

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. In 2003, the economy expanded 3.2%—driven mainly by foreign investment, particularly in tourism and speculative land sales—and that growth has been maintained over the last 4 years. In 2004 and 2005, the economy grew an estimated 5.5% and 6.5%, respectively, rising to 7.2% in 2006 and 6.6% in 2007. Ongoing political stability has led to improved confidence in the economy and Vanuatu continues 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. This has coincided with a number of key economic reforms, such as discussion of the privatization of Vanuatu airlines, opening of the telecommunications market, and a new Utilities Act in 2007 that will strengthen the regulatory framework. These changes will contribute to a more competitive and efficient economy.

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 recent 20–25% increase in civil servants wages saw a return to a small deficit of 0.1% in 2007. Capital inflows from Foreign Direct Investment and donor aid have resulted in an increase in reserves and domestic liquidity.

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. There are no ongoing loan projects in the portfolio, but there are three active TA projects amounting to \$2.2 million.

Table 1. **Vanuatu:**  
**Development Indicators**

Non-MDG	
Population in millions	0.23 (2007)
Annual population growth rate (%)	3.1 (2005–2007)
Adult literacy rate (%)	74.0 (1999)
Percent of population in urban areas	24.0 (2006)
MDG	
Percent of population living on less than \$1 a day	26.0 (1998)
Percent of population living below the national poverty line	40.0 (1998)
Under-5 mortality rate per 1,000 live births	36 (2006)
Percent of population using an improved drinking water source	60 (2004)

MDG = Millennium Development Goal.  
 Sources: ADB. 2007. *Key Indicators 2007*. Manila.  
 ADB. 2008. *Basic Statistics 2008*. Manila.  
 UNESCO. 2008. Institute for Statistics Data Centre.  
 UNSD. 2008. Millennium Development Indicators Database Online.

Table 2. **Vanuatu: Economic Indicators, 2003–2007**

Economic Indicator	2003	2004	2005	2006	2007
Per capita GNI, Atlas method, (\$)	1,170	1,410	1,620	1,710	...
GDP growth (% change per year)	3.2	5.5	6.5	7.2	6.6
CPI (% change per year)	3.0	1.4	1.2	2.0	2.5
Unemployment rate (%)	...	...	...	...	...
Fiscal balance (% of GDP)	-1.8	1.2	3.3	0.5	-0.1
Export growth (% change per year)	32.4	43.3	0.3	-0.9	1.6
Import growth (% change per year)	16.7	22.2	17.9	12.6	10.3
Current account (% of GDP)	-10.1	-4.7	-6.1	-7.5	-9.5
External debt (% of GNI)	36.6	38.7	24.0	24.1	...

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

Sources: ADB. 2008. *Asian Development Outlook 2008*. Manila.  
World Bank. 2008. Global Development Finance Online.  
World Bank. 2008. World Development Indicators Online.

Table 3. **Vanuatu: 2007 Loan, TA, and Grant Approvals (\$ million)**

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
–	–	0.60	–	0.60

– = nil.

Cumulative Lending (as of 31 Dec 2007) : \$51.25 million  
Cumulative Disbursements (as of 31 Dec 2007) : \$48.99 million

Table 4. **Vanuatu: Cumulative ADB Lending as of 31 December 2007**

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
Total	9	51.25	100.00

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

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

Considering development challenges, related government priorities, ADB's comparative advantages, and the focus of other donor activities, ADB's strategy is focused on supporting sustainable, private sector-led economic growth. In implementing the strategy, ADB will undertake grant-financed advisory assistance and policy dialogue activities. ADB assists the Government in strengthening the legal business environment and improving access to finance, while policy dialogue will promote state-owned enterprise reform and improved infrastructure services. The success of this assistance will be measured, in part, by the Government's ability to manage the programs and to provide focused, stable leadership. Another success determinant will be the private sector's ability to deliver the services. Policy dialogue, in support of the grant activities, will be critical.

The Country Strategy and Program Update for 2006–2009 can be found at [www.adb.org/Documents/CSPs/VAN/2006/csp-van-2006.pdf](http://www.adb.org/Documents/CSPs/VAN/2006/csp-van-2006.pdf).

Preparation of a new Country Partnership Strategy is envisaged for 2009.

## 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 (i) the high cost of doing business, reflected in input costs, as well as risks and transactions costs; (ii) difficulties in securing and enforcing contracts as a reflection of weakness of the existing commercial legal framework; and (iii) 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 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 got wide support among development partners for its potential to improve donor coordination.

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 and developing a notice filing archive for secured transactions. The 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.

ADB, the World Bank, as well as the Australian Agency for International Development (AusAID) and New Zealand's International Aid and Development Agency (NZAID) have stepped up cooperation on Vanuatu's infrastructure sector through TA on Improving the Delivery of Infrastructure Services and a multidonor task force that includes the Pacific Islands Forum Secretariat. The TA grant provided by ADB totaling \$800,000 was approved in 2006. It will promote Private Public Partnership, regional cooperation, and cost and delivery efficiency as key elements of sustainable improvements.

The TA for Financial Services Commission 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 will be implemented over 24 months until March 2009. The TA is progressing well and in accord with its deadline. Draft of the companies', bankruptcy, and insolvency acts are expected to be prepared by May 2008. National elections will be held in or around June 2008, implying that the proposed bills will be submitted to Parliament at the end of 2008.

Following the Vanuatu Government's Comprehensive Reform Programme Summit in March 2007, NZAID, in cooperation with ADB, agreed to undertake a joint shipping study to evaluate the current inter-island shipping situation, including the current enabling environment and related governance, management and policy and regulatory framework issues. The aim is to support long-term sustained rural economic growth and improve service delivery.

In December 2007, ADB scaled up a successful microfinance development project with the NBV. A TA of \$600,000 will support NBV by introducing a new business model of bank agents in the rural communities beyond the reach of present NBV branches. These agents will enable much of the rural population, who presently do not bank, to establish and operate savings accounts and utilize account transaction facilities.

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 NBV. The new TA, approved in December 2007 for \$800,000, will support NBV by introducing a new business model of bank agents in rural communities beyond the reach of present NBV branches. Equipped with appropriate technology and communications equipment, these agents will enable much of the presently un-banked rural population to establish and operate savings accounts and utilize account transaction facilities conveniently. It is anticipated that the project could be a model for the rest of the Pacific. The TA will start on the second quarter of 2008 and will be implemented over 30 months.

The Vanuatu Government has acknowledged that there is an urgent need to improve efficiency and quality of domestic shipping services that should run commercially in a sustainable manner. In partnership with New Zealand, ADB is currently undertaking an inter-island shipping study. The study will assess the efficiency of service delivery and costs. This work will be completed in 2008.

## Future Directions

The country strategy will continue to focus on reforms in the financial sector and private sector development, especially improving the business environment. ADB is already working on a plan to help reform the company registration process in 2008. This work will complement ongoing activities on the secured transactions framework. To complement this program, ADB will also include Vanuatu in regional technical assistance (RETA) activities.

## Operational Challenges

Vanuatu's population pressures make sustainable economic growth essential. Even though its growth levels are respectable by Pacific

Table 5. Vanuatu: Project Success Rates

By Sector	Percentage	Evaluation (no.)
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
Total	37.5	8
<b>By Year of Approval</b>		
1990s	50.0	4
1980s	25.0	4

Table 6. ADB Assistance to DMCs, 2006–2007

	2006 <sup>a</sup> (\$ million)	2007 (\$ million)	Change (%)
<b>Lending</b>	7,389.29	10,105.60	36.76
ADF Sovereign	1,272.39	1,892.84	48.76
OCR Sovereign	5,541.90	7,347.48	32.58
OCR Nonsovereign	575.00	865.27	50.48
Public Sector	150.00	105.00	(30.00)
Private Sector	425.00	760.27	78.89
<b>Equity Investments</b>	250.50	79.75	(68.16)
<b>Grants</b>	534.40	672.71	25.88
<b>Technical Assistance</b>	241.18	243.44	0.94

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

<sup>a</sup> Adjusted to exclude terminated loans, technical assistance, grants, and equity investment.

standards, GDP per capita is lower now than 20 years ago, and the population outside the towns has not seen a rise in its standard 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.

Internal migration continues to fuel the expansion of urban squatter settlements, and unemployment continues to grow. Until the recent Recognized Seasonal Employer introduced by New Zealand, Vanuatu has not had access to migration and/or overseas work opportunities to reduce population pressures and provide remittances. The pressure to create jobs continues to mount. Continuous effort at policy dialogue is required to ensure that reforms remain a high priority and that the implications of not reforming 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

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 2007, cumulative direct value-added cofinancing for Vanuatu amounted to \$0.35 million for three

TA projects. A summary of investment projects with cofinancing is available at [www.adb.org/Documents/Fact\\_Sheets/Vanuatu/cofinancing.asp](http://www.adb.org/Documents/Fact_Sheets/Vanuatu/cofinancing.asp).

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.

**Naomi Chakwin** 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). Over the last 4 years (2004–2007), ADB's annual lending volume averaged \$7 billion, with TA averaging \$218 million and grant-financed projects \$616 million. In 2007, lending volume was \$10 billion, with TA at \$243 million and grant-financed projects at \$673 million.

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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/2008/SMALL-PAC.pdf](http://www.adb.org/Documents/Books/ADO/2008/SMALL-PAC.pdf)

Annual Report  
[www.adb.org/Documents/reports/annual\\_report/2007/](http://www.adb.org/Documents/reports/annual_report/2007/)

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