
S. Hafeez Rahman  
Director General  
Pacific Department  
Asian Development Bank

# INTRODUCTION

**V**anuatu has made significant economic and social gains since 2003, with the rate of economic growth averaging 6% from 2003 through 2008 (Figure 1). Construction activity, tourism, services, and a robust real estate sector were the main drivers of this growth (Appendix Tables 1 and 2).

Improved economic policy, enhanced national budgeting systems, and improved fiscal management also supported this growth. Since 2003, economic growth has exceeded population growth, meaning that gross domestic product per person also increased throughout this period and suggesting improved welfare, increased employment opportunities and higher incomes. But the distribution of the benefits of economic growth and development across the nation remains a cause for concern.

**Figure 1: Real GDP Growth 2003–2008**



\* Estimates

Source: Asian Development Bank. 2008. Key Indicators. Manila.

Government of Vanuatu, National Statistics Office, 2003–2008. Port Vila.



Policy initiatives such as the opening of telecommunications to competition and the open skies policy for airlines have contributed significantly to economic growth. Cheaper, improved telecommunications services will expand service access throughout the nation further, contributing to improved welfare. Continued enhancements in the environment for private sector investment, coupled with the removal of inefficient, loss-making monopolies under government ownership, will provide further service and welfare gains.

About 80% of Vanuatu's population still lives in rural areas and, despite a strengthening economy and some advances in communications, most of these people have experienced little direct improvement in health, education, or transport services. This lack of progress results partly from the inherent difficulties and high cost of providing services and other benefits to a small population that is dispersed across some 80 inhabited islands. This is a key challenge facing both government and its development partners.

As a consequence, most rural and peri-urban inhabitants suffer from poverty of opportunity with: health, education, and transport facilities limited; standards of governance poor; employment opportunities lacking; and income and expenditure restricted.

The geographic dispersion of Vanuatu's islands means that communications and interisland transport are extremely important to the provision of services to rural inhabitants and to opportunities for them to engage in economic activity. Island communities rely on marine transport and infrastructure to bring the commodities they produce to market, to transport agricultural inputs, consumer goods, and other items, and to transport people from island to island. While domestic maritime services are adequate for many parts of the country, more needs to be done for remote areas and to support the movement of goods to markets.

The rate of population growth was estimated at 2.4% in 2008. Finding employment for and providing services to a rapidly increasing population will present major challenges. The urban centers of Port Vila and Luganville are experiencing growth rates estimated at 4% per year,<sup>1</sup> mainly as a result of continued rural–urban migration. Urban improvement is a pressing need. An analysis of data from the Household Income and Expenditure Survey of 2006 indicated that a new class of urban poor has developed, particularly in peri-urban and squatter areas.<sup>2</sup>

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1 Government of Vanuatu, Department of Trade, Industry and Development. 2008. *Vanuatu: Diagnostic Trade Integration Study*, 2008 Report. Port Vila.

2 National Statistics Office, Government of Vanuatu, National Statistics Office, ADB and United Nations Development Programme. 2008. *Analysis of the 2006 Household Income and Expenditure Survey: A Report on the Estimation of Basic Needs Poverty Lines and the Incidence and Characteristics of Poverty in Vanuatu*. Port Vila.

# HUMAN DEVELOPMENT

**T**he Asian Development Bank (ADB) estimated that Vanuatu had 235,000 people in 2008 (Appendix Table 3). According to the 2007 Agriculture Census, 50% of the national population was under 20, and about 80% were in agricultural households.<sup>3</sup> These results indicate that the national population is likely to continue to grow at a relatively high rate.

Rapid rural–urban migration, particularly to Port Vila and Luganville, is changing the degree of urbanization. Current population growth suggests that the population in Port Vila alone will increase to approximately 60,000 by 2020, with many of them being young and unemployed.<sup>4</sup> The strain on infrastructure and services is already evident in Port Vila. Urbanization and urban infrastructure therefore must be addressed with some urgency.

Vanuatu has made significant gains in human development over the past decade. In 1998, its human development index (HDI) was 0.425 and its global HDI rank was 140 out of 174 countries.<sup>5</sup> The nation's HDI was 0.674 in 2005 for a rank of 120 out of 177 countries, placing it in the middle range of the medium human development category.<sup>6</sup> Life expectancy increased from 65.7 years in 1995 to 70.0 years in 2008; combined gross educational enrollment (primary, secondary, and tertiary levels) increased from 57.4% to 63.4%. Vanuatu's human poverty index for 2005 was 24.6%, ranking 56th of 108 developing countries.

3 National Statistics Office, Government of Vanuatu. 2008. *Census of Agriculture, 2007*. Port Vila.

4 Government of Vanuatu, Department of Trade, Industry and Development. 2008. *Vanuatu: Diagnostic Trade Integration Study*, 2008 Report. Port Vila.

5 United Nations Development Programme. 1999. *Pacific Human Development Report: Creating Opportunities*. New York.

6 United Nations Development Programme. 2008. *Human Development Report 2007/2008: Fighting Climate Change: Human Solidarity in a Divided World*. New York.

Despite these gains, the Australian Agency for International Development (AusAID) has suggested that Vanuatu is “off track” on the Millennium Development Goals.<sup>7</sup> Only goals 5 and 6— reduced maternal mortality and the reversal of major diseases—are likely to be achieved by the target date of 2015. Universal primary school education, better access to primary health care, and improved access to water and sanitation are goals that require greater efforts.

An analysis of 2006 household income and expenditure survey data shows that overall poverty in Vanuatu is relatively low in Pacific terms, with a national poverty gap index of 5.6. However, the poverty gap index for Port Vila, at 10.6, was higher than for the rest of the country, suggesting a large difference between the better off and the poor in the national capital. The poverty gap index indicates that the average expenditure levels of households in poverty are well below the poverty line. Basic needs poverty data collected in the same survey indicate that 6% of households, representing 7.4% of the population, do not spend enough to meet basic food needs as defined by the food poverty line of Vt3,064 (equivalent of US\$28.9) per person per month. Nationally, about 12.9% of households, representing 15.9% of the population, spent less than needed to meet the basic needs poverty line of Vt4,716 (equivalent of US\$44.5) per person per month. Again, Port Vila exceeds the national averages, with 27.2% of households below the basic needs poverty line, suggesting the existence of a stratum of “working poor.” Continued drift from rural to urban areas will increasingly present challenges to policy makers who seek to address the problems faced by the urban poor.

Similarly, the Gini coefficients calculated by the National Statistics Office indicate that income inequality is greater in Port Vila than in other parts of the nation.<sup>8</sup> The national Gini coefficient is 0.41 and that for rural residents is 0.40, implying that income inequality is moderate to high in Vanuatu. But the figure for Port Vila is 0.46, reflecting a greater level of inequality that is most likely related to rural–urban drift and the increased number of settlers in the peri-urban and squatter areas.

The high rate of population growth means a likely increase in under-employment; labor would be absorbed into the subsistence sector and people would work fewer hours at lower levels of productivity than optimal. The private sector must be the source of jobs for the several thousand school leavers and dropouts entering the workforce each year, particularly as the days of public sector expansion have passed.<sup>9</sup>

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7 AusAID. 2008. 08 Pacific Economic Survey 2008: Connecting the Region. Canberra.

8 The Gini coefficient is commonly used as a measure of income inequality. It is defined as a ratio with values between 0 and 1: a low Gini coefficient indicates a more equal income or wealth distribution, while a high Gini coefficient indicates more unequal distribution.

9 No estimate is available of the number of school leavers and dropouts, although it is thought to be more than 5,000 each year.

# THE ECONOMY

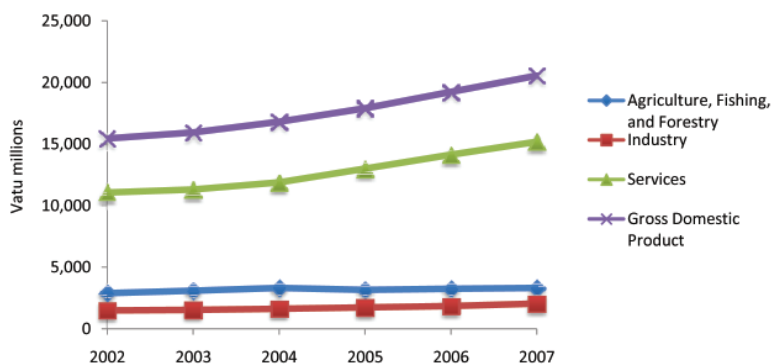
## Recent Performance Has Been Strong

**V**anuatu's economy is small and narrowly based, with per capita gross domestic product being (GDP) around \$2,385 in 2008 (Appendix Table 4). It is also open, with few trade restrictions, significant foreign investment in recent years, substantial imports of a wide range of goods and reliance on a limited range of exports. The economy has become increasingly bifurcated in the past 20 years as the relative importance of agriculture has declined and the significance of the services sector has grown continuously.

Economic growth has been strong averaging 6% during 2003–2008. The recent solid economic performance of Vanuatu was due to the following notable factors:

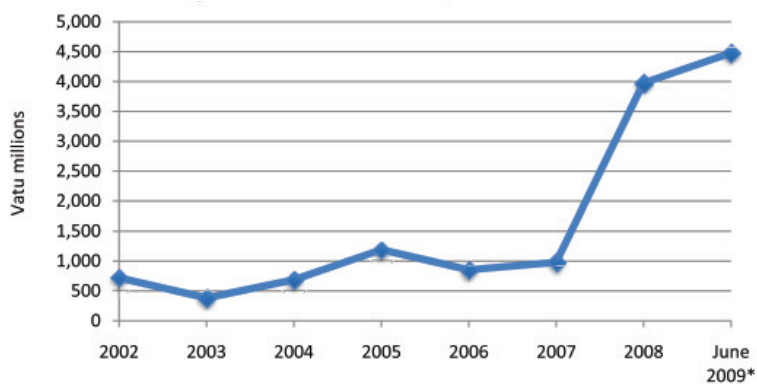
- Strong performance of the service sector which accounts for over two-thirds of GDP (Figure 2).
- The effects of the global financial crisis have been limited to date, although private sector investment has slowed.
- Economic reforms such as the opening of the telecommunications sector to competition and the open skies policy have provided social and economic benefits.
- Tourism has performed strongly, supporting growth and employment.
- Inflation has been generally subdued and mostly within the government's target range, while fiscal balances have been improving.
- Aid inflows have increased substantially as funding agencies recognized the efforts of government in improving economic policy. Increased aid has underpinned balanced budgets and balance of payments surpluses (Figure 3).

**Figure 2: Gross Domestic Product by Industry, 2002–2007  
(1983 Market Prices)**



Source: National Statistics Office. National Accounts of Vanuatu 2007.

**Figure 3: Annual Grant Aid Flows, 2002–2009**



\* June 2009 data annualized.

Source: Reserve Bank of Vanuatu. 2009. *Quarterly Economic Review June 2009*. Port Vila

- Balance of payments surpluses have supported healthy foreign exchange reserve balances; at the end of 2008, foreign exchange reserves were equivalent to 5.8 months of import cover, though this has fallen slightly in recent months.

## Risks Remain

On the negative side, Vanuatu's current account and merchandise trade deficits both expanded significantly from 2003 to 2008, in line with substantially increased construction activity, expanded transport services, and increased private credit and consumption. Increased oil prices during 2007 and first half of 2008 were also an important factor.

Weak total merchandise export earnings underlie the current account deficit which averaged 6% during 2004–2008 (Appendix Table 4). But tourism earnings and official grants offset the declining balance of traded goods. Private capital inflows and project-funded goods have also been significant. The combination of increasing services income, official grants, private capital inflows, and the importation of project goods has resulted in a positive net balance of payments since 2002. In the medium term, increasing imports and net income outflows are expected to more than offset increases in tourism earnings, with the current account deficit likely to widen.

The economy faces a number of risks, including its reliance on a narrow export base, vulnerability to uncertain commodity export prices, and weather-related shocks. Certain current policies also increase risks such as:

- The narrow revenue base, which relies very heavily on the value added tax and import duties, imposes risks for future government revenue; there is a need to review the taxation system and undertake revenue reform. It is recommended that the government review the 2007 Pacific Financial Technical Assistance Centre report and seek assistance from the center for the development of proposals for taxation reform.<sup>10</sup>
- Duty and taxation exemptions have reduced national revenues and need to be adjusted, through a reversion of powers to the director of customs and through revision of the list of items eligible for exemptions.
- Price controls, which can be imposed under the Price Control Act, tend to distort the market and leave consumers worse off. There is a strong argument to prohibit practices such as monopolistic pricing and collusion. Thus, the development and implementation of an effective competition policy are recommended.
- More than half of the recurrent budget is spent on the public sector wage bill, crowding out expenditure in the areas that could help improve the productive capacity of the economy. Most development expenditures are

10 Pacific Financial Technical Assistance Center. 2007. *Donor's Report*. Suva.

currently financed by aid inflows. While aid inflows are projected to remain strong over the next few years, the government should increase development spending in priority areas through restructuring expenditures.

- Wages are regulated, with the current minimum legal wage often significantly above what is paid in the informal sector. The disparity suggests that the legislated wage is well above the equilibrium level, reducing employment. The large numbers of new job seekers each year will continue to exert downward pressure on wages. There is no easy answer in a situation where wage fixing is institutionalized, yet future governments will need to tackle this issue.
- Amendments to the Employment Act passed in late 2008 have resulted in extremely generous provisions for those in formal employment (Box 1). The amendments will substantially increase labor costs at the time when formal employment is at a premium and the imperative is to create more jobs. ADB's 2009 Private Sector Assessment concluded that the new provisions will threaten the viability and existence of small businesses, result in increased unemployment, exclude women from the workforce, reduce the competitiveness of the economy, reduce economic growth, and lead to the substitution of capital equipment for labor where such substitution is possible.<sup>11</sup> Recent media reports, however, suggest that the Government of Vanuatu endorsed the Employment (Amendment) Act in September 2009, which has slightly improved the situation.

### Box 1: Amendments to the Employment Act

The amendments had the following results:

- (i) an increase in severance pay from 2 weeks to 8 weeks for every year of employment,
- (ii) reduction of the qualifying period for severance pay from 10 years to 1 year,
- (iii) provision of 3 months of maternity leave at full pay after 6 months of employment (current arrangements are 12 weeks maternity leave on half pay after 12 months of employment), and
- (iv) an increase of both annual and sick leave from 12 working days after 1 year of employment to 21 days for each type of leave.

Source: Vanuatu. Employment (Amendment) Act 2008. Port Vila.

## Outlook

Vanuatu had experienced little if any adverse effect from the global financial crisis in the first half of 2009. The nation has little exposure to international financial markets, and the balance sheets of the local financial institutions appear to be sound. Rapid declines in the international oil price in the latter

11 ADB. 2009. *Sustaining Growth: A Private Sector Assessment for Vanuatu*. Manila.

months of 2008 also assisted to minimize any potential adverse outcome from the international financial crisis.

Growth forecasts for Vanuatu have been estimated by ADB at 4.0% for 2009, reflecting strength in tourism and signs of an improvement in domestic demand. Tourism in Vanuatu has continued its strong growth momentum in the first half of 2009. In the first 5 months of 2009, both cruise-ship and air visitors rose significantly by 58% and 18% respectively (compared to the same period of 2008). Tourism from Australia has been particularly strong with air departures for Vanuatu increasing by 40% in the same period.

The pace of credit growth remains of concern, with credit increasing by over three times the forecast nominal GDP growth rate. Credit to the private sector grew by 35.3% over the year to May 2009. This is, however, a slight easing from the 44% earlier in the year. This level of credit growth, which has been partly driven by new entrants to the banking sector, is unsustainable. It raises the prospect of non-performing loans rising as the economy eases from the recent near boom conditions.

Despite lower world prices for food and fuel in 2009, inflation has only eased slightly. The annual inflation was 6.1% as of the March quarter of 2009, on a year on year basis. This is only slightly above the 5.8% increase in the December quarter of 2008. The inflation forecast for 2009 has been revised toward the range of 4.0%–4.5%.

Foreign reserves have continued to decline over 2009. Monthly import cover was equivalent to 5.0 months in June 2009, down from 5.8 months in December 2008. This remains, however, somewhat above the Reserve Bank's minimum target level of 4 months. Fiscal surpluses and strong growth in nominal GDP has reduced the ratio of public debt to GDP to 18.4% in 2009. This strong recent fiscal performance gives the Government room for a careful countercyclical fiscal response if the economy weakens.



# SOCIAL CHALLENGES

## Service Delivery is Difficult and Expensive

**R**apid population growth, geographic isolation, and widely scattered settlements pose major challenges for the delivery of basic services in Vanuatu. More than 50% of the people are under 20, indicating future increases in population growth. At the same time, improvements in health have resulted in longer life expectancy, bringing a new set of challenges in health service delivery.

## Lack of Institutional Capacity Hampers Health Services Delivery

Vanuatu has reduced infant and maternal mortality rates, improved immunization coverage, and achieved a degree of prevention of major diseases like malaria and tuberculosis, but noncommunicable diseases such as diabetes, high blood pressure, and heart disease are increasing as a result of changing lifestyles.

Despite these improvements in some health indicators, service quality in rural areas is poor, mainly because of extremely weak institutional capacity at the provincial, district, and area levels. In the short term, the state will not be able to expand the quality of services at the local level or improve them significantly. It is recommended that increased use be made of nongovernment, church, and civil society organizations and their networks to deliver primary health care. This outsourcing needs to be accompanied by effective monitoring to ensure that the services meet required standards, and by capacity building.

Increased attention must also be given to the health needs of the burgeoning urban population, particularly those living in overcrowded, unsanitary conditions in informal and squatter settlements. Targeting youth is important for the delivery of health messages related to sexually transmitted infections, drug and alcohol abuse, and unplanned pregnancy, especially in urban areas.

## Improving the Quality of Education Remains a Challenge

The wide dispersion of the student population makes delivery of education services difficult and the per capita costs high. Basic education is not compulsory, and enrollments and attendance are among the lowest in the Pacific. Official estimates put the literacy rate for people aged 15-24 years at around 87% in 1999 (the latest figure) and adult literacy rate at 78% in 2006, although the actual figures are likely to be much lower given enrollment and primary school completion rates. The rate of net primary school enrollment rose from 74.5% in 1989 to 78.2% in 1999 and then to 93.0% in 2004 but has since fallen to 85.4% in 2007. The proportion of pupils that complete a primary education fell from 90% in 1991 to 72% in 2004.<sup>12</sup> But the government, with funding agencies' support, has made progress on education quality in recent years, while the Vanuatu Education Support Program will underwrite future improvements.

The education sector faces a number of crucial challenges:

- The quality of education demands urgent attention; 41% of primary school teachers and 32% of secondary school teachers are unqualified.
- School enrollment rates are among the lowest in the Pacific. Parents are required to contribute to school fees, which constitutes a major impediment to access. The government recently announced that primary school fees are to be abolished, which may increase enrollment but will not eliminate deficiencies in resources such as education materials and infrastructure.
- The national curriculum requires major revision, and school infrastructure and facilities must be improved.
- A dual language system is costly and inefficient.
- Adult literacy and numeracy rates are low.

A national human resources development strategy is required to guide the planning of technical and vocational education to meet the skills needs of public administration, private employers, and the productive sector. Many positions in the public sector remain unfilled, and the private sector suffers from acute shortages of skilled personnel. Vocational education and professional training opportunities are limited and fall far short of meeting human resource development needs in areas such as health, education, management, accounting, information technology, agriculture, fisheries, forestry, and tourism. According to ADB, skills shortages are a major impediment to the development of the private sector in Vanuatu.<sup>13</sup> Similarly, in a report on obstacles to effec-

12 UNDP. 2008. United Nations Millennium Development Goals (Pacific) Summary Data, March 2009. Suva.

13 ADB. 2008. *Skilling the Pacific: Technical and Vocational Education and Training in the Pacific*. Manila.

tive governance, AusAID noted that skills shortages were severely hindering the capacity of the public sector to deliver basic services, such as health and education.<sup>14</sup> A combination of limited training opportunities and inappropriate programs appear to hinder needed skills development.

Youth employment must be a primary concern, with youth training programs targeted to match job opportunities. Given the rapid rate of urban growth, investment in targeted training in sectors suffering from acute shortages of skilled or semiskilled workers in the urban centers must also be a high priority. Strategies to support the creation of jobs for youth, possibly including apprenticeship schemes and vocational placements, should be an important focus of a national human resource development strategy.

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14 AusAID. 2008. *The Unfinished State: Drivers of Change in Vanuatu*. Canberra.

# THE PRIVATE SECTOR AND PRODUCTIVE SECTORS

## The Private Sector

**V**anuatu is establishing a foundation for sustained economic growth. The government has signaled its intention to make Vanuatu a more business-friendly environment for private sector development, with sound macroeconomic management and improved policies affecting the private sector. Key improvements include:

- **Competition in the airline industry.** Vanuatu recently opened its air transport market to international airlines, creating competition that has resulted in significantly lower airfares and higher tourism arrivals. Recent figures illustrate the extent of this increase: international tourist arrivals were nearly 30% higher in January 2009 than in January 2008. These results reinforce the wisdom of opening the country to additional foreign airlines, and demonstrate the benefits of greater competition. In another positive step, the government is also considering options for restructuring Air Vanuatu.
- **Competition in the telecommunications sector.** The government issued a license to a foreign mobile telecommunications operator to provide services in competition with Telecom Vanuatu, the state-owned telecommunications company. This has led to a significant increase in coverage and a decrease in prices.

- **Strengthened regulation of existing monopolies.** A utilities regulatory authority act was passed in 2007, which established a new regulatory authority to monitor the power and water concessions.<sup>15</sup>
- **Some divestiture.** The government has reduced the state's holdings in the abattoir.
- **An extensive commercial legal reform program.** The government has passed a new personal property securities law and has put a supporting electronic registry in place. It is engaged in extensive reform of the laws governing business, including the Companies Act, the Trustee Act, and the bankruptcy framework. Once completed, these initiatives will result in Vanuatu having a modern commercial legal framework that is tailored to the structure of business transactions and the needs of the country.

Vanuatu's small but robust private sector could expand significantly and make a substantially greater contribution to employment and overall economic development if the environment for private sector investment were further strengthened. The following are the principal constraints on private sector development:

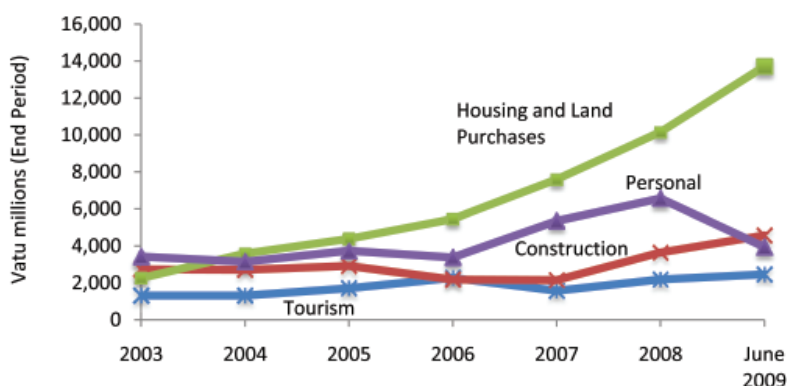
- Infrastructure services are low in quality, high in cost, or both.
- Weak governance and intrusive interventions by the state, including through the operation of SOEs, reduce productivity.
- Continued operation of inefficient and expensive monopolies under state ownership.
- The commercial legal framework is complex, costly to access, and out-dated in many areas.
- Access to financing is limited, particularly for small and rural businesses, although some progress is being made through microfinance initiatives and implementation of the Personal Property Securities Act.
- Land access and tenure issues have pervaded development efforts and continue to present difficulties for investors.
- The government has a propensity to regulate rather than facilitate business investment.

Private-sector credit expanded rapidly starting in 2006, with lending for the purchase of housing and land and for personal consumption showing the most significant gains (Figure 4 and Appendix Table 5). Lending grew significantly in 2008 because a fourth commercial bank opened, leading banks to free up lending in an effort to maintain market share and because the real estate boom continued and demand for credit for consumption purposes grew. Increased lending led to a liquidity shortage in the second half of 2008, but

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15 The Government of Vanuatu established the Authority on 11 February 2008 under the Utilities Regulatory Act No.11 of 2007.

Figure 4. Private Sector Credit, 2003–2009



Source: Reserve Bank of Vanuatu. 2009. *Quarterly Economic Review June 2009*. Port Vila.

reductions in the statutory reserve deposit requirement and the liquid assets ratio by the Reserve Bank of Vanuatu improved the situation.

While credit has been available for the commercial sector and larger businesses, rural enterprises and small businesses have found it difficult to obtain loans. The amounts at issue are small and impose high administrative costs, and potential borrowers are unable to offer security. These problems are being addressed through a number of strategies:

- Smart banking initiatives, based on the use of technology such as mobile phones, are being developed by the National Bank of Vanuatu.
- The microfinance programs run by the National Bank of Vanuatu and the Vanuatu Women in Development Scheme enhance rural credit availability and credit for women, respectively.
- The Vanuatu Agriculture Development Bank was established in 2006 and became operational in 2008 to increase rural credit.<sup>16</sup>
- The Personal Property Securities Act, passed in April 2009, and the recently launched personal property securities registry that allows borrowers to pledge movable property as collateral, thereby reducing lending risks, will, when fully implemented, make credit available to a wider group of borrowers.

Notwithstanding these efforts, most of the population's access to credit remains severely limited; continued efforts will be required to enhance credit availability and use across the nation. Financial sector supervision should also

16 Vanuatu Government. 2006. Vanuatu Agriculture Development Bank Act #20 of 2006. Port Vila.

be further enhanced by improving the oversight of commercial banks, and supervision of the newly established Vanuatu Agriculture Development Bank and the Vanuatu National Provident Fund.

## Tourism

Tourism is the leading export industry, marked by continual growth since 2004 (Figure 5). Tourism offers the best prospects for employment growth in the medium term, although in the short to medium term, growth in visitor numbers, other than those from cruise ships on day visits, might be limited by accommodation shortages on Efate.

Further economic reform and infrastructure development are required in support of tourism. Careful attention to environmental management is needed to preserve natural assets. Land issues also affect investment in the industry. The government's role is to set the policy context and operating environment for the industry while the private sector drives investment and employment. A robust, enabling environment for private investment and greater clarity in government policy are critical for tourism development. The Vanuatu Tourism Action Program<sup>17</sup> provides a blueprint for the further development of tourism in a manner that best meets the needs of Vanuatu. It should be given high priority.

## Agriculture and Fisheries

Agriculture is the backbone of the economy, involving all but a small percentage of the population. It is fundamental to subsistence and opportunities to earn cash. But the agriculture sector lacks leadership and vision, and its performance has been relatively weak. The government urgently needs to formulate and implement a national agricultural policy that focuses on its core roles in regulation, extension, and research rather than market intervention and involvement in commercial activities. Funding agencies have clearly signaled support for agriculture development activities if the government takes the lead, presents a plan for the sector, and actively seeks their support.

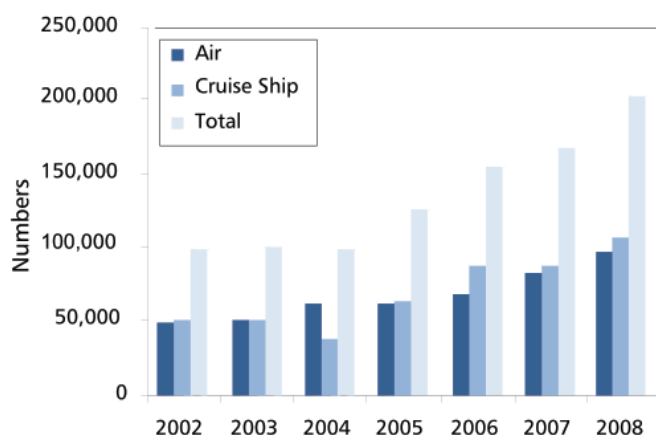
It is also recommended that immediate action be taken to develop, fund, and implement a program to revitalize extension services in the Ministry of Agriculture, Quarantine, Forestry, and Fisheries.

The Department of Fisheries has prepared a number of management plans for domestic fisheries, but its enforcement powers are limited. It has established over 70 fishermen's cooperative associations for the marketing of domestic catches.

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17 National Tourism Development Office, Government of Vanuatu. 2009. Vanuatu Tourism Action Program. Port Vila.

Figure 5: Visitor Arrivals



Source: Government of Vanuatu. National Statistics Office. 2008. Port Vila.

In 2008, more than Vt144 million (equivalent of US\$1.4 million) was collected from licensing and registration fees for offshore commercial fisheries. The Department of Fisheries also seeks, rightly, to appropriate a greater share of resource rents for Vanuatu by supporting onshore processing. Tuna processing factories are under development in Port Vila Bay and Mele Bay. The Port Vila Bay development is subject to preparation of an environmental impact assessment, while the Mele Bay plant, to be operated by the China National Fisheries Corporation, is awaiting the outcome of an independent review of the preliminary environmental assessment for the development but is expected to start operations in late 2009 or early 2010.

The location of the factories has caused concern. It is critical that robust environmental monitoring and management plans be in place and endowed with adequate resources. The government should also consider the use of performance bonds for these and other developments that have the potential to affect the environment.<sup>18</sup>

<sup>18</sup> A performance bond is a surety bond, usually issued by an insurance company, a bank, or the company itself, to guarantee satisfactory completion of a project by a contractor or other person. Performance bonds are sometimes used as a permit requirement where there is potential for environmental damage. The bond provides a guarantee that if the activities of the holder cause environmental damage, then funds will be available to cover the costs of cleanup or removal of structures.



# INFRASTRUCTURE

Infrastructure plays a vital role in generating economic growth. For many years, Vanuatu has suffered from inadequate physical infrastructure as a result of insufficient government investment. Costs for electricity, water, and port services in Vanuatu are among the highest in Pacific island countries. The state of infrastructure and provision of associated services in Vanuatu is mixed, although in some areas policy reform and private sector participation have reduced costs and increased efficiency through competition. The government recently has increasingly focused on its core roles of regulation—for example, through the Utilities Regulatory Authority—and promotion of private sector provision of services, with significant positive outcomes in telecommunications and air services. It has also listed strategies for increasing the reliability, accessibility, and quality of infrastructure services in a planning matrix entitled “Planning Long, Acting Short.”<sup>19</sup>

## Economic Infrastructure

### *Transport Infrastructure*

The establishment and maintenance of transport infrastructure is vitally important to economic growth, however challenging it may be in island nations. The three main types of transport infrastructure required to support growth are roads, wharves, ports and jetties to anchor shipping services and link rural areas to the two major urban centers, interisland and international air transport.

Vanuatu’s road network is inadequate and poorly maintained. Low expenditures on maintenance have accelerated the deterioration of the road network. The Public Works Department (PWD)<sup>20</sup> estimates that maintenance

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19 The Government of the Republic of Vanuatu. 2009. *Planning Long, Acting Short 2009–2012*. Port Vila.

20 The PWD and the Ministry of Infrastructure and Public Utilities are the main Government agencies responsible for providing and maintaining transport infrastructure.

expenditures have historically been less than 10% of the total amount needed.<sup>21</sup> The Millennium Challenge Corporation and AusAID's Transport Sector Support Program have recently started to upgrade the road network and build the PWD's capacity to maintain it.

Vanuatu's commercial ports have the highest costs in the Pacific even though their efficiency is among the lowest; and although it provides reasonable though often inconsistent coverage and affordable rates, the domestic shipping industry has serious safety problems. As a result, the domestic wharves at Port Vila and Luganville require major rehabilitation. A master plan for port and harbor development in Port Vila is urgently needed, and the institutional arrangements for management of the sector require review and reform. Interisland shipping services must be improved, and the government should analyze the potential to subsidize uneconomic routes through a tendering process. The rural wharf network should also be assessed and priorities for rehabilitation established. ADB, in conjunction with New Zealand Agency for International Development, is currently preparing a project to meet these needs.

Vanuatu's air transport infrastructure is a critical asset, supporting international tourism and internal movement. Maintenance work on international and domestic airstrips is routinely reported to be inadequate. However, the open skies policy and reform of the institutional arrangements for management of the air transport sector have recently brought significant benefits. Continued planning for rural airport maintenance is required and the preparation of a master plan for the upgrading of Bauerfield Airport should be given high priority.

### *Telecommunications*

Vanuatu is liberalizing the telecommunications sector and strengthening regulatory authority. The amended Telecommunications Act was passed in November 2007 and the Government reached a settlement agreement with Telecom Vanuatu Limited that effectively phased out the company's monopoly on all telecommunications services.<sup>22</sup> In the first quarter of 2008, Digicel was awarded the first new mobile license in Vanuatu. Within 6 months of operation, the company provided coverage to 75% of the population. Costs have also fallen significantly, providing strong evidence of the benefits of competition. The government should continue with telecommunications reform, with particular emphasis on further liberalization of internet services.

21 The annual maintenance requirement for the road network is estimated by the PWD to be Vt1.2 billion (\$11.3 million), but the allocation in 2006 was less than Vt0.1 billion (\$0.9 million).

22 Telecom Vanuatu Limited, owned equally by the government of Vanuatu, Cable & Wireless, and France Cable and Radio, was the sole provider of public telecommunications services till 2008.

## *Electricity*

An estimated 27% of the Vanuatu population has access to electricity.<sup>23</sup> Access rates in the main urban centers of Port Vila and Luganville are relatively high at about 75%, dropping off considerably in rural areas. Vanuatu has taken steps to improve regulation and expand access to electricity. The 2007 Utility Regulatory Authority Act strengthens regulatory oversight of the power and water sectors. The performance of UNELCO should be monitored by this Act and any cost savings passed on to consumers. In the same year, the government issued the National Energy Policy and Rural Electrification Master Plan to help expand access to electricity in rural areas. The decision to regulate electricity generation is a welcome development, and the government has already sought international assistance to implement it. A number of development partners are helping Vanuatu to reduce power costs by developing renewable energy projects, improving the energy intensity of the economy through demand-side management; and providing financial support for clean energy projects.

## *Water supply*

All water supply infrastructure assets in Vanuatu are owned by the state.<sup>24</sup> Accurate data on the percentage of the population with regular access to safe drinking water is not available; estimates vary from 65% to 88%.<sup>25</sup> In 1994, the government entered into a contract with UNELCO to supply water to Port Vila for 40 years. The Utilities Regulatory Act regulates UNELCO and its service delivery. In rural areas, water supply is the responsibility of the Department of Geology, Mines and Water Resources. The current National Rural Water Supply Program is intended to provide potable water to the whole of the rural population, based on community access to water rather than individual household connections. Despite government commitment to this program, however, many rural communities still lack an adequate water supply. The Vanuatu National Water Strategy 2008–2018, prepared under New Zealand Agency for International Development funding, was recently released and endorsed by the government, but is now waiting for additional funding.

## **Urban Planning**

Urban areas, particularly Port Vila, suffer from poor planning and development control and inadequate or outdated infrastructure. Living standards in many parts of Port Vila are under pressure from overcrowding and poor sanitary conditions, while increasing pollution of groundwater, lagoons, and near-shore

23 AusAID. 2007. Draft Scoping Study on Luganville Power Concession and the Sarakata Hydropower Fund for the Government of Vanuatu. Canberra.

24 ADB. 2003. Vanuatu: A Private Sector Assessment—Issues, Challenges, and Policy Options. Manila.

25 The low estimate was provided by the Department of Geology, Mines, and Water Resources, while the high estimate was cited in the Millennium Development Goals report.

areas exposes urban residents to major health risks. There is a pressing need to tackle the issues arising from rapid urban growth, to make urban areas more habitable, and to invest in urban services and infrastructure. The recently concluded planning process for Luganville was an important initiative and a first step to improved urban planning and development. A similar process will soon begin for Port Vila.

However, the institutional capacity of government and municipal authorities for urban planning and management, including urban development, infrastructure works, and provision of services, is extremely limited. The various roles, responsibilities, and operations of different government departments and the different levels of government—national, provincial, and municipal—are poorly coordinated. National urbanization policy and planning guidelines are needed, and a national task force should be responsible for developing and implementing a national urban strategy.

Sanitation management is a substantial and growing environmental and public health issue. There is no comprehensive sanitation infrastructure in the urban areas of Port Vila or Luganville. Both municipalities lack sewage and wastewater treatment systems; waste is generally disposed of by illegal storm water connections, direct discharge into waterways, or poorly designed and maintained septic systems that leach contaminants into groundwater. Sanitation is therefore an issue that must be addressed in the very near future. Findings from the previous ADB-funded Sanitation Master Plan should be reviewed in conjunction with any proposed new urban master plan. ADB, in partnership with AusAID and other donors, through the Pacific Regional Infrastructure Facility, will provide assistance on urban planning and the provision of affordable, sustainable, and effective sanitation and drainage services to the residents of Port Vila and its surrounds, particularly to those living in informal settlements.

# GOVERNANCE

## Parliament and the Public Sector

**E**ffective and transparent governance is a fundamental requirement for successful economic and social development. Parliament and government offices, such as those of the auditor general and the ombudsman, play a central role in ensuring good governance. Budget processes and fiscal management are among the key roles of government that affect development outcomes. The relationships between the national government, provincial governments, and the municipal administrations of Port Vila and Luganville are also important.

The National Council of Chiefs has a special consultative role on matters of custom and tradition under the Constitution. The National Council of Chiefs and each island council of chiefs is responsible for promoting and encouraging sustainable social and economic development in their respective islands or urban areas.

Appointments under the Public Service Act are largely free of political interference, thereby supporting a professional public sector. In provincial government, only the secretary is a public servant appointed under the Act; all other staff members are political appointees. In the municipal governments, all officers are political appointees. The lack of independently appointed professional personnel with appropriate training and qualifications results in weak governance and provincial and municipal administrations that are open to external influence. In early 2009, the Minister for Internal Affairs issued instructions for the drafting of legislation that will require all municipal administrative staff to be appointed under the Public Service Act. But for the present, the municipal and provincial governments remain heavily politicized and unaccountable for finances and their use; they are a hindrance to good governance.

Vanuatu joined the ADB and Organisation for Economic Co-operation and Development (OECD) Anti-Corruption Initiative for Asia-Pacific on 30 November 2001 and, in 2004, an in-depth study of national integrity systems concluded that “since the commencement of the Comprehensive Reform Program (CRP)<sup>26</sup> in 1997, Vanuatu has made significant steps in developing a strong legal framework designed to foster accountability, transparency and responsibility especially in the public sector.”<sup>27</sup> Since the framework reforms initiated by the CRP, Vanuatu has continued to make progress on fighting corruption, as shown by the 2007 Global Integrity Report, which in the area of anticorruption and rule of law rated Vanuatu as “strong,” with anticorruption policy rated as “very strong,” anticorruption agencies rated as “moderate,” the rule of law rated as “strong,” and law enforcement as “weak”.

The formal accountability institutions such as the offices of the auditor-general, and the ombudsman require further strengthening. In terms of accountability, many state-owned enterprises and statutory bodies have not submitted their accounts for a number of years. Through the Priorities and Action Agenda 2006–2015,<sup>28</sup> the Government has identified good governance and public sector reform as a reform focus and is working to progress such reforms with donor support, particularly from the AusAID supported Governance for Growth (GFG) Public Financial Management subprogram.<sup>29</sup> This is supporting a program of Public Financial Management capacity building, including provincial Public Financial Management capacity building, expected to include the establishment of provincial financial controllers as a means to establish greater accountability and oversight and facilitate decentralization of decision-making authority.<sup>30</sup> Nevertheless, ongoing efforts are required to improve public enterprise efficiency and strengthen the budget framework to establish transparency and accountability. In that connection, the Government is seeking to revitalize the Auditor-General’s Office and made amendments to

26 The CRP was conceived in Vanuatu in response to macroeconomic instability stemming from fiscal fragility and political instability dating back to 1996. The CRP, launched at a National Summit in June 1997, was a benchmark for assessment of Government policies and actions until 2006. Its overall objective was to enhance economic growth, and raise the socioeconomic standards of all ni-Vanuatu. ADB implemented the CRP, its largest operation to date in Vanuatu (\$20 million), which was also the country’s single largest foreign loan.

27 Transparency International. 2004. National Integrity Systems: Country Report Vanuatu 2004. p. 5.

28 Government of Vanuatu. Ministry of Finance and Economic Management. 2006. *Priorities and Action Agenda 2006–2015: An Educated, Healthy and Wealthy Vanuatu*. Port Vila.

29 GFG (2006–2015) was established as a partnership between AusAID and the Government of Vanuatu with the aim to generate economic growth and improve service delivery through good governance. It is a ten-year program, allowing for reforms to be carried through to implementation and for capacity to be effectively built. GFG supports broad-based economic reforms to benefit the majority of the population in Vanuatu and makes sensible use of technical assistance, using it selectively to support, advise and build long-term capacity within the Government of Vanuatu. Finally, it supports capacity building to strengthen core systems of governance, particularly Vanuatu’s own policy and financial management processes.

30 AusAID. 2007. Governance for Growth Program: Design Document.

the Public Finance and Economic Management Act in 2009.<sup>31</sup>

Land tenure is central to development and influences government decisions on investment and service delivery. It is also the key consideration in private sector development and investment. But current land policies and tenure arrangements are inefficient, and often result in disputes among landowners and between landowners and lessees.

The Land Sector Framework was recently developed to address the overwhelming need for land reform and the growing concerns expressed by landowners and investors.<sup>32</sup> The Land Sector Framework provides a road map for land sector development that will be aligned with the government budget cycle and planning horizons, so that it can be integrated into the corporate and annual planning activities of government agencies and other stakeholders involved in its implementation. Continued land reform efforts are critical to development and to the welfare of ni-Vanuatu (used in this report to include all inhabitants of Vanuatu), and should receive continued support from government and funding agencies.

## Reform of SOEs is Critical

The involvement of government in commercial activities through SOEs affects private sector development and is an important aspect of governance. Many of the estimated 20 SOEs, also known as government business enterprises,<sup>33</sup> lack transparency, accountability, and a framework for monitoring performance; and are inefficient and nonviable. Improved SOE performance requires that each deficiency is addressed. The accountability of the SOEs is complicated in many cases by their overlapping responsibilities with a number of ministries.

Conversely, most SOEs involved in regulatory service provision, such as the Reserve Bank of Vanuatu, the Utilities Regulatory Authority, and the Vanuatu Financial Services Commission, play core roles in governance. The National Bank of Vanuatu operates under professional commercial management and is also performing well.

Vanuatu's SOE sector needs wholesale restructuring. The government should establish a new legal framework, reform corporate governance arrangements, and implement the terms of the CRP, which advocated privatization of all SOEs that could be more efficiently run by the private sector. A restatement

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31 The Ministry of Finance and Economic Management also drafted a Public Enterprise Bill, but the State Law Office redrafted it, reflecting the only effective change—the power to require financial accounts. Due to the revised Bill not addressing the substantive governance and management issues afflicting the state owned enterprises, consensus on it was not achieved, and as of May 2009, it has not been tabled in Parliament.

32 *Vanuatu Land Sector Framework 2009-2018*. Port Vila.

33 ADB. 2009. *Sustaining Growth: A Private Sector Assessment for Vanuatu*. Manila.

of the government's SOE ownership and divestiture policy, as stated in the CRP, could be a useful starting point. Reforms should include the removal of civil servants and ministers from SOE boards, a transition that could begin with the elimination of sitting fees and other benefits for civil servants serving on SOE boards. As is the case in any country embarking on SOE reform, success will require strong political will from the highest levels of government.



# THE NATURAL ENVIRONMENT

**V**anuatu's natural environment is critical to livelihoods and the nation's principal export industries, particularly tourism and agriculture. But political commitment to the environment is lacking, the budget allocation to it is tiny, and the requirements of the Environmental Management and Conservation Act of 2002 are evaded. The Department of Environmental Management and Conservation, which is mandated by the act, has not yet been established, while the Environment Unit is underresourced.

Population growth, rural–urban migration, real estate and tourism developments, deforestation, invasive species, imported energy and transport goods, waste disposal, runoff into bays and lagoons, and increasing numbers of tourists are all causes of environmental change. Environmental management should be mainstreamed in government activities and accorded strong standing in all planning and development activities, whether public or private. The initial priorities are to

- Establish the Department of Environment and Conservation and position it in the government structure, possibly in the Office of the Prime Minister.
- Examine the potential for sustainable environmental financing through fees, charges, and performance bonds.
- Seek technical assistance from funding agencies to examine sustainable environmental financing through fees, charges, and performance bonds; develop a system for examining all policies, plans, and programs for their environmental outcomes.
- Establish a National Council on Sustainable Development and hold a national environment summit.

# KEY RECOMMENDATIONS

**T**he overarching principle in this report is the importance of government focus on its core roles of setting and administering the policy context for economic growth and development and establishing an enabling environment for private-sector investment and employment creation. This economic review makes the following key recommendations:

## Public Sector Management

- Fiscal structure reforms should be further advanced to widen the tax base and restructure expenditures.
- Repeal the 2008 amendments to the Employment Act.
- Review the government's approach to wage fixing and current level of wages.

## Health and Education

- Formulate a national human resources development strategy.
- Make increased use of nongovernmental organizations to deliver primary health care under an outsourcing approach.
- Accelerate efforts to improve teaching quality in the nation's schools.

## Private Sector and Productive Sectors

- Press forward with current initiatives to modernize the commercial legal framework.
- Continue to focus on improving access to credit, especially for small businesses.
- Focus on improving the land leasing system to make land property rights more secure for both customary landowners and those leasing land.

- Support the tourism sector through further economic reform, infrastructure development, and establishment of a sound enabling environment for private sector investment.
- Prioritize formulation of a national agriculture policy.

## Infrastructure

- Infrastructure reforms should focus on lowering costs, upgrading quality, and strengthening local contracting services for infrastructure maintenance.
- Improve roads, ports, wharves and jetties, and other transportation infrastructure in the rural areas and outer islands to enhance interisland transport. Prepare master plans for port and harbor development in Port Vila.
- Continued planning for rural airport maintenance is required as well as the preparation of a master plan for the upgrading of Bauerfield Airport.
- Effectively implement the rural electrification plan.
- Improve provision of rural and urban infrastructure services such as water supply, sanitation and waste management facilities.
- Implement the Vanuatu National Water Strategy 2008–2018.
- Develop a national urbanization policy and planning guidelines. Increase capacity in urban planning and management.

## Governance

- Restructure the SOE sector, with a particular focus on inefficient and expensive monopoly arrangements, through the establishment of a new legal framework, enhanced governance, and improved oversight arrangements.
- Continue land reform efforts and support the Land Sector Framework.
- Appoint an auditor general and upgrade staffing and administrative arrangements.
- Ensure that reports and recommendations of the ombudsman are acted upon.

## Environment

- Establish the Department of Environment and Conservation and position it effectively in the government structure, possibly in the Office of the Prime Minister.
- Give far greater priority to the natural environment and mainstream environmental issues in policy decisions.
- Ensure robust environmental management and monitoring plans as a prerequisite to the operation of fish-processing plants in Port Vila Bay and Mele Bay.

# APPENDIX

**Table A.1: Gross Domestic Product by Industry (Constant 1983 prices)**

	Millions of Vatu					
	2002	2003	2004	2005	2006	2007
<b>Agriculture, Fishing and Forestry</b>	<b>2,894</b>	<b>3,083</b>	<b>3,305</b>	<b>3,161</b>	<b>3,235</b>	<b>3,308</b>
Custom/traditional agriculture <sup>1</sup>	1,706	1,745	1,784	1,823	1,879	1,928
Export agriculture <sup>2</sup>	1,026	1,174	1,380	1,095	1,165	1,194
Other commercial agriculture <sup>3</sup>	74	74	71	90	97	84
Forestry and logging	87	91	70	153	94	102
<b>Industry</b>	<b>1,489</b>	<b>1,542</b>	<b>1,625</b>	<b>1,741</b>	<b>1,862</b>	<b>2,056</b>
Manufacturing	569	595	625	663	672	701
Electricity and water	414	410	424	442	454	484
Construction	506	537	576	636	736	871
<b>Services</b>	<b>11,061</b>	<b>11,311</b>	<b>11,883</b>	<b>13,005</b>	<b>14,139</b>	<b>15,185</b>
Wholesale and retail trade	4,849	4,854	4,773	5,316	5,967	6,417
Hotels and restaurants	890	812	922	979	1,086	1,232
Transport and communication	1,459	1,512	1,747	1,988	2,157	2,439
Finance and insurance	1,162	1,266	1,346	1,609	1,706	1,746
Real estate and business services	1,005	1,129	1,328	1,456	1,622	1,747
Government services	2,131	2,207	2,223	2,263	2,274	2,397
Personal services	157	157	158	160	171	193
Domestic services	137	143	149	155	162	169
Less imputed bank service charge	730	769	762	922	1,006	1,154
<b>GROSS DOMESTIC PRODUCT</b>	<b>15,444</b>	<b>15,936</b>	<b>16,813</b>	<b>17,907</b>	<b>19,236</b>	<b>20,549</b>
Resident population (mid-year estimate)	201,222	206,454	211,822	217,329	222,980	228,777
<b>GDP per capita</b>	<b>76,751</b>	<b>77,189</b>	<b>79,373</b>	<b>82,396</b>	<b>86,268</b>	<b>89,821</b>

Notes:

1. Includes production of fruit, vegetables, kava and other food items, and of livestock, poultry, fishing and household forestry activities

2. Includes copra, kava, beef, cocoa and coffee.

3. Includes fishing, poultry, fruit and vegetables.

Source: Vanuatu National Statistics Office, Government of Vanuatu. 2008. *National Accounts of Vanuatu 2007*. Port Vila.

Table A.2: Gross Domestic Product by Industry (Current prices)

	Millions of Vatu					
	2002	2003	2004	2005	2006	2007
<b>Agriculture, Fishing and Forestry</b>	<b>5,030</b>	<b>5,213</b>	<b>5,588</b>	<b>5,668</b>	<b>6,633</b>	<b>7,480</b>
Custom/traditional agriculture <sup>1</sup>	3,340	3,419	3,552	3,676	4,256	4,803
Export agriculture <sup>2</sup>	1,395	1,495	1,786	1,529	1,992	2,258
Other commercial agriculture <sup>3</sup>	130	127	121	166	188	204
Forestry and logging	165	172	128	297	197	215
<b>Industry</b>	<b>2,962</b>	<b>3,002</b>	<b>3,180</b>	<b>3,565</b>	<b>3,953</b>	<b>4,583</b>
Manufacturing	1,176	1,244	1,341	1,438	1,477	1,605
Electricity and water	701	683	675	810	917	1,037
Construction	1,094	1,075	1,164	1,317	1,559	1,941
<b>Services</b>	<b>23,965</b>	<b>25,970</b>	<b>28,094</b>	<b>31,154</b>	<b>35,358</b>	<b>39,916</b>
Wholesale and retail trade	9,219	10,523	11,122	12,611	14,436	16,076
Hotels and restaurants	2,372	2,163	2,461	2,633	2,940	3,462
Transport and communication	3,785	4,115	4,704	3,568	5,922	6,677
Finance and insurance	2,664	2,991	3,225	3,908	4,241	4,511
Real estate and business services	1,961	2,189	2,547	2,794	3,134	3,473
Government services	4,825	4,955	4,973	5,147	6,195	7,601
Personal services	383	391	403	422	450	525
Domestic services	429	459	485	509	535	562
Less imputed bank service charge	1,673	1,816	1,825	2,238	2,494	2,970
<b>GROSS DOMESTIC PRODUCT</b>	<b>31,957</b>	<b>34,185</b>	<b>36,862</b>	<b>40,387</b>	<b>45,944</b>	<b>51,979</b>
Resident population (mid-year estimate)	201,222	206,454	211,822	217,329	222,980	228,777
GDP per capita	158,815	165,582	174,023	185,833	206,045	227,204

1. Includes production of fruit, vegetables, kava and other garden products, as well as livestock, poultry, fishing and forestry output by households.

2. Includes copra, beef, kava, cocoa and coffee.

3. Includes fishing, poultry and fruit and vegetables.

Table A.3: Country Poverty and Social Indicators

Item	Period		
	1990	1995	Latest Year
<b>A. Population Indicators</b>			
1. Total Population (thousand)	196.9 (2000)	223.5 (2006)	235.0 (2008)
2. Annual Population Growth Rate (% change)	2.7 (2000)	2.6 (2006)	2.4 (2008)
<b>B. Social Indicators</b>			
1. Total Fertility Rate (births/woman)	4.9	4.7	3.8 (2006)
2. Maternal Mortality Ratio (per 100,000 live births)	–	96.3 (1998)	70.0 (2006)
3. Infant Mortality Rate (below 1 year/1,000 live births)	48	38 (2000)	28 (2008)
4. Life Expectancy at Birth (years)	63.5	65.7	70.0 (2008)
a. Female	65.0	67.3	72.1 (2008)
b. Male	62.0	64.2	68.3 (2008)
5. Literacy rate of 15-24 year olds (%)	34.0 (1989)	–	87.0 (1999)
6. Adult Literacy (%)	–	65.5 (1994)	78.1 (2006)
a. Female	–	62.5 (1994)	76.1 (2006)
b. Male	–	68.4 (1994)	80.0 (2006)
7. Primary School Gross Enrollment (%)	104.1 (2005)	99.3 (2006)	93.8 (2007)
8. Primary School Net Enrollment (%)	74.5 (1989)	78.2 (1999)	93.0 (2004)
9. Secondary School Gross Enrollment (%)	42.9 (2005)	47.5 (2006)	53.3 (2007)
10. Child Malnutrition (% below age 5)	–	–	12.1 (1996)
11. Population Below Poverty Line (%)	–	–	16.0 (2006)
12. Population with Access to Safe Water (%)			
a. Urban	93.0	–	75.0 (2006)
b. Rural	53.0	–	52.0 (2006)
13. Population with Access to Sanitation (%)			
a. Urban	–	–	78.0 (2000)
b. Rural	–	–	42.0 (2000)
14. Public Education Expenditure (% of GDP)	–	–	9.6 (2002-05)
15. Human Development Index Rank	140 (1998)	–	120 (2005)
16. Gender-Related Development Index Rank	–	–	103 (2006)
<b>C. Poverty Indicators</b>			
1. Poverty Incidence (basic needs, %)	–	40.0 (1998)	15.9 (2006)
2. Percent of Poor to Total Population (basic needs, %)	–	–	–
a. Port Vila	–	–	32.8 (2006)
b. Luganville	–	–	10.9 (2006)
c. Rural	–	–	10.8 (2006)
3. Poverty Gap	–	30.5 (1998)	5.6 (2006)
4. Poverty Severity Index	–	–	–
5. Inequality (Theil I Index)	–	–	–
6. Human Poverty Index	–	–	24.6 (2006)

– = not available, GDP = gross domestic product.

Sources:

Asian Development Bank. 2008. *Key Indicators*. Manila.

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Table A.4: Country Economic Indicators

Item	Fiscal Year <sup>a</sup>				
	2004	2005	2006	2007	2008 Projection <sup>d</sup>
<b>A. Income and Growth</b>					
1. GDP per Capita (\$, current)	1555.2	1701.3	1863.1	2159.5	2384.5
2. GDP Growth (% in constant prices)	5.5	6.5	7.4	6.8	6.6
a. Agriculture	7.2	(4.4)	2.3	2.3	3.7
b. Industry	5.4	7.1	7.0	10.4	13.7
c. Services	5.1	9.4	8.7	7.4	6.3
<b>B. Saving and Investment</b> (current and market prices, % of GDP)					
1. Gross Domestic Investment	—	—	—	—	—
2. Gross National Saving	16.4	20.2	23.8	—	—
<b>C. Money and Inflation</b> (annual % change)					
1. Consumer Price Index <sup>b</sup>	0.8	1.9	1.9	4.1	5.8
2. Total Liquidity (M2)	9.8	11.6	7.0	16.1	13.2
<b>D. Government Finance (% of GDP)</b>					
1. Revenue and Grants	21.5	21.7	21.8	23.1	28.6
a. Revenue	19.2	19.9	19.9	21.3	21.8
b. Grants	2.3	1.7	1.9	1.9	6.8
2. Expenditure	20.7	19.7	21.3	22.9	26.4
a. Current expenditure	18.6	17.9	19.0	20.2	19.6
b. Capital expenditure	2.0	1.8	2.2	2.7	6.7
3. Overall Fiscal Surplus (Deficit)	0.9	2.0	0.5	0.3	2.2
<b>E. Balance of Payments</b>					
1. Merchandise Trade Balance (% of GDP)	(20.9)	(23.4)	(23.2)	(27.3)	(34.5)
2. Current Account Balance (% of GDP)	(5.0)	(7.4)	(4.1)	(5.9)	(7.4)
3. Merchandise Export (\$) Growth (annual % change)	43.3	0.1	(1.1)	(21.3)	40.7
4. Merchandise Import (\$) Growth (annual % change)	22.9	16.9	7.7	25.0	42.4
<b>F. External Payments Indicators</b>					
1. Gross Official Reserves (including gold, in months of current year's imports of goods) <sup>a</sup>	5.8	5.4	7.8	7.1	4.8
2. External Debt Service (% of exports of goods and non-factor services) <sup>a</sup>	1.6	3.1	1.4	1.3	1.3
3. Total External Debt (% of GDP) <sup>a</sup>	24.2	19.8	16.7	14.1	14.1
<b>G. Memorandum Items</b>					
1. GDP (current prices, Vt billion)	36.9	40.4	45.9	52.0	58.1
2. Exchange Rate (Vt/\$, average) <sup>c</sup>	111.9	109.2	110.5	102.4	101.3
3. Population (million)	0.212	0.217	0.223	0.229	0.235

GDP = gross domestic product, Vt = Vatu.

<sup>a</sup> 2008 data are projections. 2006 and 2007 are preliminary estimates.<sup>b</sup> As at period end.<sup>c</sup> Period average.<sup>d</sup> Data as of May 2009.Sources: International Monetary Fund. 2009. *Vanuatu: 2009 Article IV Consultation*. Washington, DC.  
Government of Vanuatu, National Statistics Office. 2008. *National Accounts of Vanuatu 2008*. Port Vila.

Table A.5: Private Sector Credit—Lending by the Commercial Banks

Sector	Millions of Vatu					
	2003	2004	2005	2006	2007	2008
Agriculture	240.70	244.60	304.20	400.20	354.80	393.70
Fisheries	30.90	26.60	26.90	23.20	37.20	79.20
Mining and Quarrying	–	11.20	–	46.40	48.40	102.20
Manufacturing	852.40	487.60	1,117.40	1,069.30	1,387.20	1,357.00
Tourism	1,313.70	1,314.60	1,706.80	2,271.70	1,576.20	2,187.40
Entertainment and Catering	163.30	205.40	58.50	48.30	33.90	81.60
Transport	588.90	667.00	625.50	842.20	1,061.00	1,458.40
Public Utilities	9.90	7.50	6.60	5.70	11.20	10.00
Construction	2,731.30	2,710.00	2,917.60	2,180.10	2,151.60	3,645.20
Financial Institutions	48.60	138.70	121.60	154.30	128.50	170.70
Professional and Other Services	917.10	915.70	916.40	953.80	1,147.60	1,576.40
Housing and Land Purchases	2,260.50	3,592.70	4,386.50	5,453.80	7,599.00	10,518.60
Distribution	1,780.60	1,600.60	1,862.90	2,179.40	1,069.00	2,899.20
Personal: Other	3,423.90	3,147.30	3,736.50	3,377.40	5,350.90	6,563.80
Miscellaneous	203.80	933.20	828.40	1,602.80	1,377.30	2,504.00
<b>Totals</b>	<b>14,565.60</b>	<b>16,002.70</b>	<b>18,615.80</b>	<b>20,608.60</b>	<b>23,333.80</b>	<b>33,547.40</b>

Source: Reserve Bank of Vanuatu. Government of Vanuatu. *Quarterly Economic Review*, December 2008. Port Vila.