

# **SOCIAL ECONOMICS, POLICY AND DEVELOPMENT**

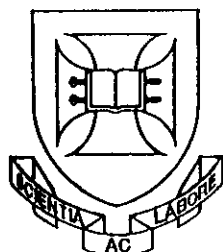
**Working Paper No. 11**

**The Development of Vanuatu:  
An Analysis of Trends, Issues and Policies**

**by**

**Clem Tisdell**

**May 2000**



**THE UNIVERSITY OF QUEENSLAND**



ISSN 1442-8563  
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(Working Paper)

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\* This is a background paper used by the author as an input in preparing a report for the UN on the least developed Pacific island nations in relation to the UN "Final Review of the Implementation of the Programme of Action for the Least Developed Countries for the 1990s". The views expressed in this paper are those of the author and do not necessarily reflect the views of the United Nations.

† I sincerely wish to thank all those interviewed in Vanuatu (see appendix) for their assistance as well as many outside of Vanuatu who gave assistance. The usual *caveat* applies.

WORKING PAPERS IN THE SERIES, *Social Economics, Policy and Development* are published by the Department of Economics, University of Queensland, 4072, Australia. They are designed to provide an initial outlet for papers resulting from research funded by the Australian Research Council in relation to the project 'Asset Poor Women in Development',

Chief Investigator: C.A. Tisdell and Partner Investigators: Associate Professor K.C. Roy and Associate Professor S. Harrison. However this series will also provide an outlet for papers on related topics. Views expressed in these working papers are those of their authors and not necessarily of any of the organisations associated with the Project. They should not be reproduced in whole or in part without the written permission of the Project Leader. It is planned to publish contributions to this series over the next few years.

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**THE DEVELOPMENT OF VANUATU:  
AN ANALYSIS OF TRENDS, ISSUES AND POLICIES**

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**Abstract**

*Vanuatu is one of the five least developed Pacific island nations according to the classification of the United Nations. This article reviews the situation of Vanuatu in relation to its development generally but paying particular attention to*

- *public and private finance;*
- *social issues such as education and health;*
- *its trade and external balance and*
- *economic infrastructure.*

*Policy suggestions are made in relation to each of these matters and an assessment given of the development status of Vanuatu.*

# **THE DEVELOPMENT OF VANUATU: AN ANALYSIS OF TRENDS, ISSUES AND POLICIES**

## **1 INTRODUCTION**

The Republic of Vanuatu is located in tropical waters about 1300 kms of the east coast of Queensland and 500 kms from Noumea (New Caledonia). It is archipelagic in nature consisting of 80 islands stretching from the Solomon Islands in the north to New Caledonia in the south and flanked on its eastern side by the Fiji Islands. Most of these islands are volcanic in origin which means that the soil on the whole is richer than in coral atoll countries such as Kiribati and Tuvalu.

The total land area of Vanuatu is 12, 190 km<sup>2</sup> and its eight largest islands account for 85% of its land mass. Only 68 of its 80 islands are inhabited. In 1997, its total population was estimated to be 177, 400 giving a density of 15 persons per km<sup>2</sup>, a low density compared to Kiribati and Tuvalu. It is estimated that in 1998 the population had reached 182,0 00 of which more than 98% were Niu Vanuatu. Both the number and percentage of Europeans and others in Vanuatu's population has declined significantly since 1983. The majority of Niu Vanuatu are Micronesian.

Vanuatu was jointly administered by Great Britain and France before it achieved its independence in July, 1980 and its colonial history and general historical background continue to influence the national characteristics of Vanuatu.

The country has a dualistic economy. Approximately 80% of its population as at June 1998 were located in rural areas and were mainly involved in subsistence and semi-subsistence economic activities. The main settlements are at Port Vila, the capital located on Efate island, and Luganville located on Sanma island. The population in Port Vila has more than tripled since the beginning of the 1980s and that in Luganville has more than doubled. There is a significant drift of population towards these urban centres but the vast majority of Vanuatu's population is still to be found in rural areas.

The three national languages of Vanuatu are Bislama, English and French but there are very many local languages and cultural differences. These add to the costs and difficulties of administration of the country. Tribal loyalties remain very strong and, as in Africa, this tends to influence the political loyalties of politicians. Furthermore, the sharing of economic gains amongst extended family members plays a strong role in society. ADB (1997, p.1) reports that land ownership is closely integrated into the indigeneous culture, and custom “relationships restrict the use of land for economic development”. Most land belongs to tribal groups and is not available for sale as in most Western economies.

According to UNDP (1999), Vanuatu was one of the most economically and socially disadvantaged Pacific Islands in 1998. Only the Poverty Index for the Solomon Islands and PNG was lower and Vanuatu also had the third lowest Human Development Index of the Pacific island nations. Compared to many other Pacific island countries, its GDP per capita showed little increase in the 1990s compared to the 1980s. In 1998, its GDP per capita was estimated to be US\$1,231. While GDP understates gross national incomes in many Pacific countries (eg. Samoa, Tuvalu and Kiribati), this understatement is less so for Vanuatu because it receives few remittances.

Access to health services in Vanuatu is one of the lowest in the Pacific with 20% of the population having no such access. Educational access is also relatively poor. Only a little over 70% of children aged 10-14 years were at school in 1998, an attendance rate only worse in the Solomon Islands and PNG (UNDP, 1999, p.36). Literacy rates both for females and males were extraordinarily low with significantly less than 40% of the adult population literate. There is also significant evidence of a major degree of gender inequality which appears to be characteristic of Melanesian cultures but not markedly so for Micronesian and Polynesian cultures.

With this background in mind let us now consider the main economic and financial features of development in Vanuatu, social issues such as education and health, its external balance and debt and the state of its infrastructure.

## **2 ECONOMIC AND FINANCIAL SITUATION OF VANUATU**

### **2.1 National Development Plans and Resource Gaps**

While Vanuatu has had National Development Plans, it is moving away from its previous form of planning towards strategic planning following reforms proposed by ADB (1997) and the “National Economic Summit” which was also proposed by ADB. This has implications for the National Planning Office. It is expected that it will no longer continue to exist as an independent entity. Some of its major functions will be merged into the Ministry of Finance.

ADB proposed that output-based budgeting and performance criteria be introduced in the public services and combined with greater decentralisation of responsibility. According to ADB (1997, p.278):

“The move to decentralization entails moving the sectoral planning functions of the National Planning Office into the operational departments where the expertise will be essential to the perfection of departmental plans and budgets required in the output budgeting exercise. The control component of the National Planning Office will fit naturally into the Ministry of Finance, where it will strengthen the national planning process”

ADB (1997, p.278) also recommended that “a Policy Analysis Unit [be created] within the Ministry of Finance ...., whose role would be to facilitate the policy debate through preparation of a continuous series of papers, raising issues common to reform and sound governance in the public sector”.

While there may be much to be said for the ADB recommendations, care should be taken to ensure that there is a relatively independent unit which is concerned with longer-term economic development and policy issues. There may be a tendency for operational departments to be overwhelmed by short-term issues to the neglect of long-term



considerations. It cannot be assumed that the latter will disappear in a structurally reformed economy.

ADB also brings attention to the lack of a formal development budget in Vanuatu and expressed concern about the processes involved in allocating development funds. Funding from aid sources appears to have lacked coordination. In addition, a considerable amount of development expenditure has been approved by the Special Projects Implementation Committee (SPIC). ADB (1997, p.278) states that:

“The SPIC system has undermined the authority of Parliament and led to substantial deficit financing in 1993-1995. It is suggested that the output budgeting exercise includes a formal development budget for presentation to Parliament”.

As indicated in ADB (1997), there is some doubts about the reliability of economic statistics produced by the Vanuatu Statistics Office in the past. Caution has been recommended in drawing inferences from these statistics. The Statistics Office has recently been relocated so that it is in the main building housing the Ministry of Finance where the Office will have greatly improved computing facilities. It is very difficult to formulate policies confidently when statistical data are in doubt. For this reason, there is some misgivings about estimates of savings rates in Vanuatu and therefore estimates of its resource gap.

The resource gap is the difference between gross domestic investment and gross domestic savings. This gap as a percentage of Vanuatu's GDP declined in the 1990s indicating that an increasing share of GDP was used to finance investment in Vanuatu. According to official figures (see Table 1), Vanuatu's gross domestic savings as a percentage of GDP rose substantially in the 1990s to almost 25% of its GDP in 1995 but ADB (1997, p.7) suggests that these savings figures are not entirely reliable.

INSERT TABLE 1

Nevertheless, it is clear that Vanuatu obtained significantly less foreign aid in real terms and in proportion of its GDP in the 1990s than in the 1980s. Net current transfers are comprised mostly of donor aid. These transfers declined from 30.9% of Vanuatu's GDP in 1983 to 12.4% in 1995, as can be seen from Table 1. Hence Vanuatu has been penalized by the reduced generosity of donors in providing aid in the 1990s compared to the 1980s.

## **2.2 Public Finance in Vanuatu**

According to ADB (1997, p.i), "since independence, Vanuatu has managed to achieve a stable macroeconomic and financial environment. Although economic growth has been modest, and inflation has been low, the Government has managed to avoid excessive budgetary deficit financing and external debt obligations are moderate". Nevertheless, at least between 1989 and 1995, the Government consistently had an overall budget deficit which was financed from a combination of external sources and domestic ones including the issue of bonds to other than the banks. This situation is illustrated by Table 2.

### **INSERT TABLE 2**

Recurrent public revenue in Vanuatu is highly dependent on tax revenue and over two-thirds of tax revenue in the period 1989-1997 was derived from trade taxes, mostly import taxes, as can be seen from Table 3. With economic reforms in Vanuatu, import duties as a proportion of recurrent budget revenue can be expected to fall considerably. Unlike in the case of Kiribati and Tuvalu, royalties or income from fishing licenses are not a significant component of revenue for the Government of Vanuatu.

### **INSERT TABLE 3**

Total recurrent expenditure by ministry is shown in Table 4 (ADB, p.355). This reveals that the major outlay is for Education, Youth and Sport which accounted for 22% of the total expenditure of all ministries in 1996. Health involved a significant outlay but only accounted for 10% of total ministerial expenditure in 1996.

#### INSERT TABLE 4

It should be noted that in recent years Vanuatu has received virtually no grants towards its recurrent revenue for public finance. Furthermore during the 1990s its capital growth from abroad declined sharply compared to 1989 (and the 1980s generally) as is apparent from Table 5. This means in effect that grants as a source of foreign assistance to Vanuatu have declined substantially in importance and that Vanuatu has been required to depend to an increasing extent on its own resources.

#### INSERT TABLE 5

Table 6 provides updated information on the public finance of Vanuatu. It can be seen that for 1998 taxes of various types remain the major source of total recurrent revenue. Although a value-added tax was introduced in 1998, it did not account for a large proportion of total tax revenue in that year. In fact in 1998, import duties remained the major source of recurrent revenue accounting for more than a half of total recurrent revenue.

On the expenditure side, the major outlay continued to be for education (23.5% of the total recurrent expenditure) followed by public works (15.5%) and behind internal affairs, health (12.2%).

#### INSERT TABLE 6

### **2.3 Economic Reforms, especially Public Sector Reforms**

From the point of view of small government, Vanuatu in 1997, before it began on its reform process, seemed to come close to satisfying one ideal of the 'Washington consensus'. ADB (1997, pp.103-104) points out that within the Pacific Vanuatu has a low number of Government employees per one hundred inhabitants and states that:

“It is reasonably clear that, unlike Pacific nations such as the Cook Islands, public sector reform does not necessarily have to start with, or have a compelling imperative to, immediately reduce the size of the public service”.

In addition, many utilities e.g. electricity, telecommunications and water, are supplied by private companies.

Nevertheless, ADB (1997, pp.105-106) expresses substantial concerns about governance issues relating to the public sector. The implication is that unsound governance in the public sector is a major problem and reduces the economic efficiency of public service operations. It recommended greater accountability, participation, predictability and transparency in public sector operations. Vanuatu is now in the process of trying to bring about the required changes in its governance of the public sector but appears to have carried out these reforms less rapidly than Kiribati, Samoa and Tuvalu.

On the advice of the ADB and following The National Summit, the Republic of Vanuatu adopted a Comprehensive Reform Programme in June 1997. A Comprehensive Reform Programme Coordination Office in the Office of the Prime Minister was established to oversee implementation of the reforms. The reforms cover a mixture of proposals closely associated with structural adjustment policies – that is policy designed to create a public sector which only concentrates on ‘core’ functions, extends the operation market systems to the maximum extent possible, increases the degree to which the economy is open to the rest of the world, and facilitates the globalisation process. Emphasis is on private sector-led growth and improvements to public sector efficiency.

It is proposed that the Government will withdraw from most of its commercial activities, even though the Government does not have a large portfolio of these. It is envisaged that there will be “a general shift towards a more open economy, oriented towards exports rather than potential import-substitution. The introduction of a value-added tax (VAT) while turnover tax and most export taxes are abolished, and import duties are significantly reduced, will help to create a much friendlier environment for exporters”

(Comprehensive Reform Programme Coordination Office, 1997, p.5). In addition, measures are proposed to facilitate foreign investment, a part of liberalizing international capital and investment flows.

As for public sector reform, performance budgeting is proposed for the public sector but appears that the process of doing this had not been completed by mid-1999.

Some concern was also expressed by ADB about the performance and charges of private companies supplying electricity, water and telecommunications in Vanuatu. A regulatory regime is suggested. However, instituting such a regime in a small economy may not be an easy exercise. For example, regulators may have limited knowledge of the economics of operation of the regulated industry and may be subject to 'political capture'.

#### **2.4 External Financing and Public Debt**

From Table 6 it appears that the Vanuatu Government has been reducing its domestic borrowings in recent years but its bond payments have risen indicating that bonds may have been substituted for domestic loans. Interest and service charges on foreign loans have declined somewhat. A careful fiscal policy has been followed by Vanuatu in the past. Virtually all of Vanuatu's external debt appears to be financed via official concessional loans. Nevertheless, as mentioned earlier its reliance on loans for financial purpose, particularly external loans is now greater than in the 1980s.

Indeed, there has been a significant increase in Vanuatu's public debt since 1997. In 1999, the Government's outstanding debt is expected to be of the order of VT 12.000 million of which about a quarter is domestically held and about three-quarters external debt (Reserve Bank of Vanuatu, 1998, p.10). Its external debt is now in excess of 20% of its GDP. ADB (1997, p.39) warned that Vanuatu cannot continue to increase its debt, especially its external debt, at the recent rate. Such increases are not sustainable in the long run. Nevertheless ADB has been an important source of its recent loans.

This increase in Vanuatu's debt since 1997 follows an extremely rapid rise in its external debt in the late 1980s from a low level to a relatively stationary level in the period 1992-1995 (ADB, 1997, p.38). Official foreign loans are both bilateral and multilateral and it seems that ADB has been providing an increasing proportion of Vanuatu's loans.

## **2.5 Encouragement of Foreign Direct Investment and External Financial Flows**

Concerning foreign investment in Vanuatu, ADB (1997) considered it to be insufficiently supported. Following on from this the Vanuatu Comprehensive Reform Programme, 1997, mentions:

“The policy stance with regard to foreign investment is ambiguous at present. But foreign investment has an important role to play in national development, not only to inject more risk capital in to the economy but to bring into the country better management and technical expertise and access to export markets” (Comprehensive Reform Programme Coordination Office, 1997, p.30).

A related aspect which is emphasized is a proposal to alter the land tenure system. But this proposal may be difficult to put in to effect because it clashes with custom and traditional cultural mores. The reform document states:

“The land is the country's principal resource, culturally and economically. There is a pressing need to reform the land tenure system to establish clear ownership of land; to allow leases to be issued, transferred and used as security for loans; and to set up Lands Tribunals which recognise the role of customary chiefs” (Comprehensive Reform Programme Coordination Office, 1997, p.6). The proposal itself is slightly open-ended. Nevertheless, it does bring attention to the fact that land is not usually regarded as a marketable commodity in many Pacific Island counties, unlike in Western counties. Cultural factors influenced by stages of economic development help to explain the difference. From a policy point of view, it would be folly not to take the difficulties of cultural change into account in policy design.

## **2.6 Domestic Finance and Financial Markets**

The fact that much land in Vanuatu remains communal property does limit its use as collateral for private loans, and this helps shape the financial sector in Vanuatu, as it does similarly in most of the least developed Pacific islands.

A comprehensive review of the financial sector of Vanuatu is given in ADB (1997, Ch.2). Vanuatu has a central bank, the Reserve Bank of Vanuatu, and four commercial banks, three foreign ones (ANZ Bank (Vanuatu Ltd), Banque de Hawaii (Vanuatu Ltd and Westpac), and the government-owned National Bank of Vanuatu.

ADB (1997, p.44) states that the non-bank financial sector of Vanuatu is “underdeveloped, capital markets are virtually non-existent, and the major players are all public sector entities. The existing non-bank financial intermediaries include; the Development Bank of Vanuatu (DBV), the Vanuatu National Provident Fund, and the National Housing Corporation (NHC)”. ADB suggests that this sector has been quite effective in mobilizing savings in Vanuatu but inefficient in investing these. However, at the end of October 1998 DBV ceased operations.

The National Provident Fund, for example, only paid its members 3% per annum on their funds (the statutory minimum) and made a small loss in recent years. Its investment policy had been subject to political influence. “The contributions of members are invested by the Board (of NPF) having regard to the interests of members of the fund and the need to assist in the financing of the country’s economic and social development” (ADB, 1997, p.54). Politicians appear to have taken advantage of the latter premise to influence the allocation of funds by NPF. ADB suggests that the main emphasis be placed on the first part of its objective, that a greater proportion of funds be invested overseas and the services of professional financial fund managers be sought.

As with many other development banks in the region, the Development Bank of Vanuatu (DBV) continued to make losses in the 1990s and accumulate bad debts which forced it to curtail its operations and close branches on the outer islands. On October 30, 1998

DBV ceased operations. Its performing assets were transferred to the National Bank of Vanuatu and its non-performing assets transferred to the Asset Development Unit of the Government. Similarly, the National Housing Corporation accumulated significant deficits and became relatively ineffective in the 1990s.

It was not possible in the time available to investigate the availability of micro-finance in Vanuatu and the regional availability of financial services. Nevertheless, it seems likely that financial services are skewed in favour of urban areas, especially Port Vila, with the commercial banks concentrating their activities there.

It has been noted that the National Bank of Vanuatu arose out of Vanuatu cooperative movement. It began operations in 1991 with a view to increasing the availability of finance to ni-Vanuatu. It was still struggling to become profitable in 1997. Since it is a commercial bank, one wonders whether its creation reduced the availability of micro-finance in Vanuatu as a result of displacement of provision of finance by cooperatives.

While the Reserve Bank of Vanuatu engages in open-market operations, the capital market of Vanuatu is relatively underdeveloped, even though Vanuatu has an offshore financial centre providing a tax haven for overseas investors.

A dual financial system appears to prevail in which urban areas and larger scale commercial enterprises are favoured for loans, with those involved in semi-subsistence rural activities (particularly females) finding it difficult to obtain finance because of lack of collateral and the high transaction costs experienced by lenders in arranging and servicing small loans. In many cases, the returns on such funds may be low further adding to the economic unattractiveness of the provision of rural micro-finance, and bad debts constitute a problem, as highlighted by the experience of DBV.

Clearly gaps do exist in the financial system in Vanuatu. It is, however, unclear how these gaps can be filled economically as indicated by the negative experiences of



development banks in this region, including DBV, most of which have made substantial losses, accumulated considerable bad debts and have required continuing outside injections of funds to remain viable.

## **2.7 Recommendations**

- The total recurrent revenue of Vanuatu's Government is less volatile than in the case of Kiribati and Tuvalu because its economy is more diversified. Therefore it has less need for foreign-invested trust funds as a means for fiscal stabilisation. Nevertheless, it may be worth exploring the possible value of a fund of this nature for stabilisation or for development purposes. In the latter respect, an outer island/provincial fund similar to that established for Tuvalu could be considered.
- The resource gap for Vanuatu declined as a percentage of its CDP in the 1990s. This indicated that Vanuatu had become more reliant in its own savings for capital accumulation. To some extent, this was necessitated by reduced foreign aid, especially in the way of grants. Loans rather than grants increasingly became the preferred manner of providing aid. Although these are soft loans from official donors, they nevertheless create a burden for the recipient and therefore have to be assessed with care. Vanuatu should continue to exercise prudence in accepting such loans, especially now because of its increased indebtedness.
- A major problem in Vanuatu has been the governance of the public sector, particularly political interference in the operations of the public service. If the recommendation made in the Comprehensive Reform Programme 1997 are followed this will help increase the efficiency of operations of the public sector. Performance budgeting and accounting has an important role to play as well as transparency. Vanuatu appears to have been slower than a Kiribati, Samoa and Tuvalu in its public sector reforms, although some progress had occurred by mid-1999.
- It remains unclear just how the effective proposed reforms will be in stimulating economic growth by providing an improved environment for private business. It is imagined that private business will become "the engine of growth" in Vanuatu but there has been little objective assessment of how strong that engine is likely to be. Many in Vanuatu seem sceptical but it is clear that ADB (1997, pp.xiv-xv) has major

expectations as to the success of the strategy. It states: “ The reform programme is envisaged to improve economic performance significantly and is driven through two main forces: diversification in agriculture and tourism expansion. Together these two forces increase the demand for investment and construction, and growth in the economy accelerates”. Accelerating economic growth is predicted with GDP growth averaging 5.8% in the period 2000-2005. This does not, however, seem to be carefully modeled and the prediction could prove to be ‘pie-in-the-sky’.

- Any reforms which are undertaken need to be in accordance with cultural acceptability. The speed of reform needs to conform cultural acceptance. For this reason, land reforms may proceed more slowly than envisaged.
- The scope for reducing the size of Vanuatu’s public service seems limited (nevertheless in 1998, 168 government employees received redundancy notices as part of ‘rightsizing’ according to the Comprehensive Reform Programme) and concerns have been expressed about the pricing and other aspects of the supply of its public utilities by private companies. This suggests that privatisation of public enterprises in the Pacific islands is not enough in itself to ensure the economically optimal supply of utilities.
- It seems that Vanuatu has not been as supportive of foreign investment as it could otherwise be. Reforms could encourage more foreign direct investment, although it may be overly optimistic to expect a major surge in such investment since economic opportunities in Vanuatu are limited and many countries are in competition for investment funds.
- Domestic financial markets are ‘patchy’ and relatively underdeveloped, and exhibit urban bias. With the demise of DBV, a new study of micro-finance seems warranted. More consideration needs to be given to the purpose of providing ‘concessional’ finance.

## **1 SOCIAL ISSUES**

### **3.1 Introduction**

By world standards Vanuatu is in an inferior development situation (as the following data from UNDP, 1999, highlights) or shows a low level of human development by widely

accepted indicators. For the most recent year available, it only had a HDI of 0.4265. It had a Human Poverty Index equivalent to that of Cote d'Ivoire, lower than Pakistan and only marginally higher than Bangladesh. Only the HPI values in the Pacific for the Solomon Islands and Papua New Guinea were lower. Females appear to have been empowered little, using conventional indicators, and this reflects the cultural situation in conventional Micronesian society. In many respects, women are socially and economically disadvantaged in such societies.

The poverty situation of Vanuatu and the Solomon Islands in comparison to Tuvalu, Samoa and Kiribati is marked. By most social indicators, Vanuatu and the Solomon Islands involve disparities of concern, especially given that the situation of the other Pacific countries just mentioned are far from satisfactory. Let us in turn consider aspects of education, health and some miscellaneous social issues.

### **3.2 Education**

In proportion to its recurrent Budget, Vanuatu's expenditure on education, which now exceeds 20% of the Budget, seems generous. But given the low level of public expenditure of Vanuatu, public expenditure per capita on education may be low.

In any case, there are worrying features. According to UNDP (1999, p.16) gross enrolment ratios in Vanuatu's schools actually fell from 64% in the 1980s to around 57% in the 1990s. This also indicates that many school-age children are not attending school. Furthermore, illiteracy rates remain high – 66% of Vanuatu's population in the 1990s still remaining illiterate. Illiteracy is highest among females with 70% believed to be illiterate compared to 63% for males. Enrolments of males both at primary school and at secondary school exceed that for females indicating a gender bias in the system. It ought to be a concern that probably 28% of children do not receive adequate primary education.

Vanuatu struggles under many disadvantages with its educational system because of the multiplicity of regional languages (mother-tongues) in the country and the fact that there

are three national languages. The archipelagic nature of the country further adds to the cost of providing education.

In addition, its population increase has been relatively rapid at 2.7% per annum which adds to Vanuatu's requirements for new schools and expansion of existing ones.

Most school education is supplied by the state but there are some church and private schools, particularly at secondary level in Port Vila. ADB recommends that "the ownership of schools by communities and the private sector should be encouraged" (ADB, 1997, p.240). While this should ensure that users bear a higher proportion of the costs of education, it may disadvantage children in poor communities as well as the children of the poor and reduce equality of opportunity.

Lack of places at higher levels of school education limit the possibilities for many children in Vanuatu to extend their education. The availability of school places tapers off very sharply after primary school. While this has been much criticized by international bodies, it may be that tapering off is appropriate to the manpower needs of Vanuatu. The real question is whether tapering-off in opportunities is too sharp and whether merit is the main desideratum of educational advancement of students. Extension of the period of universal education for all can be costly and may not give high economic returns in countries which have little economic development. Education on its own is not a magic wand for economic development, even though a strong case can be made out in favour of universal basic education.

As is common for many least developed Pacific island nations, the quality of education and facilities in Vanuatu is variable. For instance, ADB suggests that the training of some teachers is inadequate and that curricula show a significant degree of irrelevance, a matter presumably which would be subject to some disagreement.

Vanuatu has not engaged in major investment in tertiary education institutions, at least not to the extent of major duplication of regional facilities, as Samoa and to some extent

the Solomon Islands have done. It relies, for a range of courses, on the University of the South Pacific. It has specialised vocational schools for nurses, agriculture, police and a primary school teachers college, as well as other technical and vocational centres. A small number of private-operators also provide training courses e.g. secretarial and book-keeping/accounting courses. Persons requiring specialized tertiary qualifications are usually sent abroad for training, mostly on scholarships. There was insufficient time to investigate the efficiency of the provision of tertiary education in Vanuatu, but the system does not on the surface appear to be highly inefficient. Nevertheless, overseas training in particular remains highly dependent on scholarships provided by donors and makes an important contribution to the training of Vanuatu's teachers.

### **3.3 Health**

The health of Vanuatu's population remains a concern but it has improved in recent times. For example, life expectancy in 1979 was 55 years, rose to 63 years in 1989 and latest available estimates indicate that it is now 65.8 years. Infant mortality rates have declined sharply but still remain high at 45 per 1000 live births whereas they were 94 per 1000 live births. Deaths of children under 5 years of age are still relatively high at 58 per 1000 but not as high as in Kiribati (88), Marshall Island (92) and PNG (100). Vanuatu's maternal mortality rate per 100,000 live births is 68, much lower than for the Solomon Islands (550) but high compared to the zero rate for Kiribati and Tuvalu (cf. UNDP, 1999, p.107).

The state is virtually the sole supplier of health services in Vanuatu and expenditure on these account for around 10% of Vanuatu's recurrent public expenditure, being the item of third rank after education and public works. This means as a proportion of public outlay, health is on the lower end of the distribution compared to other Pacific island nations, and per capita expenditure is relatively low given the small proportionate size of Vanuatu's public sector. However, health services are basically free even though not readily available in all areas and waiting lists exist for many services.

Doctors are in short supply partly because salaries and working conditions do not compare well with those available overseas. Vanuatu has fewer doctors in relation to its population than any other Pacific island nation, there being only one doctor for every 10,811 persons. Access to health services is one of the lowest in the Pacific, primarily because of the difficulty of access to health services in rural areas. It is estimated that only 75% of rural dwellers have access to health services but all have access in urban areas. The archipelagic nature of Vanuatu creates problems for rural access and adds to the costs of providing health services. Urban bias exists in the supply of health services for several reasons e.g. medical personnel do not usually like rural postings, urban residents often form effective political pressure groups, economies of scale exist in supply of some health services. Nevertheless the Government of Vanuatu has aimed for an equitable and regionally balanced distribution of health services (ADB, 1997, p.246).

Housing, sanitary, and related conditions often effect morbidity as do tropical environmental conditions, such as the presence of malaria. The main causes of morbidity in 1994 in decreasing order of frequency were reported to be respiratory infections, skin diseases, infections and parasitic sources, malaria, eye and ear diseases and injuries. Diarrhoea while important in the 1980s was not a major cause of morbidity in 1994. As for mortality, cardiovascular was the leading cause of mortality in the late 1980s and has remained so. Malaria continues to be an important cause of mortality but it is less frequently the cause of death. After cardiovascular, the leading causes of death in declining order of importance in the mid-1990s (ADB, 1997, p.243) were neonatal, respiratory, malignancy, senility, infections/parasites, digestive system disorders, injuries, endocrine malfunction and nutrition deficiencies and malaria.

ADB (1997, pp.xi-xii) recommends that Vanuatu increase its emphasis to some extent on primary health care, and also increase the involvement of non-government bodies in health delivery and adopt user's pay to a greater extent than hitherto. It states apart from use of public funds, the "Government needs to consider other means of financing including Health insurance schemes, outpatient fees and greater use of the private sector, churches and NGOs" (ADB, 1997, p.xii). In addition it is suggested that the Department

of health should be more efficient. The introduction of performance budgeting could assist with this increase in efficiency as well as in some cases greater contracting out.

But user pays and health insurance schemes in least developed countries can also have their problems, as was mentioned in the review of Samoa. This is especially so when a large section of the community is involved in semi-subsistence activity and could be deprived of health services.

### **3.4 Other Issues**

Vanuatu has a major problem in providing employment for its rapidly growing population of youth. Its population of youth is growing at 3.5% per annum and constitutes 1 in 5 of its population. There are no available statistics on the unemployment and underemployment rate of young people but it is probably quite high.

Apart from this the status of women, a continuing concern is the treatment of children. For example, 10% of deaths among children under 5 were due to malnutrition or injury in 1994. Frequently children suffer when women are subject to neglect or abuse. But it should be noted that the status of women is not uniform throughout Vanuatu – women enjoy a higher status in some communities of Vanuatu than in others.

Regional disparities continue to be an issue in Vanuatu, although the Government is sympathetic to measures to reduce regional inequality. Whether or not it would be feasible to have a development fund similar to that of Tuvalu for regional development may be worth exploring.

### **3.5 Recommendations**

- Given the expected rapid growth in school enrolments, it may be unwise for the Government to plan on 10-years basic education for all. Quality education of fewer years should be sufficient for basic literacy and numeracy. It may be better to provide fewer years of education of higher quality education and better provide for those with superior academic merit to continue their education. This requires an effective and

fair filtering system. The structure of educational opportunities should reflect manpower requirements bearing in mind that education is not merely an economic commodity but also a transmitter of values and culture.

- It is unclear that the private sector is a more efficient provider of educational services than the public sector, although private sector provision has a role to play if private suppliers meet national standards.
- Performance accounting should be introduced without delay to the public education sector.
- A review of tertiary education in Vanuatu may be in order. It seems to have been given little attention in previous reviews of Vanuatu's educational systems.
- While health has improved in Vanuatu in recent decades, Vanuatu still experiences serious health problems, some of which are partly a consequence of its tropical environment e.g. malaria. With foreign assistance and development, the incidence of environmentally related diseases can continue to be reduced.
- Availability of public funding for health is unlikely to grow per capita to any significant extent. This means that available public funds should be used more effectively. Performance accounting for the Department may assist this process. Efficiency may also be increased by contracting out some support services.
- There may be no alternative in relation to the shortage of medical practitioners in Vanuatu but to increase their salary and improve their conditions of work. Steps have been taken to increase the supply of nurses by advertising for part-time staff. This may entice some married trained nurses to offer their services.
- Care is required in introducing user-pay schemes and health insurance in view of its possible distributional consequences. The hesitancy shown by Vanuatu in introducing such schemes may be justified. Those services subject to user-pays will need to be chosen carefully.
- Community involvement in the provision of health services has limitations as the Samoan case illustrates and church involvement is also not free of difficulties, especially monitoring difficulties where these activities are subsidised by the state as in the Solomon Islands. Churches can also form very effective political lobby groups in support of special interests.



- The position of women and children in Vanuatu appears to be less than satisfactory by Western standards. International aid agencies may need to provide greater financial support for NGOs working to improve the status of women and children in Vanuatu. They appear to be poorly funded. Cultural change involving change of attitudes is a long-term process, but an essential part of social development, a process usually made easier with economic development. Consider, for example, the tremendous improvement in the social status of women in the UK in the 20th century – early in that century they did not even have the right to vote.

## **4 TRADE AND VANUATU'S EXTERNAL BALANCE**

### **4.1 An Overview**

Vanuatu is in a rather tenuous external position in that its gross official international reserves provide only about 6 months import cover (1998). Throughout the 1990s, however, Vanuatu's reserves only afforded it a few months cover of its imports so it has been usual for Vanuatu to have little import cover. The economic position of Vanuatu is vulnerable and a major cyclone, such as some which it has experienced in the past, or another national disaster could seriously disrupt its economy. Not having development funds invested abroad, as does Kiribati and Tuvalu, and not having the security provided by private remittances as in the case of Samoa, Vanuatu is especially vulnerable economically to any national catastrophes.

Exports equal about 12% of the GDP of Vanuatu which means that it is much more dependent on merchandise exports than Kiribati or Tuvalu and probably Samoa. Exports are primarily of agricultural commodities or primary products of a renewable nature.

Its main export by value is copra. Other exports by declining value in 1998 were kava, timber, beef, cocoa and shells. The value of individual exports of products fluctuates considerably from year to year due to variations in prices and in some cases seasonal impacts on volume. For example, the value of kava exports increased by more than eight times in 1998 compared to 1997. Squash and pumpkin exports which were significant for

a few years up to 1997, collapsed in 1997 and have not recovered, due the occurrence of an exotic disease. Incidentally, at the time of compiling its report on Vanuatu, ADB was praising the cultivation of squash and pumpkins as an indicator of the type of specialised exports which Vanuatu could develop after it became a more open economy.

While some diversification has occurred in Vanuatu's exports, usually 70% or more of its exports by value depend on just three commodities of which copra is the most significant. Many of these exports are generated by the semi-subsistence sector, tree-based crops and products often being preferred by this sector. An in-depth study of the economic role of the subsistence/semi-subsistence sector in the Pacific seems overdue.

Table 7 sets out the value of Vanuatu's exports by commodity for the period 1993-98 and confirms the volatility of the contribution made by individual products, the dominance of a few commodities and the rural origins of all of Vanuatu's major exports.

INSERT TABLE 7

Vanuatu operates on a major trade deficit. The value of its exports are generally only sufficient to cover less than half of the value of its imports. But its deficit of trade is offset to some extent by its international surplus in relation to services because of the importance of inbound tourism to its economy. Clearly, ADB sees expansion in inbound tourism to Vanuatu as a key industry for the growth of Vanuatu's economy after its completion of economic reforms. That may very well happen, but international tourism is also a volatile industry. Furthermore, it can result in significant import leakages. Nevertheless, it does provide long-term economic opportunities for Vanuatu which otherwise might not exist even though it ought not to be regarded as a "Cinderella industry". Indeed, room occupancy rates in Vanuatu averaged only 55.3% in 1997, and have been lower in some years. An in-depth economic study of tourism development in Vanuatu and in the Pacific islands generally would be warranted.

As for the international transfer account, official aid transfers make a positive contribution whereas there is usually a net outflow of private transfers. The latter is influenced by outward transfers by migrants and expatriates as well as private investment abroad. There are no substantial inward private remittances as in the case of Samoa or significant income transfers on account of international resource transactions as in the case of Kiribati or Tuvalu.

In some years the current account of Vanuatu has been in surplus but in most years since 1982 it has been in deficit with reliance being placed on a surplus in capital account to provide a slight positive balance on its balance of payments. Between 1982 and 1998, the basic balance of payments of Vanuatu has been positive except in 1986 when it recorded a small deficit. Long-term public borrowing from abroad and direct investment (principally reinvestment of foreign earnings in Vanuatu) have been important for this outcome (cf. ADB, 1997, p.338). It should be noted that the balance of payments surpluses achieved by Vanuatu have always been relatively small, except in years when large loans have been taken up by the Vanuatu Government as in 1998 from ADB for the economic reform programme (see Table 8).

INSERT TABLE 8

#### **4.2 Recommendation**

- While on the one hand, diversification of Vanuatu's exports may seem desirable, freer trade may or may not bring this about. In fact, according to traditional theory, it should encourage greater specialisation in production.
- It seems that the semi-subsistence sector of Vanuatu makes a significant contribution to Vanuatu's exports. It would be worthwhile studying in more detail the extent and nature of this contribution and the likely impacts of the comprehensive economic reforms on it. The role of this sector is often neglected in economic studies. The semi-subsistence sector is likely to make a significant contribution to exports of copra, kava, shells and so on and has interests in timber and tourism which impact on exports.

- An in-depth study of the economic development of Vanuatu's tourism industry in conjunction with that of all the least developed Pacific nations is warranted given the economic potential which is seen for the expansion of tourism as a foreign exchange earner.
- Capital inflows have been essential to Vanuatu as a means to balance its overseas payments. Apart from reinvested profits of overseas companies operating in Vanuatu, the main source of such inflows have been long-term overseas official public borrowing. New direct investment by overseas business in Vanuatu has been sluggish in recent years, and reforms have been implemented to encourage greater inflows of direct investment. Public borrowings abroad cannot be sustained at current rates. Both the Government of Vanuatu and ADB are counting on substantial benefits from Vanuatu's Comprehensive Economic Reforms to reduce Vanuatu's dependence on such loans in the longer term and provide other economic benefits. The fall-back position, if this does not work, is unclear.
- Since ADB puts so much emphasis on the role of diversified agriculture and growth in tourism as sources of economic growth for Vanuatu in the early part of the Second Millennium (ADB, 1997, pp.xiv-xv), it is especially important that these issues be closely studied and identified. They do not seem to be well articulated or studied in any depth in ADB (1997).

## **5 INFRASTRUCTURE**

### **5.1 An Overview of Features**

As indicated above, Vanuatu's public expenditure on works exceed that on health being second to education in terms of expenditure. It seems that Vanuatu gives a high priority to improving its infrastructure to provide access for its produce to markets and for other reasons.

Substantial changes have occurred as a result of the comprehensive reforms in the way in which public works are being carried out. Contracting out has increased in importance in

relation to road construction and maintenance, for example. This extends even to the inspection of completed work to determine whether it is in accordance with contract. Consequently it has been possible to reduce employment in government departments most closely involved in public works. Doubts, however, have been raised about some aspects of the process. For example, in the case of non-compliance with contracts, expensive legal procedures can be involved and there may be general reluctance to take legal action.

Reforms are proposed which should reduce Government involvement in the provision or maintenance of infrastructure (ADB, p.ix, et seq.). These include tendering for Luganville water supply service, corporatisation of the postal service, possible divestiture of VANAIR (Vanuatu's internal airline) but it is suggested that the Government (for reasons not made clear by ADB (1997, p.125) retain an equity interest in Air Vanuatu (Vanuatu's international airline), Telecom Vanuatu and UNELCO. It seems that the supply of water in Port Vila, electricity and telecommunications are largely under private control. Concerns exist about the prices of these services but there appears to be no significant coverage of these issues in ADB (1997) although the desirability of regulating the prices of privately supplied public utilities is mentioned.

Compared to Tuvalu and Kiribati, Vanuatu is reasonably well supplied with air services both internationally and internally. The airport near Port Vila is an international airport with regular flights and adequate all-weather facilities. All major islands have airports.

Due mainly to the volcanic activity associated, or previously associated, with the major islands, Vanuatu has adequate ports. Luganville and Port Vila act as major international ports with Luganville handling more exports than Port Vila but Port Vila receiving more imports. This probably indicates that urban areas have a greater propensity to import than rural areas.

Stevedoring in Vanuatu is privatised and shipping appears to be privately supplied as well. Shipping services connecting the country are much more adequate than in the case of Tuvalu and Kiribati, but freight rates may be high to some islands. Proposals to reform

coastal shipping to make it more competitive, as part of the reform process was causing ire to shippers in mid-1999.

The road system of Vanuatu does not seem to be as well developed as in Samoa probably because the country is not as compact as Samoa.

Little information could be obtained in the time available on public utilities in Vanuatu and very little seems to be available in public reports. This may be because of corporate supply of several utilities but balance requires that these be carefully scrutinized given their importance in relation to economic welfare and in the case of energy and telecommunications in particular, their influence on international competitiveness.

## **5.2 Recommendations**

- While Vanuatu has placed considerable emphasis on improving its infrastructure especially in relation to transport, its infrastructure needs still remain considerable.
- A thorough review of the supply of utilities in Vanuatu seems to be needed because it does not appear to be provided in ADB (1997) nor elsewhere. It might be a useful endeavour to undertake this before introducing regulations on the pricing of utilities, regulations suggested by ADB (1997).
- The economics of the contracting out of public works and activities may need review. There are limits to the economic value of contracting out because of transaction costs and other factors.
- It is not quite clear how coordinated economic assessment of infrastructure investment is to be achieved in Vanuatu after its economic reforms. Possibly further attention should be given to this particularly since infrastructure development is increasingly being motivated by economic considerations.

## **6 CONCLUDING REMARKS**

Like the Solomon Islands, Vanuatu is one of the most economically and socially disadvantaged Pacific island nations. Using UNDP indicators, its level of development is comparable to that of Bangladesh. Access to education and health services is relatively low, the illiteracy rate high and school enrolments of females much lower than for males, a situation somewhat similar to that in the Solomon Islands. The economic infrastructure of Vanuatu is poorly developed but overall the Solomon Islands, Kiribati and Tuvalu appear to have an even less adequate infrastructure. Recently, increasing school enrolments have failed to keep pace with Vanuatu's rate of population growth.

Public finance appears to be precarious in Vanuatu even though its government sector is relatively small. Emerging problems with public finance in the 1990s resulted in its turning to the Asian Development Bank for assistance with policy advice and loans to carry out economic reforms. The ADB recommended a comprehensive reform programme along standard structural adjustment lines. This has involved further downsizing of government (euphemistically called 'right sizing' by ADB), fiscal reforms and an intended reliance on business-led growth. In its review of Vanuatu, ADB especially emphasized governance problems as being a major impediment to efficiency in public finance and an obstacle to the economic development of Vanuatu.

While ADB was optimistic about prospects for the economic reform programme to provide substantial economic growth for Vanuatu, some scepticism about its claims seem warranted. There is also the problem that the Comprehensive Reform Programme has the appearance of having been externally devised and 'imposed'. This is so despite what some observers believe are contrived manifestations to the contrary, such as the National Summit. This may have at least two consequences; (a) reduce the political and cultural acceptability of the reforms and b) results in some reforms that are incompatible with the cultural mores of Vanuatu and so prove to be unworkable.

While exports of merchandise are not as important a contributor to the foreign earnings of Vanuatu as in the case of the Solomon Islands, they are of more importance than for the other least developed Pacific island nations. These exports plus income from inbound tourism play a substantial role in earning foreign exchange for Vanuatu, but foreign aid and other items are also of importance. In line with reform policies, Vanuatu has substantially reduced its tariff levels and introduced a value-added tax. It is hoping to qualify for membership of the WTO.

Foreign aid for Vanuatu was lower in the 1990s than the 1980s, and proportionately loans increased relative to grants. This added to Vanuatu's development difficulties as did serious cyclones in the early 1990s. Vanuatu, like all the least developed Pacific island nations, has a high vulnerability index.

Current development prospects for Vanuatu do not seem very promising, unless the predictions of ADB turn out to be correct after all, namely that business-led growth will create a mini-economic miracle for Vanuatu. It seems that a number of official advisory and aid bodies believe that structural adjustment policies will have similar impacts on other least developed nations in the Pacific. One might, however, wonder in this regard whether faith has bounded somewhat ahead of reality.



## References

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Reserve Bank of Vanuatu (1998) Quarterly Economic Review, December 1998, Research Department of Reserve Bank, Port Vila.

UNDP (1999) Pacific Human Development Report: Creating Opportunities, United Nations Development Programme, Suva.

**Table 1**  
*Vanuatu's Savings and Investment Balances in Current Prices,*  
*1983-1995*

<i>VT million</i>	<i>1983</i>	<i>1985</i>	<i>1987</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>
<i>Year</i>										
<i>Gross Domestic Investment</i>	2,605	3,490	4,737	6,076	7,729	5,758	6,175	6,615	7,198	8,698
<i>Foreign Savings/a</i>	-1,330	-905	1,649	913	273	1,606	785	1,167	2,391	2,238
<i>Gross National Saving</i>	3,934	4,395	3,088	5,163	7,456	4,152	5,380	5,448	4,807	6,461
Gross domestic savings/b	1,251	814	797	1,496	2,893	2,383	4,366	4,598	4,716	6,137
Net factor incomes	-514	384	-906	470	1,366	-1,428	-2,183	-2,347	-3,106	-2,873
Net current transfers	3,197	3,197	3,197	3,197	3,197	3,197	3,197	3,197	3,197	3,197
<i>Resource Gap</i>	1,353	2,676	3,940	4,580	4,836	3,375	1,799	2,017	2,482	2,562
<b>Percent GDP</b>										
<i>Gross Domestic Investment</i>	25.1	28.1	35.0	35.9	40.2	29.4	28.0	28.7	30.1	33.7
<i>Foreign Savings/a</i>	-12.8	-7.3	12.2	5.4	1.4	8.2	3.6	5.1	10.0	8.7
<i>Gross National Saving</i>	38.0	35.4	22.8	30.5	38.8	21.2	24.4	23.6	20.1	25.0
Gross domestic savings/b	12.1	6.6	5.9	8.8	15.1	12.2	19.8	19.9	19.7	23.8
Net factor incomes	-5.0	3.1	-6.7	2.8	7.1	-7.3	-9.9	-10.2	-13.0	-11.1
Net current transfers	30.9	25.8	23.6	18.9	16.6	16.4	14.5	13.9	13.4	12.4
<i>Resource Gap</i>	13.1	21.6	29.1	27.1	25.2	17.3	8.2	8.7	10.4	9.9

*Source: Statistics Office and Reserve Bank of Vanuatu, Quarterly Economic Review, various issues, ADB (1997)*

*/a* Current account deficit

*/b* Gross domestic expenditure less private and government consumption

**Table 2**  
Government Revenue, expenditure, and financing (GFS format), Vanuatu,  
1989-1996, VT million

<u>Year</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996 est.</u>
Budget Surplus	-1,637	-1,755	-1,708	-656	-996	-393	-774	355
Funding	1,404	995	1,640	-65	532	674	874	
External	492	816	1,649	505	156	153	398	
Drawdown	552	848	1,664	514	171	181	421	
Repayments	-60	-32	-15	-9	-15	-28	-23	
Domestic	912	179	-10	-570	376	521	476	
Deposits	723	-197	-85	-839	214	585	297	
Credit	42	-11	-23	273	104	-410	179	
Bonds (non bank)	147	386	99	-4	58	347	0	
Discrepancy	-233	-760	-68	-721	-464	281	100	

Source: ADB (1997, p.328)

**Table 3**  
**Government Revenue. (GFS format), Vanuatu, 1989-1996. VT million**

	1989	1990	1991	1992	1993	1994	1995	1996 est.
<u>Tax revenue</u>								
Taxes on property	3,053	3,584	3,459	3,725	3,656	4,635	4,602	4,957
Domestic taxes on goods and services	6	6	7	8	7	5	9	6
Turnover Tax	579	803	836	931	1,107	1,172	1,667	1,762
Excise Taxes	0	0	0	0	0	0	303	456
Taxes on services		21	22	13	14	27	50	39
Licenses	250	369	366	442	510	521	527	567
Trade taxes	329	413	448	176	583	624	87	700
Import taxes	2,468	2,775	2,513	2,683	2,443	3,458	2,926	3,108
Beer/Wine	2,379	2,672	2,454	2,614	2,381	3,366	2,841	3,008
Tobacco	291	261	293	307	253	325	272	278
Vehicles	187	195	198	192	197	251	222	205
Motor spirit	106	135	89	138	99	103	105	109
Other import duties	345	365	339	414	348	423	592	921
Export duties	1,450	1,716	1,535	1,563	1,484	2,264	1,650	1,594
Other Taxes	89	103	59	69	62	92	85	100
			103	103	99	0		81
<u>Non Tax Revenue</u>								
Entrepreneurial and property income	1,100	1,132	1,178	1,192	1,298	1,117	1,554	1,258
Operating surplus of department enterprises	422	494	499	439	546	184	569	387
Income from public enterprises	202	34	46	29	49	2	34	13
Other property income	111	232	248	185	218	76	270	230
Administrative fees & charges	109	228	205	225	279	106	265	144
Fines & forfeits	652	803	654	732	685	784	947	819
Other non-tax revenue	26	15	25	21	27	114	38	20
					40	35	0	32
<u>Capital revenue</u>								
Sales of fixed capital assets	0	0	2	4	6	121	39	23
Capital transfers - residents	0	0	2	0	3	119	30	0
				4	3	2	9	23
<u>Grants</u>								
	1,262	911	591	521	366	275	768	446
<u>Total revenue</u>	5,415	5,807	5,226	5,326	5,326	6,148	6,963	6,683

Source: ADB (1998, p.326)

**Table 4**  
**Total Government Recurrent Expenditure by Ministry, Vanuatu,**  
**1992-1996, VT million**

	1992	1993	1994	1995	1996	92-96/a aagr
Constitutional	138	162	172	217	231	13.8
Prime Minister	946	1,151	1,214	1,176	1,071	3.2
Justice, Culture & Women	58	81	105	149	125	20.9
Home Affairs	160	132	168	425	300	17.0
Finance	103	213	634	257	392	39.6
Foreign Affairs, and Immigration	112	157	140	135	166	10.4
Commerce, Industry & Cooperative	58	63	89	74	97	13.9
Agriculture, Livestock, Forestry, Trade and Fishery	229	184	168	235	220	-1.0
Education, Youth & Sport	1,108	1,144	1,262	1,356	1,384	5.7
Health	517	612	490	598	615	4.4
Lands, Energy, Mines & RWS	88	95	88	105	129	9.9
Transport, Public Works, Ports, Marine & UWS	494	432	435	3443	383	-6.2
Civil Aviation, Tourism, Telecom & Metro Post	191	222	275	274	349	16.3
Common Services	852	725	702	975	758	-2.9
Total	5,054	5,373	5,942	6,420	6,219	5.3

Source: Department of Finance and ADB (1998, p.355)

/a aagr annual average growth rate

**Table 5**  
Balance of Payments Capital Account, Vanuatu, 1982-1995, VT million

	1982	1984	1986	1988	1990	1991	1992	1993	1994	1995
Long-term capital	834	821	267	1,422	1,881	3,018	3,611	3,328	3,694	3717
External public debt	167	86	79	258	387	998	656	139	280	271
Foreign long-term loans	196	114	139	300	431	998	656	139	280	271
Principal repayments	-29	-28	-60	-42	-44	0	0	0	0	0
Subscription to international orgs.	-3	2	0	-9	-40	-43	-43	-43	-52	-34
Foreign direct investment	310	662	342	1,127	1,452	1,980	2,916	2,916	3,383	3380
Equity	10	36	2	0	8	0	0	0	0	0
Re-invested earnings	300	626	340	1,127	1,444	1,980	2,916	2,916	3,383	3380
Other	360	71	-154	46	82	83	82	82	83	100

Source: Reserve Bank of Vanuatu, Quarterly Economic Review, various issues, and ADB (1998, p.344)

**Table 6**  
**Vanuatu Government Fiscal Operations.**  
**1994-1998. (Million vatu)**

ITEMS	1994 Actual	1995 Actual	1996 Actual	1997 Budget	1997 Prelim. Actual	1998 Budget	1998 Prelim. Actual
<b>Total Recurrent Revenue</b>	<b>5,942.3</b>	<b>6,436.1</b>	<b>6,391.9</b>	<b>6,605.0</b>	<b>6509.9</b>	<b>7162</b>	<b>6921.8</b>
<b>Tax Revenue</b>	<b>5051.4</b>	<b>4986.6</b>	<b>5331.8</b>	<b>5419.1</b>	<b>5540.0</b>	<b>5723</b>	<b>6027.1</b>
Import Duties	3,294.0	2,788.5	3,059.9	3,310.0	3228.3	3,567	3,021
Export Duties	92.0	84.8	83.9	95.0	92.2	59	77.4
Other customs Receipts	46.4	20.6	17.9	19.0	18.4	59	16.8
Tax on Goods and Services of which: Value Added Tax	1,186.0	1,658.7	1,684.7	1,486.1	1554.5	4,484	2,638.2
Other Taxes	433.0	434.0	485.3	509.0	646.5	554	789.3
Non Tax Revenue (o/w)	891.0	1,449.5	1,060.1	1,185.9	969.9	996	766.1
<b>Total Recurrent Expenditure</b>	<b>5,451.3</b>	<b>6,419.8</b>	<b>7,012.2</b>	<b>6,605.0</b>	<b>7024.3</b>	<b>8,150.7</b>	<b>7,169.4</b>
Education	1,232.5	1,330.1	1,446.6	1,414.4	1,396.1	1,669	1,625
Health	490.1	598.0	684.9	793.0	825.1	831	844.3
Public works	342.4	349.4	606.4	511.3	607.3	1,049	1,070.1
Police/VMF	551.7	462.7	482.3	403.0	548.0	712	na
Internal Affairs	323.5	320.7	397.1	411.5	813.4	847.8	na
Finance & Economic Management							958.8
Constitutional							933
Agriculture, Livestock, Forestry & Fisheries	168.5	234.6	242.6	236.4	235.5	311.6	711.9
Dept of Foreign Affairs	111.9	114.1	125.4	146.7	166.9	148.6	341.5
Principal Loan Repayment (o/w)	38	232.7	50.6	49.7	40.2	340	19.3

Table 6 continued on next page

Table 6 continued

Foreign	0	23.3	24.9	40.3	40.2	40	19.3
Domestic (to a commercial bank) Reserve Bank of Vanuatu	28.5	9.5	25.7	9.5	0	0	0
(k) Redemption of Bonds (o/w) Short Term	9.5	209.5	0.0	0.0	0	300	0
Long Term	151.5	222.7	263.0	163.0	262.7	0	0
Interest & Service Charges (o/w) on foreign loans	20.0	20.0	20.0	20.0	20.0	0	0
on domestic loans	131.5	202.7	243.0	243.0	242.7	0	0
on bonds	175.0	183.2	161.0	185.7	175.7	na	187.5
	62.3	65.9	32.4	48.5	51.0	na	50.1
	4.5	8.5	8.87	2.5	0	na	10.6
	108.2	108.8	119.5	134.7	124.7	na	126.8
<b>Other expenditure</b>	<b>1,866.2</b>	<b>2,371.1</b>	<b>2,552.3</b>	<b>2,190.3</b>	<b>3,897.5</b>	<b>2,241.7</b>	<b>164.7</b>

Source: Department of Finance and Reserve Bank of Vanuatu



**Table 7**  
**Exports of Vanuatu by Commodity in Millions of Vatu**

Period (Year)	Copra	Cocoa	Beef	Timber	Cowhides	Shells	Kava	Coffee	Squash Pumpkin	Other (0)	Total
1993	706	150	470	270	25	89	21	8	129	275	2,140
1994	894	226	452	308	43	900	57	4	108	220	2,402
1995	1100	126	427	252	56	101	48	7	148	286	2,551
1996	1240	165	430	358	47	90	73	10	102	194	2,709
1997	2004	240	418	513	56	85	102	14	0	133	3,678
1998	1705	165	325	521	37	89	888	8	0	170	3,908

Source: Reserve Bank of Vanuatu (1998, p.43)

**Table 8**  
***Summary of Balance of Payments in Millions of Vatu***  
***for 1997 and 1998***

<b>Year</b>	<b>1997</b>	<b>1998</b>
<b>A. Trade Balance</b>	-5,001	-5,074
Exports, f.o.b	4,091	4,325
Domestic exports	3,569	3,909
Re-exports	522	416
Imports, f.o.b	-9,092	-9,399
Domestic consumption	-8,739	-9,074
Imports for re-exports	-353	-325
<b>B. Services (net)</b>	1,422	2,155
Receipts	11,322	11,952
Payments	-9,900	-9,797
<b>C. Total Transfers (net)</b>	611	900
Official transfers (net)	3,552	3,968
Private transfers (net)	-2,941	-3,068
<b>D. Current Account (A through C)</b>	-2,969	-2,019
<b>E. Capital account (net)</b>	3,833	4,709
Long-term public	34	1,347
Direct investment (including reinvested earnings)	3,668	3,325
Others	131	127
<b>F. Basic Balance (D plus E)</b>	864	2,690
<b>G. Net errors and omissions I/</b>	-1,209	366
<b>H. Overall Balance (F plus G)</b>	-345	3,056
<b>I. Monetary movements:</b>	345	-3,056
NFA of mon. authorities (incr. = -)	261	-1,144
NFA of domestic banks (incr. = -)	84	-1,912
<b>Memorandum Item</b>		
Gross official reserves (million vatu)	4,599	5,755
Months of Import Cover	4.5	6.2

Source: Reserve Bank of Vanuatu (1998, p.41)

## **APPENDIX**

**Interviews in Vanuatu  
Conducted in the period  
Monday 21 June, 1999 – Wednesday 23 June, 1999  
(inclusive)**

1. Savenuca Siwatibau, Head, ESCAP, Pacific Operations Centre
2. Dr Charles G. Kick III, Regional Advisor on Social Development & Planning, ESCAP, Pacific Operations Centre
3. Mr Paul de Villers, Regional Advisor, Private Sector Development, ESCAP, Pacific Operations Centre
4. Mr Lennox B. Vuti, Director, Department of Economic and Social Development (formerly National Planning Officer)
5. Mr Odo Tevi, Macro-Economist, Department of Economic and Social Development
6. Mr Jeffrey Wilder, Director-General, Ministry of Finance
7. Ms Nancy Wells, Chief Statistician
8. Mr Rob Solomon, Advisor to Bureau of Statistics of Vanuatu
9. Mr Andrew Kausiama, Governor, Reserve Bank of Vanuatu
10. Mr Manasset Tary, Director-General, Ministry of Infrastructure and Public Utilities
11. Mr Johnson, Wabaiat Wakanoumune, Director-General of Health
12. Mrs Grace Molisa, President, Vanuatu National Council of Women
13. Mr. Siliga Kofe, ESCAP, Port Vila, Vanuatu

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