



## Asian Development Bank & Vanuatu

### FACT SHEET

**Table 1. Vanuatu: Development Indicators**

<b>Non-MDG</b>	
Population in millions	0.24 (2008)
Annual population growth rate (%)	2.6 (2006–2008)
Adult literacy rate (%)	78.1 (2007)
Percent of population in urban areas	
<b>MDG</b>	
Percent of population living on less than \$1.25 a day	...
Percent of population living below the national poverty line	40.0 (1998)
Under-5 mortality rate per 1,000 live births	34 (2007)
Percent of population using an improved drinking water source	59 (2000)

... = data not available, MDG = Millennium Development Goal.

Sources: ADB. 2009. *Key Indicators 2009*. Manila.  
UNESCO. 2009. Institute for Statistics Data Centre.  
World Bank. 2009. World Development Indicators Online.

Many of Vanuatu's 229,000 people live in rural areas, where infrastructure is often poor which, combined with the country's geographic isolation, contributes to a lack of job creation and poverty. Agriculture dominates the economy, employing more than 70% of the working population and representing 19% of gross domestic product (GDP). Fishing, offshore financial services, and tourism are other mainstays.

After a long period of low growth and falling per capita incomes, Vanuatu's economy has shown signs of improvement in recent years. Vanuatu experienced very strong growth from 2003 to 2007, which averaged 5.9% and totaled 33.1% for the period. Data are not yet available for 2008, but the Ministry of Finance and Economic Management estimates a strong growth outcome of 6.6% in real terms in 2008, and forecasts growth of 4.4% in 2009. Macro-economic stability has been maintained, thanks to prudent fiscal and monetary policies. Inflation has been contained at single digit levels, while official reserves have grown to close to 6 months of import cover. Gross domestic capital formation has averaged over 20% of GDP since 2002. Agricultural output increased through 2008, supported largely by very strong commodity prices in the middle of the year. However, in the December quarter, as the global financial crisis put downward pressure on commodity prices, domestic production of most commodities started to decline.

Ongoing political stability has led to improved confidence in the economy, and Vanuatu continued to be a destination of choice for tourism. Indeed, Vanuatu recorded a 19% growth in tourist arrivals in 2007, partly due to the increased air service to Vanuatu by Air New Zealand and Solomon Airlines. In 2008, the number of tourist arrivals continued to increase by 17% reaching 196,134. As a result, tourism earnings amounted to VT 16,304 million in 2008, 36% higher as opposed to 2007.

Recently, the Government of Vanuatu has undertaken a number of key economic reforms, such as opening of the telecommunications market, and a new Utilities Act in 2007 to strengthen the regulatory framework. Vanuatu's fiscal position has been stable for the past few years, with cuts in capital spending and improved tax collection helping the budget move from a deficit of 2.2% of GDP in 2002 to a surplus of 3.3% in 2005. However, the 20%–25% increase in civil servants' wages saw a return to a small deficit of 0.1% in 2007. In 2008, the Government sought to implement tight expenditure control and strengthened revenue collection which resulted in small budget surplus of VT 1,318.4 million.

The recent financial crisis triggered by the collapse of the subprime mortgage market in the United States has roiled financial markets around the world. There have been concerns in the Pacific and in Vanuatu that its effects could spill over into the region. Certainly, the value of offshore investments held by the region's superannuation and trust funds have lost value. Remittances and tourism revenues are likely to fall as economic activity in Australia, New Zealand, and the United States declines. Vanuatu may suffer indirectly as the crisis drives many high-income countries into recession. The financial system within the country has

lent heavily for property purchases and construction. If the property market declines in sympathy with similar declines in Australia and New Zealand, banks could find themselves holding substantial amounts of illiquid assets. In addition, further indications of a slowdown in major tourist markets of Australia and New Zealand could pose downside risks to visitor arrivals in the upcoming year.

The Government's development strategy prioritizes private sector development and employment creation; macroeconomic stability and growth; good governance and public sector reform; primary sector development; provision of better basic services, especially in the rural areas; education and human resource development; and economic infrastructure and support services.

## Relationship with ADB

Since joining the Asian Development Bank (ADB) in 1981, Vanuatu has received nine loans totaling \$51.25 million and technical assistance (TA) for 55 projects amounting to \$16.36 million. More than 50% of the loans were for infrastructure rehabilitation and more than 40% of the TA was for institutional support and capacity building. Due to a non-borrowing policy, there are no ongoing loan projects in the portfolio, but there are three active TA projects amounting to \$2.2 million.

There were no contract awards and disbursements in 2007. Cumulative contract awards and disbursements amounted to \$47.91 million and \$48.99 million, respectively.

The Asian Development Bank's (ADB) country strategy in Vanuatu aims for rapid, inclusive, and private sector-led economic growth. The following are ongoing activities: TA4457-VAN: Secured Transactions (ST) Reform; TA4856-VAN: Financial Services Commission – Institutional and Legal Reforms; TA7023-VAN: Expanding Access to Financial Services; and Loan 2183-REG: Establishment of the Pacific Aviation Safety Office / TA 6259-REG: Aviation Legislative and Regulatory Harmonization.

ADB's strategy supports the Priorities and Action Agenda 2006–2015 of the Government of Vanuatu and contributes to ADB's goal of poverty reduction. Three areas have been identified for possible future engagement, all of which address binding constraints to the country's development:

- sustainable development of Port Vila, which is of critical importance for tourism, public health, environmental sustainability, and employment creation;
- inter-island shipping, with a view to unlocking access to opportunities for the 80% of the population residing in the outer islands; and
- strengthening of urban–rural linkages by expanding and developing more efficient road and air services.

The Country Operation Business Plan (COBP) 2009–2011 can be found at [www.adb.org/Documents/CPSs/VAN/2008/COBP-VAN-2009-2011](http://www.adb.org/Documents/CPSs/VAN/2008/COBP-VAN-2009-2011).

ADB recently began an intensive dialogue with the Government on economic and sector work for the new Country Partnership Strategy (CPS) covering 2009–2013. ADB's future CPS will be broader than the current private sector development focus, but the latter will continue to be highly relevant and remain a cornerstone of the expanded strategy. Capacity development and the promotion of good governance remain cross-cutting priorities.

## Impact of Assistance

Recent ADB assistance has focused on increasing the potential contribution of private investment to the economy. In this area, ADB identified key issues and constraints for private sector investment that require policy action, including

- the high cost of doing business, reflected in input costs, as well as risks and transactions costs;
- difficulties in securing and enforcing contracts as a reflection of weakness of the existing commercial legal framework; and
- difficulties in mobilizing land for economic and productive uses.

The Rural and Microfinance Outreach TA program was approved in December 2003 to help provide better access to finance in urban and rural areas. It has helped expand rural financial services provided by

Table 2. Vanuatu: Economic Indicators, 2004–2008

Economic Indicator	2004	2005	2006	2007	2008
Per capita GNI, Atlas method (\$)	1,380	1,590	1,780	1,840	...
GDP growth (% change per year)	5.5	6.5	7.2	6.8	6.3
CPI (% change per year)	0.8	1.8	1.7	4.1	5.8
Unemployment rate (%)	...	...	...	...	...
Fiscal balance (% of GDP)	1.2	2.1	0.9	0.1	6.3
Export growth (% change per year)	43.3	0.1	-1.1	-42.4	46.8
Import growth (% change per year)	23.5	6.0	24.1	20.2	31.0
Current account balance (% of GDP)	-6.8	-6.1	-7.5	-9.9	-11.4
External debt (% of GNI)	38.8	23.9	21.9	23.1	...

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2009. *Asian Development Outlook 2009*. Manila.  
ADB staff estimates.

World Bank. 2009. World Development Indicators Online.

Table 3. Vanuatu: 2008 Loan, TA, and Grant Approvals (\$ million)

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
–	–	–	–	–
– = nil.				
Cumulative Lending (as of 31 Dec 2008)			: \$51.3 million	
Cumulative Disbursements (as of 31 Dec 2008)			: \$49.0 million	

Table 4. Vanuatu: Cumulative ADB Lending as of 31 December 2008

Sector	Loans (no.)	Amount (\$ million)	% <sup>a</sup>
Agriculture and Natural Resources	1	1.10	2.15
Finance	2	6.00	11.71
Law, Economic Management, and Public Policy	1	20.00	39.02
Multisector	3	15.00	29.27
Transport and Communications	2	9.15	17.85
<b>Total</b>	<b>9</b>	<b>51.25</b>	<b>100.00</b>

<sup>a</sup> Total may not add up because of rounding.

the National Bank of Vanuatu (NBV). The program also helped establish a microfinance task force in April 2005, and assisted in outlining a legal and regulatory rural and microfinance framework, performance indicators, and a monitoring and evaluation system.

In July 2004, ADB approved a TA grant of \$500,000 for the Medium-Term Strategic Framework, which funded implementation of the Priorities and Action Agenda (PAA) 2006–2015. The new PAA's strategic priorities include creating an environment for private sector-led economic growth, especially in agriculture, forestry, fisheries, and tourism. The TA to develop the medium-term strategic framework was well received and enjoyed wide support among development partners for its potential to improve donor coordination. Following the successful completion of the TA, the sustainability of the key outcomes, including the implementation of the PAA, is currently being supported by the Australian Agency for International Development (AusAID), Governance for Growth Program. The New Zealand's International Aid and Development Agency (NZAID) is also assisting the Government with implementation of an accurate development database that links to the budget through the Government's Financial Management Information system.

Vanuatu hosts the Pacific Aviation Safety Office, a regional organization established through an ADB loan that was approved in 2005. From its base in Port Vila, the Pacific Aviation Safety Office provides safety and security oversight and technical assistance to airlines, regulators, and airports in nine Pacific countries.

While a system of securing movable assets is fundamental in the development of an effective market for credit and longer-term capital formation, the existing system in Vanuatu governing collateral is largely ineffective and in need of reform. The development of a secured transactions system for chattels was initiated in November 2005. Promising progress is being made in establishing the legal and regulatory framework—the Secured Transactions Law was passed in April 2008, and efforts in developing a secured transactions registry are under way. The updated legal framework will permit farmers, consumers, and businesses to use movable property as collateral for loans, and the overall system will generate economic and social gains for creditors and debtors.

A TA for Vanuatu Financial Services Commission (VFSC) on Institutional and Legal Reforms was launched in March 2007 to update the legal and regulatory framework for business transactions. The TA will reform the laws and regulations constituting the companies,

bankruptcy and insolvency framework, develop a company registry reform road map, and provide an assessment of the Financial Services Commission to ensure high corporate governance standards and strong supervisory capabilities. The TA is progressing well, with the drafts of the respective reform Bills being completed and discussed among stakeholders. The final Bills will be presented to Parliament for enactment in 2009. Dialogue on reforms in Vanuatu has increased as a result of this project. ADB's engagement has expanded, covering more substantial policy issues at the institutional level in Vanuatu. Additional assistance in the area of corporate governance and risk management policies has been provided, with a Strategy Paper on the Future of Offshore Centre developed and presented to various stakeholders.

A major impediment to the development of local enterprises in Vanuatu is the restricted access to financial services, particularly in rural areas. ADB has previously provided TA to support sustainable microfinance activities through the National Bank of Vanuatu (NBV). A new TA, which began in August 2008, supports NBV's introduction of a new business model for bank agents in rural communities beyond the reach of present NBV branches. It is anticipated that this project could be a model for the rest of the Pacific.

The recent expansion of the telecom network through new entrant Digicel Pacific and recent technological advances have expanded the variety of technological options available to expand access to financial services in rural areas, including the use of mobile phones to deliver financial services, the equipping of mobile NBV officers with personal digital assistants for electronic transactions, and bringing NBV branches in rural areas permanently online.

Following the Vanuatu Government's Comprehensive Reform Programme Summit in March 2007, NZAID, in cooperation with ADB, undertook a joint shipping study to evaluate the current inter-

**Table 5. Vanuatu: Project Success Rates**

By Sector	Percentage <sup>a</sup>	No. of Rated Projects/Programs
Agriculture and Natural Resources	0.0	1
Finance	0.0	2
Law, Economic Management, and Public Policy	0.0	1
Multisector	66.7	3
Transport and Communications	100.0	1
<b>Total</b>	<b>37.5</b>	<b>8</b>
<b>By Year of Approval</b>		
1980s	25.0	4
1990s	50.0	4

<sup>a</sup> Based on aggregate results of project/program completion reports (PCRs), PCR validation reports (PCRVRs), and project/program evaluation reports (PPERs) using PCRVR or PPER ratings in all cases where PCR and PCRVR/PPER ratings are available.

Sources: PCRs, PCRVRs, and PPERs containing a rating circulated as of 31 December 2008.

**Table 6. Cumulative Nonsovereign Operations Portfolio Distribution by Top Countries, 1983–2008<sup>a,b</sup>**

Country	No. of Projects	Total ADB Approvals (\$ million)
India	37	2,268
People's Republic of China	21	1,694
Indonesia	15	879
Philippines	28	768
Pakistan	27	721
Kazakhstan	5	550
Thailand	10	319
Viet Nam	8	305
Sri Lanka	13	280
Bangladesh	8	242
Afghanistan	6	208
Lao People's Democratic Republic	1	100
Other DMCs	13	87
Azerbaijan	4	66
Nepal	4	59
Regional	36	930

DMC = developing member country.

<sup>a</sup> Includes nonsovereign projects processed by the Private Sector Operations Department and various regional operations departments of ADB. Regional operations departments started nonsovereign operations in 2007.

<sup>b</sup> Net of facilities cancelled in full before signing.

Source: Private Sector Operations Department.

island shipping situation, including the current enabling environment and related governance, management, and policy and regulatory framework issues. This study was completed in July 2008, with the Council of Ministers endorsing the major recommendations in December 2008. In upcoming years, ADB, in conjunction with NZAID, seeks to implement the project, which could include options for introducing measures supporting improved shipping services for remote, poorly served outer island communities. Eventually, this project will increase the coverage, reliability, and safety of inter-island shipping services; facilitate access to domestic and international markets; and increase income opportunities in remote areas.

## Future Directions

ADB's Country Program in Vanuatu aims at rapid, inclusive and private sector-led economic growth. ADB's future CPS will be broader than the current private sector development focus, but the latter will continue to be highly relevant and remain a cornerstone of the expanded strategy. Capacity development and the promotion of good governance remain cross-cutting priorities. ADB's strategy supports the PAA 2006–2015 of the Government of Vanuatu and contributes to ADB's goal of poverty reduction. This approach is fully consistent with ADB's Midterm Review of the Pacific Strategy for 2005–2009, and ADB's long-term strategic framework 2008–2020 (*Strategy 2020*).

ADB has recently started an intensive dialogue with the Government on economic and sector work for the new CPS covering 2009–2013. The new CPS will be fully aligned with the goals and objectives of the government's PAA and the near-term agenda identified under the Planning Long, Acting Short action program. ADB's assistance has been closely harmonized with the support underway and anticipated from the main development partners, most notably NZAID, AusAID and Japan International Cooperation Agency. ADB's assistance is to be focused on those areas in which ADB has a strong proven performance record, and for which the Government clearly demand's ADB's assistance. The strategy will be built on evaluation findings and lessons learned from past operations, and will be especially cognizant of the need to support an incremental process of policy change, to keep projects simple, and to ensure a high level of stakeholder participation. The CPS is expected to focus on urban development of Port Vila, inter-island shipping, and private sector development. Development of renewable energy will be pursued through regional technical assistance activities.

**Table 7. Vanuatu: Contractors/suppliers involved in ADB loan projects, 1 January 2004–31 December 2008**

Contractor/Supplier	Sector	Contract Amount (\$ million)
Telsat Pacific	Transport and Communications	0.01
Nomads Moorings	Transport and Communications	0.00

**Table 8. Vanuatu: Top individual consultants involved in ADB technical assistance projects, 1 January 2004–31 December 2008**

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants from Vanuatu*	3	0.01

\* Consultant may have one or more contracts within the period covered.

## Operational Challenges

Vanuatu's population pressures make sustainable economic growth essential. Even though its growth levels are respectable by Pacific standards, GDP per capita is lower now than 20 years ago, and the population outside the towns has not seen a rise in standards of living. A long-standing current account deficit reflects the economy's narrow base and susceptibility to global developments, such as increases in oil prices.

A number of binding constraints hinder the expansion of the economy. While the economy has been expanding and there have been positive signals regarding reform initiatives from the Government in some areas, in others, significant action is needed to ensure sustained growth. In many sectors of the economy, infrastructure services are poor, or high cost, or both. In particular, a private monopoly generates power, and electricity costs are among the highest in the Pacific developing member countries and availability is still limited. In addition, low rates of return on state-owned enterprise assets are harming growth. Enterprises owned by the Government are inefficient, which reduces growth and raises the cost of doing business in Vanuatu.

Weak governance and intrusive interventions by the State also reduce productivity. The recent establishment of the Agricultural Development Bank through an Act of Parliament puts it outside the regulation of the Reserve Bank or VFSC. Sound principles of regulation suggest that regulation of banking institutions should be consolidated under one regulator. Regulation of foreign investment is discouraging potential investors, especially in sectors other than property. It appears that the Government's focus is more on business regulation rather than promotion.

There is poor access to finance as currently, only 13% of rural adults have bank accounts, and an estimated 92,000 people need financial services. Without access to secure and convenient financial services, many rural households remain dependent on subsistence farming, limiting their participation in the formal economy and their ability to increase their contribution toward economic growth.

Land issues have the potential to create substantial conflict in the medium term. There are several problems:

- large numbers of new leases have often been consummated without full understanding of the implications on the part of landowners;
- lease structures contain potentially damaging incentive problems as in most leases, the largest portion of lease payments are made up front; and

**Table 9. ADB Assistance to DMCs, 2007–2008<sup>a</sup>**

	2007 (\$ million)	2008 (\$ million)	Change (%)
Lending	9,965.59	10,494.27	5.3
ADF Sovereign	1,892.84	1,789.56	(5.5)
OCR Sovereign	7,347.48	6,924.48	(5.8)
OCR Nonsovereign	725.27	1,780.23	145.5
Public Sector	10.00	300.00	2,900.0
Private Sector	715.27	1,480.23	106.9
Equity Investments	79.75	123.08	54.3
Grants	672.71	811.37	20.6
Technical Assistance	252.84	274.50	8.6

ADF = Asian Development Fund, OCR = ordinary capital resources.

<sup>a</sup> Excludes terminated loans, equity investments, technical assistance, and grants.

- there is a danger that heirs of the current owners will consider that lease agreements unfairly favored past generations, with potential for conflict in the future.

Recent improvements in land administration need to be accelerated. AusAID's current assistance in this area is a welcome development, but it is important to reduce delays in consummating land transactions.

Internal migration continues to fuel the expansion of urban squatter settlements, and unemployment continues to grow. Until the recent Recognized Seasonal Employer Scheme (RSES), introduced by New Zealand, Vanuatu had no access to migration and/or overseas work opportunities to reduce population pressures and provide remittances. RSES is currently successfully implemented, with more than 1,500 Ni-Vanuatu employed in New Zealand in 2008. In addition, in August 2008, the Government of Australia announced a 3-year pilot scheme for seasonal workers from four Pacific countries, including Vanuatu, to work in Australia's agriculture industry. The pilot scheme responds to strong interest from Pacific island communities and demonstrates Australia's new partnership with the Pacific. However, continuous efforts are required to maintain policy dialogue to ensure reforms remain a high priority and that the implications of remaining unreformed are made clear.

## Partnership

ADB regularly consults with government counterparts and development partners to reconfirm development priorities, constraints, and challenges. ADB supports government dialogue and consultation with stakeholders, including traditional leaders, local government leaders, the private sector, churches, and community groups.

ADB also cooperates with civil society organizations in Vanuatu to strengthen the effectiveness, quality, and sustainability of the services it provides.

## Cofinancing and Procurement

In recent years, ADB's program has been based on nonlending resources. However, progress in debt reduction in recent years increased the Government's willingness to return to borrowing in 2009. The Asian Development Fund (ADF) loan allocation for 2009–2010 has been set at \$11.7 million. Any future lending operations will be based on a thorough debt sustainability analysis, with consideration given to innovative approaches, such as loan buy-down mechanisms and the use of cofinancing partnerships to reducing financing costs. Flexibility will be important to allow ADB to respond to reform opportunities and complement the grant resources of other agencies, especially in transport and infrastructure.

Cofinancing operations enable ADB's financing partners—government or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing of ADB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products.

As of year-end 2008, cumulative direct value-added cofinancing for Vanuatu amounted to \$0.35 million for three TA projects.

As of 31 December 2008, 10,330 consultant contracts were awarded under ADB loan projects worth \$4.17 billion, of which three contracts were awarded to consultants from Vanuatu worth \$3.3 million.

From 1 January 1985 to 31 December 2008, 18,104 consultant contracts were awarded under ADB technical assistance projects worth \$2.33 billion, of which 18 contracts were awarded to consultants from Vanuatu worth \$2.0 million.

A summary of procurement contracts awarded to companies and consultants from Vanuatu for goods and works, and consulting services can be found at [www.adb.org/Documents/Fact\\_Sheets/Vanuatu/procurement.asp](http://www.adb.org/Documents/Fact_Sheets/Vanuatu/procurement.asp).



## About Vanuatu and ADB

Vanuatu is the 35<sup>th</sup> largest shareholder among regional members and the 43<sup>rd</sup> largest shareholder overall. It shares both positions with the Solomon Islands.

### ADB Membership

Joined	1981
Shares held	236 (0.01%)
Votes	13,468 (0.30%)

**Kyung-Hoh Kim** is the Executive Director and **James Tsuen-Hua Shih** is the Alternate Executive Director representing Vanuatu on the ADB Board of Directors.

The Pacific Liaison and Coordination Office (PLCO) was opened in 2005 and provides the primary operational link between ADB and the government, private-sector, and civil-society stakeholders in its activities. PLCO engages in policy dialogue and acts as a knowledge base on development issues in Nauru, Solomon Islands, and Vanuatu.

**Eugene Zhukov** is the Regional Director of PLCO.

The Vanuatu government agency handling ADB affairs is the Ministry of Finance and Economic Management.

## About the Asian Development Bank

ADB is a multilateral development bank owned by 67 members, 48 from the region and 19 from other parts of the world. ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance (TA). In 2008, lending volume was \$10.49 billion (86 projects), with TA at \$274.5 million (299 projects) and grant-financed projects at \$811.4 million (49 projects). This also generated \$1.65 billion in direct value-added cofinancing from financing partnerships operations. Over the last 5 years (2004–2008), ADB's annual lending volume averaged \$7.70 billion, with TA averaging \$231.5 million and grant-financed projects \$655.1 million. As of 31 December 2008, the cumulative totals were \$143.53 billion in loans for 2,147 projects in 41 countries, \$4.08 billion for 263 grant projects, and \$3.55 billion for 6,599 TA projects.

## Contacts

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### Useful ADB websites

Asian Development Bank  
[www.adb.org](http://www.adb.org)

Country website  
[www.adb.org/vanuatu](http://www.adb.org/vanuatu)

Asian Development Outlook  
[www.adb.org/Documents/Books/ADO/2009/SMALL-PAC.pdf](http://www.adb.org/Documents/Books/ADO/2009/SMALL-PAC.pdf)

Annual Report  
[www.adb.org/Documents/reports/annual\\_report/2008/](http://www.adb.org/Documents/reports/annual_report/2008/)

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