



Independent Evaluation of the Vanuatu Country Programme

Economic Challenges in Vanuatu

Key findings from Sapere Research Group

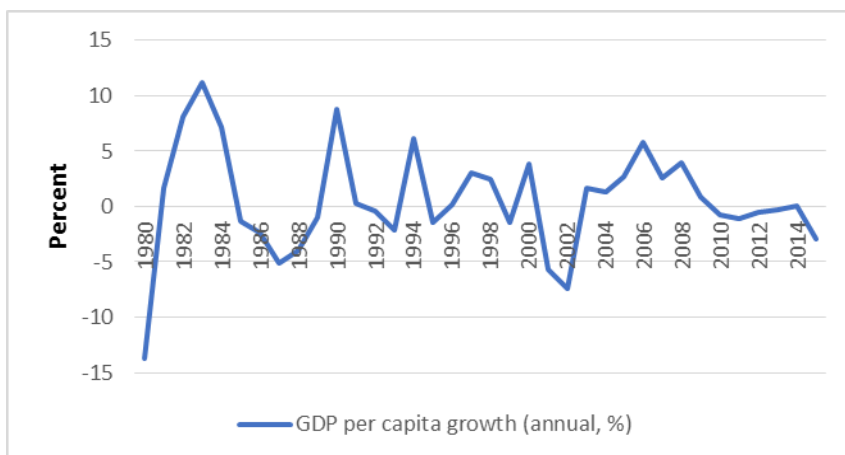
Key questions to consider

- How well has the economy in Vanuatu been performing?
- What are the prospects for economic development in the foreseeable future?
- What has constrained Vanuatu's economic development?

Economic Challenges in Vanuatu

A fact of economic life in Pacific Island economies is highly volatile economic growth owing to a range of factors. Vanuatu is no exception, as shown in **Figure 1**. These data shows the real rate of per capita economic growth, the standard measure of the rate of economic development.

Figure 1: Vanuatu has experienced volatile economic growth since 1980



Source: World Bank, *World Development Indicators 2017*. Note that 2014 is the most recent year that data was available for.

Vanuatu's economic growth increased from 2003 as a result of higher export prices, more tourists following air travel deregulation in 2004, the adoption of sound fiscal and monetary policies and liberalisation of trading in cocoa and copra. These factors culminated in the Vanuatu economy recording an average rate of 2.9% rate in per capita GDP growth between 2003 and 2006.

Economic growth since 2006

Economic growth per capita has trended downward since 2006 with negative growth in 2010, 2011 and 2012. It fell appreciably in 2015 owing mainly to Tropical Cyclone Pam (TC Pam).

The Asian Development Bank forecast positive GDP per capita growth rates for 2016, 2017 and 2018. These rates are 1.5, 2.0 and 1.5%, respectively. 2016 and 2017 rates reflect donor supported post-TC Pam reconstruction effort. The declining rate in 2018 reflects the winding back of this effort.

Given this, there should be caution in equating higher rates from 2016 with economic recovery. Indeed, even if these rates are achieved, the level of economic development (as indicated by the level of GDP per capita), will still be lower in 2018 than it was in 2009.

Reasons for economic volatility

There are many reasons why Vanuatu's economic development performance has been volatile and has trended downward. They include ease of doing business and governance challenges, political instability owing the frequent government changes, corruption, gender bias and vulnerability to external shocks such as cyclones, as the impact of TC Pam so clearly demonstrates.

From a donor perspective, the economic development performance of Vanuatu suggests a particularly challenging operational environment. This makes it harder for donors to demonstrate positive results from their support.

Two additional reasons are sluggish agriculture and tourism sectors, both of which are mainstays of Vanuatu's economy.

Agriculture's contribution to Vanuatu economy

Since 2000, agriculture's contribution to GDP has varied between 22 and 28 percent (Figure 2). Yet in 2014 this contribution was one percent less than in 1998. This evident stagnation is a pressing issue for Vanuatu given that 80% of its population is involved in agriculture. Furthermore the vast majority of Ni-Vanuatu depend on agriculture for their livelihoods.

Tourism's contribution to Vanuatu economy

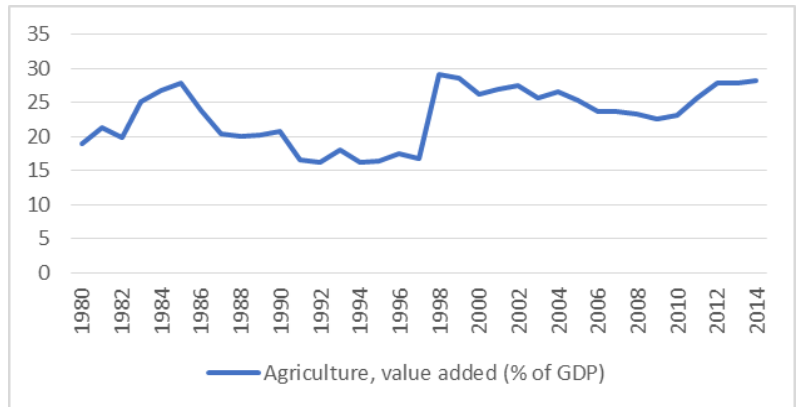
It is estimated that tourism's total (direct and indirect) contribution to GDP is 60 percent and that it provides for 42 percent of total employment in Vanuatu. However, there has been virtually no growth in spending per tourist over recent decades (Figure 3).

Tourism mainly benefits the urban sector. There is a need for tourists to spend more in Vanuatu. There is also a need for greater linkages between the urban and rural sectors, in which the majority of Ni-Vanuatu reside.

There will be many reasons why spending per tourist has grown modestly over time. One reason will be that most tourists arrive by cruise ship rather than by air. The former group stays for shorter periods of time and spends less than those arriving by air. Promoting more air arrivals would help address the relatively modest growth in per visitor spending, increasing overall contribution of tourism to GDP and its growth.

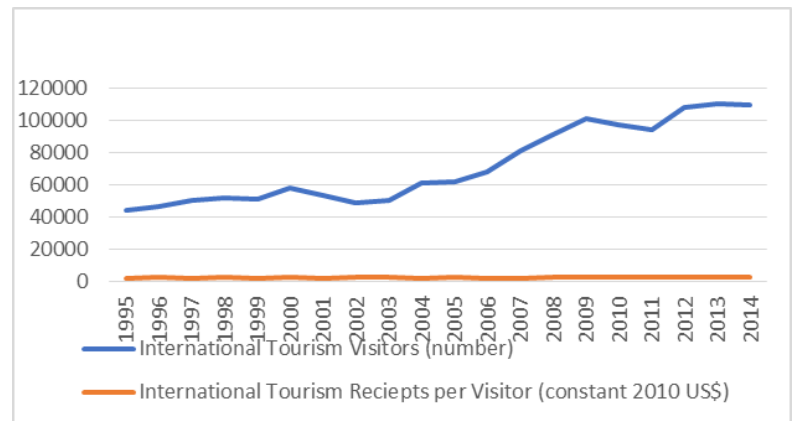
The Government of Vanuatu, working with donor partners, has placed a heavy emphasis on promoting agri-tourism. This emphasis must continue and be strengthened.

Figure 2: value of agriculture to Vanuatu economy is sluggish



Source: World Bank, World Bank Development Indicators 2017. Note that 2014 is the most recent year that data was available for.

Figure 3: tourist numbers to Vanuatu increase while spending is static



Source: World Bank, World Bank Development Indicators 2017. Note that 2014 is the most recent year that data was available for.

A strategy with the following elements has potential to simultaneously re-invigorate both the tourism and agriculture sectors:

- Increases the tourist spend on good quality agricultural food products supplied to local restaurants and hotels
- Increase tourist spend on souvenirs produced by rural small holders and
- The promotion of visits to farms and rural communities.