VANUATU PRIVATE SECTOR ECONOMIC UPDATE

DECEMBER 2023

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FOREWORD FROM NIK REGENVANU

With the release of its Private Sector Economic Outlook 2023, the Vanuatu Chamber of Commerce (VCCI) has again produced an outstanding report on the state of Vanuatu's economy and the critical challenges that we face over the next decade.

With compelling statistics and frank feedback from over 150 businesses interviewed from across fifteen industry sub-sectors, the report paints a stark picture of the economic outlook for Vanuatu over the next decade and is an urgent call to action for both government and the private sector to work together to provide the foundation to achieve long term sustainable growth to future proof Vanuatu.

The statistics themselves hit hard: cumulative inflation of 28% since 2019, real GDP per capita at levels lower than in 1979, tourism numbers at only 70% of 2019 numbers with visitors to the outer islands at only 40% of these pre-pandemic figures, while record import levels (including fuel) contrasted with exports, with non-kava exports on track to be 71%% lower than in 2014.

While the statistics are more than persuasive, it is the case studies that provide us with a fascinating insight into the experiences a wide range of businesses across Vanuatu's private sector and provide a voice and real-life context to the economic challenges facing Vanuatu businesses. It is a peak behind the curtain into the daily lives and struggles of businesses in Vanuatu. Transport and freight costs have more than doubled in many cases and goods and inventory are both more expensive and harder to source. Seasonal labour schemes mean skilled employees are harder to retain and replace. Slow and uncertain government bureaucratic processes around service delivery and infrastructure provide further impediments.

There are some familiar and common themes that emerge clearly from the report:

A functioning and reliable Air Vanuatu is critical to the economic success of Vanuatu. So much economic business is driven by tourism and, whether directly or indirectly, government revenue and business deeply rely on our national airline. Air Vanuatu's unreliability and reputational issues remain the key stumbling blocks for economic growth – tourists and investors are looking elsewhere in the Pacific to spend their dollars. With Fiji tourism bouncing back with record numbers post COVID-19 (on the back of Fiji Airways), and the Solomon Islands opening a brand-new international airport in Munda to support tourism in the country's Western Province, it's hard not to see Air Vanuatu's recent performance as a missed opportunity for Vanuatu.

Major investment is required by the private sector, government and donors. Government investment in key infrastructure including schools, hospitals and public infrastructure for service delivery is needed. Foreign Direct Investment is also key to driving economic growth in Vanuatu. We need foreign investment to provide capital, to build infrastructure, businesses and resorts, and to stimulate the economy. Investment is needed to drive economic growth and we need a welcoming business environment, streamlined government regulations and logistics, making it easier to do business in Vanuatu.

More support from Government is needed to get businesses back on their feet. Government service levels have fallen and there remains major frustration at political instability which both stops development and makes Vanuatu less attractive to investors. Government delays and bureaucracy continue to negatively impact business and deter potential investors with ease of doing business in Vanuatu sighted as a major impediment to economic growth. Of the businesses surveyed, confidence in the government's long-term planning for the economy ranked only a 2.1 out of a possible maximum score of 5. It is telling that business survey respondents ranked the issues of poor infrastructure, government corruption, government policies and regulation, and weak government services as more critical to the economy than air connectivity issues, skilled labour shortages and natural disasters. It continues to get harder to run a successful business in Vanuatu.

With real GDP growth forecast to grow at only 2.9% annually over the next decade Vanuatu remains extremely vulnerable to high population growth and economic shocks including natural disasters, weak tourism numbers and inflation. This is particularly important given the bigger picture, with climate, technology, demographics, and geopolitics all combining to change the world at an ever faster pace. Vanuatu must develop the robustness to withstand these shocks and rebound.

Doing business in Vanuatu remains a challenge but the potential remains enormous. In the face of these challenges, Vanuatu's private and public sectors must pull together to ensure that Vanuatu achieves sustainable and productive economic growth supporting all sectors of society. The private and public sectors must work together to support businesses across the economy, including tourism, primary producers, manufacturers, the construction industry, and retailers big and small. This report advocates for a significant escalation in Vanuatu's annual economic growth rate to achieve the kind of change required to sustain and fortify the economy. While the report does not attach a number to what this level of growth should be, a target growth rate in excess of 5% per annum as a minimum should be considered.

VCCI continues to champion collaboration between government and the private sector to achieve this sustainable economic growth, identifying areas of focus, what we are doing well and where we can improve. This is captured in this report which provides both a fascinating dive into the Vanuatu economy and also a gateway for dialogue, change and growth. Let's seize the moment to start making the change.

Nik Regenvanu
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ACKNOWLEDGEMENTS

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PURPOSE

The purpose of this report is to inform and drive economic debate, with the aim of helping to lay the foundations for a simple, strong, and resilient business environment which supports Vanuatu's sustainable and equitable development.

This report builds on previous similar reports which were published by the VCCI in 2020 and 2021.

This report begins with a discussion of methodology and its limitations, before presenting the key findings. This is followed by key discussion points. This is then followed by a sub-sector analysis, with each sub-sector having a number of case studies and a summary.

This report also aims to keep the big picture in context throughout, and there is a particular discussion of this in the future outlook section.

METHODOLOGY

The dominant methodology used in the development of this report was interviews, which provided 152 different case studies to be used in this report. This qualitative research technique involved asking open-ended questions to converse with respondents and collect data from the owners, managers, and staff of various businesses from around the country. These interviews were held between September 27th and December 3rd 2023. Most of the interviews were held in person, with the consulting team being based in Port Vila, and this was supplemented by missions to Luganville and Tanna. Other interviews were held by phone.

There was a large degree of crossover in the businesses interviewed with previous reports. This was for three reasons. Firstly, the mix was felt to be good and so there was limited need for wholesale change. Secondly, this allows a comparison to be made and thus creates a better narrative arc. Finally, these businesses had already indicated a willingness to co-operate, and so it was simpler.

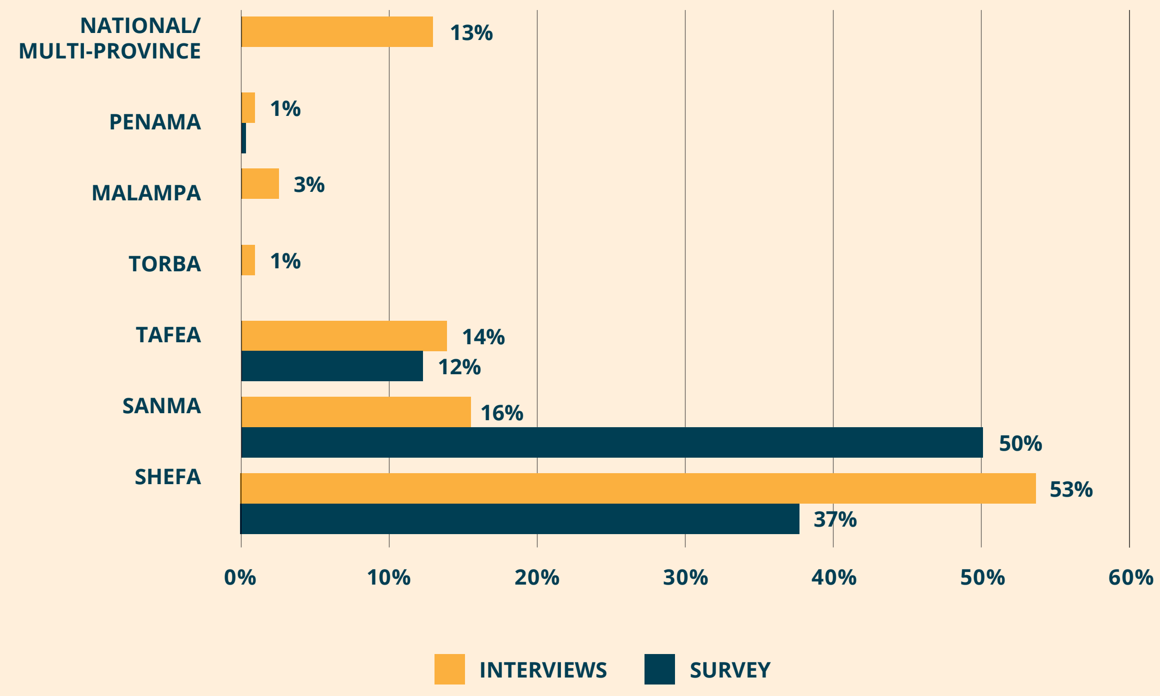
Fifteen sub-sectors of the economy were again analysed, using the Ministry of Finance and Economic Management (MFEM)'s Gross Domestic Product (GDP) breakdown. The sectors include Crop Production, Livestock, Fisheries (under the Agriculture, Fishing & Forestry Sector), Manufacturing, Utilities, and Construction (Industry Sector), and under the Services sector there is Retail and Wholesale, Trade & Motor Vehicles, Transport, Accommodation and Restaurants, Finance and Insurance, and Real Estate. The Education/Health, Professional Services and Information/Communication sub-sectors are included in Other Services, along with businesses such as dive operators and hairdressers. This report does not consider the Forestry, Mining & Quarrying, and Government services sub-sectors.

In some scenarios, businesses have been assigned to a category which supports the narrative of the sub-sector, rather than the sub-sector which they technically belong in. For example, hardware stores have been included in construction, rather than retail, or kava bars are assigned to crop production, even though they provide a service.

Businesses were generally asked about the performance of their business as well as their views of the broader economy. The case studies focus on business performance, whilst the summary includes findings from both.

The VCCI also performed a survey of businesses within their membership database. The VCCI had a team conduct in-person surveys in Santo, Efate, and Tanna. There were 367 suitable responses, with survey result supporting the findings throughout the report, with the full survey available separately online. The location of the survey respondents and the case studies are in Figure 1. The majority of respondents were from Shefa and Sanma, and there was a shortage of respondents from Torba, Malampa, and Penama. Some national or multi-province businesses, particularly banks and commodity businesses, are used to try and understand how the rural economy is going, although this is obviously extremely difficult.

FIGURE 1: LOCATION OF INTERVIEWS AND PHONE SURVEY RESPONDENTS



46% of survey respondents were micro businesses (fewer than five staff), 35% were small (5-20 staff), 10% were medium (21-50 staff), and the remaining 8% had more than 50 staff. 22% of respondents were from the accommodation/restaurant sector, and 18% were from retail and wholesale. The remaining subsectors all had small response sizes.

Interviews and survey findings are supplemented by other data sources, including the Vanuatu Bureau of Statistics (VBoS), the Reserve Bank of Vanuatu (RBV), and the World Bank. For VBoS export data, figures for 2022 and 2023 are simply extrapolated assuming no seasonal variations to provide estimates for the full year. This is to enable comparisons over the long-term.

The report also aims to consider the bigger picture. Putting the performance of the private sector in the broader context at a time of such major change and risk is required. The report is also supplemented by quotes from a limited number of sources, including research papers and books.

LIMITATIONS

The chosen methodology does have strong merits. The small and relatively simple nature of the Vanuatu economy means a relatively small number of interviews can provide insights across a broad range, The qualitative approach also gives an insight into how businesses are feeling and what they are planning, something which data struggles to clearly capture. There are of course a number of limitations though, which are expanded on below.

Firstly, there are a few notable gaps in the report. There were a small number of large businesses who are of clear economic importance to the nation who did not respond to requests for a consultation. Most notable are the larger telecoms companies, Air Vanuatu, and the large wharf stevedoring companies, but the team also struggled with hardware stores in Port Vila, as well as many of the larger supermarkets. Efforts were made to meet with members of the poultry industry, another key subsector, but it was not possible to find a suitable time to meet. There was also limited consultation with the fisheries sector, whilst this report does not consider the creative industries sector.

The case studies are all predicated on the assumption that the businesses provided truthful and accurate information, and that the case studies are a correct summary. For smaller businesses in particular financial literacy levels are varied.

The interviews predominantly focused on Shefa, followed by Luganville – this is for a number of reasons. Firstly, it is the economic hub of the nation, and it is where the majority of formal employment is. Secondly, it is the most economically diverse part of the nation, with by far the widest range of businesses. Finally, it was where most of the face-to-face interviews were held, and these are the easiest and most productive interviews – there were a number of businesses in other provinces which did not answer attempts for an interview. It was beyond the resources of the report to be able to provide insight into all of Vanuatu, and as ever there is expected to be a wide variation in the economic experiences of different parts of Vanuatu, and this report is unable to speak to those.

This report also primarily focuses on the economic picture for businesses. Where possible the interviews did ask about people's day-to-day lives, particularly when speaking to micro businesses, industry representative groups (for example land transport associations), and businesses in rural areas. However, this report does not pretend to provide a comprehensive insight into the economic reality of most people in Vanuatu on a daily basis.

It remains difficult to get accurate and up-to-date economic information for Vanuatu. This data would be highly beneficial to help understand the entire picture, and without it, the report often relies on anecdote, and the ability of the author to coherently understand and weave everything together. For international data, there are always concerns about how correct the data is that is used for Vanuatu.

Finally, the survey findings are almost certain to provide a biased view of the economy, as the survey respondents will not be an accurate representation of the wider economy – for example there were no responses from the provinces of Penama or Torba, and very few businesses from the primary sector. There is also no way of validating the survey results and their accuracy. When the individual responses are looked at in detail there are a number of instances where results are surprising – for example most of the businesses who said that they had seen major cost decreases over the past year also reported numerous individual cost lines which had particularly increased. The survey results should therefore be treated with a high level of caution.

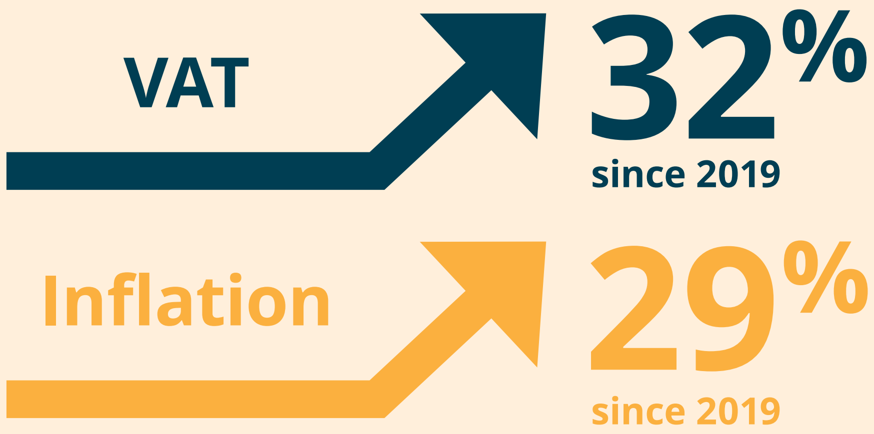
KEY FINDINGS

OVERALL ECONOMIC PICTURE

There are a number of positives that come out of this report. Firstly, the majority of businesses successfully made it through the pandemic, with Vanuatu managing to limit permanent closures of businesses and unemployment, and with many businesses reporting a strong recovery since borders opened. At a wider level there were also limited negative health outcomes from the pandemic, and the Government did not have to take out substantial debt. This economic performance was not guaranteed - for example 50% of survey respondents for the 2020 report had a low or very low confidence that they would be running in 12 months.

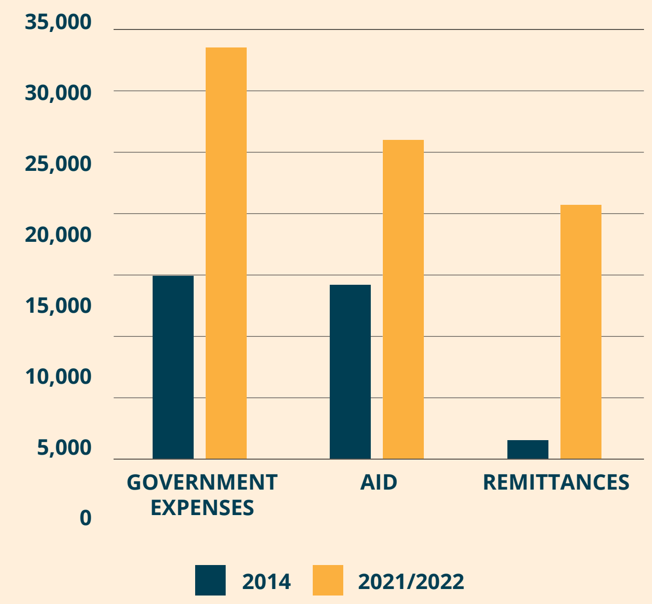
There is also a large amount of money flowing around Vanuatu. 72% of survey respondents said turnover had at least recovered to 2019 levels, with 39% reporting an increase of at least 10%. This is further Illustrated by VAT returns, which were 32% higher than 2019 for the first six months of 2023.[i] The strong revenue collection has continued through the year.

Of course, this is in a high inflation environment, with cumulative inflation being 28% since 2019,[ii] which has had a major impact on businesses' profits.



Looking at the sources of this spending, some of the core drivers in recent years have been government spending, remittances, aid, kava, and tourism. The first three are portrayed in the below graphic, comparing 2014 and 2022 (apart from aid, for which the most recent data is 2021). 2014 is chosen as the baseline as 2015 was marked by Cyclone Pam, the start of a construction boom, and the beginning of citizenship sales, all of which have had marked impacts on the economy.

FIGURE 2: SIZE OF GOVERNMENT EXPENSES, AID, AND REMITTANCES IN VANUATU FOR 2014 AND 2022 (VUVm)



Over this period Government expenses rose by 217%,[iii] aid by an estimated 169%,[iv] and remittances by an estimated 921%.[v] Combined they grew by 245%, and as a proportion of GDP, they increased from 43% to 69%.1 It is important to note that this is not the same as their contribution to GDP, which is a separate calculation, but this does reflect their increasing economic importance.

Government expenses have been funded by an increase in taxes, which rose by 35% from 2014 to 2022 to reach VUV 18,557m. This was equivalent to 56% of government expenses, whereas taxes were equivalent to 90% of government expenses in 2014. Much of the increase was funded by citizenship sales, which peaked at VUV 14,315m in 2020, equivalent to 42% of government revenue in that year. Citizenship revenue has since fallen but it remains an important source of government revenue, with the Government collecting VUV 6,319m in the first three quarters of 2023.[vi]

The largest increase in government expenses over this period was compensation of employees (up 104% to reach VUV 17,124m in 2022) and use of goods and services (up 121% to VUV 7,899m).[vii]

Aid, remittances, and government spending (funded in part by citizenship scheme revenues) are all complex issues, and further analysis of them is outside the scope of this report. This focus of this report is on the private sector. At a basic level, they all pump money into the economy, therefore supporting the private sector through higher spending. However, they are not direct examples of value being created within Vanuatu, and very little of the spending will directly boost Vanuatu's productive capacity – although much of the aid of Government expenses will attempt to help increase productive capacity.

For kava, exports increased 366% from 2014 to 2022, reaching VUV 3,390m, and are on track to reach nearly VUV 4,000m for 2023.[viii] 42% of households planted kava according to the 2020 census.

There is also a thriving domestic market, which is estimated to be worth double the export market,[ix] with many kava farmers making excellent money. This is an undoubted success story, even as there remain questions about oversupply and environmental impacts.

There were no other real success stories found in the primary sector, with historic industries such as coconuts and cattle both having declined substantially in the past decade and facing significant hurdles. There are then also widespread concerns about the availability and affordability of fruit and vegetables, as well as the quality of many diets.

1 For this calculation the 2021 figure for aid as a % of GDP is simply rolled over to 2022

Tourism continues to be a core part of the Vanuatu economy. Many non-tourism businesses interviewed noted that the return of tourists and tourism business spending has helped with their recovery. It is arguably the only sub-sector that supports every other sub-sector in the economy through this spending. However, it has not been a major driver of growth recently, and it is clear from the case studies that many businesses are not as reliant on the tourism sector as they were previously.

Looking at numbers prior to the pandemic, air arrivals were up 11% from 2014 to 2019 and cruise arrivals were down 39% over the same period. Tourism receipts rose slightly over this period from USD 284m to USD 295m (VUV 27,512m to VUV 33,881m[2]) but fell as a percentage of GDP from 37% to 31% (again this is different to tourism's contribution to GDP).[x] Since borders reopened tourism numbers have been slowly recovering, with air arrivals reaching 71% of 2019 levels for the first seven months of 2023.[xi] The recovery has been strong on Efate and weak elsewhere.

The economy has then been further supplemented by various stimulus packages, such as the by the VNPF releasing over VUV 1,000m in the aftermath of the twin cyclones.[xii]

Another reason for the higher levels of spending is the growing population. The World Bank estimates that Vanuatu's population grew by 21% from 2014 to 2022.[xiii] This means more people earning money and more people spending money, which in turn helps to grow the economy. However, a larger economy does not necessarily mean better outcomes for individuals. The most basic metric to look at this is GDP/capita.

Real GDP/capita was estimated at VUV 216,275 in 2021, the most recent statistics from within Vanuatu. This is 10% lower than 2009.[xiv] This is not just a short-term issue. According to World Bank data, real GDP/capita in 2022 was 11% lower than in 1979, and just 3% higher than 1980. For almost all of this period, real GDP/capita has fluctuated around a similar level. This is despite a rise in real GDP of 153% from 1979 to 2022. The lack of change in GDP/capita is due to the relatively high population growth that Vanuatu has had since then.

This is not a problem just experienced by Vanuatu, with many neighbouring countries having similar recent economic histories.

"Economic growth in the small island states of the Pacific has been disappointing for more than a decade."

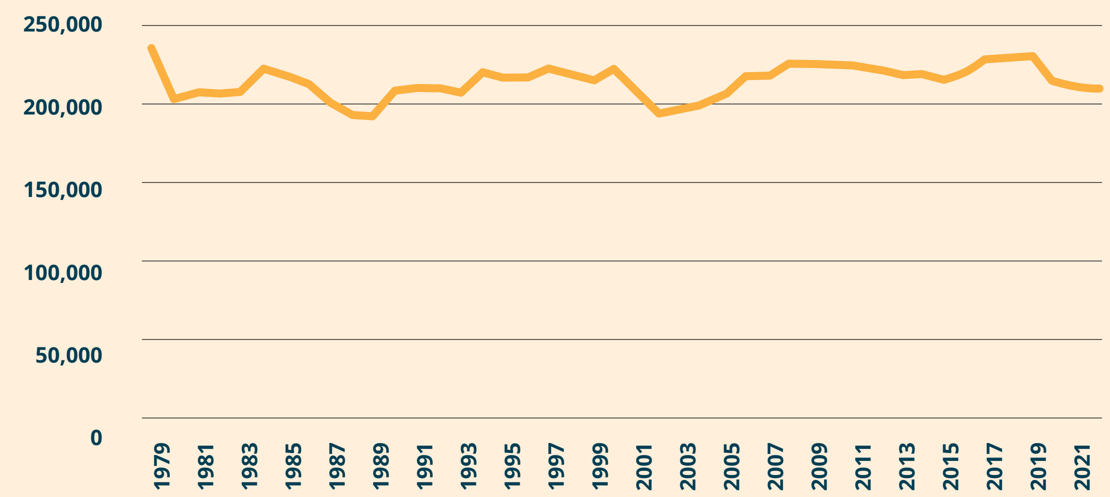
International Monetary Fund, 2016[xv]

Of course, GDP is a highly flawed methodology, and must not be used as the sole metric of development, with an extensively documented list of flaws. As an example, GDP doesn't consider the wealth destroyed by natural disasters, but counts the recovery spending. With Vanuatu having had four Category 5 cyclones since 2015, this is clearly relevant.

Another example is that simply looking at GDP doesn't consider composition. In 2006 kerosene was the main lighting source for 67% of households, which fell to 0% in 2019. Over the same period solar usage has increased from 0% of households in 2006 to 65% in 2019.[xvi] This is a clear improvement in living standards that is not captured properly by GDP.

2 Calculations using historical exchange rates from https://www.investing.com/currencies/usd-vuv-historical-data. The USD appreciated against the vatu over this period which is why the vatu figure rises more than the USD figure

FIGURE 3: GDP/PER CAPITA, CONSTANT PRICES, VATU



Moreover, many countries simply pursue GDP growth as their primary objective, failing to understand that growth should simply be a tool for pursuing the broader societal goals – which Vanuatu has defined in the National Sustainable Development Plan (NSDP) as *"a stable, sustainable, and prosperous nation".*

At the same time, GDP does of course have merits. Poor countries cannot provide the same services or opportunities as richer countries. Research suggests that a GDP per capita of USD 10,000 can provide success of a wide range of key social indicators – health, education, employment, nutrition, social support, democracy, and life satisfaction.[3][xvii] Vanuatu's GDP per capita is currently just USD 3,291.[xviii] This report therefore argues that Vanuatu requires rapid economic growth to meet its societal goals, as well as to protect against the climate crisis. For this to happen, Vanuatu must develop its productive capacity.

"No nation has ever developed without building the required productive capacities, which are key to enabling countries to achieve sustained economic growth with accelerated poverty reduction, economic diversification and job creation."

UNCTAD Secretary-General Rebeca Grynspan

3 Of course, this is at a global level. The high proportion of the population who have customary access to the most psychological needs could mean the GDP/capita is lower for Vanuatu. Conversely, the cost associated with the geography, and the cost of natural disasters will drive it higher. This a possible future piece of research.

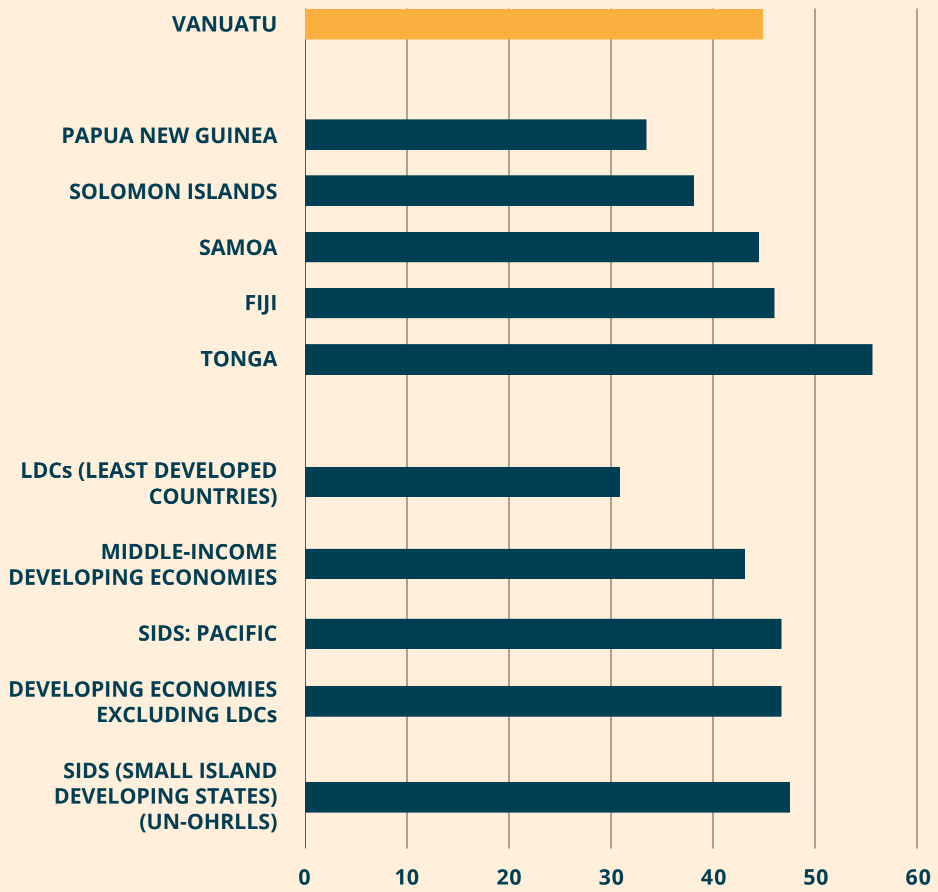
PRODUCTIVE CAPACITY

Productive capacity is defined as *"the productive resources, entrepreneurial capabilities and production linkages that together determine a country's ability to produce goods and services that will help it grow and develop."*

In 2023 the United Nations Conference on Trade and Development (UNCTAD) launched its Productive Capacities Index. The index is calculated using a range of international data and looks at eight components.[4] Vanuatu's overall index was estimated at 38.0 in 2000, which has steadily risen over the past two decades to reach 44.9 in 2022. The drivers of this improvement have been ICT, structural change, energy, and human capital. Vanuatu's scores for natural capital, transport, institutions, and private sector all fell.

Vanuatu's Index in 2022 is slightly below the average for Pacific SIDS (46.6), for developing economies excluding LDCs (46.8).[xix]

FIGURE 4: PRODUCTIVE CAPACITIES INDEX SCORE FOR VANUATU AND SELECTED OTHER COUNTRIES AND GROUPS



4 Human capital, natural capital, energy, ICTs, structural change, transport, institutions and the private sector

Of course, with largescale international datasets, there are concerns about the accuracy and applicability of the data used for small countries such as Vanuatu. This report therefore aims to supplement this data, by seeking to improve understanding of productive capacity, through a sub-sectoral analysis.

Many of the case studies raise major concerns about Vanuatu's long-term economic foundations. Much of the money in the economy has come in through outside sources of money coming in (aid, remittances, or Government revenue from citizenship schemes). Lots of this money then flows out again through higher imports. It is also driving up asset prices – particularly for land. There are concerns about their resilience against a shock. Beyond kava, there was limited evidence found of GDP growth being driven by an increase in the productive capacity of Vanuatu.

Another way to look at the productive capacity is to examine each of the sub-sectors from the perspective of whether they are an 'enabler' or a 'driver' of productive capacity. Of course, this approach is an oversimplification, but it is a helpful way of considering the issues. The below summaries are predominantly based on the case studies. Some sub-sectors are examined as both enablers and drivers.

The key enablers of the economy are:

SUB-SECTOR	SUMMARY
Utilities	• In urban areas electricity bills and fuel costs remain extremely high. Many businesses identified high electricity costs as a major barrier. Competition remains nearly non-existent. • In rural areas solar power has been incredibly beneficial at the household level, but so far has been of limited benefit for businesses. There have been major investments in some rural power generation, for example hydro in Malekula. • Improved sources of drinking water is the main source of water for 87% of households in Vanuatu.[xx]
Transport	• Prices are rapidly rising, particularly for domestic transport, both on land and at sea. • Domestic containerised shipping has just begun. • Air connectivity is a huge issue, both domestically and internationally. International sea freight remains expensive and unreliable but has been improving compared to the pandemic.

Health/education	• Access to skilled staff remains a major barrier for businesses. • Seasonal work, while proving to be a major source of remittances and GDP growth, is draining Vanuatu of skilled labour and getting international staff is expensive and takes a long time.' • Enrolment is much improved but quality of schooling remains low. Year 4 Literacy was just 21% in the 2021 Pacific Island Literacy and Numeracy Assessment.[xxi] • Non-communicable diseases are a growing health threat, although there is a lack of data. • Undernourishment is estimated to be 8%, a relatively low figure.
Construction	• Prices of materials are high and skills of new workers remain limited. It is unclear how much spare capacity the sector has to support the rapid growth that is needed. • Availability of qualified or trained workers outside of the main hubs was scarce
Professional services	• Access to core professional services such as accounting remains limited. They are concentrated in Port Vila.
Finance/insurance	• The banking industry remains profitable and secure with lots of excess liquidity. Interest rates remain high for loans and low for savings. • Insurance costs will continue to rise due to cyclone risk, with the risk of some businesses becoming uninsurable.
Tele-communications	• There have been major improvements over the past decade, with 57% of those aged 15+ now owning a mobile phone.[xxii] • Information and communication's contribution to GDP more than doubled from 2008 and 2022.[xxiii] • Services remain expensive and of poor quality by international standards and there remain untapped opportunities – for example Starlink.
Retail/wholesale	• Most key goods are available for medium to large businesses, albeit at a high price. • Access for specific spare parts remains a challenge, taking up to a year to enter the country. • Many individuals around the country face limited retail options, particularly for Vanuatu Made goods. This both limits their own businesses opportunities, as well as limiting the market size for potential businesses.
Technology	• There are some examples of businesses and other institutions improving their processes or products through technology, but uptake remains low. • Skills and knowledge are far behind the frontier of global technologies. This means Vanuatu is unable to take advantage of some opportunities, and is increasingly exposed to new threats.

The key drivers of the economy are:

SUB-SECTOR	SUMMARY
Manufacturing	• Manufacturing production is often considered the engine of growth of an economy, having been the most common driver of development across history. Its real value fell by 27% from 2010 to 2021, and its contribution to GDP is just 2.4%.[xxiv]
Crop production	• With the very notable exception of kava, crop production is struggling, with low efficiency/output and high prices.
Livestock	• The cattle industry continues to decline, with production down 40% over the past decade.[xxv] The poultry industry has shrunk and is facing major challenges.
Fishing	• The industry is supporting lots of communities at a micro level, but there are concerns about sustainability. A large possible investment has been announced.
Tourism	• Tourism in Efate is performing well, but there is very limited investment in expanding capacity (i.e. new rooms). Outside of Efate tourism is just 40% of 2019 levels.[xxvi]

Professional services	• The offshore finance industry has declined substantially, from VUV 1,800m in 2008 to VUV 337m in 2017.[xxvii] • Offshore businesses now have a local employment requirement. There is a strong argument that these industries are taking people out of the very limited pool of skilled individuals and placing them in jobs which do not contribute to Vanuatu's productive capacity. It is unclear how many of these employees are learning new skills. The offshore industry can also be problematic at an international level. • There are a small number of offshore businesses with large workforces in Vanuatu. • Other professional services – for example graphic design or consulting – have increasing opportunities available in the domestic market. Opportunities remain limited however, particularly outside of Port Vila. Levels of exports are very low.
Construction	• A recent success story, with the sub-sector 211% higher than in 2014,[xxviii] and many people enjoying improved infrastructure. Housing has improved for many, largely driven by remittances. • It will need to continue to grow rapidly to provide quality housing for Vanuatu's growing population and to improve resilience against disasters

In order for Vanuatu to change this picture, major investment is needed. This will need to be from Government, from private sector, from donor partners, and from individuals.

Exporting cheap labor and commodities, while importing expensive high-value items, tends to leave developing countries with perpetual trade deficits… As long as most developing countries have to import basic necessities, they will remain "developing".

Stephanie Kelton, The Deficit Myth

Merchandise exports, excluding kava and 'other exports', are forecast to be

71%

lower in 2023 than in their peak in 2014. When inflation is taken into account, this fall is 80%;[xxix]

Imports of fuel were

80%

higher than total merchandise exports in January-July 2023;[xxx]

Total imports are on track to reach a record in 2023, with imports in the first seven months reaching

VUV 28,866m

22% higher than in 2018 and 35% higher than in 2019. This includes many core goods, such as basic foods, building materials, etc.[xxxi]

INVESTMENT LEVELS

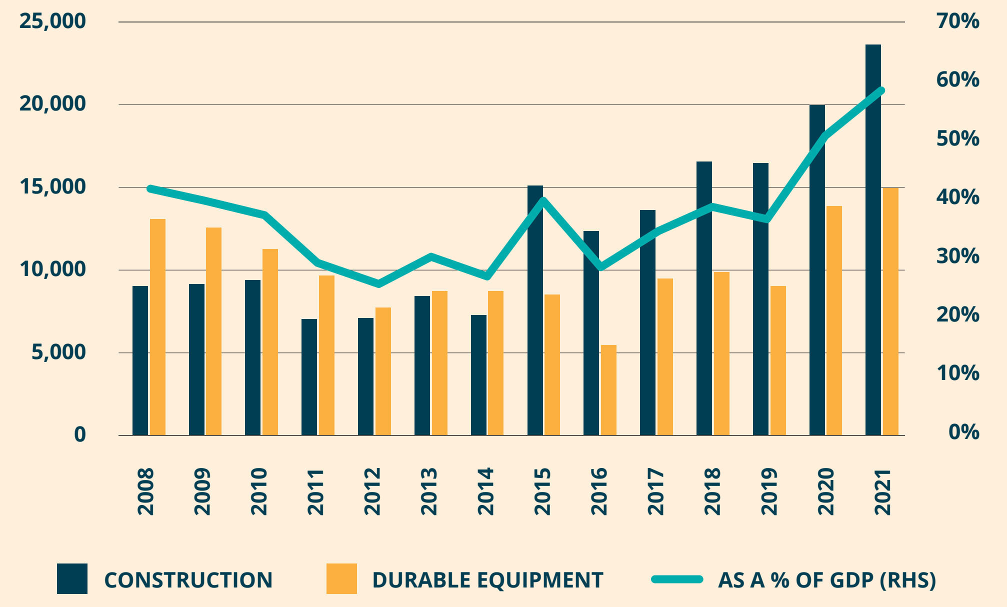
> **"At the moment, there is chronic underinvestment in the global economy. By increasing investment we can create huge value for society."**
>
> **Eric Lonergan and Corinne Sawers, Supercharge Me**

Investment is both the fundamental driver of boosting productive capacity and the route to an individual, a business, or a nation becoming wealthier. Vanuatu clearly needs huge amounts of investment. As an example, in May 2022 the parliament of Vanuatu unanimously declared a climate emergency, with a minimum of USD 1.2 billion (VUV 144 billion) required to achieve its Nationally Determined Contribution.[xxxii]

Investment, when measured as part of GDP, is primarily split into two components – construction, and durable equipment.[5] Using constant prices, investment steadily fell as a proportion of GDP from 42% in 2008 to 27% in 2014. It then jumped to 37% in 2015 and stayed around that figure until 2019.

Most of the increase was driven by construction, which rose by 844% from 2008 to 2019. Investment in durable equipment fell by 31%.[xxxiii]

FIGURE 4: BREAKDOWN OF INVESTMENT AND GDP, 2008-2021 (VUVm) AND COMBINED AS A PERCENT OF GDP



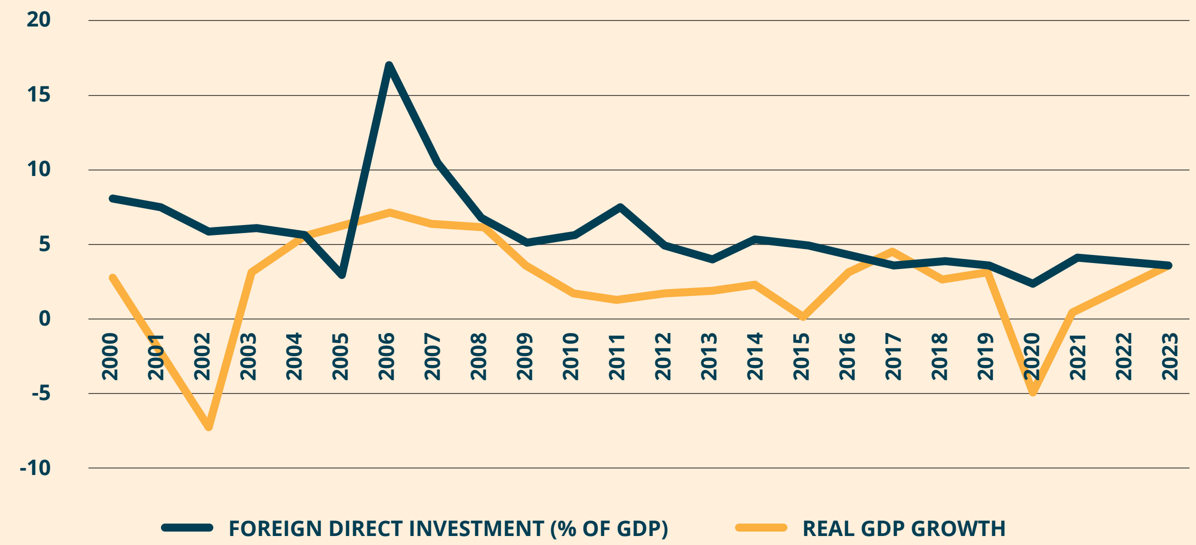
5 Durable equipment consists of goods that are designed to last for at least three years, such as machinery and equipment such as transport equipment.

This was particularly driven by increased aid spending and complemented by smaller increases in Government investment. Donor combined net investment in nonfinancial assets rose from VUV 309m in 2014 to VUV 10,969m in 2019. Private sector investment appears to have been limited.

According to the data, investment then rose sharply in both 2020 and 2021. Construction investment was 22% higher in 2020 than 2019, and investment in durable equipment rose by 53%. By 2021 investment had reached 58% of GDP.[xxxiv] It is unclear what is driving these figures, as this is contrary to what most of the case studies have indicated over the three reports done for the VCCI – for example in 2020 there was a sharp fall in both new applications and variations for foreign investors, and the banks interviewed reported a major drop in investment activity. Furthermore, donor net investment in non-financial assets fell from VUV 10,969m in 2019 to VUV 4,834m in 2022. There was an increase in Government net investment in nonfinancial assets from VUV 1,001m in 2019 to VUV 2,494m in 2022.[xxxv]

Foreign Direct Investment (FDI) was estimated at just 3.7% in 2023,[xxxvi] and is forecast to average the same for 2023-33. This is slightly below the historical average of 4.2%.

FIGURE 5: FOREIGN DIRECT INVESTMENT AND REAL GDP GROWTH, 2000-2023[xxxii]



The case studies identified some domestic investment, including increasing levels in the islands, but overall the banks said investment levels in new or existing businesses were low. Much this new investment was being driven by the renovation or expansion of existing businesses, and much of it in the retail or wholesale sectors. There was also some investment in the construction sector, and small amounts in other sectors, such as hotels or crop production. This is expected to continue for the next 12 months, with 48% of businesses saying that they were planning on making either a minor or major investment over this period (24% preferred not to answer). For many businesses this seemed to be post-pandemic recovery spending, and so it is unclear how long it will last for.

The investment in construction, crop production, and tourism is crucial. However the investment in retail/wholesale, whilst positive, is of a more limited benefit as it does not do much to grow Vanuatu's productive capacity. While the banks did report high demand for loans, this was being driven by real estate and motor vehicles – which again has limited benefits for productive capacity. Many of those interviewed felt that private sector investment was too low.

Many of those interviewed also said that there were many potential investors who were interested in coming to Vanuatu, but that many of these had not followed through with their investments. Air Vanuatu and the political instability were cited as the two most common issues, followed by the general difficulties in starting and doing business. This potential investment must be unlocked.

As well as private sector investment, major Government and donor investment will be needed too – for example for public goods, infrastructure, or research, or in providing suitable education and healthcare to the people. The Government will also need to ensure there is suitable investment in State Owned Enterprises. This is out of scope of this report however.

"The private sector needs to work with the public sector to achieve society's goals: not through corporate social responsibility or charity, but through the value chain – where money is made while supporting society's aims – and through investment with public purpose."

Mariana Mazzucato, Mission Economy

FUTURE OUTLOOK

At the most basic level, Vanuatu is currently not forecast to achieve rapid economic development. Real GDP is forecast to grow by 2.9% annually over the next decade,[xxxviii] whereas the population is currently growing by 2.3%.[xxxix] This means that real GDP per capita is forecast to only marginally increase over this period.

One reason why the economic picture is especially important is that comes at an increasingly dangerous time for Vanuatu and the world. When talking with businesses about the possibility of a major shock, there was generally pessimism about Vanuatu's ability to recover and thrive. There are a number of short-term threats, which include but are not limited to:

1) The ever-present threat from natural disasters, as well as the growing impacts from the climate crisis. This was clearly illustrated by the three major cyclones in 2023.

"There is a rapidly narrowing window of opportunity to secure a liveable and sustainable future for all"

The Intergovernmental Panel on Climate Change[xl]

2) The possibility of a global crisis. The world is clearly becoming more dangerous, with major wars recently breaking out in both Europe and the Middle East. There have been numerous other conflicts or coups globally. Tensions remain highly elevated between the United States and China. There are a record 110 million displaced people around the world and this is continuing to grow.[xli] The repercussions from these crises are felt across the world, for example through higher inflation or reduced access to goods. There is also the risk of a financial crisis. Vanuatu is less exposed than many countries, but it is not immune.

3) Continuing high inflation. 47% of survey respondents said that they had plans to increase their prices in the coming six months, with a further 31% choosing not to answer. Ifira Wharf and Stevedoring announced in early December that some cost lines would increase by 16%. The cost of insurance is also expected to rise following on from the twin cyclones in March 2023.

4) Vanuatu's youth bulge – 48% of the country was under 20 in 2020.[xlii] Vanuatu must find decent ways for its young people to earn a living and to thrive, whilst ensuring they have sufficient access to services such as housing, healthcare, and education.

5) A fall in Government revenue, which could be caused by either political instability or a further fall in citizenship scheme revenue. This in turn would lead to either lower spending or higher borrowing, or a combination, and could be highly damaging as the economy has become increasingly dependent on Government spending.

Over the medium to long-term there are then a number of additional challenges.

These include but are not limited to:

1) Demographics, economics, the environment, technology, and conflict are all rapidly changing at a global level. The world in 2050 will undoubtedly be a very different place to what it is today. Humanity is extremely close to causing long-term and irreversible harm to the earth. Technology is changing faster than ever. Economic systems are highly unequal putting pressure on societies. Vanuatu must be ready to adapt to and thrive in this changing world.

2) One such example is Artificial Intelligence (AI) – this has the scope to completely change the nature of the global economy, with up to 40% of global employment exposed to AI (although this figure will be far lower for Vanuatu).[xliii] For Vanuatu the risk is more that the economy is both increasingly left behind the rest of the world, and increasingly vulnerable to the threats posed by new technologies. Artificial intelligence, like all technology, is a tool, and whether it is for good or bad will depend on how it is used. **Vanuatu needs to have the appropriate skills.**

“In ‘The Law of Accelerating Returns’ Kurzweil did the math and found that we’re going to experience twenty thousand years of technological change over the next one hundred years… game-changing, nothing-is-ever-the-same-again breakthroughs will be happening all the time.”

Peter Diamandis and Steven Kotler, The Future is faster than you think

“We are witnessing the emergence of a two-tier society – between those who have harnessed the power of new technology, and those who haven’t”

Azeem Azhar, Exponential: How Accelerating Technology Is Leaving Us Behind and What to Do About It

3) Long-term population growth – **current forecasts predict that there will be 578,568 people in Vanuatu by 2050 and over 1,000,000 by 2100.**[xliv] While there is a high degree of uncertainty about these forecasts, these are sharp population increases, with associated risks if the economy is unable to provide sufficient income, jobs, or food. A higher population also offers many economic opportunities – including a larger market, more workers, and more consumers.

4) Declining opportunities from seasonal work – many farms are increasingly automating as much as possible. Some contributors to the Pacific Labour Mobility Annual Meeting 2023 said that they expected demand for agricultural workers to fall sharply by 2030. This may be offset by opportunities in other sectors, such as aged care, but this is a certain risk.

5) A fall in aid – although this seems unlikely in the short term – particularly with the expanding presence of the United States and France - there is no guarantee that aid flows will continue to the same extent over the medium to long-term.

At the same time, there are also wonderful opportunities available for Vanuatu over the coming decade to turbocharge its development. Emerging technologies and knowledge offer the chance to finally overcome many of the most fundamental barriers to its development – such as its small size, its limited resources, the fragmented nature of its geography, and distance to markets.

Renewable energy offers the chance for cheap, clean, and widespread power. Improved farming techniques and technologies offer the opportunity for Vanuatu to be able to provide healthy affordable diets for everyone without damaging the environment. Digitisation has the potential to transform Government services – most notably education and health. eCommerce and the internet can open up new and more efficient ways of doing business. Kava is a unique crop, which, if well supported and protected, and if complemented properly with the rest of the agricultural system, can drive wealth across the nation and the region unlike almost any other crop. Vanuatu’s outer islands have the potential to be a world-leading sustainable tourism product. Additive manufacturing (3D printing) could enable Vanuatu to manufacture many more goods locally. There are many reasons to be optimistic.

However, none of this is inevitable. Firstly, much of Vanuatu’s development path will depend on global decisions about both the environment and development, as well as the geopolitical situation. This is of out of Vanuatu’s control. Secondly, development is difficult. Technology can reduce but not eliminate Vanuatu’s geographical challenges, and there are many fundamental barriers that remain, such as the poor quality of education or the lack of opportunities for many women. There will need to be sustained and collective effort from across society, and a willingness to embrace and adapt to rapid systematic change.

"No country has made sustained progress economically and socially until it has succeeded in education."

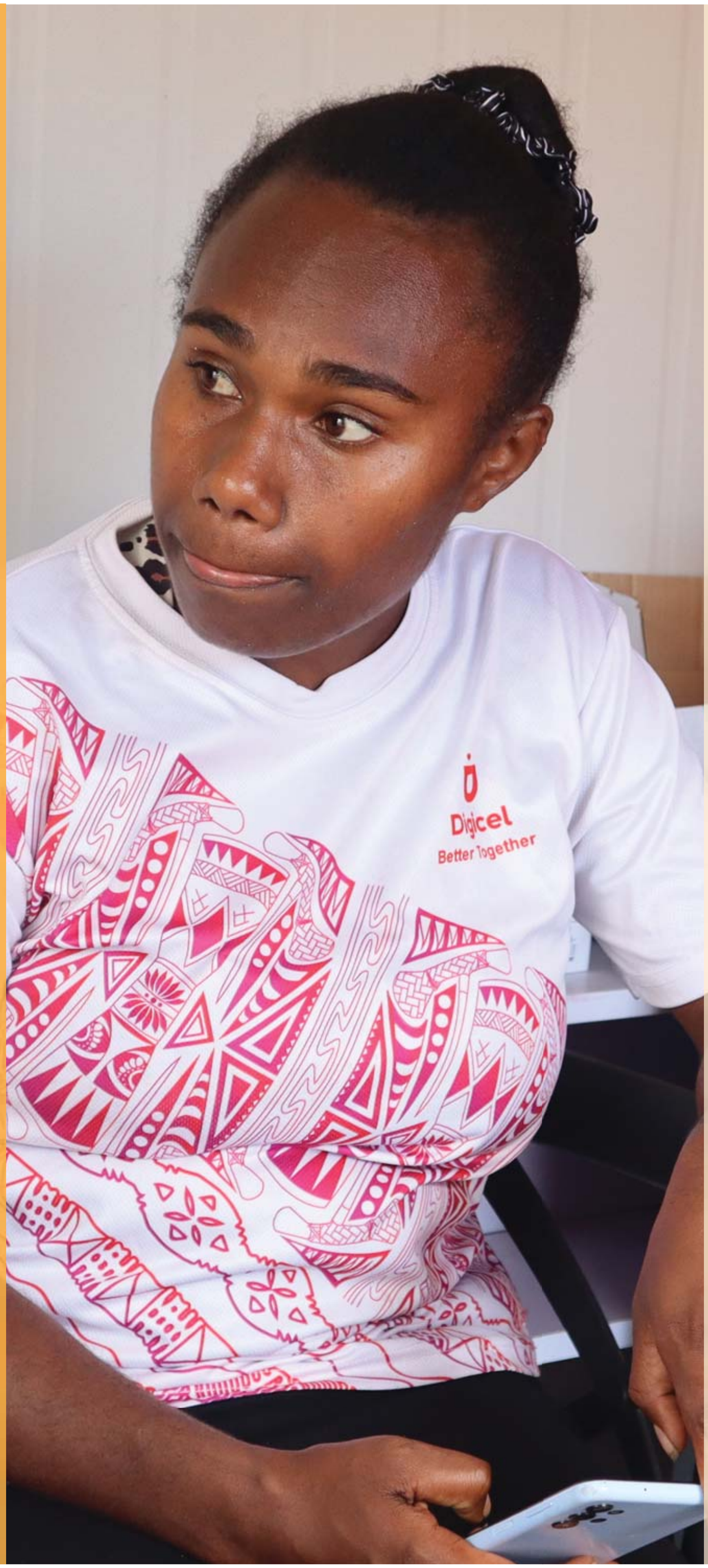
Gordon Brown,
Seven Ways to Change the World

"Almost invariably around the globe, countries and companies that have deployed women according to their talents have prospered."

Nicholas Kristof and
Sheryl WuDunn, Half the Sky

"Tomorrow's economy must be distributive and regenerative by design."

Kate Raworth,
Doughnut Economics



Another difficulty with development is making sure that it is done in a manner which protects what is good about the country. For Vanuatu, the list is long, but it includes its peaceful and welcoming people, the relatively low level of suffering, the pristine environment and the connection to nature, the strong community values, the relaxed way of life many lead, and the cultural richness. Many businesses mentioned these strengths in interviews, and how to protect and enhance the best of Vanuatu is a key question on the country's development journey.

The private sector of course has a fundamental role to play in this. A much larger private sector is required – to grow and produce the goods and services which Vanuatu needs, to employ Vanuatu's growing population, to generate wealth, and to help provide Government revenue. Given Vanuatu's small size, a well-functioning private sector will also be needed to help support the authorities with the implementation of projects and day-to-day economic and societal functions. Higher foreign investment will be a core part of this, to help provide both the capital and the skills/knowledge which Vanuatu needs.

The private sector itself will also to need improve. It will need to become more efficient, and it must be both willing and able to pay substantially higher wages. At a time of such high environmental pressures, businesses must be designed to both protect and enhance the natural environment.

There will need to be both a widening and a deepening of some historical core sub-sectors (for example crop production, construction, utilities, transport, and tourism), as well as a diversification of the economy into other subsectors (for example manufacturing, or information technology). The one industry for which this is not true is cattle, which is both extremely inefficient in terms of converting inputs into outputs, and which also causes major environmental damages.

The evidence from this report is clear – currently the private sector is not on this pathway. It is difficult to make an argument that any sub-sector is on track. Many long-time business owners felt that doing business was getting harder. Just 35% of survey respondents said that they would recommend to a friend that they should open a business. So far, there has been limited take-up of the opportunities outlined above – energy is still almost all produced by imported diesel, eGovernment remains very limited, and there has been limited change to how most businesses operate. The costs of doing business have also sharply increased, with annual inflation reaching 14% in June 2023. Many businesses said that they felt Vanuatu was becoming a less welcoming and friendly place to operate, and it was common to hear that the quality of Government services was declining. There was near unanimous anger and frustration at the political instability which many businesses felt was holding the country back. Businesses did not feel that the skills of workers were improving, and seasonal work remains a major burden on the productive side of the economy.

If Vanuatu is to achieve sustainable development there will have to be substantial improvements to the business environment, including, but not limited, to: energy policy, government policy and service delivery, access to finance, education and training, public health, taxation policy, employment policy, monetary policy, and political stability and quality institutions. Businesses need stability and certainty in order to be able to invest.

Whilst the findings of this report suggest that urgent and major reforms are needed, it is out of scope of this report to provide suggestions for what these are. The report already includes a lot of information, and the aim of the report is to try to spark economic debate. Ideas and suggestions will be provided separately.

"Make it affordable and straight forward to invest in Vanuatu. At the moment, I could not, with any good conscience, recommend that someone start a business in Vanuatu. I am constantly concerned about what changes may happen that would make it harder and/or more expensive to run my business."

VCCI Survey Respondent

"I fear for Vanuatu politics. It is sucking the life out of the economy. Businesses are suffering and yet government hasn't found a solution yet to support the economy and everyone is drowning while the Government is still unstable"

VCCI Survey Respondent

"We can be the first generation to achieve a sustainable world. No previous generation had the knowledge, technology, political systems, or international cooperation to do [this]. But a sustainable future is not guaranteed – if we want it, we need to create it"

Hannah Ritchie, Not the End of the World

FURTHER DISCUSSION POINTS

BUSINESS PERFORMANCE

Businesses were, with a few notable exceptions, generally confident about their own operations and future. They were delighted that borders had reopened and there were a good proportion who were very happy with how their businesses were performing, with 75% of businesses surveyed saying they were profitable, and a further 13% saying they were breaking even. Of the remainder 4% preferred not to answer and 7% said they were making a manageable loss, leaving just under 2% making an unmanageable loss. This strong performance has mostly been driven by higher consumption and the return of tourism.

Surveyed businesses were asked to say how confident they were about their business, their sector, Vanuatu, and the Government's long-term planning on a scale of 1-5 (with 5 being the highest level of confidence). In general businesses had a high level of confidence in their own operations (4.1) and their sector (3.9). Confidence in Vanuatu was still high (3.6), with confidence in the Government's long-term planning much lower (2.1).

FIGURE 6: ON A SCALE OF 1-5, HOW MUCH CONFIDENCE DO YOU HAVE IN...

Many businesses spoke about the growing middle class helping to drive their performance. This was particularly the case in Port Vila, where the general consensus is that the middle class really began to expand about five years ago. There were also signs of an emerging middle class in Luganville. This was especially noted in the real estate and motor vehicle sub-sectors, and to a slightly lesser extent in the construction sub-sector. The banking sector also remains relatively strong, with high levels of liquidity and generally strong profits, although interest rates for borrowing remain high.

At the same time there were many businesses who reported that they were struggling due to the rising cost of doing business, which is further compounding the difficulties of doing business in Vanuatu. This was particularly the case for many micro businesses – many said that their income had recovered to 2019 levels, but of course that income will now go comparatively less far compared to 2019. Further research is needed into how the poorest in society are coping with these price increases, but historically this is the group which has been hit hardest by inflation. These findings also lead to concerns about rising inequality, which is another topic for further suggested research.

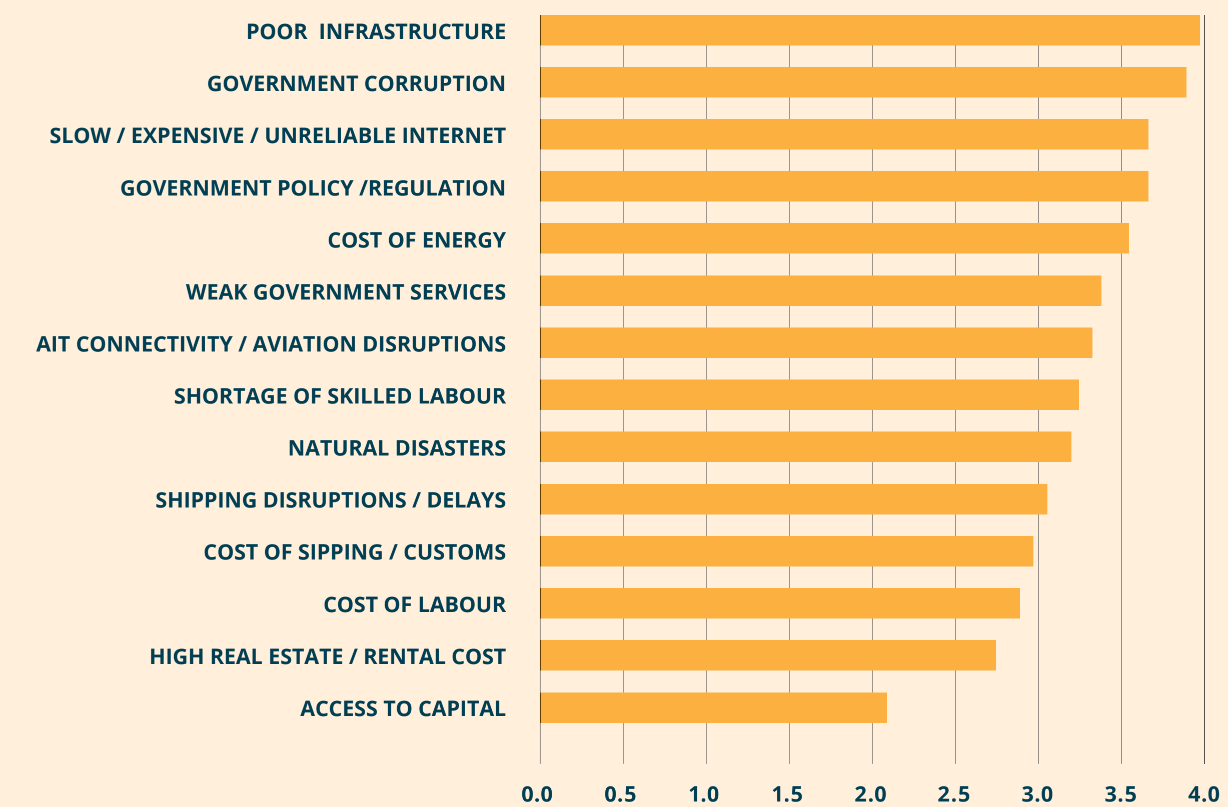
There seemed to be a particular surge in spending in Port Vila, after a larger drop during the pandemic. Businesses in Luganville generally were steadier, thanks to the kava industry and seasonal work. Findings from the outer islands are harder to interpret, but it was clear that some communities are continuing to struggle, particularly with the high prices of imported goods and the wide-ranging natural disasters.

GOVERNMENT PERFORMANCE

Amongst the interviews, there were near unanimous feelings of frustration and anger, as well as widespread despair at the political instability. In the survey businesses were asked to rank 14 different issues on a scale of 1-5, and three of the top six issues directly related to Government: poor infrastructure (4.0), Government corruption (3.9), poor internet (3.7), Government policy/regulation (3.7), the cost of energy (3.5), and weak Government services (3.4). The high score for Government corruption is thought to refer to the widespread perception that corruption is holding back development, rather than businesses being directly impacted by corruption. The interviews were held before the Government of National Unity was formed and the **political integrity bills** were passed (both December 2023), and so this report is not able to provide comment on these changes.

Many businesses felt that the quality of Government services was getting worse. The Departments of Immigration, Labour, and Lands were by far and away the most common barriers identified. Amongst tourism operators there was also some dissatisfaction with the Vanuatu Tourism Office and the Department of Tourism. Businesses also had low confidence in the Government's long-term planning for the economy, with an average confidence score of 2.1/5.

FIGURE 7: ON A SCALE OF 1-5, WHERE 1 IS NO ISSUE AND 5 IS A CRITICAL ISSUE, HOW SERIOUS ARE THE FOLLOWING ISSUES?



There were numerous stories from the interviews about poor Government service delivery, such as:

- Staff not turning up - one business said that they tried to pay their VAT six times, but couldn't as there was no-one in the office, and they were then fined;
- Public facing offices being closed for extended periods - one large business said they were unable to export for ten days as officials were on a retreat;
- Committees being unable to meet to provide decisions - numerous businesses said they had been waiting months for decisions to be made and the uncertainty was stopping investment;
- Basic processes taking a very long time, often months – this was particularly common for the Departments of Immigration and Labour;
- Documentation being lost or damaged;
- Confusion around the implementation of taxes – such as the turnover tax, including the possibility of the tax being backdated;
- Being unable to find the correct information, with businesses saying websites often had outdated information. Some businesses also noted that data release was often slow to be released, making it hard for them to make informed strategic decisions;
- Slow procurement, especially for construction projects;
- Slow LPO (Local Purchase Order) payments – this was less of an issue than during COVID-19, but was raised by a few businesses.. **Lengthy wait times for VAT refunds** was more commonly raised during this round of interviews;
- A lack of action from the police in response to theft;
- An extremely lengthy process for resolutions through the courts – often taking years.

There were also numerous complaints about the high fees which were increasingly being imposed on businesses, such as an increase in the cost of rubbish collection taxes in Luganville from VUV 10,000 to VUV 70,000, even as the rubbish was rarely collected. As well as the direct financial burden, this also has a bureaucratic cost for businesses. A number of businesses felt that many Government departments were more focused on revenue raising than service delivery.

Other examples include the increase in marriage fees for foreigners from VUV 30,000 to 100,000, which has led to fewer people choosing to travel to Vanuatu to get married, the doubling of the liquor licence fee in Port Vila from VUV 100,000 to 200,000 and increases in property tax in Port Vila of up to 300%. Businesses frequently noted that there was no consultation or clear communication about these changes. These – along with Air Vanuatu – were the main drivers of uncertainty for businesses. There was a strong desire to see improved planning and communication from the Government to allow businesses to plan in advance.

Many businesses also felt that the Government had sufficient policies or plans in place already, but that implementation was lacking. Many of those interviewed also said that they felt that there was a lack of accountability and leadership in many parts of the public sector.

Some businesses felt that the Government was not implementing the existing law properly – for example in the aviation sector, where the law clearly states that Vanuatu should simply follow the New Zealand regulations. However, the authorities in Vanuatu often introduce additional regulations, which introduces confusion. The lack of published consolidated legislation is a broader issue which also makes it hard for businesses to understand and comply with the law.

There were some isolated instances of where those interviewed felt that the Government had improved the business environment. Digitisation of Government services is in its infancy, but businesses were generally very pleased with the results so far – for example paying VAT online.

The Vanuatu Made brand was also noted by a small number of manufacturers as being a positive success story for them. This was further complemented by direct Government support, most prominently through the Industry Development Fund, which some businesses said was extremely helpful.

THE COST AND EASE OF DOING BUSINESS

The cost of doing business has sharply increased, with 67% of survey respondents saying costs had increased by at least 10% since 2022, including 31% who said costs had increased by at least 25%. Costs rises were across the board, including for energy, fuel, domestic transport, food, maintenance/building materials, labour, and the cost of imported goods. For energy, a recent price comparison found that Vanuatu had the third most expensive average electricity cost in the world.[xlv] Most businesses have increased their own prices in response, leading to "cost-push" inflation.

Much of the inflation can therefore be counted as "imported inflation." There was little evidence from the case studies of "demand-pull" inflation (too much demand in the economy). It also remains highly probable that some businesses are able to charge elevated prices due to a lack of competition.

Of course, the higher prices mean that for many consumers, their income will buy them fewer goods than before. The impact of inflation on the wellbeing of people is not the focus of the report, but it is of course an issue of paramount importance. As an illustration, the estimated cost to buy the ingredients for a laplap went up by an estimated 165% from early 2022 until the end of 2023.[6]

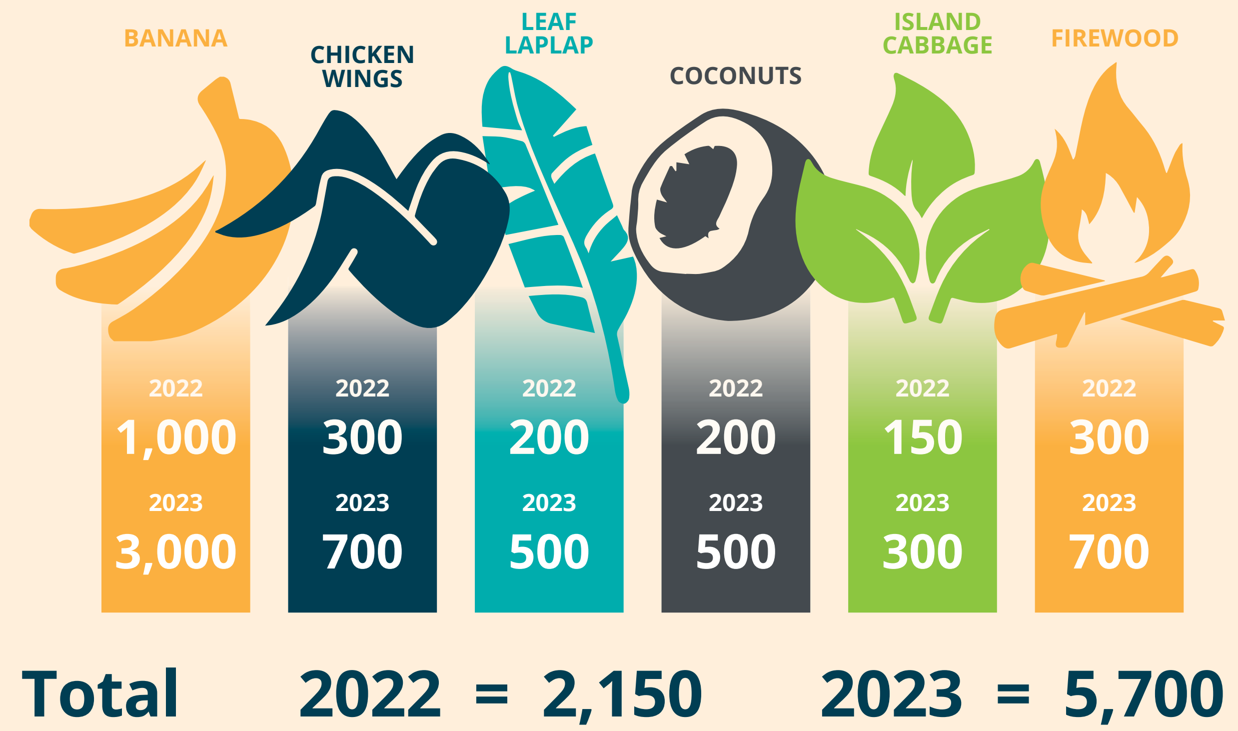
Whilst some international sea freight prices have come down, overall they remain high, and domestic freight is increasingly unreliable and more expensive, with many prices doubling. Logistics remain a major challenge.

Poor domestic connectivity is having impacts far beyond the tourism sector and it is stopping Vanuatu from being able to function properly – business travellers are choosing not to travel, rural tourism businesses have occupancy rates far lower than before COVID-19, and the delivery of basic services such as energy (fuel delivery or solar installation) and water to rural communities is being disrupted. This has been exacerbated by an increase in costs for domestic shipping, with prices up to doubling in the past year.

Many businesses then made reference to the wide range of longstanding barriers to doing business in Vanuatu, including but not limited to the small domestic market, the lack of economies of scale, distance to key markets, the dispersed nature of the population, poor infrastructure, low education/skills, natural disasters, access to finance, and land.

Many businesses also complained about the efficiency, quality, or cost of other businesses in Vanuatu, and there were numerous clear instances of very inefficient practices which emerged out of the case studies. Lack of competition was often cited as a root cause. These inefficiencies increase the cost and difficulty of doing business for other businesses. There were a number of businesses who felt that they had learnt a lot during the pandemic, and become more efficient and resilient as a result.

FIGURE 8: ESTIMATED COST OF A LAPLAP IN PORT VILA, JANUARY 2022 VS DECEMBER 2023 (VUV)



6 This is based on internal PCL calculations from discussions with members of the public about prices

THE TOURISM RECOVERY

The tourism industry in Efate has rebounded fairly strongly, with overall air tourism numbers reaching 71% of 2019 levels. Many small resorts reported record years in 2023 and strong forward bookings, although this success was not uniform. Tourism outside of Efate however is a completely different picture, with international visitors to the outer islands at just 40% of 2019 levels and many operators struggling to maintain the quality of their operations. Insufficient cash flow and low confidence were the two major barriers to investment.[xlvi]

Poor air connectivity, both international and domestic, is causing huge issues for businesses and individuals around Vanuatu. This is something which must be sorted out urgently – either by resolving Air Vanuatu's problems or by allowing others to fly to Vanuatu. Issues with international flights is the major issue for large tourism businesses, and is a major point of concern for potential new investors and is reducing confidence and leading to high levels of frustration across all businesses. Amongst businesses the first preference was generally for Air Vanuatu to be fixed, and there remained a lot of pride and goodwill towards the business. Improving leadership and communication were often cited, as was the need to remove political interference.

A number of smaller tourism businesses closed during the pandemic and have not reopened. This is most obvious for high-end businesses on Efate, of which there are a smaller number and information is more readily accessible. For small island bungalows it is unknown due to a lack of data.

International visitor numbers to outer islands are just 40% of 2019 levels

LABOUR - INCLUDING THE MINIMUM WAGE INCREASE

There was little push-back against the increase in the minimum wage from VUV 200 to 300 in June 2023. 68% of survey respondents agreeing that the increase was correct, along with nearly all the businesses interviewed. There was however widespread anger about the way it was implemented, especially the lack of consultation or notice, as well as the backdating of the increase by approximately two months. The sudden increase also meant that businesses' severance liabilities jumped overnight, as severance is paid on final salary, and so the amount owed by businesses to individual workers rose by 36%.

There were a number of businesses who reduced staff hours in response, and a limited number who said that they reduced staff numbers – although these decreases were generally small. Many interviewed businesses increased the wages of other staff in response. Only a very small number of businesses said that they had seen evidence of 'efficiency wages' (the idea that workers would be more motivated and work better as they are paid more). Indeed, in some cases businesses said that the opposite had happened, as some workers chose to work fewer hours. The minimum wage clearly has been very beneficial in maintaining living standards for the lowest paid workers in society, as shown by interviews in Annex 1.

Other unresolved questions with the minimum wage include its validity for the islands, whether it is being properly enforced across all businesses, and its suitability for new staff who are learning the job and are of very limited productive value. This last issue meant there were a number of businesses who were less willing to try out new staff, meaning they were reducing new hiring.

Access to skilled staff remains an issue across all sectors and levels. Managerial skills remain lacking, and there remains widespread difficulties with the quality of new workers, with a number of businesses saying that many school leavers lacked the most basic skills, and that there were low productivity rates. This in turn limited how much businesses said they were able to pay staff.

Many businesses have adapted to seasonal work, but it remains a challenge, particularly when workers leave without notice. Businesses in rural areas increasingly said seasonal work was causing them to have labour shortages, including both agriculture and tourism businesses. In 2022/23 it is estimated that nearly 15,000 ni-Vanuatu travelled overseas, including just over 20% of the male working age population.[xlvii]

There were a small number of businesses who had used the Emergency Employment Visa, with 172 granted as of January 2024.[xlviii] For those businesses who used them, they were helpful, but as time has progressed, the process for getting approval for the visa has substantially slowed down and there are now basically no businesses exploring this option anymore. The number of visas granted was a lot lower than the 1,500 visas than were originally envisaged. This was at least partly because many businesses had questions as to what would happen at the end of the visa period, and it was clear that this is not a long-term solution.

CYCLONES JUDY, KEVIN, AND LOLA

Vanuatu was hit by three cyclones of category 4 or above in 2023, with the March cyclones both hitting the major business hubs of Efate and Tanna. Despite this, damage to businesses was limited, and certainly much lower than caused by cyclones Pam and Harold, with limited evidence of long-term effects found. It is unclear whether this was because of increased resilience, for example better infrastructure or planning, or because cyclones Pam and Harold were both more intense cyclones, or simply due to luck.

Despite the relatively limited damage, many of those interviewed said how exhausting and stressful they had found the cyclones, and many expressed concern for future disasters.

OTHER DISCUSSION POINTS

Many businesses based in Port Vila felt that the city was in poor condition, with infrastructure straining, and high levels of traffic, rubbish, and pollution. A few businesses noted that the inefficiency of the bus system made it harder to operate for example by making it difficult for employees to get to work on time. Businesses felt that Port Vila would struggle to cope with any further large expansion, and that a clear long-term plan for the city is required.

At the time of the interviews, the roads in Port Vila were in a comparably good condition, and so this was not a common complaint. The Devil's Point Road was noted as being particularly bad. In Santo the poor condition of roads was an extremely common complaint and appears to be a genuine barrier to businesses. For the outer islands, such as Tanna and Malekula, there were mixed stories, with some noting the major investments in the past decade as having helped the ease of doing business, but with others raising concerns about ongoing maintenance requirements.

The condition of all of the major airport terminals was of concern. This referred to both their long-term suitability for Vanuatu's development needs – i.e. how many passengers they can process – as well as the short-term condition of them, such as the condition of the toilets.

Some businesses felt that the Vatu continued to be high, which made it more expensive for exports (including tourism) to be competitive. The strength of the Vatu is at least partly caused by the large inflows of foreign currency from remittances, aid, and the citizenship scheme. Of course, a strong Vatu also means cheaper imports – including of key input goods such as fuel – and so this is not a simple issue.

The international wharf in Port Vila was identified by many businesses as an expensive bottleneck. Prices of services are high and increasing, and many businesses said that it could take weeks for them to get a container cleared and delivered.

There were a number of businesspeople who wanted to help to contribute to Vanuatu's development, for example by supporting project implementation, the development of ideas, the use of public-private partnerships, or through contributing on boards such as Air Vanuatu or VNPF. It was common to hear these people say that they felt the Government was not interested in how to utilise this expertise. A number of foreign or naturalised investors felt that the authorities were becoming increasingly nationalistic, which was contributing to the feeling that the business environment was less friendly.

Whilst the Vanuatu Foreign Investment Promotion Agency was not raised as a bureaucratic barrier, with businesses noting the improvement in its processes, there was concern that they were not doing enough to promote Vanuatu internationally to potential new investors.

A number of manufacturers felt that they were not getting sufficient protection through the tariff system allowing international competitors with access to economies of scale to undercut them. The MSG (Melanesian Spearhead Group) Trade Agreement was the most commonly cited.

Some interviews with businesses looked at the bigger picture beyond just their own business performance. Amongst these businesses, they nearly all said that improving education was by far and away the most important long-term factor for the development of Vanuatu, including its private sector.

SUB-SECTOR ANALYSIS

CROP PRODUCTION

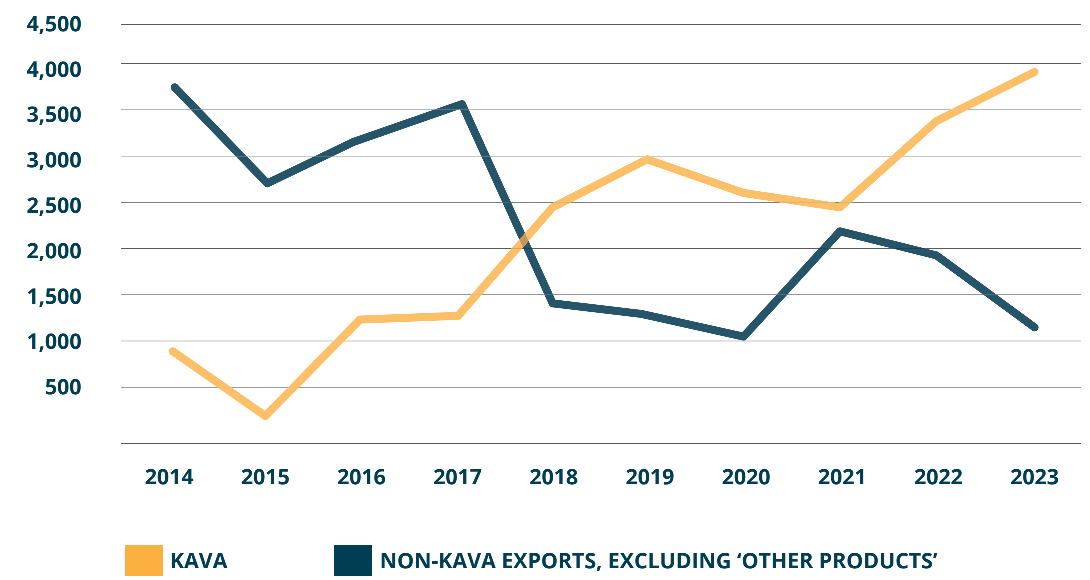
SUMMARY

Commercial crop production in Vanuatu, with the standout exception of kava, continues to struggle. Kava exports continue to boom, reaching VUV 2,273m in the first seven months of the year, with 2023 easily on track to be a record year.[xlix] The domestic market continues to thrive, with the Vanuatu Kava Industry Association estimating that approximately 100 tonnes of kava come to Port Vila each week, dominating the export market. Supply remains very high, with large production from Santo now coming to dominate both the domestic and commercial export markets, due to both logistics and quality. This is coming at the expense of other kava producing islands, most notably Pentecost, but also Malekula and Ambrym. Cyclone Lola has also caused further damage to these areas, meaning Santo will likely continue its dominance. Growing export demand is crucial to ensure this supply can find a market, and to make sure that the benefits can continue to spread to all producing islands. At the same time, other crops must be developed to ensure that the economy does not become overly reliant on kava.

Coconut exports were just VUV 298m in the first seven months of the year,[l] whilst the Coconut Rhinoceros Beetle continues to damage large numbers of trees on Efate. Global copra prices are currently not high enough to drive large volumes from Vanuatu, meaning there were numerous stories of large coconut plantations not being harvested. There has been a large replanting program, but it will be a number of years before its success can be judged.

Cacao performance remains steady, with higher prices meaning that there is expected to be strong export performance in the second half of the year. Excess rainfall and cyclones have damaged the harvest in the last two years. As prices rise it remains to be seen whether supply will also increase, with some industry players feeling that the rise of seasonal work would limit the growth of this market. Metenesel Plantation production appears to remain low, and there should be a renewed focus on this key national asset to ensure it is providing the maximum benefits to Vanuatu.

FIGURE 9: VANUATU MERCHANDISE EXPORTS, 2014-2023 (VUVm)



For other, smaller products, such as Tahitian limes, vanilla, essential oils, peppercorn, and coffee, there was limited evidence of success found in the case studies. Sugarcane has been one of the few growth markets over the past few years, with 50 farmers on Efate successfully selling to a local business. This report did not look at the noni juice market.

Domestic production of fruit and vegetables is unable to meet demand, with prices at Port Vila market reaching record highs as a result. This has been covered extensively on social media. Across the consultations with micro enterprises or those on minimum wage, there were many who expressed concern about their ability to afford fresh food, and so they were increasingly relying on imported food. Fresh food is being brought to Port Vila from other islands, but the high cost of transport and low competition means prices remain high. The authorities have announced price controls will be put in place in early 2024, although it remains to be seen whether these will be followed, and what the impact will be on farmers' willingness and ability to supply produce.

Market prices were lower in both Tanna and Santo, with supply appearing to be steadier. Market vendors had mixed stories, with some saying that they were barely making a profit and really struggling with the high cost of living, and others reporting a more comfortable level of profits.

There were some common themes across all crops, including the high cost of doing business – especially transport (both by land and sea), the impacts of the various cyclones, and concerns about the impact of seasonal work on production. It was unclear how many firms in the agriculture sector are paying the minimum wage, and whether there was any behaviour change. Further consideration by Government of what an appropriate and realistic minimum wage would be for rural agricultural businesses would be worthwhile.

There was some informal discussion of large investors entering the kava industry, while there are a number of firms wanting to invest in the medical marijuana business. There has been some increasing commercialisation of crop production, particularly around Efate (see for example the NBV case study), although these have yet to make a noticeable difference to the market.

This report does not look at subsistence farming, which continues to play a key role across Vanuatu. 85% of the population enjoyed indigenous customary land access, 94% of whom say that the land is sufficient to meet their familial food needs.[li] The Agricultural Census should provide further insights and data into the primary sector and help to drive decisions.

CASE STUDIES

The **Vanuatu Kava Industry Association (VKIA)** reported that there is still a major oversupply of kava, both for exports and the domestic market. Due to the superior supply chains, much of this kava is now coming from Santo, which is supplanting other kava producing islands such as Pentecost. International demand is increasing slowly but has not kept up with supply. There is growing demand for kava extracts, with one major investor recently establishing a facility in Santo to process this.

The VKIA reported that the Australian market is steady, but with a narrow customer base. The seasonal workers are dispersed and so hard to reach, and kava has faced a lot of negative publicity in Australia, which is limiting wider take-up.

Transport and other costs have increased but are not a major issue for exporters due to kava's high value. Growing international demand, through marketing and lobbying and improving the quality standards remain their most pressing concerns. The VKIA reported that the imbalance of supply and demand means that some exporters were likely not paying the minimum VUV 2,000/kilo for dried kava, and that greater clarity and communication was needed. The VKIA felt that unregulating this price was not desirable as it would lead to less money for farmers, but likely not more kava being exported.

Interviews were held with two kava vendors at the **Anaburu Kava Market.** Both were from Santo, reflecting the fact that almost all the kava came from there now, a major shift from five years ago. One of them had recently decided to sell in Port Vila rather than Santo, due to the higher price per kilo (VUV 800 in Port Vila vs. VUV 500 in Santo). Both reported that sales were steady but slow, with a large bag taking a week to sell, compared to two days before COVID-19.

Both vendors highlighted increasing costs. Freight has increased from VUV 10,000 to VUV 12,600 from Santo, transport costs in Port Vila increased by up to 40%, and were higher in Santo too. The increasing prices of goods and services was reported to be placing strain on their private lives. One of those interviewed employed two people to peel and clean their kava, and paid them VUV 1,000 a day. They were not aware of the minimum wage increase.

Forney Enterprises reported a record year, with sales up 30% compared to the previous year. This was due to increased demand across the board, with particularly strong growth in the Australian market. They continue to buy as much kava of sufficient quality as they can, but due to the surplus have been able to be very strict on this but have continued to work closely with the farmers to ensure product quality. They predominantly buy from Santo due to the higher quality and easier logistics.

They used the minimum wage increase to rethink their operations in order to increase productivity. This included stopping all weekend work and moving to shorter shifts, with the addition of a night shift, and they reported being happy with the results. Due to the inability to plan for the minimum wage increase, they also slightly decreased the price that they pay for the kava from farmers.

They reported increased costs, particularly for electricity, but haven't increased their prices. Their margins however have stayed steady due to productivity improvements, particularly through further incorporating technology. Shipping has become much easier, with exports in particular back to normal. They are continuing to invest in their business, including two new sheds which will substantially increase their capacity. They reported a high level of faith in the long-term prospects for kava and felt that production will need to continue to increase to meet demand.

Mataroroa Kava Bar at Freshwota 4 area, reported a significant decline in kava demand,

CASE STUDIES

driven by increasing competition in the area. They previously sold two buckets of kava daily, but this has been reduced to one, leading to a fall in daily income from VUV 30,000 to VUV 10-15,000, with higher demand on pay days.

Managing the kava bar, along with additional responsibilities, has become increasingly challenging for the owner. Consequently, he is considering transitioning his business to other areas, such as rental housing.

He also owns a bus, which is currently not operational as their bus driver is doing seasonal work. He is planning to sell his bus due to increasing fuel prices, challenging road conditions, and the high cost of maintaining the bus. He reported increasing strain on the family's finances due to the wider rise in costs.

Ikiakis Kava bar, near Lenakel, was founded in July 2022. They reported strong growth in profits since they opened, something they attributed to the cleanliness of their kava. They have four employees and are planning to continue to expand – for example they recently built a billiard house. They reported minor damage from the twin cyclones.

They had faith in the future of their business, in part due to increased business investments and sub-divisions of land in the local area, meaning that they thought there would continue to be lots of money in the local community for people to buy kava with.

A **kava middleman from Central Pentecost** said that he was finding it increasingly challenging to sell kava, with demand not like before. This had led to many farmers simply leaving kava unharvested, although TC Lola then caused widespread damage to this stock – with damage levels similar to those from TC Harold. He felt that despite the challenges, farmers will go back to growing kava.

The cost of shipping was highlighted as a major issue – both within Pentecost (by boat or truck) and to other islands. They said that the price of all imported goods had substantially increased, and that many people were struggling. At the time of the interview (late November 2023) they had not received much support post-cyclone Lola.

An interview was held with one vendor at **Cave Kava Bar** in Santo. They sell between two and seven kilos of kava a day, with income up to VUV 10,000 on their best days. Demand has fluctuated, and whilst it is a lot stronger than at times during the pandemic, it was lower than before the pandemic. Their costs have not changed much, but they have cut back on non-essentials at home.

Teouma Valley Farms reported a major increase in demand when borders opened meaning that they are barely meeting demand for their products. They have consolidated their operations to just focus on the lettuce market for now and have increased both production and prices. The price increase was partly in response to increasing costs, with the doubling of fertiliser prices and the increase of fuel prices particularly notable. They predominantly operate with a minimum wage plus bonus model, and they increased wages of higher paid staff in line also, and so this was a further cost increase. They lost many of their best staff to seasonal work and have struggled to find replacements of the same quality.

They sustained widespread damage in the March cyclones, but due to a combination of good luck and improved management – for example storing seedlings in a container specifically adapted for that purpose – they only lost roughly one month of production. They received no Government support in the aftermath of the twin cyclones, and they are still waiting for parts ordered three months ago for the final repairs. They are seeking to expand operations, including a second site, but access to land remains a barrier for this.

Healthy Harvest Farm is a relatively small operation, focusing predominantly on growing and processing ginger, turmeric, and moringa in powder. They grow some of the product themselves, and then buy the remaining product from the islands. They reported a growing level of supply, with other farmers on Efate also now selling to them. They sell most of their product to another company who then exports it, whilst also exporting some directly themselves to Australia. They would like to expand further but the major barriers are the cost of fuel and energy, and a lack of suitable space (i.e. a warehouse) for storing, processing, and packaging, as well as the cost of quality labelling and packaging. They have three staff and did not change wages after the minimum wage increase.

Vanuatu Agriculture Suppliers (VAS) reported strong sales in September with turnover up 7% compared to 2022 and 50% compared to 2019. This is partly driven by higher prices, which in turn is driven by higher costs. Demand was up from all segments. Demand for inputs into key agriculture sectors – including seeds and livestock feed – hadn't increased as much, but this was attributed to increased competition from other suppliers rather than as an indicator of smaller industries. The minimum wage increase did not have a major impact on the business, although quality of staffing remains a major concern. They have nearly completed building their new warehouse which will be a major expansion in their business size.

VAS are continuing to expand their work on projects, predominantly funded by donors and NGOs. They are currently working on nine islands installing water and biogas systems. The major barriers are domestic air connectivity, with reduced schedules and delays limiting the ability to reliably travel, and the cost of domestic logistics – notably land transport and shipping, with the latter having increased by up to 50% in the 18 months since some of the project proposals were submitted.

CASE STUDIES

Tanna Coffee reported continued struggles with annual raw coffee crop production. Over the past 25 years, they had steadily developed and were harvesting almost 100 tonnes of raw coffee annually prior to TC Pam, which devastated the Coffee Industry and production collapsed immediately to 3.5 tonnes per year. Plantation re-establishment and raw coffee production slowly recovered to about 35 tonnes per annum in 2019, before production fell off again due to the pandemic, to only 8 tonnes, before slightly recovering to 16 tonnes in 2022. This was partially attributed to pandemic related fears on the outer-islands and also the Government's direction for people to return to their islands and grow more sustainable food crops. There was also the increased attraction for motivated workers to travel for seasonal work.

2023's production was even lower, due to the twin cyclones of Judy & Kevin, however despite these production challenges, overall demand for Tanna Coffee remains strong, both domestically and also for export, and the Company continues to explore many different options on how to increase annual production. The café and Shop has been supplementing the business well - particularly during the second half of the year.

The company reported higher costs of production across the board – especially associated with packaging, fuel, electricity, and gas, with the cost of domestic freight having almost tripled since before the pandemic, whilst air freight has remained almost 500% higher. The staff are all paid above minimum wage, but everyone received a pay rise following the recent wage increase.

The company is looking to further diversify their business, particularly through local honey and vegetable production. For the honey, they felt that the authorities must protect the industry from imported pests and diseases – for example the bees in Efate were wiped out in the past years due to the introduction of Asian Honeybees and Chalk Brood disease that had arrived from Santo. They also felt there is a great need to support the Bee-keeping Industry, as it is an infant industry with strong growth potential.

Nasi tuan Association was founded in Tanna in 2009 as a community NGO. It has established Tanna Garden (a community company) to purchase cash crops (coffee, peanut, vanilla) from farmers to do the processing. Prior to COVID-19 they were exporting 30 tonnes of coffee annually, but this has slowly declined due to various natural disasters, including ashfall. In 2022 they exported 18 tonnes, whilst this year the cyclones mean that they will not export anything, as their harvest was just four tonnes, so that will go on the local market. They received Government support which helped them rebuild and upgrade their facilities.

They have recently opened a café, and whilst tourists remain their main market, they are seeing growth in the local market. They soon plan on expanding to offering tours of their factory and gardens.

They reported that they were still working on the implications of the minimum wage increase, although they said it would place pressure on their business model.

Nuts N' Oils Vanuatu reported that they were in essence in the process of winding up their business in Malekula. The catalyst for this was as a result of the pandemic, with international freight in particular meaning that they could no longer supply their international markets – for example it took nine months to get a shipment to Florida which previously would have taken 10 days. They were willing to try and scale up but found access to capital was an issue. They also reported skills shortages in Malekula – for example they couldn't find anyone with a driver's licence.

They have recently tried to set up a stockfeed processing plant using 90% local materials. They made an initial investment based on an understanding of Government support, but this failed to materialise, meaning that this project is currently on hold.

They also reported that they felt that the Metenesel plantation was in a critical situation, with the cacao infrastructure in major disrepair, despite now finally having access to other infrastructure (electricity and a quality road). They felt there was 6-12 months to turn this situation around. They said that even as the cacao price has surged by approximately 60% in the past year, they haven't seen the expected increase in production that would normally accompany this, something they put down to the attraction of seasonal work and kava.

Vanuatu Copra & Cocoa (VCCE) Exporters reported a continued fall in the amount of copra which they buy, with the business expecting to buy 8-9,000 tonnes this year, down from 20-30,000 tonnes five years ago. This was attributed to a combination of seasonal work, kava as an alternative crop, as well as increased costs – including fuel, transport, and labour. This is making it increasingly unprofitable for larger plantations, and so now it is mostly just the small producers still selling. The continued Government copra subsidy is crucial, and they felt it was worth considering raising the ceiling at which the subsidy applies, due to the higher input prices, especially fuel.

They have introduced a new line where they buy green copra at the farm gate, which then has to be dried within 6 hours. This therefore limits the area to nearby plantations on Santo, but offers higher returns for farmers, who can harvest about eight bags a day at VUV 900/bag. They are investing in eight new driers and will aim to spread this model to the islands. They thought that El Nino may lead to lower global production of palm oil, which could in turn dry up copra prices.

CASE STUDIES

The costs of doing business have risen, particularly fuel and spare parts for trucks, as they run a number of vehicles on bad roads. The minimum wage increase had a very minor impact. Domestic shipping is becoming increasingly expensive and difficult, as ships are more unwilling to take copra, due to the time it takes to load and unload. This was felt to be due to the increased amount of money in the islands (from seasonal work and kava) which means that these ships can focus on more profitable personal or retail cargo. There were no issues with international shipping.

For cacao, the weather in 2022 and 2023 was not good, and so the harvest was small. The price for cacao was high (VUV 300/kilo). The cost of domestic shipping was the major cost increase noted.

Carpenter Commodities Vanuatu reported that the supply of copra was slow, despite the Government subsidy, as the price is still too low for many farmers. Cacao on the other hand is booming, due to the very high global price. Their supply is steady but growing, and the major issue was the reliability of domestic shipping – especially to West Coast and Big Bay.

Vatkeni Plantation in Santo used to produce 2-300 bags of copra per year but are currently not producing. This is because they felt that it was no longer profitable at current prices. This was driven by rising prices, particularly for land transport and fuel. They used to employ 20 informal workers to help shell the coconuts. They have pivoted their business into cattle (they now have 300 head) and into running tours for tourists.

Venui Vanilla reported a challenging year across a variety of crops. Their main investment is in Tahitian limes for which they are aiming to eventually have just over 2,000 trees. They have recently secured an export permit after four years of trying. They have faced issues with theft – estimating they've had more stolen than they harvested, and have found domestic logistics challenging, due to the cost of air freight and a lack of shipping capacity. TC Lola was mild but their trees were at a vulnerable age and so they lost 90% of their flowers. The effects of this are unclear but there is a high risk that they will miss the export season as a result.

On coconuts they have recently tried to increase their production of coconut oil by more than 300% to compensate for the lack of coconuts on Efate. They have been buying green copra from local communities, but there is no quality control, and much of it is of too low a grade.

For vanilla they have reduced the number of their vines from 6,000 to just 400 as a result of climate change. They have been working with communities in Tanna and Aneityum, but due to challenges with working with these communities they have currently paused all of their buying. They buy pepper and other spices from Malo, but struggle to sell the quantities produced, particularly given the price the communities want. They don't buy pepper from Malekula due to the poor quality.

Their cattle herd is going well, with the recent price increase from the abattoir making it a lot more viable. They are facing issues with theft, losing 14 head from July to October. Their costs are up, particularly fuel, as well as freight rates and wages.

Interviews were held with two vendors at **Port Vila Central Market.** The first was a peanut seller from Epi. She reported a very strong 2022, although supply in 2023 was impacted by the cyclones. She has increased the price she pays farmer per bag of peanuts, and faced cost increases – particularly for land transport and shipping costs (which has recently increased from VUV 1,000 to VUV 2,000+). She has increased the price of peanuts in the market and said that she was still selling well and was making a good living.

The second vendor was from North Efate, selling fruits and vegetables. They also reported higher cost, for example transport costs have increased from VUV 5,000 to 6,000. She reported a sharp fall in daily income compared to 2019, but she could easily cope as her husband had gone on seasonal work.

Interviews were held with two vendors at the **Manples Market.** Before COVID-19, the first vendor supplied vegetables directly to hotels, earning a good living. She now sells at the market, including importing vegetables from Tanna, and said that her income was lower. Major issues were increased transport costs – the cost of cargo from Tanna has more than doubled, whilst the cost of bringing goods from the wharf has increased from VUV 2,000 to VUV 4,000.

The second vendor reported that her income had roughly recovered to before 2019 levels, although the high cost of transportation poses a financial challenge. Both vendors mentioned that the facilities were a challenge, particularly on rainy days. As they were both producers, they had continued access to their own food, and so were able to cope with higher prices.

Interviews were held with two vendors at **Santo Fruit and Vegetable Market.** They both reported very small and fluctuating profit levels. Costs were higher, in particular for land transport, which has increased by up to 50% in the last year – for example a truck from Big Bay Inland was VUV 25-30,000 up from VUV 15-20,000, whilst a boat from Malo was VUV 6,000 up from VUV 4,000. There was price pressure due to competition from other vendors and strong supply. The vendors reported cutting back on all but the essentials from the shops – for example buying fewer clothes.

Interviews were held with two vendors at **Lenakel market.** The first, from West Tanna, reported an increase in maximum daily earnings from VUV 6,000 in 2019 to up to VUV 10,000 now, although there is large variation in earnings. Her garden is growing, thanks to family and community support. She increased the prices of her goods due to increasing costs, particularly transport. Her profits were sufficient to feed her family and for her children to attend school. The other vendor, reported an increase in maximum daily earnings to up to VUV 30,000, depending on her products. Her gardens recovered after the cyclones with family labour.

Campos is a medical marijuana company. They are waiting to make a major investment, including in an agricultural college, but currently feel that the regulations are not strong enough, and so their investment plans are currently on pause.

LIVESTOCK

SUMMARY

The cattle industry continues to struggle, with the notable exception of a few large farmers, particularly on Efate. Production is down 40% over the last decade,[lii] and exports are down 81%.[liii] The total number of head was calculated at 103,825 in the 2022 Agricultural Census, slightly down on the 2016 Mini Census (115,540) but well down on the 2007 Agricultural Census (174,152).

Cattle also continues to be the largest contributor to Vanuatu's greenhouse gas emissions, with direct and indirect emissions from the livestock sector being 73% of the total.[liv] Cattle also is the most inefficient source of food in terms of calories or protein generated per hectare or in terms of amount of feed used.[lv]

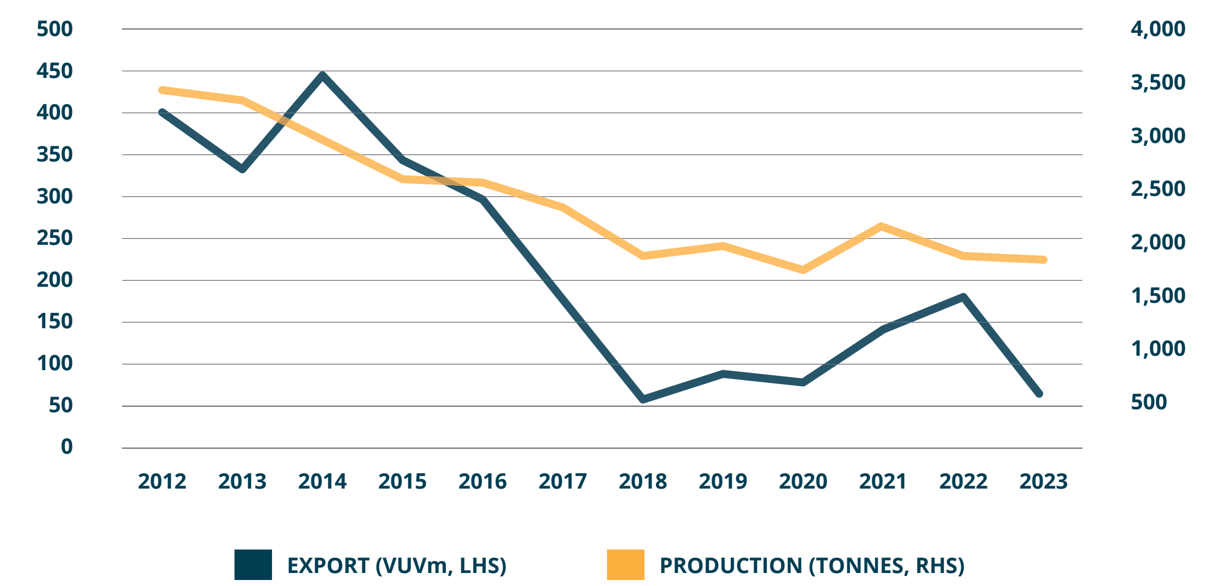
The large farmers will generally sell directly to the abattoir or to another reliable sources of demand, such as a supermarket, and can provide the consistency of supply and quality that the export market requires. Their major challenges include the rising costs of fuel, as well as the cost of repair after the cyclones.

In Santo, the main abattoir was reported to now be only operating once a month. For much of 2023 low prices were a major issue, but the abattoir had just increased them at the time of interviews. Numerous informal conversations with individuals in the Santo cattle industry revealed a low degree of confidence in the long-term future of the industry in Santo, with some saying they think it is on its last legs. Production in Santo is down 57% over the last decade,[lvi] and a number of the largest farms have ceased to operate. Theft was highlighted as a major issue in Santo.

Demand for beef continues to be high, from hospitality businesses, private individuals, and from communities for kastom/cultural events. There also remain concerns about much of the quality of the beef for the domestic market, and the cost of imported beef has sharply increased, with prices tripling in the most extreme cases.

Consultations were sought with poultry farmers, but they did not happen. Despite this, a few high-level conclusions can be drawn with a

FIGURE 10: VANUATU'S CATTLE INDUSTRY, 2012-2023

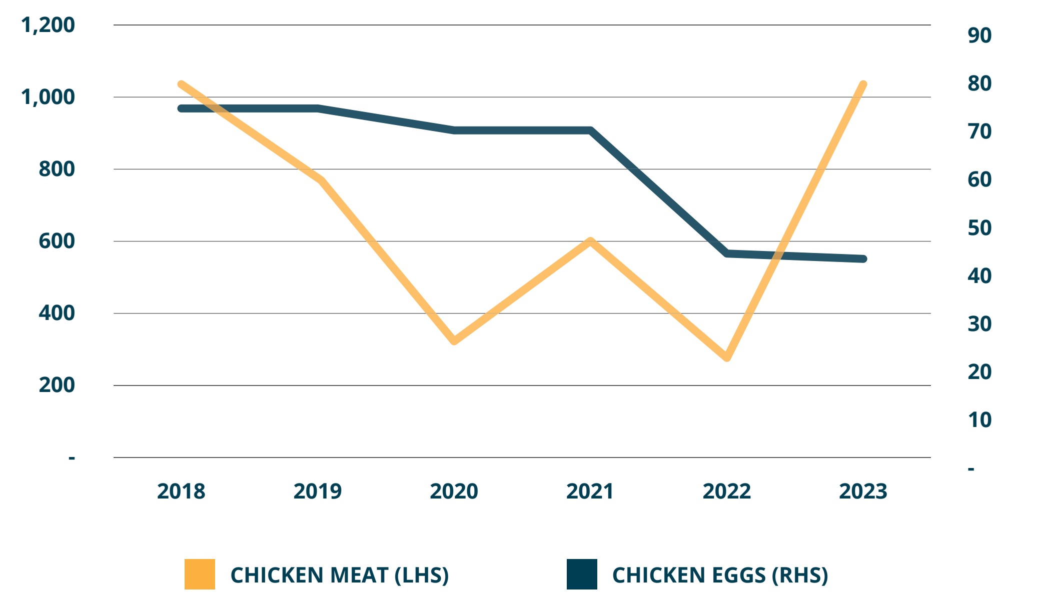


strong degree of confidence: firstly, domestic supply has fallen, as one of the two major poultry farms closed. Secondly, the rising cost of feed and electricity will have had a major impact on the cost of doing business, with most of these price increases passed on. Thirdly, the cyclones caused major damage to farm infrastructure.

Imports of eggs are set to reach VUV 78m this year,[lvii] a record, reflecting the conditions laid out above. Import of poultry meat remains lower than in previous years, although this may be due to a change in how poultry imports were recorded in 2022, as there is no obvious explanation for the stark decline seen in the official statistics. There were no consultations done with pig farmers, although their issues are anticipated to be similar to those of poultry farmers. These are two industries which could be excellent sources of domestically produced protein that can be achieved in an efficient manner, and there must be renewed focus on how to support them to grow.

There are tentative steps being taken to grow the apiculture (honey) sector. This is an area of potential growth, and one where the Government could be giving further support – particularly to ensure that the industry remains disease free.

FIGURE 11: IMPORT OF POULTRY PRODUCTS 2018-2023 (VUV M)



CASE STUDIES

Vanuatu Abattoir Limited reported continuing strong sales. Just over half of their production goes to the export market, which is their focus, as it is more consistent than the local market. They are exporting to PNG, Solomon Islands, and New Zealand, and are seeking new markets focusing on higher quality, although there is limited scope for expansion given the supply of cattle. They also reported inconsistent quality, particularly from the smaller farmers. There are signs that local demand is increasing after borders have reopened, particularly from the hospitality sector. The increase in the price of energy and the minimum wage hike has led to them increasing their prices.

The abattoir is also vertically integrated with **VATE Farms,** which has 18,000 head of cattle across their farms. These farms are continuing to do well, and particularly support the export market. Access to skilled labour is an increasing issue, as many of their stockmen are going on seasonal work, and so they may need to seek to import further labour. The cyclones caused substantial damage to their farms, particularly the fences. The increase in the price of fuel has also had a major impact as they use approximately 15,000 litres of fuel a month, and so they were pleased about the reduction in fuel duty.

Best Point Cattle Company in Santo have 800 head. They reported that they hadn't been making good profits recently due to the low price at the abattoir, despite globally high prices for cattle. They also reported overstocking of the paddocks, in part due to there not being a market for old cows, of which there are more due to the Government directive that you can't kill a female cow under seven years. They were struggling with weeds. The cost of fuel was putting further pressure on the business, and they were struggling to employ good people – something they partially attributed to the attraction of kava as an alternative source of income. They also reported high levels of theft, something which they felt was worsening over time.

Healthy Harvest Farm is a medium sized cattle farm on Efate, which predominantly sells to the abattoir, as well as to the local market for marriages/death. They have consistent demand and were confident for the future market. Their main challenges relate to increased costs – particularly for fuel – as well as cyclones, with TCs Judy and Kevin causing widespread damage. They have three staff and have maintained them on the same wages.

Taste Live Baker & Butchery Shop on Tanna reported healthy profits since its establishment in November 2022. It encompasses a retail shop, a bakery, and a butchery. Taste Live has also acquired machinery through the support of the Government. The butchery sources cattle from its own farm and places orders with Vanuatu Abattoirs. They restocked 84 cattle on their farm, facilitated by internal funds. They plan to continue to grow and diversify and reported a high level of confidence for the future.

Paradise Meats reported continuing solid demand for their products, with no major variations over the past years. Their major issue is the supply, with some of the biggest farms no longer operating, which they felt had impacted on the economics of the smaller farmers. Their main supplier is running low on suitable sized cattle, and they are now having to plan supply up to four months in advance. They have increased prices due to higher prices of beef, electricity, rent and wages.

FISHERIES

SUMMARY

There were limited consultations with the fisheries sub-sector, and so the level of analysis is limited. That said, a few conclusions can be drawn.

It is clear that fishing continues to support a number of communities around Vanuatu, both in terms of income and providing a source of healthy food. This is clear in consultations with other businesses in areas such as Pele, the Maskelynes (Malekula), and Rah (Banks).

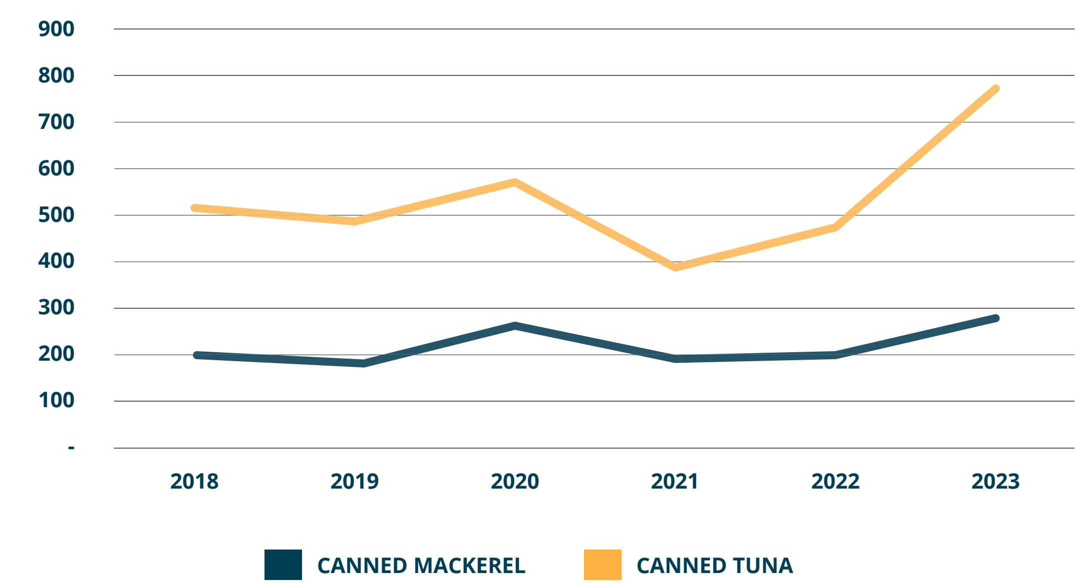
Fishing businesses are generally relatively fuel intensive and so the increase in the price of fuel has put additional strain on many of the businesses, although increases in fish prices have helped to compensate for that. It is also clear that there is strong demand for fish across Vanuatu, with no-one mentioning lack of demand as an issue. This report does not look at the sustainability/conservation of fishing practices, although this is clearly of high importance for the long-term sustainability of this sub-sector, including for subsistence reef fishing.

Imports of canned goods continue to rise in value, with the value of canned tuna/mackerel reaching VUV 605m in January-July 2023. If this continued for the rest of the year, this easily surpass the previous record. As import quantities are not released, it is unclear to what extent this increase is being driven by quantity or by price (as price has certainly increased substantially).

Exports of tuna peaked at VUV 191m in 2020, before declining to 129m in 2021, and then falling to just VUV 21m in 2023 from January to July. Efforts were made to consult with the major exporter, although these were not successful, and so this report cannot talk to what is driving this decline.

There has also been an announcement of a major investment in fisheries, between the Government of Vanuatu and the Advanced Engineering Group (AEG), of USD 150m (VUV 17,800m) for a new facility in Santo. At the time of writing there have been few details released regarding this.[lviii]

FIGURE 12: IMPORTS OF FISH PRODUCTS (VUVm)



CASE STUDIES

Tamahu Natai Fish Market commenced operations in 2019, under the Vanuatu Comparative Business Network. The market sources fish exclusively from paying member fishermen affiliated with the cooperative, employing four staff. Sales hinge on both fish supply and the market's ability to pay fishermen promptly. They reported a challenging year, predominantly driven by cash flow issues, meaning they struggle to pay fishermen sometimes, and so they sometimes close. This is particularly driven by instability, as they utilize Government funding to purchase fish, and so at times they have been unable to operate.

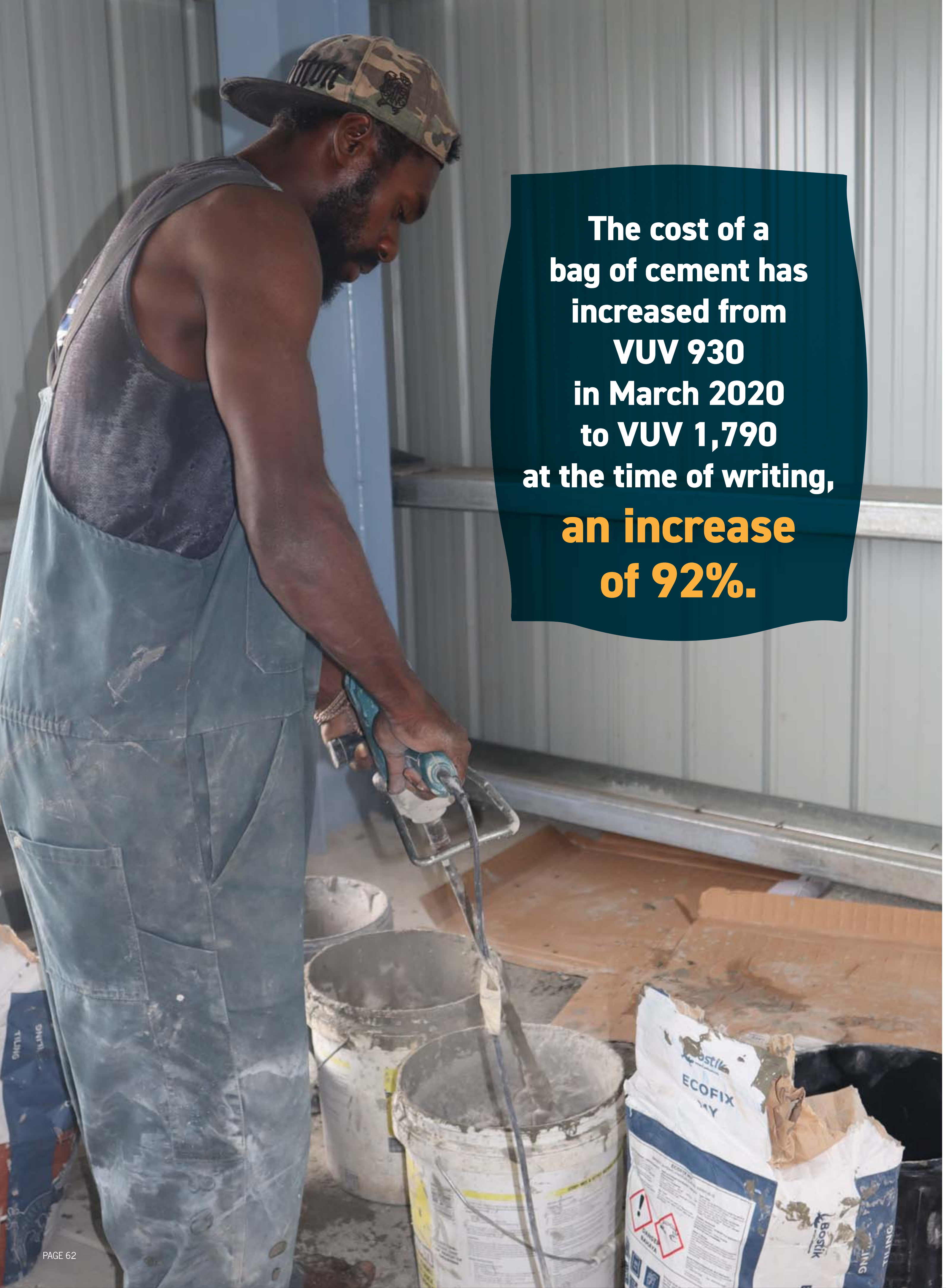
Their costs have increased, especially electricity. They said that they haven't changed either the price that they pay for the fish or the price at which they sell.

A **fish vendor operating at Manples Market,** sources their daily catch directly from local fishermen in her village in North Efate and sells 3-4 times a week. She buys approximately 20 kilograms of fish when she sells, and she will easily sell out. She reported paying fishermen the same price at which she sells the fish in the market.

Tafea Fish Market, was established in 2021, by the Department of Fisheries. They buy fish from across Tafea, including Futuna and Aniwa. They have placed ice boxes around Tanna to help fishermen store their catch. They purchase fish from farmers at VUV 900/kg and sell it at VUV1,200/kg. The cyclones destroyed some boats, subsequently reducing the overall supply of fish.

The market is currently broadly breaking even. The market currently has three employees, who are paid according to how much they sell. They would like to expand by acquiring a proper storage unit with glass presentation. They have a low-cost model as the fishermen generally will deliver.

One Saltwater is a fishing and sea transport business based on Pele. On the fishing side, they reported mixed results. On the one hand, the price that they now receive from resorts is substantially higher than previously, at VUV 1,500/kilo. Conversely, the cost of their inputs has also risen substantially – a litre of fuel is approximately VUV 300/litre, 50% more expensive than in Port Vila, and a carton of bait has nearly doubled in price from VUV 5,000 to VUV 9,000 over the past year. They also reported that since cyclones Kevin and Judy they were consistently returning with noticeably smaller catches from their fishing zones around the Shepherd Islands, although they did not understand why. The local conservation officer attributed it to historic overfishing.



CONSTRUCTION

SUMMARY

The construction industry generally reported being busy, particularly in Port Vila, although there was some variation. Much of this demand was being driven by renovations or expansions of existing businesses or houses – much of this is as part of a recovery as businesses recover after borders reopened, and it is unclear how long these renovations will continue for. There was very little demand from new businesses or large houses. There are a small number of very large projects which are keeping some businesses busy.

From the consultations, there appeared to be limited demand from Government. The Government had budgeted in 2023 VUV 9,939m for 'net acquisition of fixed assets' (the vast majority of which would be construction projects), but as of June only VUV 945m had been spent. It was unclear what was driving this, but many businesses spoke of their frustrations with the Government procurement systems. There are a few large-scale Government projects which are either ongoing or due to start, which will help drive demand.

There is a lot of low-scale construction, particularly driven by seasonal workers building houses. Much of this is being done by the individuals themselves or families, and so whilst they are benefiting the hardware stores, they often do not engage construction firms.

There was a variation in terms of how busy businesses' pipelines were looking in 2024, with some businesses very confident that they will be busy and others expressing serious concerns that they won't be busy.

The cost of fuel and materials for construction are the biggest issues facing the industry, with **the price of most construction materials increasing by at least 30% over the past year.** For example, the cost of a bag of cement has increased from VUV 930 in March 2020 to VUV 1,790 at the time of writing, an increase of 92%.

Hardware stores and construction firms have increased the prices that they charge clients accordingly. For construction on the outer islands the increased cost of shipping means the cost of construction has increased even more.

Most of the businesses said that they were happy with the skills of their staff, although this was only once they had trained those staff up themselves. There was near unanimous agreement that the skills of graduates were completely inadequate – for example three separate businesses independently said that graduates with construction qualifications did not know what a metre was. There was also a widespread agreement that there was a shortage of management capacity, and losing workers to seasonal work continues to be a challenge.

One example of the shortage of workers is for the NBV Isi Haos Scheme. There was high demand for this product across Vanuatu, with a waitlist in the hundreds. NBV however reported that they are struggling to secure construction contractors to complete the works. This was part of a broader trend, with qualified construction workers a lot harder to find in rural locations.

There was some investment reported in the construction sub-sector, particularly for small to medium businesses. Despite that, it is unclear how much spare capacity there is within the construction industry. This is of concern given it is highly likely that there will be a significant need to build increasing numbers of quality buildings. This is both because of Vanuatu's growing population and to help Vanuatu adapt to the impacts of the climate crisis. Furthermore, if Vanuatu were to achieve rapid economic development, then ensuring that there is no shortage of construction workers will be key to unlocking potential. Continuing to work on skills development in the construction industry is critical.

CASE STUDIES

Fletcher reported a slight increase in turnover compared to before the pandemic, but with substantially increased costs. They have two major projects which will keep them engaged for at least the next 12-18 months. They also have a number of smaller projects and reported good confidence in maintaining their pipeline of work over the medium term. They are looking to export their services to other Pacific Island countries in the coming years.

They reported an increase of approximately 30% in construction costs over the past two years. They felt that the availability of construction materials locally is getting better and more price competitive compared to importing themselves, which has made business easier. The minimum wage had a small direct impact on them, but they increased wages of other staff in response. They predominantly work with roughly a dozen local contracting firms, and reported no significant skills shortages in terms of trades, but they were facing gaps in supervisory roles. They have used the Emergency Employment Visa to help address this.

Another key **construction company** reported that after a slow period during the pandemic, they are now approaching full capacity. Much of their work is for renovation or expansion of existing businesses. They previously did a lot of work building new houses, particularly for foreigners, but this has slowed down considerably. They managed to keep all their staff employed through the pandemic, and whilst they already paid everyone above minimum wage, they increased everyone's wages by VUV 80/hour when it increased. Fuel and building materials are their most notable cost increases. They have passed some of these costs increases on to their customers. Their pipeline of work is busy until mid-2024, and they have a reasonable degree of confidence this will continue afterwards.

Grube Supplier is a small locally owned construction company with three permanent staff. They mostly work on small projects for expatriates, although they have also led on medium sized projects. They mostly rely on social media and word-of-mouth for new clients, and they reported a strong pipeline of future projects. Their cost of doing business has skyrocketed, especially for building materials, but also for fuel. Poor weather this year has inhibited their ability to complete work.

Santo Hardware reported strong and steady sales with their margins staying relatively constant., Whilst some costs and prices have increased, the prices of some key goods are coming down, including cement, timber, and plywood, and the business is also becoming more efficient. Demand has historically been predominantly ni-Vanuatu, although in the last year there has been a shift in what some locals are buying, as a middle class is emerging who are buying higher quality goods. Seasonal work continues to be a key driver. There have also been a number of expatriates who have moved to Sanma recently and who are refurbishing, and Santo Hardware reported a small number of new businesses who were buying, although these were all fairly small scale. They were expecting the minimum wage increase and so were able to easily absorb it. Whilst shipping remains 50% higher than before the pandemic, prices have been coming down and reliability is much improved.

KD Enterprise reported a challenging year, driven by a lack of major projects. There were a number of big projects which were supposed to proceed this year, but they have been delayed. They are now coming towards the end of TC Harold recovery work which includes both private work and via Government, and their pipeline of work for next year is looking very uncertain. There have been no major new business investments.

Sales of materials has been strong, as there is lots of small construction – particularly from seasonal workers. The cost of materials, spare parts, and fuel have all substantially increased, and KD Enterprise have increased their prices in response. They have 40 staff and have been facing increasing issues this year from seasonal work and attendance. Cash flow is an issue at times for the business, which is further hindered by the slow resolution of court cases.

A **large electrician** reported continued growth in their business, with a record turnover and continued strong profits. This was driven from demand across the sectors – individuals, institutions, businesses, and builders. They expect this strong demand to continue for at least another three years, although they noted that there weren't many new buildings or houses. Their costs have increased across the board, notably electricity and wages – they increased wages after the minimum wage increase to maintain the differential in their wages. The costs of materials have fluctuated depending on the specific good. Their store continues to perform well, again selling materials to a wide range of customers.

A **medium-sized hardware store** reported high levels of demand, well above 2019 levels. This was being driven by demand from both construction firms and individuals, including from the islands – in particular seasonal workers. The individual nominated by the owner to discuss the business was unable to provide details on the cost or ease of doing business.

Dexter's Construction Company is a small company based in Efate, who also do work on the outer islands. They have reported a strong 2023, with profits exceeding pre COVID-19 levels, and they anticipate a strong 2024. They reported common industry challenges, including payment delays, which can lead to cash flow issues. They are investing in their own office space and in business administration skills.

Mountain Hall Steel Fabrication & Welding Company in Port Vila reported that 2023 was a slow year, with the major challenges being instability leading to fewer Government contracts, increased competition, inflation, and varying iron prices. While the company previously considered expansion, rising prices led the business to plan to venture into agriculture.

CASE STUDIES

The owner raised concerns about the employment prospects of his fellow INTV graduates, saying that many in his circle have sold their welding tools to seek seasonal work.

Impluse Services LTD, is a construction business in Tanna. They reported high levels of demand, mostly for houses, but also for a major aid program. They have a shortage of skilled workers, so they bring in individuals from Ambae on a three-month rotation period. The cost of shipping, materials, and fuel remains high, with unreliable fuel supply a major issue, with work sometimes having to be put on hold for extended periods. They reported wanting support with administrative functions, including VAT and working out profit.

Tanna Hardware, reported very strong performance. Their revenue has seen an uptick, attributed to the impact of the seasonal worker programs and damage caused by the cyclones. The business faces challenges related to space limitations and an inability to find suitable land for expansion. They currently employ eight individuals, and have recently increased salaries of most of the staff

Tanna Hardware caters to a diverse customer base, including seasonal workers and farmers. The cost of freight, which has more than doubled is a major challenge. They reported that some stores closed as a result of the cyclones.

BI Consulting is an engineering firm based in Port Vila. Their staff numbers dropped substantially through the pandemic as work slowed. They have been slowly recovering since, but demand remains well below pre COVID-19 levels. Their pipeline for next year remains uncertain. They have seen evidence that confidence is beginning to return to the private sector, including for housing, but this has not yet translated into concrete demand. Government is a crucial client for them, but they said that procurement has been slow. They reported that their costs have increased in line with inflation.

MANUFACTURING

SUMMARY

Manufacturing continues to play a minor role in Vanuatu's economy, with just 2.2% of GDP coming from manufacturing in 2021. Its contribution to GDP was just VUV 2,951m in 2021, down from VUV 3,242m in 2010, a fall of 9%. This is even more stark when inflation is taken into account (i.e. using 'constant prices') as manufacturing's contribution to GDP in terms of Vatu fell by 27% over this same period.[lix]

The major barriers facing manufacturing businesses continue to be the same; the high cost of energy, the high cost of input goods, the unreliability and high cost of shipping, and competition from other imported goods businesses who are able to achieve economies of scale. These are then exacerbated by other issues, such as the shortage of skilled staffing. Many large manufacturers have a relatively large proportion of their staff on minimum wage. Most manufacturing businesses have increased the price of their goods, and have seen differing levels of demand, with some businesses performing strongly and others struggling.

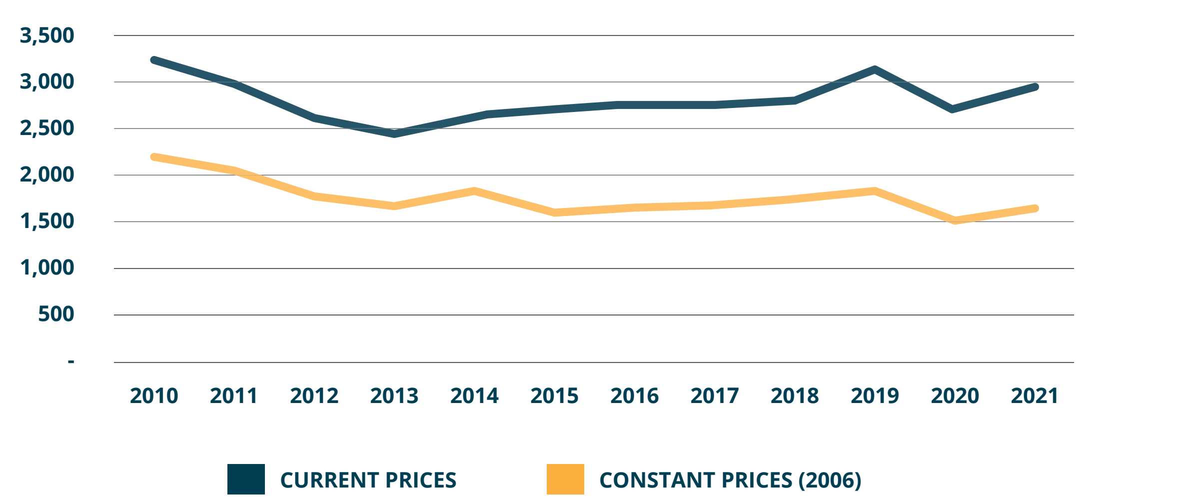
Some manufacturers have been able to install limited amounts of solar, which they said had a payback timeframe of under two years. All these manufacturers were extremely happy with this investment and wanted to install more solar.

Some kava exporters are planning on expanding their operations to do additional processing within Vanuatu. Beyond this however, there was no notable new investment in large-scale manufacturers.

In more positive news, there has been growth in micro manufacturing businesses, particularly those supported by the Government's Industry Development Fund. This is a very positive development for these businesses and the individuals involved, as well as offering their consumers more choice. Most of these businesses however will have a low number of employees, will not pay much or any tax, and have limited scope for growth. This also applies to handicraft and sewing businesses, many of which are performing relatively well.

There has also been some growth in small to medium manufacturers producing goods which are of a sufficient quality to be able to export. As well as kava products, some examples include chocolate, alcohol, essential oils, and perfumes.

FIGURE 13: MANUFACTURING'S CONTRIBUTION TO GDP (VUVm)



CASE STUDIES

VATE Industries reported a strong recovery since borders reopened, with overall volumes being 40-50% higher than before COVID-19, although their business has historically fluctuated substantially. The majority of their demand comes from construction companies. Most of their sales are in Efate, with some to the islands, while they reported a sharp increase in sales after the cyclones this year.

They reported substantial cost increases across all their major line items; labour, energy, and fuel, and have increased their prices in response.

The price of steel has dropped since its peak but remains roughly 50-60% higher than before the pandemic and is now comparatively more competitive compared to timber. They reported difficulties getting specialist parts in, although regular freight is normalising.

Access to skilled labour remains a key challenge, particularly as they lose staff they have trained to skilled labour opportunities overseas – for example they had 25 welders previously, and now they have just four. They are seeking to therefore import labour as a replacement for these staff.

Tousong & Co Aelan Creations is a family-based business consisting of eight weavers. It was founded in 2017, on the back of a previous successful micro handicraft business.

During the pandemic they predominantly sold to a small number of repeat expatriate customers. Since borders have reopened they reported strong demand, which has diversified, including selling to tourists from the local resorts. They also reported increased demand from ni-Vanuatu, predominantly for smaller items, but also for the larger items.

They have increased their prices in response to increasing input prices of imported goods, particularly mirrors which have doubled in prices, although the price of pandanus and burau (wild hibiscus) hasn't changed.

They had built a small shop for their goods in Eratap, but this was destroyed by the March cyclones, along with stock equivalent to one month of weaving. They have plans to rebuild more with a stronger structure, including a café, when they can access the funding.

LU-Ngwanda Fashion is a micro clothes business based in Port Vila, which has been operating since 2005. They almost exclusively sell to the local market. During the pandemic they reduced their prices, but the volume of sales was unchanged. Since borders have reopened they have increased prices again, with volumes unchanged. They reported increases of just under 10% in their key input materials.

Cellovilla reported increased demand across the board – manufacturing, wholesale, and retail, and across all their products, with sales reaching 2022 levels by the end of September 2023. Whilst some of their costs have increased, others have fallen – most notably freight – and so they chose not to increase prices. The minimum wage increase only had a very minor impact as the majority of their staff were earning above the new threshold. They have increased their capacity recently, and would like to further expand, but they feel scope for expansion is limited due to competition through the MSG Trade Agreement.

Sly Products is a micro–Virgin Coconut Oil producer based in Santo, selling to the local market. They reported a fall in sales during the pandemic, but they have now recovered. They were supported by the Industry Development Fund, which allowed them to sharply increase production through machines. They reported that this has been extremely helpful, and allowed them to scale up production, including hiring two staff on a contract basis.

Pacific Supplies reported a healthy recovery in their sales, driven by resorts reopening. Their volumes of sales are slightly lower than prior to COVID-19, but due to higher prices on their products, their turnover is slightly higher, albeit with lower margins. They reported higher costs across the board, including shipping, security, energy, and labour – particularly driven by the minimum wage increase.

This is also placing pressure on the wage differentials for more skilled staff, and they are considering whether to increase other wages too. They had been planning on increasing their workforce by 20% but have placed this on hold due to the wage increase. They are also considering whether to increase the price of their services which haven't changed since 2017.

They reported that shipping continues to be inconsistent and slower, meaning that they have had to roughly triple the amount of stock they hold to be sure they have enough.

Vanuatu Beverage Ltd. reported slightly declining sales throughout the pandemic and subsequent recovery. In response to increasing costs of raw material and especially fuel they have raised their prices. At the same time, they have faced a slight fall in demand due to a large international competitor importing rival products under the MSG Trade Agreement. The increase in the minimum wage has meant that they have halted plans to hire additional staff. They are also considering additional mechanisation of their processes and are looking at how to adapt the rest of their pay scale. They would like to expand their operations but are facing challenges with access to finance.

Vanuatu Brewing Ltd. reported record levels of sales and volumes this year, buoyed by higher demand across all segments. This has been supplemented by cost savings found during COVID-19, for example installing solar. They have just bought a new plot of land and are planning on expanding further, including importing a new production line, which will allow them to double output. The minimum wage increase had almost no impact for them, but they used it as an opportunity to substantially increase their other wages. They face a continued lack of skilled staff in the upper levels of their business. Some of their costs have increased but they have also increased their prices.

RecycleCorp reported doing well through 2023, with the business slightly exceeding 2019 levels. They were an immediate benefactor of the twin cyclones, particularly thanks to the Government directive that iron could not go to the dump. They also felt that this had helped increase awareness and help drive behavioural change on a day-to-day basis. A combination of seasonal work, the minimum wage increase, and the ability to find skilled staff has had a major impact on their staffing. This was exacerbated by incorrect information told to their employees by a union representative, which harmed staff morale. They

CASE STUDIES

are looking to expand their services further into plastics and cardboard.

Gaston Chocolat reported a large increase in turnover compared to last year. They have not increased their prices however, and so their margins have substantially been reduced. They have seen price increases particularly in food for the cafe (up 30%), in the cost of export (up 50%) and in domestic shipping – it is now VUV 1,300 to ship a bag of cocoa from Malekula, up from VUV 900 three years ago. The number of checks on export has also increased the cost and time of exporting. They have installed a solar system which covers 70% of their energy costs, and so they are largely insulated from energy price rises. On cruise ship days they reported a doubling of turnover in the café.

They are expanding their operations in Malekula, including placing one staff member nearly full time there. Despite being 500 metres from the high voltage line there is no connection to the village where they have their facility, which makes drying the cacao more challenging. This was particularly the case this year due to high rainfall. They have increased the price they pay their farmers due to increased competition from other buyers. They have also had to increase compliance checks to ensure that there are no children harvesting cacao, as that is something of increasing concern due to lack of labour resulting from seasonal work.

They are currently not exporting chocolate due to a lack of time to focus on this part of their expanding business. They would like to substantially expand their operations, particularly focusing on fine-flavour cacao, but access to finance remains a major barrier.

Interviews were held with two vendors at the **Haos Blong Handkiraft.** They both said that sales had recovered well since borders reopened, with daily income now approaching what it was prior to COVID-19. Demand is still mostly from tourists and expatriates, but they have seen a growing market from ni-Vanuatu, for example for presents, a very welcome trend. They have increased prices, predominantly in response to rising broader prices to help sustain their living standards. Their costs have not really increased, with prices of raw input (pandanus, burau) mostly unchanged. Cruise ship customers continue to not buy as much as air passengers, with sales noticeably lower when Air Vanuatu have issues. They said that the opening of a temporary market nearby selling imported products has also had a negative impact on their sales. They felt that the lack of a market manager was also a limiting factor for their business, especially for marketing.

Dolosa Handicrafts in Santo reported a slow but steady 2023, with sales roughly the same as last year. They predominantly sell to the locals, in part because of their poor location for tourists, and in part due to not many cruise ships. The main price increase they have faced is for calico, which has risen by up to 60% over the past year. The vendors all had other family members earning, and so their buying power has not fallen by too much.

83 Islands reported a strong year of steady growth. Demand at the airport is very high, but they reported a surprisingly slow take-up rate amongst local resorts and restaurants. They have recently sent their first order to Japan as a trial, and have been talking to potential distributors in Australia, but the irregular shipping makes it extremely difficult. They are in the process of getting their ISO 22000 certification which will help them to export to certain markets. They said that recently tourists were increasingly coming to visit and felt that there was strong growth potential for selling products directly to tourists, including tours.

On the production side they lost approximately 40% of the sugar cane crop in the twin cyclones, but it rapidly regrows, meaning that farmers mostly delay their income by four months. This, along with key machinery being broken for periods, has meant that production will be slightly lower this year. They are continuing to invest and expand, although this is taking longer than anticipated due to extremely long times for new machines to arrive.

The major issue for the farmers was very sharp increases in the price of transport, which left the farmers with very little profit. In response 83 Islands have bought their own truck so they can buy directly from the farms, and whilst this is at a slightly lower price than before, it is still four times higher than the global price. The farmers are now struggling to find workers to cut the sugar cane, and the association is looking for ways to share resources. Currently production is limited to Efate due to the need to process the sugar cane on the same day, but they expressed a desire to work with farmers and businesses from other islands.

Polin's Handicraft on Tanna, was established in June 2023, and the owner reported being happy with how it is faring. The business sells dresses which are sown in Vila by the owner, as well as other handicraft products from different vendors. Dresses and baskets are the main revenue drivers. The business reported earning approximately VUV 20,000 on regular days, rising to VUV 30,000 on payday. She wanted to sell from the Tafea Handicraft Haos, but a land dispute has stopped it from operating, and so they rent a space from the municipal council instead.

Volcanic Earth reported slow but improving business, with a clear improvement in the last quarter of 2023. Prior to COVID-19 they were 85% export orientated, mostly by air, which nearly completely disappeared during the pandemic. As borders have reopened, they have seen a recovery in the export market, but there are still a very large number of resellers who haven't returned. They said that shipping was their major issue, particularly regarding reliability. They reported steady business in their spa, which fluctuates depending on the tourism sector.

Their supply of products – particularly tamanu, nangae, and coconut oils, as well as cacao butter – was reported to be steady. Their coconut oil predominantly comes from Santo, and they were concerned about the possible impact of the Coconut Rhinoceros Beetle.

Their costs have increased, particularly shipping for the import of goods such as bottles, as well as the price of these goods themselves. As their products are predominantly hand-made, electricity was not a major concern. They have trainee staff on minimum wage and increased wages of other staff too when minimum wages increases occurred.

UTILITIES (INCLUDING FUEL)

SUMMARY

The utility businesses generally are performing well. Although the price of inputs, notably fuels, has increased, their agreed models generally mean that the price of their products (electricity, fuel) has increased. Demand has generally stayed constant, if not slightly increased, even as there is increased competition, with the exception of when the two cyclones (around March 2023) caused widespread damage. This demand is being driven by both an increasing population, and the increasing ni-Vanuatu middle class, who are using more electricity and who are increasingly buying cars. There are few new major businesses being connected to the grid.

Whilst the businesses themselves are performing well, the price increases which they have passed on to end-consumers have had a major impact on a broad range of businesses, particularly those who are especially fuel or electricity dependent – including agriculture, tourism, manufacturing, construction, and transport. Electricity prices remain at least double what they are in neighbouring countries such as Australia, and according to some analysis the average price in Vanuatu is the third highest in the world. Prices for Port Vila peaked towards the end of 2022 and remain slightly elevated by historical standards. There remains an elevated risk of an oil price shock, particularly due to the various ongoing conflicts globally. It remains highly unclear how resilient the Vanuatu economy would be in the face of such a shock given the country's high dependency on oil for energy generation.

FIGURE 14: PRICES, UNELCO BASE PRICE AND GLOBAL OIL PRICE, 2014-2023[ix]

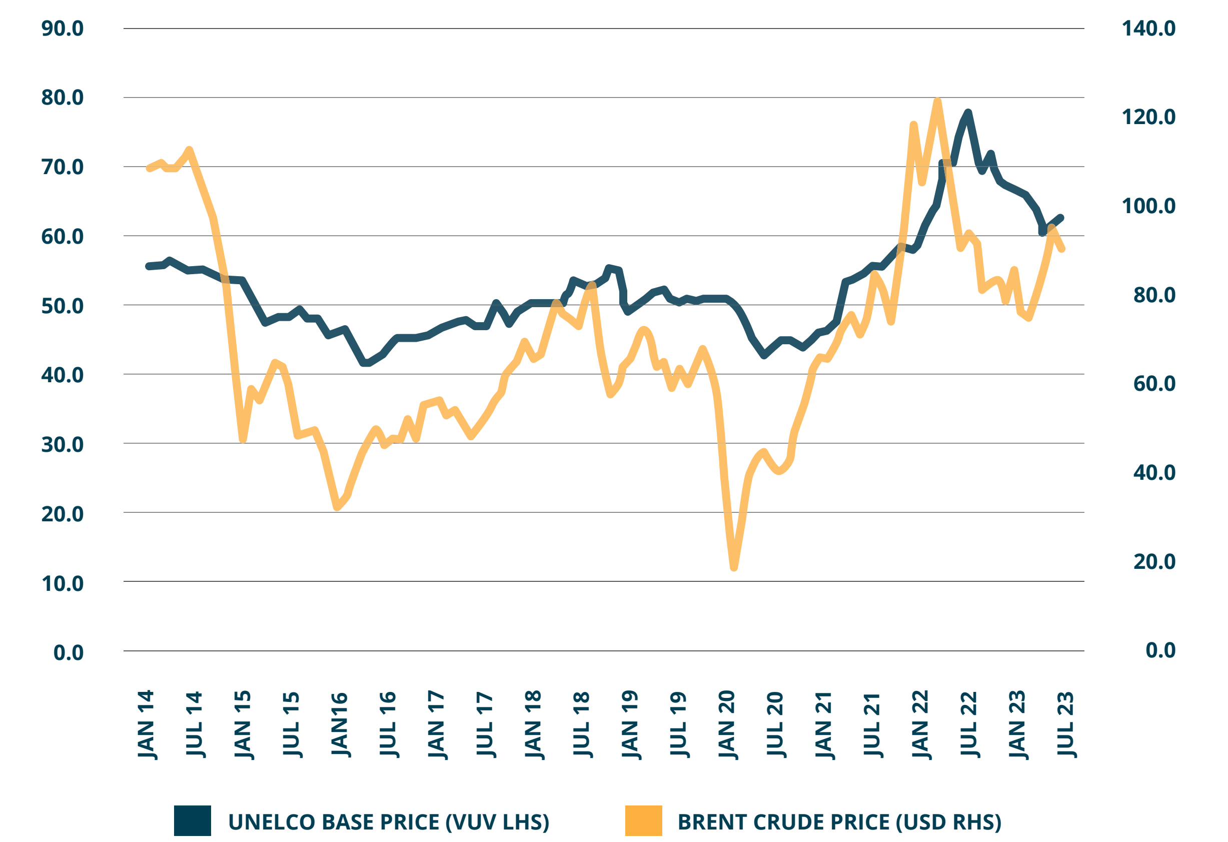
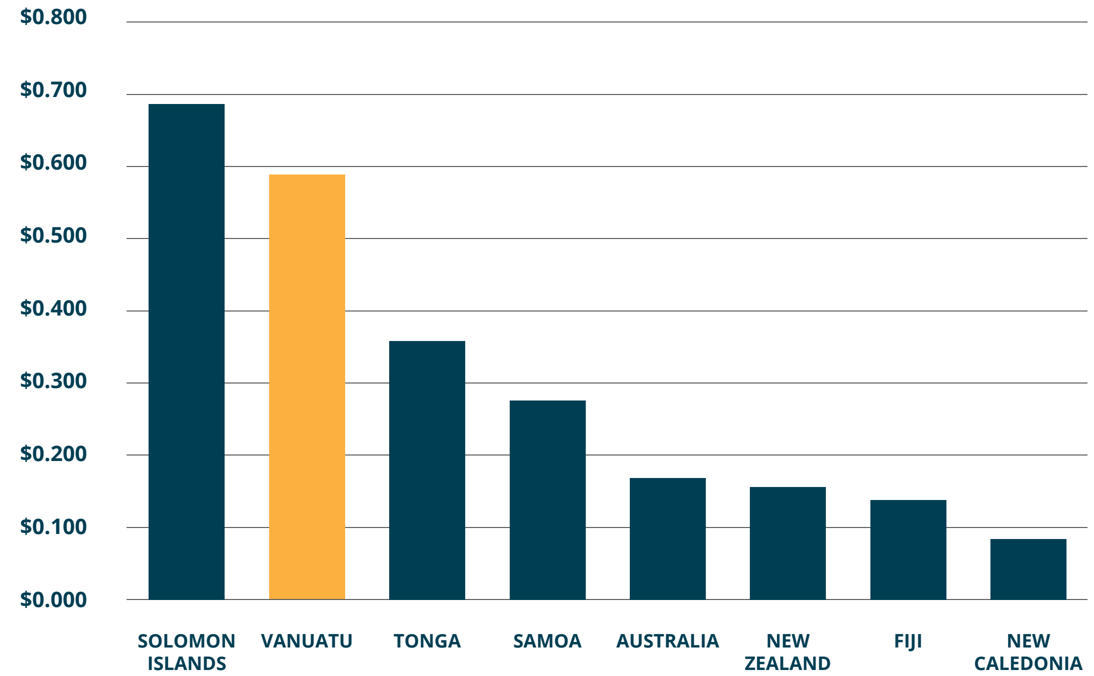
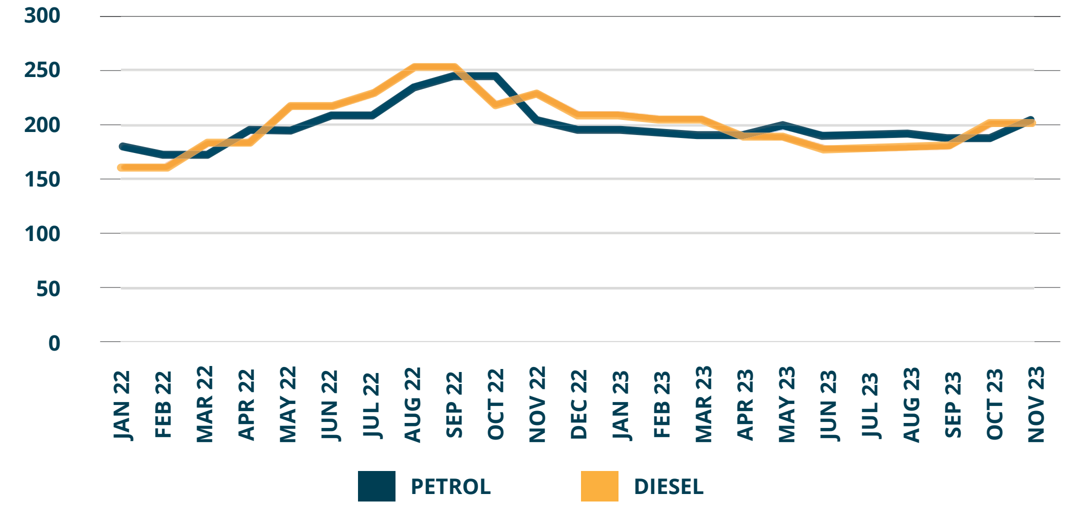


FIGURE 15: AVERAGE ENERGY COST (PRICE OF 1KW/H USD) FOR SELECTED COUNTRIES (2021)[lxi]



There is a small but increasing number of businesses who have installed their own solar, particularly in Port Vila, where there is a cap of 30 kwh of capacity which can be installed whilst still being connected to the UNELCO grid. For these businesses the pay-back period is one to two years, and they are all extremely happy with the savings and what that means for their business. In Santo, businesses did not have clarity about what the rules were, and so had generally not installed their own solar. Clarifying these rules and coming up with a plan which would enable businesses to maximise their benefits is a crucial step to be taken.

FIGURE 16: PRICE OF PETROL/DIESEL, VATU, 2022-2023[lxii]



There is increasing demand from rural Vanuatu for solar installations, partly driven by seasonal workers with more income to invest. The cost of shipping and the unreliability of Air Vanuatu is a major barrier to more widespread adoption. Air connectivity issues were also raised as a major issue for Vanuatu Agricultural Supplies when rolling out rural water projects. These are the basic pillars of development – water and energy – and their delivery is being held back by internal logistics.

Approximately 80% of energy in Vanuatu was produced using diesel.[lxiii] There have been some positive steps recently in expanding renewable energy capacity, including a tender for expanding solar capacity in Port Vila and the opening of the hydro plant in Malekula, but there remains a lot more work if the 2030 target of 100% renewable energy generation is to be met.

Major concerns were raised by a variety of people about the medium-term sustainability of Port Vila's water supply, saying that a new pump has to be installed as a matter of urgency.

CASE STUDIES

UNELCO reported an increase in both business usage of electricity (up roughly 15% compared to last year) and business numbers, with an increase in small business customer numbers of about 7%. There were no new large business customers however. The September base price was 21% below its peak, but 22% higher than the September 2019 level. Due to rising fuel costs globally, the base price is anticipated to increase in the coming months.

UNELCO has also continued to see steady growth in individual customer numbers of 2-3% annually. They are restarting the expansion of their networks, although their subcontractors face staff shortages and were concerned about the impact of the minimum wage increase. Whilst the cyclone was expensive and highly disruptive, Unelco were able to cover the costs through their provisioning. UNELCO reported wanting to invest in long-term infrastructure, especially renewable energy, but in order to maximise these benefits they require greater coordination and direction from the authorities.

VUI reported that whilst demand is steadily recovering, it hasn't yet reached maximum demand levels seen in 2019 in Santo. In part this has been caused by the permanent closure of a small number of resorts. They are continuing to extend their network to new communities and investing in renewable energy, including through working closely with the Government. They reported a sharp increase in the cost of doing business, with the price of materials and spare parts in essence doubling over the past five years, as well as higher fuel prices. The minimum wage increase hasn't impacted them as their staff are skilled and above the minimum wage level. They would like to hire additional local mechanical and electrical engineers. Shipping was highly challenging during the pandemic but has eased somewhat.

Savvy Solar reported that 2023 was exceeding their expectations, with the last quarter being particularly strong. They reported increased demand across all sectors. The price of solar systems globally has continued to fall, but with the rise of shipping costs over the last two years generally their prices have not decreased. None of their staff were on minimum wage. The recent minimum wage increase did not really affect them as they were paying above minimum wage, but their staff still got an increase, as Savvy Solar recognizes the importance of maintaining a happy workforce.

Work is continuing to come in from the islands but due to the logistical difficulties of doing business in the islands, particularly due to air connectivity, this work is becoming more of a liability for the business. They get a large number of enquiries from businesses and homes, although the limits placed on the amount of solar that businesses can install, limits the amount of business activity. They are continuing to grow slowly but have no major expansion plans. A possible return to the manufacture of their own lighting systems is being assessed.

Budget Solar reported a fall in sales of 30% compared to last year. This was mostly attributed to moving premises, which saved money on rent and staffing, but has led to lower footfall. Their best-selling product was solar freezers to the islands, with seasonal workers being a core market. Inter-island shipping was very expensive. There haven't been major changes in the prices of solar, but the strengthening US Dollar has made importing more expensive, and so they increased prices of their goods by approximately 10%. They have lost two staff to seasonal work and are shifting to less technical work as a result.

Unity Store in Santo reported a recovery in their petrol station, particularly since July 2023, after a sharp fall during the pandemic of more than 50%. Sales have not recovered to 2019 levels yet though. They reported that there are more cars on the road in Santo, particularly from the local community, but there are also more petrol stations. They are one of the few petrol stations which accept LPOs, and so Government continues to be a key customer.

Au Bon Marche reported consistent volumes of sales through their fuel stations, with levels recovering after a drop through COVID-19. Whilst they felt there were more cars on the road, they said the increased competition has reduced their market share.

Paradise Gas reported slow but steady increases in demand, which they attributed to increased wealth of ni-Vanuatu, as well as their products reaching new parts of the country. They are confident that the market will continue to grow and are seeking to expand to additional islands. Shipping reliability was the major issue reported.

Paradise Petroleum reported an increase in demand in recent months in Port Vila, something which they felt was due in part to more tour operators and buses for resorts, as they capture a good part of that market. At their Santo pump stations, they reported very consistent demand. Their pump staff were on minimum wage, and they reported the major issue as being the requirement of back payment of several months as per Department of Labour order. Their other staff were on higher wages, but they also increased their wages. Electricity is the other major cost which has increased, which they have managed by increasing the prices of goods in the store.

They have seen increased demand for fuel drums to the outer islands, at least in part driven by more vehicles on the islands. In Santo, they also sell tyres, and they have seen rapid growth in sales, something at least in part due to the poor condition of the roads in Santo. The cost of freight is the major issue for tyres, which has led to increases in the price of tyres.

Tebakor Fuel Station reported very steady demand, with a slight recovery after borders reopened. They sell a lot of fuel for heavy duty machinery with a spike after the cyclones. They reported increased costs, particularly as a result of the minimum wage increase. A large proportion of their staff have been with them since they started operating five years ago, and so the changes to severance in 2022 and minimum wage in 2023 has led to a sharp increase in severance liability.

RETAIL/WHOLESALE

SUMMARY

Retail and wholesale businesses generally continue to perform well, driven in large part by both the growing population and the large amount of money flowing around the economy. Many businesses reported a recovery in the level of sales to at least 2019 levels, whilst in the survey, 16% of retail/wholesale businesses reported making strong profits, higher than the other categories, with a further 60% making moderate profits. 13% said that they were breaking even, 7% said they were making a manageable loss, with 3% preferring not to answer.

Efforts were made to talk to retail businesses around Vanuatu to try and understand how much money was flowing around different islands and communities, although this is hard due to both the very large number of potential businesses to talk to, and issues in contacting them.

For retail stores the major issues were increases in costs – particularly for freight (both international and domestic) and of the imported goods themselves, as well as the cost of power. 37% of retail businesses said that they had seen a major increase in costs in the last year (more than 25%) with a further 16% saying that their costs had increased between 10-25%. Businesses have passed on most of these cost increases, with 67% saying that they had increased prices in the past 12 months, and 46% saying that they had plans to increase them again in the coming 6 months (with a further 34% choosing not to answer). Many retail businesses had employees on the minimum wage, with 46% saying that they had increased prices as a result.

Many retail businesses felt there was potential for growth, with 47% of those who answered saying that they had either major (30%) or minor (17%) investment plans. 44% said they expected turnover to increase in the coming months, 27% said they thought it wouldn't change, and just 6% said they thought it would decrease, with the remainder unsure.

CASE STUDIES

Au Bon Marche reported a clear improvement in business performance after borders reopened, with volumes of sales set to exceed 2019 levels. They have completed their upgrade for their Man Ples store and were happy with how the store was doing. Their costs have increased, with the cost of imported goods increasing by at least 15%, and much more in some cases. Electricity remains a major expense, and they have installed as much solar as they are allowed to and would like to install more as they have lots of roof space. Just under half of their staff are on minimum wage, and so the minimum wage increase was a major cost increase. In response they slightly reduced some staff working hours, and increased wages for other staff who were near the new minimum wage. Freight remains very expensive for them, both sea and air.

LCM in Santo reported strong growth, with sales up 50% compared to during the pandemic, although profit was only slightly higher due to higher costs. Most of the growth in demand was attributed to the local market, including seasonal workers and domestic workers earning more. The hospitality sector was also responsible for some of this growth. They have seen increased costs across the board, including on input goods, electricity, and wages, but they have not increased prices unless necessary. LCM also reported increased competition from other supermarkets in Luganville. They reported that seasonal work is becoming an increasing issue for staff retention. In order to counteract this, they have established a savings scheme, whereby when staff are offered a pay rise, if they choose to save the additional money LCM will match it. These savings are then available once a year in February. They have seen a very high take-up rate across their business group and were happy with its outcomes.

Bill Iapsen Enterprises in Tanna reported a slow recovery since borders have opened, with sales now back to 2019 levels. Their major issue was the price increases, particularly labour and land and sea transport. They reported that the cost of a 20-foot container from Port Vila to Tanna has increased from VUV 125,000 in 2019 to VUV 205,000 now. Most of their staff (nearly 70) were on the minimum wage, and so the minimum wage increase had a major impact. In response they have reduced their staff numbers by 10. The cost of electricity and the price of goods were also cited as issues, and they have increased their prices in response.

The reliability of shipping is also a concern. Delays can mean that they are sometimes out of certain stock for up to two weeks, which puts pressure on their cash flow, and if goods are damaged in transit, they receive no compensation.

They felt that there was a good amount of money flowing around Tanna, driven by seasonal workers and agriculture. They reported that in the last two years there have been increasing exports of fruits and vegetables to Port Vila, which have helped with getting money to Tanna, but which sometimes have contributed towards shortages on Tanna. They also have a takeaway and barber shop. The takeaway is going very well, whilst the barbershop is slowly growing as people increasingly adjust to it. They are looking to expand their presence into Port Vila.

Dynamic Supplies reported a strong year, with sales up 10-15% compared to 2019, driven by their wholesale market, even as the retail market has eased off slightly. They reported a healthy recovery from tourism operators and were expecting them to be particularly busy over Christmas. They have a limited number of new customers, mostly small restaurants. The outer island market, particularly Tanna, was reported to be extremely difficult due to logistics. Their costs have all increased, with electricity and the cost of goods from suppliers particularly notable. Shipping costs have remained high since borders reopened. They reported passing some of this cost increase on but were trying to manage this.

They have continued to invest in expanding their capacity, for example in additional chill trucks, but have now reached a natural ceiling. They had been considering opening another store, but these plans are on hold due to difficulties in finding a suitable place. They have started their own butchery selling wholesale but have found consistency of supply difficult and have been buying Santo beef.

The export market of limes to New Zealand was very successful last year, but this year is more challenging due to supply issues (largely driven by the cyclones), and because New Zealand has opened up this market to Vietnam.

NK Store, a small retail business in Tanna was founded in 2021. They have one wholesale and three retail stores and reported strong growth of 25% in turnover since opening. They also have a Landcruiser, two camion trucks in Lenakel and one box bus in Vila. They would like to improve their administrative abilities to enable them to expand.

Vila Handprints reported that they are now as busy as before COVID-19, with sales spread across private individuals, business, and Government. Notably private sector demand has returned, including from tourism businesses.

They have moved premises into a new building, which has reduced their electricity bill by nearly half, due to the improved efficiency. They reported that imports are much more reliable, and that suppliers in China are increasingly seeking to keep their customers happy due to economic issues there.

They did not replace staff who left during COVID-19, and so their workforce is slightly reduced. They noted that staffing quality and attendance remains an issue. In response to the minimum wage increase they slightly increased prices.

Stret Price reported that turnover was 17% higher compared to last year, even though they had one less shop for five months of the year, after their Tebakor store was severely damaged in the cyclones. They have opened a new store in Freswota, where sales are strong, and would like to expand further, but are struggling to find suitable locations. They reported higher costs, with the minimum wage increase and increased rent, shipping, and energy all notable. They have not reduced staff numbers and are operating with reduced profit margins. They have increased the level of stock that they hold in response to issues faced during the pandemic. They reported still paying off the additional overdraft which they utilised during COVID-19.

CASE STUDIES

Malarangoa Store in Mele opened last year in June and reported positive news and a good profit so far. In response to rising prices of goods that they buy, they have increased their own prices. They have increased wages since the minimum wage rise and were considering how else to respond.

CM Store in Port Vila reported an increase in turnover compared to last year, but mostly in line with inflation, meaning profits were consistent. Their main clients are nearby office workers, individuals driving past, as well as mamas buying calico. They reported increased costs across all products. They slightly increased prices in response to the minimum wage increase, but mostly have just had reduced profit. There were no changes to staffing hours.

A **Retail Store in Freswota** which opened in 2021 reported a slight fall in turnover, of between 5-10% compared to last year. This is despite an increase in prices. The store has six staff and the minimum wage increase has further reduced margins. They had been considering opening another store but concerns about staffing quality has meant that these plans are currently on hold.

Unity Store in Luganville reported mixed results. They had seen a large fall in sales during the pandemic of up to 50%, and whilst sales have improved, they are still approximately 20% below pre-COVID-19 levels. They continue to do takeaway food, but this is mostly to attract footfall, and they are making no profit on this. They reported increases in the prices of input, including fish, which has increased by 50%. Their costs have increased, particularly electricity and some input goods, but the cost of freight from China has come down substantially which has helped. They increased prices when the minimum wage increased.

MHKN Store in Epi reported fluctuating profits over 2023, with the cyclone impacting on demand – including as people used aid supplies rather than buying from her store. This was on the back of a very successful 2022, resulting in healthy profits, which were reinvested into a separate peanut business. With rising costs of goods and transportation, they have scaled down, and focus on the primary products – rice, tins, soap, etc., and no longer sell as many other goods. They want to expand the store, but plans are currently on hold due to higher costs.

Manganda Blue Consumer and Marketing Cooperative Society Limited on Ambae reported strong growth since it opened in 2020, with profits nearly trebling by 2022. This year profits are anticipated to fall slightly, due to a solar breakdown in the middle of the year, which impacted on sales from the fridges and freezers. They also previously bought kava from the farmers as an agent, but this has substantially slowed down this year, but no clear reason was given. The cost of freight and of goods were the major cost increase, and they have increased the prices in the stores, and said that demand was consistent, although they said that people not paying back their credit accounts was as increasing issue.

Kiwi Care Shop in Nunga reported a consistent increase in profits over the years, although sales encountered a setback following Tropical Cyclones (TC) due to the Government's community support initiatives, particularly providing food such as rice and tins. The store noted heightened sales during teachers' paydays, and said challenges arose from the rising prices of goods and transport, but they reported constant demand. The store has plans to expand its physical space and invest in a larger icebox to further enhance its offerings.

CP Trading in Malekula experienced an initial impact on profits during COVID-19, but they reported a recovery this year, with sales heavily influenced by copra and cocoa prices. The cost of shipping has increased, as a 20-foot cargo container from Port Vila to Malekula, which was approximately VUV 100,000 pre COVID-19 is now VUV 200,000. They have ten staff, and so increased wages when the minimum wage was increased. They have increased their prices in the store and said sales fluctuated heavily.

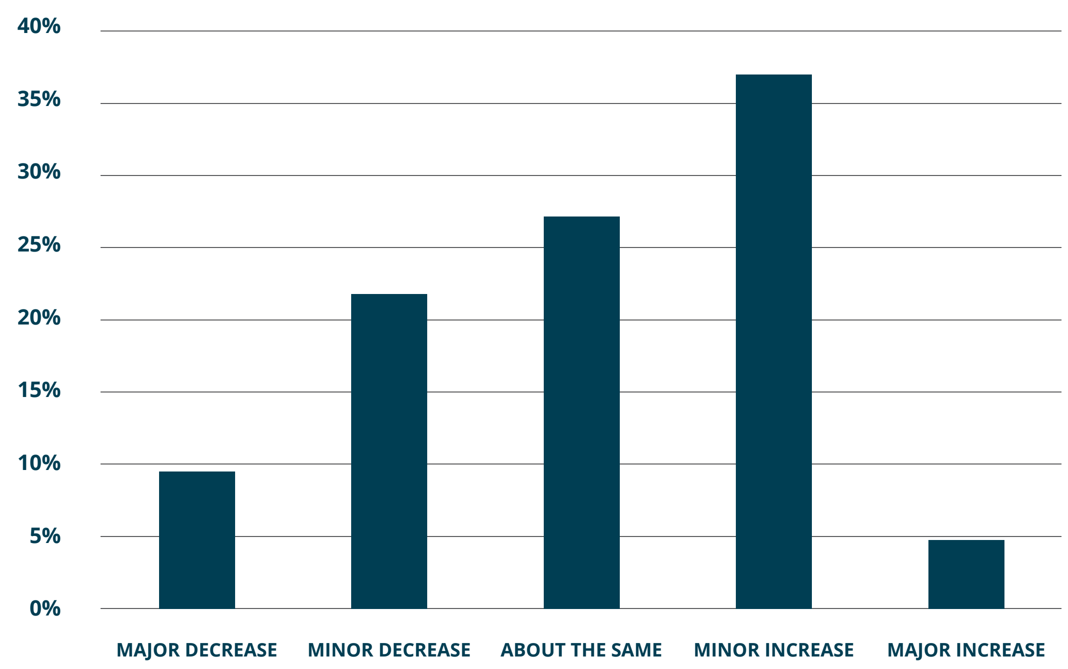
Tafea Regional Cooperative Association reported an improvement in business activities. The recent addition of an accountant has streamlined financial management. A major challenge is the cost of shipping, with a cargo bin costing VUV 42,000. The cost of goods has also increased, and they have increased prices in response. They have ten staff, all of them on minimum wage, and they reported keeping all staff when wages increased. They had minor damage from the cyclones and have recovered. They plan to continue to expand.

ACCOMMODATION & RESTAURANTS

SUMMARY

There were heavily mixed results across the hospitality sector. For January-June 2023, tourist figures were approximately 72% of 2019 levels.[7] [lxiv] There was no clear difference in the intended length of stay. The majority of these tourists are going to Port Vila and Efate, with many of the resorts and hotels there reporting extremely strong years, with many breaking records, and with strong forward bookings. This was particularly true for the smaller, high-end boutique resorts. Those hotels and resorts which have been operating have been aided by the closure for much of 2023 of some other major hotels/resorts. As this additional capacity comes back online though, it will remain to be seen whether the high occupancy rates continue.

FIGURE 17: HOW DOES YOUR TURNOVER COMPARE TO 2019 - ACCOMMODATION/RESTAURANTS ONLY



7 This calculation excludes March as there was no data available in March 2023 due to the cyclones. The actual figure is therefore highly likely to be lower due to the widespread disruption caused by the cyclones, and the fact that March 2019 was quite a successful month.

Tourists have been particularly quick to come back from Australia (82% of 2019 levels), Europe (88%) and North America (84%). They have been much slower however from New Zealand (59%) and New Caledonia (53%), with Europe now overtaking New Zealand as the third largest market.lxv For New Zealand the major issues were the reliability of flights, as well as a lack of capacity, as the large number of seasonal workers often fill up the flights. Whilst these numbers are okay, many tourism operators felt that they could have been much better, and that the last 12 months represented a large missed opportunity.

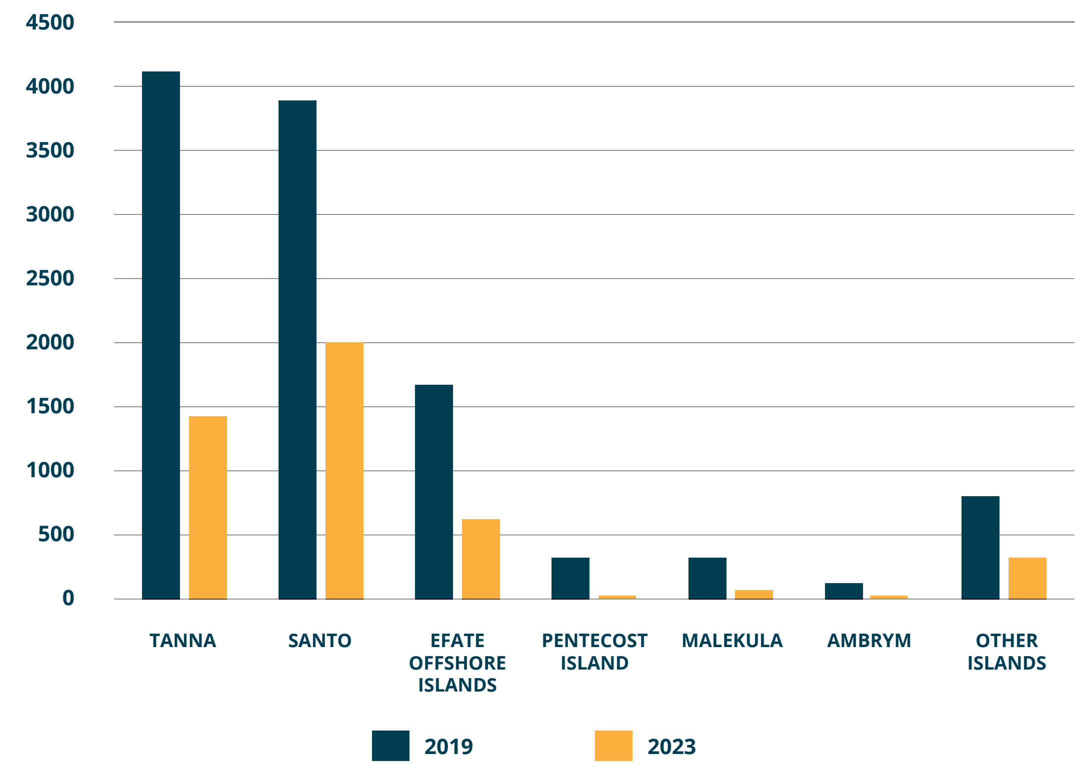
The Pacific is very popular currently, such as Fiji, where 2023 arrivals are 104% of 2019 levels and where there has been major investments.[lxvi]

By far and away the biggest issue for tourism has been air connectivity, with Air Vanuatu experiencing major disruptions over Christmas 2022 and Easter 2023, as well as during the October 2023 Australian holidays. The reliability issues have become so severe that some wholesalers are no longer willing to advertise/sell Vanuatu, especially in New Zealand where there is no alternative flight. The issues have also increasingly made international news, and more and more people are saying they know of people unwilling to travel to Vanuatu due to concerns regarding Air Vanuatu.

Many tourism operators felt that Virgin coming back had saved them. 83% of accommodation/restaurant survey respondents said that if Air Vanuatu continued as it has been then they would lose revenue, with 49% saying they would reduce future investment, 38% saying they would reduce staff numbers and 13% considering closing permanently. This is an area of critical national importance, and it must be sorted out urgently.

Outside of Port Vila, the statistics paint a far grimmer picture, with visits to other islands at just 40% of what they were in 2019. Santo is the best performing island, but even their numbers are at 51% of 2019 levels. For other islands the figures are even lower – Tanna (35%), Efate Offshore (39%), Pentecost (10%), Malekula (35%), and Ambrym (23%).[lxvii]

FIGURE 18: INTERNATIONAL VISITORS TO OUTER ISLANDS, 2019 VS 2023, JAN-JUNE (EXC MARCH)



For these rural bungalows, many of them are unable to offer the same quality as in 2019, due to the impacts of both the various cyclones and the border closure. With such low occupancy rates and the rising cost of doing business and living, many do not have the cash flow to be able to make the repairs that they would like. Until occupancy rates increase, this is unlikely to change, and there is the possibility that more direct intervention will be needed from Government to help get these businesses back on their feet. For these rural businesses, the biggest issue was again the unreliability of Air Vanuatu.

76% of survey respondents said their costs had increased by at least 10% since 2019, with 37% saying they had increased by more than 25%. Major cost increases were energy, labour, and the cost of repairs. The cost of food is a major concern, with resorts now struggling to provide tropical fruit due to the prices at the markets. For rural tourism businesses food, materials, and transport were the major concerns.

A number of tourism businesses have permanently closed, particularly smaller family-run businesses. Many businesses of this size are continuing to rely on very long hours from the owners in order to keep them functioning, with some saying the business wouldn't operate if they needed to employ a manager. There has been some new investment in tourism as some major resorts have been bought by new owners, and a smaller number are opening up. There were a number of possible major investors in the hospitality sector, including two major ones in Santo, but these have not yet materialised, with political instability and Air Vanuatu the two most common issues cited.

Restaurants are generally performing well, with the increased patronage by ni-Vanuatu and middle class and the return of tourism helping boost demand. However, the increase in costs (especially food and energy) and the opening up of a number of new restaurants, has increased competition and spread the demand between more restaurants.

CASE STUDIES

A large resort in Port Vila reported that demand is continuing to grow, with recent months approaching pre COVID-19 levels. Sales for 2024 were also looking strong. They have not increased prices yet as they are continuing to focus on ensuring quality service is provided. Disruptions to Air Vanuatu were a major concern, and they are worried about the impact on future bookings from reputational damage. Access to skilled staff remains a big issue across all parts of the business. They used the emergency employment visa to help fill gaps and found it to be extremely helpful. The resort is mostly back to being fully operational, and they are now investing in renovating and upgrading the rooms.

Nakatumble is a boutique resort based on Devil's Point Road. Prior to COVID-19 they were booked out for two and a half years, which they had to refund. Since borders reopened demand has been steady, but bookings for next year are not as strong as anticipated. The business remains profitable, but this relies on the owners working seven days a week. Disruptions with air connectivity remain the biggest issue for potential visitors. The condition of the road also diminishes the guests' experiences, makes doing business substantially harder, and stops Nakatumble from being able to diversify and expand.

For staffing they generally take on young people under 25 with limited to no experience. The increase in the minimum wage will make it harder for them to trial unskilled workers to see whether they are suitable, and the business has also reduced bonuses as a result. The increase in costs and unpredictability about future costs means that they are no longer offering all-inclusive packages. Whilst they are mostly self-sufficient, they were without telecommunications for nearly two months after the cyclones.

Hotel Santo in Luganville reported continued very low levels of demand, at roughly 20% of pre-COVID-19 levels. They mostly focus on business travel, and the major issue was Air Vanuatu, with many people being unwilling to get stuck, and numerous flight cancellations – for example there had been flight disruptions in five of the six weeks prior to the interview (one was due to TC Lola). On one week they had near full occupancy booked but ended up with just 4%.

Their costs have all increased, with electricity the major issue, but also food, maintenance goods, and labour. They have some staff on minimum wage and have kept staff numbers. They have not increased their prices due to the low demand and are not currently covering costs, meaning they had a high degree of uncertainty for the future, with Air Vanuatu being by far the dominant factor. They have decided to close for two weeks over Christmas as demand is so low.

Rockwater Resort in Tanna reported very high levels of interest in their product and continuing high levels of satisfaction from visitors who do visit. However, actual levels of sales remain limited due to issues with air connectivity, due to a combination of low capacity from international flights, but more from domestic flight cancellations. High levels of unreliable domestic flights have seriously damaged bookings. The business estimated that sales were just 20% of what they would be, were Air Vanuatu operating at 2017 levels of service. The business remains financially sound with a bright future, but this is predominantly because the owners are also the managers, and they put in long hours into running their business. Their staff were all above minimum wage before the increase, but access to skilled workers remains a challenge. The main cost increases that they have faced are for fuel (as they are off-grid and use diesel generators), and for freight of food and general supplies from Port Vila. They have also found it increasingly difficult to get supplies from Port Vila either by ship or air. They are continuing to try and improve the resort, but building costs are high and local infrastructure such as roads are a major hindrance to tourism development on Tanna.

The Havannah reported strong bookings, with levels exceeding 2019. They have broadly maintained the same prices, although they are taking more direct bookings. They have seen a slight shift to older visitors compared to before the pandemic, with Australian remaining the key market. They reported increased costs mainly in imported food and consumable products. Utility, fuel, and insurance costs have also increased. The business attempts to offset these costs by being more efficient. Access to skilled and semi-skilled labour is difficult in terms of the current labour supply and governmental regulations. Training is key and access to qualified management and trainers is essential for the maintenance of quality service delivery.

The Emergency Employment Visa has helped to fill this gap. There is however a degree of uncertainty in respect of what happens when the 12-month emergency Visa expires.

Their forward bookings are good until Christmas but they have noticed a slowdown in the last few months. They were concerned that this was due to the impact of Air Vanuatu's struggles on consumer confidence.

The Ramada reported occupancy rates higher than before COVID-19, with recent months at 80+%, which has exceeded expectations, although issues with air connectivity mean that it isn't as high as it could have been, and they are also concerned of the impact of cancellations on future bookings. Their costs have increased a bit but not substantially, whilst the minimum wage increase had a very minor impact. They were reviewing whether to increase other salaries too. They have a steady workforce and reported no major skills shortages. They are continuing to improve and expand their business. They would like to invest in a further 35 rooms, but at the moment they do not feel that they have the confidence due to the many changes in government and Air Vanuatu, although they have high confidence that the demand would be there if air connectivity was sorted out.

CASE STUDIES

Erakor Island Resort reported strong demand, with 2023 on track to be their best year, and with solid demand forecast through 2024. Weddings are a key market for them, and they have seen the number of weddings nearly halve compared to what was booked in 2020, something they felt was driven in part by the substantially higher fees charged in Vanuatu for getting married, as well as poor marketing.

Their major issue is Air Vanuatu, especially for the New Zealand market who have no alternative. This has had a major impact on customers' experiences and confidence.

For costs, electricity was the major one, with the power bill doubling from January 2020 to January 2023 (albeit as they were busy). For food, beef has nearly doubled in price, and they said that fruit and vegetables were nearly impossible to get, meaning they are increasingly having to rely on imported products. They also have the Coconut Rhinoceros Beetle on the island. About half of their staff were on minimum wage and so the increase led to a substantial increase in costs.

Malog Bungalows in the Maskelynes reported strong demand, in part driven by their partnership with a tour company, which has helped to drive international demand. They said that overall, they were a bit busier than before the pandemic. Air Vanuatu is their biggest issue, with numerous cancelled bookings or people being unwilling to take the risk of cancelled flights.

Paradise Sunset on Epi reported that they were as busy as they were in 2019, although their demand is now almost exclusively driven by Government and the NGO sectors, with very few tourists. They said that Air Vanuatu was a major barrier for tourists, although they said they had seen an improvement in November. They haven't changed their prices, but all of their costs have gone up – particularly fuel (for which they often face shortages), food, gas, maintenance materials, and shipping – for example the cost of an individual berth has increased by 50%.

Enoch's Bungalows in Pele reported a surge in demand once borders reopened, with bookings surpassing pre COVID-19 levels. This was after a big fall during the pandemic. Resident expatriates continue to be a core market, which is increasingly supplemented by international visitors, including for day tours. This has largely been driven by a recent partnership with a tour operator, with it remaining rare for international tourists to book directly. Regarding costs, the increase in the cost of food and materials were the main challenges, particularly in the aftermath of the cyclones. Transport costs remain unchanged but are still a burden. The minimum wage increase did not matter as they only paid for services from the community rather than employing staff. They reported that the Talefa Run event was a major success, both in driving bookings to the bungalows, and in injecting money into the wider community. They are looking to improve their facilities and were exploring financing options.

Yasur View Lodge reported a slow recovery, with tourism numbers roughly half of what they were prior to COVID-19. Before they would be busy every day, but now they can go long stretches without any visitors, and they reported this was common amongst the bungalow operators around the volcano. They said that Air Vanuatu was their biggest disturbance. Before COVID-19 they had six staff, which is now reduced to four, and they have increased pay to help ensure staff don't leave for seasonal work.

They haven't increased prices yet, their costs have risen, and they are seeking to reinvest and help recover their quality, meaning profits are small. Fuel and food were mentioned as the two major price increases. The twin cyclones caused a lot of damage, including uprooting a tree with one of their two treehouses in it.

They reported that the nearby communities were continuing to struggle with the impacts of the ashfall. Growing crops is very hard, and they can no longer breed cattle due to a lack of grass, although pigs can still graze. Many families depend on seasonal work to have enough money for the basic necessities.

The major cost increases they noted were fuel, food, materials for repairs, and shipping (up 40%). They sustained some damage from Cyclone Lola but had the reserves to rebuild. They reported that within the community there is a wide range of experiences with some families being very short on money.

Lava View on Tanna reported a difficult decade, with Cyclones Pam, Kevin and the pandemic all being major challenges. They said that demand remained below half of 2019 levels, and they felt that the quality of their offering remained below

what they would want, with cash flow and access to finance being major barriers to investing in repairs and improvements. Air Vanuatu was the main issue that they reported with many potential customers not wanting to risk travelling. They previously had eight staff but now have five and said accessing skilled workers was increasingly an issue due to seasonal work. They haven't changed their prices despite costs increasing across the board for them – especially freight, food, and materials.

Lenakel Lodge on Tanna reported strong growth in sales, nearly doubling since before COVID-19, due to its proximity to town. Their customers are mostly local businesses and Government travellers, with limited tourism. The lodge employs five individuals paid on a bi-weekly basis and was working out how to adjust its pay scale for the new minimum wage.

Some staff members work on a short-term basis, occasionally traveling to participate in the Recognized Seasonal Employer (RSE) program. The business suffered minor damage from the cyclones, resulting in the loss of a water pump. However, it has established a new water source and invested in a new pressure pump. They are working on expanding their number of rooms and are building a restaurant. The high cost of goods, freight, and electricity has placed some financial pressures on the owners.

Rah Paradise Bungalows reported that demand was approximately a third of what it was before the borders closed, something that they predominantly attributed to Air Vanuatu.

CASE STUDIES

Five years ago they would regularly be serviced by three flights a week, but this is now down to two scheduled flights. However, there have been so many cancellations that there have been periods of up to three weeks without flights. They have not increased their prices to remain competitive, and they feel they offer the same quality as before.

Before COVID-19 they had eight staff, which has now dropped to six – although as they only work when there are visitors, they are less busy. They are poorly serviced by ships, with just one a month, and the cost of freight from Santo has sharply increased – a small carton has gone from VUV 250 to VUV 400. The cost of land transport has also nearly doubled.

Whilst the cost of imported food and building materials is very high, they mostly rely on local food and materials, and so their overall costs have not increased too much. They are seeking to renovate three of their six bungalows.

They reported that the wider community was faring well, with a renewed sense of going back to their own production in the light of the recent conflict in the Middle East and rising prices. Kava and fish remain the main earners. Cyclone Lola caused damage to fruit trees but nothing else.

Mummy G Bistro is a small restaurant/store in Mele. They aim to sell products which other stores don't sell, such as t-shirts, products from their vertically integrated farm, or spring rolls. They also work with a local large resort who directs tourists to them. They opened last year and so far they have been making a healthy profit. They are looking to expand and open another store on Snake Hill.

Nambawan Café reported that 2023 was a recovery period after an extremely challenging pandemic, through which they may have not survived were it not for Government support. They are getting back on track, but demand is inconsistent, and they estimate it is roughly a third lower than pre-pandemic levels. Issues with Air Vanuatu and a relatively low number of cruise ships have had a major impact on their sales. Their main cost increases have been for food and for wages – their new staff begin on minimum wage, and they increased wages of their other staff – and they have increased prices in response. They have invested in solar, and they lost their roof during Cyclone Kevin, which was another major expense.

Kerson's Exotic Thai reported a clear improvement in demand since borders opened, with turnover back to their 2016 levels, which was their peak. Profits however are down due to the higher prices. The cost of input goods has risen - for example beef and chicken have both risen by more than 30%, and labour costs have risen, as new staff begin on the minimum wage. They have extended their roof so they can host large functions, and while they have some demand for Christmas, it was below 2022 levels. There are not as many tourists visiting, although it was thought that this was because of increased competition. They have also opened Kerson's Fast Food in September, which is aimed at a cheaper market. Sales are strong and they are making a profit, although costs - including rent - are high.

Vendors at **Luganville Municipal Market** reported steady but slow sales at their food stalls, with the lack of tourists compared to before the pandemic being the major difference. They reported making approximately VUV 3-5,000 a day in sales, but much of this goes on costs. The major increase they reported was the increase in the price of food – including fruit and vegetables from the market and for fish and meat. They reported cutting back on personal expenditure of some items due to their lower profit and higher prices.

Foxy Cakes reported struggling to make a profit, due to higher costs – notably ingredients and electricity. As a response they have enacted cost-cutting measures, including temporarily reducing staff numbers. They have moved premises from their house to town, which has led to higher sales. They invested in a new large oven in June 2023, and reported a high level of confidence in the future of their business.

A **20 Vatu Vendor** in **Blacksands** reported a steady increase in sales over the 13 years she has been operating, with weekly income now reaching up to VUV 30,000, with demand continuing to increase. In response to higher prices, she has engaged in more gardening and has got crops from Tanna. Over the years she has reinvested her profits to improve her gardening, her 20 Vatu equipment, as well as in a small store at her house. She wants to continue to expand her business operations further.

A **20 Vatu Vendor** from **Tanna,** started her business in July 2022 at Ikiakis kava bar. She reported nightly earnings ranging from VUV 2,000-4,000, with profit ranging from VUV 500-2,000. Her business is crucial in supporting her children's education. The cyclones destroyed her gardens, but the community worked together to help assist in its recovery.

A chef from the **Vanuatu Local Restaurant** (in Port Vila central market), reported that sales have now recovered to 2019 levels, after a fall due to the pandemic. Their costs have increased, notably of fresh food, but also of workers on minimum wage, and they have increased the price of a dish by 20%. Previously they would sell a wide range of dishes every day, but now they only sell one main (beef, chicken, or fish) each day due to the high prices. People eating on credit – especially Government workers – and not paying back was raised as an issue. The cyclones have meant it is hard to get food at times. They would like to expand to a full local restaurant and to enrol their staff at APTC for qualifications.

Dino's Café, established in 2011 at a different location, temporarily closed during the pandemic, and just focused on selling cakes from their home. They reopened in 2023 in the centre of Lenakel and reported strong sales, with sales nearly double what they were before COVID-19. They have plans for expansion, including menu diversification, and a playground. Despite increases in the price of inputs they have kept the same price of their goods, as they wanted to ensure it remained affordable.

FINANCE & INSURANCE

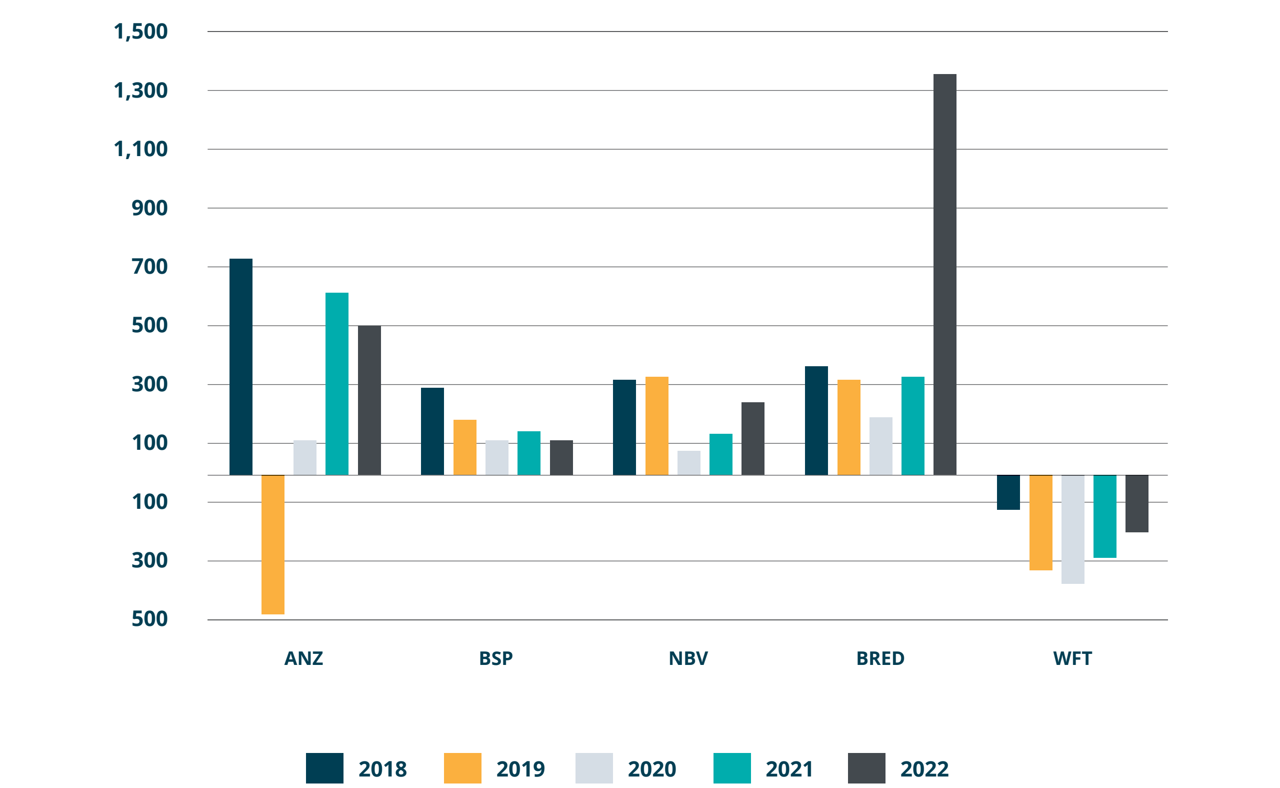
SUMMARY

The banking sector continues to perform strongly, posting profits of VUV 1,997m in 2022, 26% higher than in 2018 (although it must be noted that BRED figures include their profits from their operations in the Solomon Islands). Bank profits in Q1 of 2023 were 89% higher than Q1 of 2022. The levels of non-performing loans are relatively small, and the banks have a high capital adequacy ratio (25%). There was a high level of non-performing loans to gross loans, with a ratio of 15.7%.[lxviii]

The banking sector as a whole remains highly liquid, with Vatu liquid assets standing at VUV 45.5 billion at the end of Q1 2023. This is VUV 39.9 billion over the required threshold of VUV 5.6 billion. Their very high volumes of liquidity are a key driver of why the interest rates on savings are so low, with an interest rate spread of 8.67 percentage points between savings and loans. The weighted average interest rate on total loans is 9.07%.[lxix] Finding a productive use for this excess liquidity is crucial for helping the Vanuatu economy to mature.

The banks all reported that demand for personal loans continues to grow, particularly driven by a demand for motor vehicles and houses or land from the ni-Vanuatu middle class. Private Sector Credit grew by 4.7% in the year to Q1 2023 to VUV 64.5bn, with personal loans taking up 52% of these loans.

FIGURE 19: MAJOR VANUATU BANKS PROFITS, 2018-2022[lxx]



There was some business investment, but it was particularly driven by the retail and wholesale sectors, including hardware. NBV reported that there was increasing demand for other small to medium loans in the productive sectors in rural areas. Whilst there was some interest reported in foreign investment, there was very little which had actually come in.

The banks still remain dependent on non-interest income (mostly fees and charges), with this line making up 33% of income in 2022, and with interest equivalent to just 94% of operating expenses. Many of these fees remain high and an ongoing barrier for business.

There has been varying take-ups of technology as a way to drive innovation, improve service delivery, and reduce costs. ANZ reported that this had led to a sharp reduction in fees, whilst BRED were at the time of interview considering what to do.

Efforts were made to speak to micro lenders or savings and loans cooperatives, but these efforts were unsuccessful.

Only one insurance company was interviewed but their key takeaways were the large cost to the industry of the 2023 cyclones, and the subsequent increase in re-insurance costs they will face. This will mean rising insurance premiums for businesses and is a threat to continue to monitor.

CASE STUDIES

National Bank of Vanuatu reported an excellent year after a difficult period during the pandemic. They are focusing heavily on the domestic market, with increased demand in both urban and rural areas. In urban areas they reported ni-Vanuatu increasingly entering into markets which they previously hadn't seen, most notably real estate development. In rural areas they now have a broader base of product offerings and are seeing rapidly growing demand. Retail/wholesale is the largest sector, with agriculture, livestock, and construction also all growing rapidly. They are also supporting a small number of businesses to scale up to become small and medium-sized enterprises and see this as a source of further growth.

They have a number of assets on their books which they repossessed from businesses. Slow court systems and other Government services make it difficult to sell these assets. After seeing no demand for these assets during COVID-19 they reported now seeing interest again from potential investors.

Their costs have increased slightly. The major cost increase is for materials for their 'Isi Haos' scheme, which has grown rapidly and there are now over 400+. They have increased the price of the houses. They are continuing to invest in technology as a driver to cut costs and improve services.

ANZ continues to invest heavily in technology to drive efficiencies and have seen a good level of take-up from clients. This has allowed them to reduce or remove many of their fees for those clients who are using digital channels. They have not seen major increases in the day-to-day costs of running their business. They have a long serving workforce and faced no major issues with staff retention or quality.

ANZ continue to have high levels of liquidity, and whilst they are seeking to grow, their priority is ensuring that they maintain a high quality of clients. They reported increased investment from existing businesses, for a combination of renovations and repairs, expansions, and acquisitions. The retail, wholesale, and construction markets appear buoyant. They also reported strong growth in the domestic market for houses and new cars. There was also a high level of interest reported from new foreign investors, surpassing pre COVID-19 levels, particularly in real estate and tourism. The actual level of investment however is relatively low so far, in part due to the impacts of political instability on investor confidence.

ANZ reported that scams were becoming an increasing issue. They are rolling out increased awareness to their clients, but poor financial and digital literacy remain major issues.

BRED Bank reported some growth over the previous financial year in in both market share and profits, but in the last 6 months, margins have come under some pressure.

Much of the growth has been driven by an emerging Ni Vanuatu middle class as well as from an increase in property prices. They anticipate this will continue, particularly as quality land and housing are becoming increasingly scarce as well as well-located commercial properties. There has also been increased foreign exchange transactions given the reopening of borders and new investments from mainly Australia and New Caledonia.

All of their clients have returned to both principal and interest following the Covid-19 moratorium but they are seeing some post pandemic default at the middle and lower end of the tourism industry.

BRED had recently upgraded their IT system, which will improve their internal efficiency, as well as transparency and compliance. At the time of interview, BRED was experiencing some teething problems but for which they felt confident would be resolved over the next few weeks. The upgrade will also enable them to add more products and simplify business process.

Wan Fu Teng Bank (WFT) reported having a challenging year, predominantly due to regulatory challenges. The bank remains highly solvent, with VUV 5,500bn in assets and VUV 3,000bn in liabilities. Some customers withdrew their deposits from WFT due to concerns, which has led to cashflow/liquidity issues at times, which has limited their ability to grow their loan book. They reported a belief that the market was improving, with particular demand for loans for motor vehicles and land/houses. There is limited business demand, with retail/wholesale being the main drivers. They reported very low levels of non-performing loans, and felt that the wider economy was performing well, although they were concerned about its fragility.

They had been planning on investing further in their core banking system, including further integration of technology,

CASE STUDIES

but have put this on pause. They are continuing to make a loss, but have a capital adequacy ratio of above 25%, and so can continue to fund this. Their core cost base hasn't changed substantially.

The Bottom Line reported consistent demand for their accounting work. The other side of their business is supporting potential foreign investors to enter into Vanuatu. Prior to COVID-19 they would receive 6 or more enquiries per year. They received one enquiry during the pandemic, which was later cancelled, and have not received any since borders reopened.

SFAI Barrett and Partners Vanuatu reported facilitating some new foreign investment, predominantly in retail and construction, although it is lower than before the pandemic, and they felt that it was of an insufficient level for the country's development needs. Amongst their existing clients there was a range of performance. There were clear signs of economic recovery, particularly for the larger businesses, but with many smaller businesses struggling, including in the tourism sector.

They felt that the surplus cash in the economy was a major issue. The difficulty in starting a business as well as the competitiveness of other regional economies were cited as core reasons as to the ongoing lack of investment. They felt that major reforms were needed to make Vanuatu more welcoming to investment.

Tower Insurance have continued to expand their operations within Vanuatu. They reported a slow recovery in insurance cover from businesses which reduced their level during the pandemic, and saw a small number of small/medium businesses decide to permanently close after the twin cyclones. They reported very little growth in new businesses, something which they partly attributed to Air Vanuatu and the cyclones. They have seen strong growth in the ni-Vanuatu middle class, particularly for housing and cars.

The major issue they reported facing was the impact of cyclones Kevin and Judy, for which they had nearly 300 claims. In response to this they have seen a sharp increase in the cost of reinsurance, which will in turn increase the cost of premiums for businesses in Vanuatu.

They have invested in digitising all of their operations, which has made their operations more efficient. They will soon be launching an entirely electronic parametric insurance scheme for Vanuatu, which they are hoping to roll out across the country, particularly through large business houses in the first instance.

REAL ESTATE

SUMMARY

The real estate sector can be clearly split into two different segments. Firstly, the local market continues to boom, with extremely high demand for sub-divisions, particularly in the areas in and around Port Vila. This is being driven by increased demand from middle-class professionals and seasonal workers. In some instances, individuals have also started to buy land for their families.

International interest for investing in real estate is high, although actual sales remain low. This was driven by both concerns relating to the political instability and the highly restrictive new visa laws.

Rental demand continues to be high across all income segments, and for both commercial and residential leases. This is anticipated to continue. For the ni-Vanuatu market, this will be driven by both population growth and the anticipated continued growth of the ni-Vanuatu middle class. For the upper end of the market there is already a shortage, and demand is also expected to grow, particularly driven by the growth of the diplomatic market, with the anticipated arrival of the US Embassy expected to provide a surge in demand. Beyond individuals building houses for themselves though, there was limited evidence found of new housing stock being built, despite the pressing need for the growing population.

There is a lack of published research into the quantity and quality of the housing stock, particularly for Port Vila, where the major pressures will be, and there is no clear published plan for how to ensure that there is a sufficient stock of quality housing going forward. This is highlighted as an area of concern given the importance of housing for the wider economy.

CASE STUDIES

Waterfront Real Estate reported a surge in local demand, driven mostly by those with stable office jobs, but also by seasonal workers. In response to this there are an increasing number of sub-divisions being developed to cater for this market. There were some instances of potential clients being unwilling to sign due to uncertainty as to what would happen at the end of the lease. They have invested in new technologies to help ensure that their systems are more efficient, with the end goal being to make the entire process online.

Whilst there is international demand, some concerns arose with regard to the urgent need to improve the ranking of Vanuatu as a friendly place for foreign business and real estate investment. Good planning of land uses and of land ownership are paramount, as well as ensuring easy business and property investors visas.

Caillard Kaddour reported a strong recovery in their business. Demand for houses is extremely high amongst the local market, for both ni-Vanuatu and expatriates. They currently have 150 families on their waiting list for new land purchases. They have seen increased demand from both seasonal workers and local professionals and expect this to continue. They are seeing less business from Australia, which was possibly thought to be caused by a weak Australian dollar and restrictions on capital flows out of China.

Commercial sales remain strong for businesses, ranging from retail to large warehouses, and they expect this to continue. Most of their rental market houses are full, and they expect this to continue to grow strongly, including as the US diplomatic corps arrives. They felt that there was not enough houses towards the upper end of the market but felt confident that the construction industry could match this increased demand.

They have seen no major increases in their costs. When the minimum wage was introduced, they reduced some hours of staff, e.g. cleaners and gardeners, so that they kept the same income on fewer hours. This was often at the request of the owners, but the employees were reported to be generally content with this.

First National reported a difficult year, as many potential foreign buyers were choosing to not invest in Vanuatu. This was attributed to the political instability and the new immigration visa rules. They reported increased costs across the board, such as fuel, utilities, and wages. They have not increased their prices, and so their margins have fallen.

TRANSPORT

SUMMARY

Transport was consistently highlighted as one of the key issues for businesses, with rising costs across the sector and increasing unreliability posing major challenges.

For international shipping, prices rose sharply during the pandemic, and as the global economy has reopened, there has been a fall in fees for many shipping lines, albeit with prices at least 50% higher than 2019. There were some businesses interviewed however who said that they hadn't seen any reduction in the cost of international shipping.

For domestic shipping, many businesses reported **sharp increases in prices, with some more than doubling over the past few years.** The shipping businesses themselves were facing rising costs of labour, as well as for fuel and spare parts/repairs. Concerns about fuel and repair costs were common across all types of transport businesses. The quality of interisland infrastructure remains poor in many places, with the wharf at Tanna the most commonly cited issue.

Shipping reliability continues to be an issue, with the fleet neither large enough nor modern enough for Vanuatu's needs, although the recent addition of interisland containerised shipping has major potential. Remote places continue to be serviced rarely, and delays and cancellations are common. Kava and retail goods are keeping the industry going currently. Some shipping lines are now reluctant to take copra due to the work involved and low financial rewards.

Bus drivers have seen some recovery in levels of demand, particularly in Port Vila and Santo, with Tanna reporting quieter business. However, they have not increased prices, and so with the higher input costs, their take-home profit has reduced. This has put pressure on the individuals, particularly at a time when inflation is so high.

The air charter companies are both extremely busy, at least in part due to Air Vanuatu's issues, with fuel their major cost increase.

CASE STUDIES

Tropical Agency Limited reported consistent volumes in cargo, both import and export. They have expanded into facilitating cruise ships, as well as customs brokerage/ integrated logistics. The cost of freight remains higher than pre COVID-19 (approximately 50-100% higher) but is substantially down from its peak, which was 200% higher (during the height of the Pandemic - freight rates in Europe/ USA were at levels of a 1,300% increase), and they reported being hopeful that prices would continue to gradually come down, although remaining slightly higher than pre-COVID-19. There are new shipping lines which are servicing the Pacific, which has helped with capacity and competition. They helped to repair the wharf road after the cyclones and remain concerned about its vulnerability moving forwards as the wharf road is the only gate way for Cruise Tourism, international sea freight and domestic sea freight. They would like to expand further in the services which they are offering and are considering how best to do this.

Fr8 Logistics reported that their business is going well, with numbers well up on before COVID-19. They put this down to increasing wealth across Vanuatu, including from a ni-Vanuatu middle class, as well as improved internal processes and communications. Air freight remains expensive, with prices still not coming down after borders reopened. It was hoped that Virgin would resume cargo again, which would help. Cost increases haven't had a major impact on the business, although increased Government bureaucracy and delays has been the major impact – for example not having sufficient customs staff to process shipments, or increased levels of fines to individuals importing goods. The minimum wage increase only had a minimal impact as all of their staff were above it, and so they just increased wages for some to maintain a differential.

They reported wanting to make major investments and expansions, but that they were currently not proceeding as they were being blocked from using their land as a customs bonded area.

Vanuatu Post reported a partial recovery to 2019 levels, having seen a sharp drop off during the pandemic. Their major challenge relates to the price of air freight, which continues to be extremely high, with fuel costs, labour costs, and terminal fees also increasing too.

As well as the cost of air freight, the disruptions mean that big backlogs can develop, both internationally and domestically. At one stage this meant that a limited number of international partners stopped posting to Vanuatu as they had too much post building up, although these issues have since been resolved.

There are some locations for which they have not been able to restore full service to yet due to ongoing COVID-19 related disruptions, for example EMS Post to some countries. This is a common issue, and they are continuing to try to find solutions.

They recently reported 7,000 customers on Kwik Pay mobile wallet service, which is mostly for domestic remittances, but has also been driven by having a partnership with a lottery scheme. They are seeking to develop capability for international remittances. In 2023 they mostly focused on their move to their new building, which they were happy with, while their plan for 2024 is to strengthen their network around Vanuatu.

Shefa Land Transport Association (SLTA) reported a recovery in income levels for its drivers to pre COVID-19 levels, although with the higher cost of both input goods (fuel and spare parts) and of living their standard of living hasn't recovered. Cruise ships remain highly lucrative for buses, and SLTA wanted to implement a voucher system to improve efficiency. They felt that maybe more buses were needed to deal with a growing population, but that further research was needed. They want to introduce zoning pricing for buses, including raising bus fares for adults, but this requires further work with the Government, whilst for taxis they are seeking to introduce meters. Similarly, they felt a customer price list was needed for Common Transport (CT) vehicles.

In the long run they were interested in the opportunities offered by electric vehicles and by mobile money platforms to increase the efficiency of their businesses.

Sanma Land Transport Association reported that taxis are doing fine, with most making VUV 4-5,000 on a normal day, rising to VUV 7-8,000 on a government pay day. This is roughly in line with before COVID-19, although the higher prices, particularly of fuel and spare parts, mean that some drivers reported increased struggles, particularly if they didn't have a source of income. There are increasing number of taxis, but this is in line with an increasing population. There is a similar story for buses, whom have slightly higher income but higher costs. CT Operators can expect to make between VUV 10-15,000 a day, and they should operate off a price list for customers. They reported concerns about the deteriorating condition of the roads.

Tafea Land Transport Association reported that many of their businesses were struggling, with many struggling to repay their loans. Market days (Monday, Wednesday, and Friday) are busy but on other days business is slow. They said that the low number of tourists, caused by Air Vanuatu, was a huge issue for them, whilst unreliable shipping meant that the economy was not flowing as well as it should. There are no set prices for transport, and they said that many drivers have to accept lower prices, particularly when transporting family members or members of their community.

They said that rising fuel prices were their major issue, but also that the cost of maintenance and repairs has increased. Lots of transport operators will have alternative sources of income to help sustain them.

Sammy's Port Vila Tours and Transfers begun in 2017, with the owner having previously been a taxi driver. He owned two taxis, but after borders were closed, he sold one and was unable to keep up with repayments on the other. The company currently takes bookings from tourists, and then finds drivers. They reported higher demand than before COVID-19, including bookings for 2024 made in October, although issues with Air Vanuatu have led to a number of cancelled bookings. This was attributed to both improved marketing and also possibly to an increased willingness of tourists to pay for these tours. He generally has one tour a day, rising to up to five on a cruise ship day, and he reported increased

CASE STUDIES

competition from other tour operators. He would like to expand his business, including buying his own vehicle, and creating a website.

Air Taxi reported very high levels of demand, particularly from Government – including for medivacs and cyclone response - and for coffin charters. There is some demand from tourists, although often they enquire too late to be able to book, and it is lower than before the pandemic. This has been made harder by their decision to no longer fly Cessna's due to safety concerns. They have lost four planes this year – three in Cyclone Kevin and then another in an accident – which has limited their ability to meet the demand. They further have faced issues with pilot retention, partly due a global shortage – for example the number of hours required to join a major airline has fallen. This has been exacerbated at times by difficulties in getting pilots type-rated (certified for planes).

Their costs of business have increased, particularly for AvGas (fuel). The minimum wage increase had a minor impact, and they have increased other salaries. Freight remains a major issue for them, from both a reliability and cost perspective, with air freight particularly difficult. They have not been able to increase their prices due to competition.

Tiwi Trader reported fluctuating business, although revenue has continued to increase slowly. Their major challenges were high costs, particularly fuel and repairs of ships. Limited access to spare parts means that sometimes the ship is out of action for extended periods. They have 15 staff, most on minimum wage, and they kept all their staff. Other challenges include cyclones disrupting shipping and slow payment of Government bills. In response they have increased the prices of their freight, for example a small carton to Tanna has increased from VUV 200 to 400. They have also increased the cost for an individual to travel, for example a ticket to Tanna has increased by 40% from VUV 5,000 to 7,000. They would like to expand by acquiring a larger ship.

The proprietor of a **bus business in Tanna,** reported a consistent level of operation throughout the last few years. On busy days, the business can generate between VUV 15,000 to 20,000, although the costs of fuel and of repairs are high. The small population and a surplus of buses in the area pose challenges, but the business reported weekly profits of around VUV 40,000.

Unity Airlines reported being extremely busy with their planes flying at near full capacity. This has predominantly been driven by the local market across a range of sources – Government officials, cyclone response, medevacs, coffin charters, high-value agricultural charters (kava, sandalwood).

Their costs have increased across the board, particularly fuel, whilst the ease of doing business has also got considerably harder – for example they have been waiting over two years for spare parts for an engine for one plane. They also reported long wait times for Government approval – for example they lost out on two engineers due to delays in them getting their approval for work.

They are looking to expand their fleet and have purchased a plane capable of international charters. It took three years for approval of an engineer for this plane, but they are now nearing readiness for this plane. They will need to get an inspector from New Zealand in for the final checks. They are also looking to buy another Islander plane, but these are rare, and they recently missed out on buying one due to delays in Government regulation. They also reported confusion in the regulations, as Vanuatu aviation law states that it follows New Zealand aviation law. However, they said there were numerous instances where Vanuatu officials changed the processes or requirements, without written legislation.

One Saltwater, a banana boat operator on Pele, reported a clear uptick in activity since the borders reopened, with income reaching pre-pandemic levels. This is driven by an increase in tourism activities, but also from increased money flowing around the local community. The increase in the price of fuel is their major issue.

WHOLESALE AND RETAIL TRADE AND REPAIR OF MOTOR VEHICLES

SUMMARY

There continues to be strong demand for new and used motor vehicles across Vanuatu. Demand is being driven by a reopening of borders and associated business demand, as well as demand from private individuals. This is despite a rise in the cost of cars, due to global price rises and increased shipping costs.

Repair costs are high, mostly driven by the high price of shipping. Demand seems to have somewhat increased for these services.

Some businesses are beginning to consider how to transition to electric vehicles (EVs). There was a common feeling that if Vanuatu did not adapt, it would be left behind the rest of the world and would struggle to get suitable motor vehicles. Those businesses that were interested in electric vehicles said that major investment was needed to support this transition, particularly in charging infrastructure.

CASE STUDIES

Carpenter Motors reported a strong recovery since borders reopened, with 2023 set to be a record year. Most of this increased demand has been from individuals and businesses, particularly buses, whilst Government demand has been steady. Demand was strong across all locations – Port Vila, Santo, and the outer islands.

After difficulties getting stock during the pandemic, everything has eased now, and they are generally able to get sufficient stock. Their costs have increased, with freight remaining high, and the cost of cars they buy up 20% in the past two years.

Their workshop and spare parts have also picked up. They said that they would easily hire another five staff in the workshop, but the lack of skilled labour stops that from happening.

They are making a major investment in renovating their business after they suffered major damage in the twin cyclones. They are looking to expand operations to Tanna and are in the process of expanding the range of cars that they stock, and they are continuing to explore electric vehicles. They stated a strong belief that EVs will be the future of the market and would offer major opportunities, but that substantial work will be needed to maximise these benefits, particularly around charging infrastructure and the cost of electricity.

Santo Engineers reported a fall in demand for their services, something the owner attributed to people trying to make things last longer. They reported that getting parts has gotten a lot harder, both in terms of time and cost of freight (both air and sea). The price of parts they are importing has increased, but not drastically. They have passed on most of these price increases.

Nambawan EVs reported plans to begin selling electric vehicles (EVs) in November 2023, with the arrival of their initial shipment, with plans to scale up in 2024. They reported that this year has seen EVs achieve price parity with traditional vehicles overseas, as well as improvements to the shipping regulations which have made it easier to import. They were confident about the long-term market for EVs in Vanuatu.

Budget Vanuatu reported that demand was very strong for rental cars from tourists, locals, and Government. They said that all of the major companies having increased their fleet size. They have upgraded and slightly increased their fleet size and will continue to slowly do so.

OTHER SERVICES

SUMMARY

The below case studies are from a range of businesses, and so it is difficult to draw any high-level conclusions. There are a number of recurring themes though – many businesses, with a few notable exceptions, have seen a recovery in sales. Air Vanuatu and the increasing cost of doing business are the two issues most commonly cited.

CASE STUDIES

The **Daily Post** has seen a recovery in advertising sales over the past year, driven by improved private sector sales. Government spending, which increased substantially during COVID-19, has stayed at a high level, with increased procurement/advertising spend replacing the health-based information campaigns. They reported that sales of digital subscriptions started strongly, although the number of new users registering is low. This is helping to grow online advertising. Sales of the print edition have now stabilised after declining over the past five years.

They also reported making efficiencies to reduce costs, including investing in solar power, and reducing the number of expatriate staff, who have been replaced by increased local staff. The increase in the minimum wage slightly increased staffing costs but did not have a major impact.

Telsat reported a fall of 90% of their customers compared to 2019. This was attributed to changing customer tastes as more people watch online, increased competition, as well as increased regulations which meant that they lost many of their hospitality customers. They have reduced their costs, including cutting some of the more expensive channels and not replacing staff as they left for seasonal work. They do not have high confidence in the long-term future of their business.

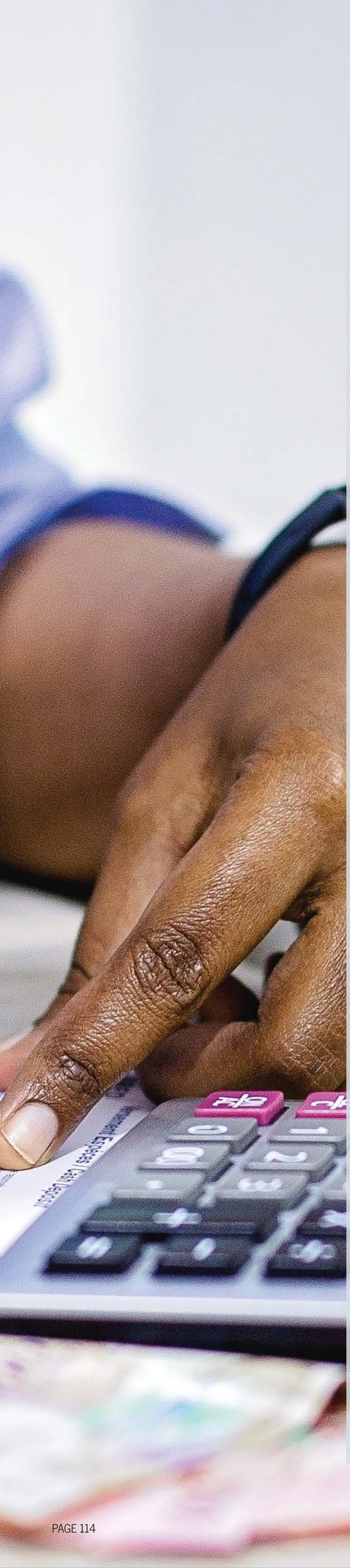
Big Blue reported a strong year, with sales exceeding expectations and approaching 2019 levels. They reported obvious dips in their sales when there was disruption to flights, both domestic and international. The minimum wage increase had no major impact, and they are nearly back to pre-COVID-19 levels. They have found a number of savings through greater efficiencies and are continuing to invest in improving their business – for example through an automated booking system.

Pacific Dive reported a strong 2023, with the first six months in particular really exceeding expectations, although it dropped off slightly after, something which they attributed to Air Vanuatu. They have lots of large group bookings to dive the Coolidge, and have benefited from being the only company that can cater to these. Their forward bookings are looking strong. They have skilled staff, and they increased their wages to maintain the differential to the minimum wage. The price of electricity and spare parts has increased, and the condition of the roads means that they no longer pick up guests from out of town.

Man Bush Trail on Malekula reported that demand was substantially down compared to before COVID-19, when they would receive groups of visitors once every one or two months. At the time of interview (end of November) they only had two groups this year – one organised by the Vanuatu Tourism Office, and one a group of domestic tourists. They have not increased their prices this year.

Wrecks to Rainforest is a inbound tour company based in Luganville. Before COVID-19 they had a booking office and a shop selling locally made souvenirs, employed 2 full -time staff and worked with a local tour operator in Santo, 5 communities in Sanma, as well as 10 local accommodations & tour operators throughout Vanuatu, but predominantly in the north. They are currently operating a reduced operation, with one staff working part-time, and only working with Santo communities. They are currently not operating with outer islands due to the unreliability and low capacity of flights but are hoping to restart operations in full by April 2024.

Vanuatu Ecotours reported a strong year, with monthly sales up 50% compared to 2022. This was predominantly driven by tours on Efate and its offshore islands, as well as some tours to Tanna and Santo. They are reluctant to organise trips to other outer islands due to issues with domestic flights, whilst international flight disruptions have also lost them substantial business. They reported that many small bungalows are not up to standards, in part driven by poor cash flow not allowing them to rebuild. Their costs have increased across the board – including wages (which they increased to maintain the differential vs. the minimum wage), fruit and vegetables, fuel, and custom landowner fees. They have kept most of their prices constant, with good tour volumes meaning the business remains healthy. After previously having had a high churn when borders reopened, they now have a reasonably settled and quality staff.



CASE STUDIES

They are expanding into becoming a destination management company, and report continued very strong market demand for the Pacific. They felt that if Vanuatu's tourism industry is to grow and meet future demand then extensive further investment is needed in Air Vanuatu, accommodation, and tour offerings.

Millenium Cave Tours reported a slow 2023, with sales not yet reaching half of pre COVID-19 levels, although it has steadily improved throughout the year. Their CEO died in March 2023, which caused substantial disruption, and it is now being run as a community project. They have reopened their guest houses, and are looking to develop other new tours as well as improving the current tour. Air Vanuatu remains a major issue and they have lost many bookings as a result. They have moved into a new office although its location isn't optimal for them. The cost of transport has increased, particularly as previously they had their own buses. They have lost access to their website, which has old prices, locations, and contact details, which has been a major issue for them.

JB Barbershop have five stores across Port Vila, Lenakel, and Luganville and they reported a fall in profits this year, in part because they began paying VAT, which eroded much of their margin. They have seen a slow recovery in customer numbers, although when they tried to increase prices they saw a large fall in demand, particularly from non Government/office workers. Rent and electricity costs have increased, which has reduced the profit of the owner. They have also faced increased competition as more barbershops open in all locations, as well as staff retention challenges, either from seasonal work or as barbers leave for other barber shops. The owner is selling all but one of his stores and is looking for other business opportunities.

Pikinini Playtime continue to report strong demand for their services. They now have 1,350 children studying from years 1-10, and they recently announced the opening of a new facility, including expanding to year 12. They reported turnover up 50%, driven by increasing numbers, higher fees (a 10% increase), and an improved collection process. The improved collection rate was attributed partly to the COVID-19 subsidy, partly to money from seasonal work, and partly to an improved collection process. They reported costs up 30%, driven by an increase in salaries of 50%. Although they had no staff on the minimum wage, they increased wages after the increase was announced.

Healthwise reported strong sales across their two stores, with sales approximately 10-20% higher than in 2019. During COVID-19 they stopped the internet pharmacy business as the logistics were too difficult, and they have decided not to restart and instead to just focus on the domestic market. They did not reduce any staff and have redeployed them, and reported happiness with their staff. The costs of their business have risen as normal, and they have passed on increases in prices of products. The ease of doing business has significantly improved compared to during the pandemic, although they are still facing challenges with air freight, particularly for the English products from Australia, whilst for French products the weekly flights from New Caledonia make it simpler. To compensate they are continuing to hold elevated levels of stock.

Novo Medical reported a fall in their services, with turnover just under half of what it was in 2019. On the medical side, this is because they have been without a doctor recently. They are hoping to employ a new doctor in early 2024, and they expect this to recover strongly. On the dental side, they have seen a sharp drop, but this has been driven by lower demand – especially from expatriates and health tourists, with the weak Australian dollar and cost of flights meaning it no longer makes sense to come to Vanuatu. Demand from locals was constant, but this is generally for basic services, and does not drive profits. Their costs are all increased, particularly for imported goods and shipping. In response to the increased costs and lower demand they have slightly reduced staff numbers. They made substantial investments in renovating and improving their facilities since borders reopened.

MHKN Kindy, located in Epi, reported a fall in enrolment from 23 students in 2022 to just nine students this year, although this was primarily attributed to issues within the community. Annual fees are just VUV 2,000 per year, and this is supplemented by other fundraising within the community. They reported a shortage of teaching materials.

Kerson's Spa reported steady demand, although not yet at 2019 levels. There has been some increasing demand from locals. Sales are enough to keep everyone in a job, but not to make strong profits. The owner felt that there was more supply than demand currently, with lots of spas opening.

ANNEX 1 – MINIMUM WAGE WORKER CASE STUDIES

Interviews were also held with **three minimum wage workers,** one at a small store/restaurant, and the other two at a small motel. They were all very happy that the minimum wage had been increased to help them cope with the costs of inflation, although they all noted that the increase was just enough to sustain their previous lifestyle. All of them also had other family members that helped contribute to the household budget.

Two reported that their hours have been reduced since the minimum wage increase, and they both said that rice was playing more of a role in their day-to-day diet, with the rapidly escalating cost of fruit and vegetables meaning that they were increasingly being excluded. They both said that they would like to engage more in gardening but their living conditions do not allow it.

ENDNOTES

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ii Vanuatu Bureau of Statistics, CPI Statistics

iii Department of Finance and Treasury, Half Year Economic and Fiscal Updates. This is for just Government expenses – i.e. it excludes transactions in non-financial assets.

iv The Lowy Aid Map. Figures are given in USD, and then converted to VUV using the average exchange rates for the year, calculated by the author using data from https://www.investing.com/currencies/usd-vuv-historical-data

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vi Department of Finance and Treasury, Quarterly Revenue Report

vii Department of Finance and Treasury, Half Year Economic and Fiscal Updates

viii Vanuatu Bureau of Statistics, Trade Data

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xiv Vanuatu Bureau of Statistics, Gross Domestic Product

xv Resilience and Growth in the Small States of the Pacific

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xxxiv Ibid

xxxv Department of Finance and Treasury, Half Year Economic and Fiscal Updates

xxxvi IMF Article IV Reports

xxxvii IMF Article IV Reports

xxxviii IMF Article IV Reports

xxxix Vanuatu Bureau of Statistics

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xlii 2020 National Population and Housing Census

xliii IMF Gen-AI: Artificial Intelligence and the Future of Work

xliv www.populationpyramid.net/

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xlvi Vanuatu Bureau of Statistics, Tourism Statistics

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xlviii Figures provided by the Vanuatu Chamber of Commerce and Industry

xlix Vanuatu Bureau of Statistics, Trade Statistics

l Ibid

li Vanuatu Bureau of Statistics, NDSP Wellbeing Report

lii VNSO Quarterly Statistic Report. Q1 and Q2 2023 vs 2013

liii VNSO Merchandise Exports, comparing 2013 to 2023. 2023 figures are extrapolated from Jan-July for the rest of the year

liv Vanuatu Low Emissions Development Strategy

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lix Vanuatu Bureau of Statistics Gross Domestic Product

lx Figures supplied

lxi https://www.cable.co.uk/energy/worldwide-pricing/#pricing

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lxiv Vanuatu Bureau of Statistics, Tourism Statistics

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lxviii RBV Quarterly Economic Report, March 2023

lxix Figures taken from published accounts in the Daily Post

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