

**Monitoring of Graduated and Graduating Countries from
the Least Developed Country Category:**

Vanuatu

**Committee for Development Policy
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I. Background

General Assembly resolution 67/221 of 21 December 2012 requests the Committee for Development Policy (CDP) to monitor the development progress of countries that graduated from least developed country (LDC) category. The monitoring is to be conducted, in consultation with the Governments of those countries, on a yearly basis for a period of three years after graduation becomes effective, and triennially thereafter, as a complement to two triennial reviews of the LDC category. CDP has also been requested to include its findings in its annual report to the Economic and Social Council (ECOSOC). This note contains a brief overview of the development progress and the smooth transition strategy of a graduated country, Samoa.

This note also contains a brief update on current conditions of graduating countries, Equatorial Guinea and Vanuatu, as requested by ECOSOC in its resolution 2013/20. Following the guidelines of resolution 67/221 of the GA, the CDP Secretariat has invited both countries to submit a concise report to CDP with information and an overview of the preparation of smooth transition strategy.

Guidelines on monitoring were first outlined by the CDP in its 2008 Report to the Council and updated in the 2013 Report.¹ The main objective of the monitoring provision is to identify any signs of reversal in the development progress of the graduated and graduating country and bring them to the attention of the ECOSOC.

II. Monitoring development progress of Vanuatu

Vanuatu: Monitoring timeline

In 2012 the CDP recommended that Vanuatu graduate. ECOSOC endorsed the recommendation in 2012, and the General Assembly took note of the recommendation in 2013 (A/RES/68/18). In March 2015, Tropical Cyclone Pam struck Vanuatu and caused severe and widespread damage to the economy. Thus, as in the case of Samoa and Maldives, the General Assembly decided to extend by an additional period of three years the preparatory period before graduation occurs. Graduation is scheduled to take place on 4 December 2020 (A/RES/70/78 of 9 December 2015). Table 11 presents the time line for Vanuatu.

Table 11. Time line for monitoring reports: Vanuatu

Date	Vanuatu	Relevant resolution
December 2015	Country report to CDP (graduating)	A/RES/67/221
March 2016	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2016	Country report to CDP (graduating)	A/RES/67/221

¹ See paragraphs 34 and 35 in Committee for Development Policy, Report on the tenth session (17-20 March 2008), Economic and Social Council, Official Records, 2008, Supplement No. 13. Committee for Development Policy, Report on the fifteenth session (18-22 March 2013), Economic and Social Council, Official Records, 2013, Supplement No. 13, chapter V.

March 2017	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2017	Country report to CDP (graduating)	A/RES/67/221
March 2018	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2018	Country report to CDP (graduating)	A/RES/67/221
March 2019	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2019	Country report to CDP (graduating)	A/RES/67/221
March 2020	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2020	Vanuatu graduates	A/RES/70/80
December 2020	Country report to CDP (graduating)*	A/RES/67/221
March 2021	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2021	Country report to CDP (graduated, #1)	A/RES/67/221
March 2022	CDP monitoring report to ECOSOC	A/RES/67/221
December 2022	Country report to CDP (graduated, #2)	A/RES/67/221
March 2023	CDP monitoring report to ECOSOC	A/RES/67/221
December 2023	Country report to CDP (graduated, #3)	A/RES/67/221
March 2024	CDP monitoring report to ECOSOC	A/RES/67/221
December 2026	Country report to CDP (triennial review #1)	A/RES/67/221
March 2027	CDP monitoring report to ECOSOC	A/RES/67/221
December 2029	Country report to CDP (triennial review #2)	A/RES/67/221
March 2030	CDP monitoring report to ECOSOC	A/RES/67/221

Note: * Vanuatu reports as a graduating country, covering the year 2020 for most of which it is still a graduating country. See the case of Samoa (CDP/2014/PLEN/7).

Source: CDP Secretariat.

Vanuatu: Recent macroeconomic developments

Tropical Cyclone Pam struck Vanuatu during 12-14 March, 2015 (see figure 2). An estimated 65,000 people were displaced, and approximately 17,000 buildings were damaged or destroyed, including houses, schools, clinics, and other medical facilities. Up to 16 people are reported as having died. The tropical cyclone destroyed crops on a large scale and compromised the livelihoods of at least 80 per cent of Vanuatu's rural population.

Responding to this development, on 9 December 2015, the General Assembly decided to extend the transition period by three years, and therefore Vanuatu is scheduled to graduate on 4 December 2020.

Figure 2. Vanuatu: location and the path of Cylone Pam in 2015



The total economic impact of the cyclone was estimated to be around \$449.4 million, which is equivalent to 64 per cent of the GDP in 2014.² The sectors that sustained the highest level of physical damage were the housing sector, which accounts for 32 per cent of the total damage costs, followed by the tourism sector (accounting for 20 per cent of all damage), the education sector (accounting for 13 per cent of all damage), and the transport sector (accounting for 10 per cent of total damage). The largest level of economic loss is expected in the agriculture and tourism sectors, which are estimated at 33 per cent and 26 per cent of the total losses respectively. In addition, the environmental sector suffered significant losses to ecosystem services, although these losses are not accounted for in GDP measurements.

Real GDP is estimated to have contracted by two per cent in 2015, due to the adverse impact of the cyclone, only partially offset by reconstruction activity (see table 12). Real GDP growth is forecast to rebound in 2016-2017 to about five per cent per year, helped by reconstruction activity, a recovery in tourism and agriculture, and the ramping-up of infrastructure projects.³

Table 12: Vanuatu: Socio-economic indicators, 2010-2015

	2010	2011	2012	2013	2014	2015
GDP growth rate (per cent, constant price in local currency)	1.6	1.2	1.8	2.0	2.3	-2.0
Inflation rate (per cent)	2.7	0.7	1.4	1.3	1.0	3.1
Government revenue (Billions of Vatu)	16.7	15.8	15.8	16.1	18.6	23.8

² Government of Vanuatu, Post-Disaster Needs Assessment, Tropical Cyclone Pam, March 2015.

³ EIU, Country Report: Vanuatu, January 2016; IMF, Vanuatu: 2015 Article IV Consultation, June 2015; Oxford Economics, Vanuatu: Country Economic Forecast, December 2015; ADB, Asian Development Outlook 2015 Update.

Government expenditure (Billions of Vatu)	18.4	17.3	16.9	16.3	17.8	27.5
Government balance	-1.7	-1.5	-1.2	-0.1	0.8	-3.7
Government balance as per cent of GDP	-2.5	-2.1	-1.6	-0.2	1.0	-4.6
Net ODA received (Millions of US dollars)	108.3	90.7	101.4	90.9	98.4	...
Percentage of GNI?						
Balance of Payments (Millions of US dollars)						
Current Account (Millions of US dollars)	-63.7	-72.1	-72.0	-5.1	19.4	...
Goods, Credit (Exports)	48.8	67.3	54.7	38.5	63.4	...
Goods, Debit (Imports)	243.8	260.0	253.2	267.5	269.3	...
Balance on Goods	-195.0	-192.7	-198.5	-228.9	-206.0	...
Services, Credit (Exports)	276.7	283.2	301.8	352.4	333.7	...
Services, Debit (Imports)	124.6	145.0	145.9	149.1	144.9	...
Balance on services	152.1	138.2	155.8	203.4	188.8	...
Balance on Goods and Services	-43.0	-54.5	-42.7	-25.6	-17.2	...
Balance on income	-21.5	-19.0	-43.1	-0.3	4.9	...
Balance on current transfers	0.8	1.4	13.8	20.7	31.7	...
Capital Account	20.7	24.0	22.6	21.0	31.7	...
Financial Account	-155.5	-112.8	-68.7	-130.9	-2.9	...
Direct investment (net)	-62.1	-60.3	-60.0	-59.0	-12.8	...
Portfolio investment (net)	1.6	-6.7	0.2	17.5	-10.2	...
Other investment (net)	-94.9	-45.8	-8.9	-89.4	20.1	...
Memorandum item:						
Reserves (Millions of US dollars)	161.4	173.8	182.2	179.2	184.0	...
Reserves (months of imports)	4.6	4.5	4.5	4.7

Source(s): IMF, World Economic Outlook Database, October 2015; OECD, Table 25: ODA Receipts and Selected Indicators for Developing Countries and Territories; IMF, Balance of Payments Database, December 2015; World Bank, World Development Indicators Database, December 2015

Before the cyclone, Vanuatu's current account showed a deficit in the balance of goods, and a surplus in the balance of service (see table 12). As imports of goods related to reconstruction activity rises, the current account deficit is estimated to be 18 per cent, or as high as 27 per cent, of GDP in 2015, compared with eight per cent in the pre-cyclone baseline.⁴ Imports of raw materials and capital equipment for reconstruction and infrastructure projects more than offset lower international prices for oil and food imports. At the same time, cyclone-related damage to crops means that agricultural exports such as copra, cocoa and kava are likely to have slumped.

Vanuatu's export is small and extremely volatile, and the main export is fish products, accounting for a half of the total exports in the period of 2010-2014 (see table 13). The other export which has a significant share is ships, boats and floating structures, but the data seem unreliable.⁵ According to the IMF, exports of goods might decrease by 35 per cent, from \$63 million to \$41 million, between 2014 and 2015.⁶

⁴ IMF, Vanuatu: 2015 Article IV Consultation, June 2015; EIU, Country Report: Vanuatu, January 2016.

⁵ As the export data from Vanuatu is limited, the data presented in this report are obtained from the importing countries' report. The export of ships can be explained by the fact that Vanuatu has an open ship register, that is, flags of convenience for vessels that have not been near Vanuatu. Flag of convenience is the business practice of registering a merchant ship in a sovereign state different from that of the ship's owners, to reduce operating costs or avoid the regulations of the owner's country. For this reason, the main

Table 13. Vanuatu: value of exports by main commodities exported, average 2010-2014

HS code	Exports	Value (US dollar thousands)	Share (per cent)	Main destination*
3	Fish and crustaceans, molluscs and other aquatic invertebrates	205,951	49.6	Thailand (48%), Japan (32%), Vietnam (8%)
89	Ships, boats and floating structures	190,319	45.8	Namibia (78%), Republic of Korea (9%), Ecuador (6%), Poland (6%)
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	10,322	2.5	New Caledonia (37%), Fiji (28%), USA (23%)
18	Cocoa and cocoa preparations	4,352	1.0	Malaysia (99%)
Total		650,188	100	

Note: * Market shares in 2014 are in the parenthesis.

Source: UN Comtrade, accessed 1 February 2016.

In the immediate aftermath of the cyclone, the government responded through fiscal and monetary measures. A supplementary budget increased expenditures by 1.3 per cent, and value-added tax and import duties were waived for building materials and relief items. Due to these measures, the fiscal deficit is expected to be 4.6 per cent of GDP in 2015 (see table 12). The Reserve Bank of Vanuatu reduced the interest rate, lowered bank reserve requirements, and activated targeted credit facilities.

A fall in earnings from tourism will have reduced the services surplus. Data are not yet available to estimate the impact of the cyclone on tourism, but preliminary estimates suggest that the number of visitors have been reduced significantly in 2015. During January-June 2015, visitor arrivals by air decreased by 24 per cent from a year earlier and arrivals by cruise ship were down by 56 per cent.⁷ Tourists arrivals are expected to recover in 2016, supported by marketing efforts in Australia and New Zealand, Vanuatu's largest sources of tourists (see table 14).

Table 14. Vanuatu: Visitor arrivals by country of origin, 2009-2014

Year	Total	Australia	New Zealand
2009	100,675	64,909	12,606
2010	97,180	58,760	11,927
2011	93,960	57,843	11,399
2012	108,161	65,405	14,430
2013	110,109	65,776	15,068
2014	108,808	60,808	16,293

Source: Reserve Bank of Vanuatu, *Quarterly Economic Review*, September 2015, table 36.

destinations vary year to year, depending on which vessels are registered. Export of ships is therefore not regarded as a true manufacturing activity.

⁶ IMF, Vanuatu: 2015 Article IV Consultation, June 2015; EIU, Country Report: Vanuatu, January 2016.

⁷ Asian Development Bank, Vanuatu Economy, Asian Development Outlook Update 2015.

Secondary income will be supported by donor funding for reconstruction, while remittance inflows are expected to be increasing, as temporary-work schemes for ni-Vanuatu are expanded in Australia and New Zealand.⁸

Vanuatu: Developments related to indicators in the LDC criteria

In 2021 the CDP recommended Vanuatu for graduation on the basis of high GNI per capita and HAI, and the country has continued to improve its scores on both criteria. The country's GNI per capita is estimated to be \$3,090 in 2016, 2.5 times higher than the graduation threshold, established at the 2015 triennial review (\$1,242). Thus, the country continues to meet the income-only graduation criterion as well (see table 15). The standardized HAI score, using the same methodology and the data source for 2015 triennial review, is stable at 80.6 in 2016, much higher than the graduation threshold established at the 2015 review (66 or higher).

The EVI score is 48.3 in 2016, with a large gap from the graduation threshold of 32. The standardized EVI, using the same methodology and data source for 2015 triennial review, shows that there was a slight increase in the EVI score between 2015 and 2016. It seems to be explained by the sudden increase in the victims of natural disasters, reflecting the impact of the cyclone.

Table 15. Vanuatu: LDC criteria indicators, 2009-2016

Index/Criteria	2009	2010	2011	2012	2013	2014	2015	2016
GNI per capita in USD	1,971.9	2,210.9	2,407.6	2,600.0	2,723.5	2,872.5	3,014.9	3,090.4
EVI	48.5	48.1	48.2	46.5	47.0	46.6	47.4	48.3
Population (thousands)	219.9	225.3	230.8	236.3	241.9	247.5	253.2	258.9
Remoteness	83.2	83.2	83.4	83.1	82.2	82.3	82.1	82.1
Low elevation coastal zone (%)	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Export concentration	0.7	0.7	0.7	0.6	0.6	0.6	0.7	0.7
Shares of agriculture, forestry and fisheries	23.1	22.5	22.1	21.9	22.6	24.3	25.9	26.4
Victims of natural disasters (%)	2.8	2.8	2.8	3.4	3.4	3.0	3.4	6.6
Agricultural instability	7.8	7.7	7.7	6.9	7.7	7.5	7.5	7.6
Export instability	9.3	8.8	9.1	7.9	8.0	8.0	7.9	7.6
HAI	73.6	78.3	78.2	78.2	80.1	80.1	80.5	80.6
Undernourishment (%)	6.1	5.9	6.0	6.1	6.3	6.4	6.4	6.4
U5MR (per 1,000)	28.2	28.4	28.5	28.6	28.6	28.4	28.1	27.5
Adult literacy rate (%)	78.1	78.1	78.1	78.1	84.0	84.0	85.2	85.2
Gross secondary school enrolment (%)	42.8	59.5	59.5	59.5	59.5	59.5	59.5	59.5

Note: Indicators are generated based on the same data source and methodology used for the 2015 review. Therefore, the values in 2009 and 2012 are different from the ones included in the triennial reviews presented in the CDP reports to the ECOSOC in the respective year.

⁸ EIU, Country Report: Vanuatu, January 2016.

Source: CDP Secretariat.

Vanuatu: Preparation of the smooth transition strategy

The ex-ante impact assessment of the likely consequences of graduation of Vanuatu from the LDC category conducted in 2012 indicated that Vanuatu would face non-zero tariff rates on exports of certain types of tuna and copra oil, which currently enjoy duty and quota-free entry to the markets of some trading partners, including Japan. It is recommended that Vanuatu initiate the preparation of its smooth transition strategy as early as possible, to minimize potential adverse impacts of graduation in the loss of preferential treatment in trade and any eventual change in the terms of ODA. In addition, the country needs to strengthen climate change adaptation measures and disaster management to place its economic development path on a more stable ground. The country is yet to submit information on its smooth transition strategy.

With respect to development finance, ODA flows declined by \$18 million in 2014 (see table 9). This is largely due to reduced ODA flows from Australia and Japan. After March 2015, international humanitarian response to the impact of cyclone Pam was swift, with large amounts of supports from Australia (\$12 million), the UK (\$5.5 million), China (\$4.9 million), New Zealand (\$3.5 million), Netherlands (\$2.9 million), and the United States (\$2 million).⁹ Data are not yet available, but the total ODA is expected to have increased in 2015.

Table 9. Vanuatu: total aid receipt by donor, USD millions, 2008-2014

Donor	2008	2009	2010	2011	2012	2013	2014
DAC Countries, Total	144.1	167.8	140.8	68.1	187.0	131.6	113.4
Australia	27.8	41.9	58.5	57.4	94.0	57.7	42.9
Japan	64.4	52.1	24.9	-2.9	62.7	40.8	21.9
New Zealand	10.5	15.5	12.9	13.6	15.3	14.9	25.3

Source: OECDstat, accessed 27 January 2016.

Donor assistance is likely to be key to reconstruction efforts. One of the urgent projects that have started is an upgrade of Vanuatu's airports, including a new terminal for the main international airport and urgent rehabilitation work on its runway, to be financed by a concessional loan from the World Bank. In August 2015, Japan committed an additional \$36m to a multi-purpose wharf development which is scheduled for completion in early 2017. The EU has also allocated \$38 million in funding for rural development projects over the next six years, focusing on agriculture and tourism infrastructure.¹⁰

New Zealand will raise the annual cap on the number of seasonal workers who can be recruited by horticulture and viticulture producers from 9,000 to 9,500 in 2016.¹¹ The Australian government removed the annual cap on seasonal workers in June 2015, to

⁹ IMF, Vanuatu: 2015 Article IV Consultation, June 2015.

¹⁰ EIU, Country Report: Vanuatu, January 2016.

¹¹ Government of New Zealand, Recognised Seasonal Employer cap raise, December 2015, available from <http://www.immigration.govt.nz/migrant/general/generalinformation/news/RSEcap-raise.htm>

include the whole agricultural industry, as well as the accommodation sector in some locations.¹²

Vanuatu: Summary

Vanuatu is recovering quickly from the devastating impacts of Cyclone Pam. The recovery program has been implemented by the Government with strong support from its development partners. While a full recovery is expected to take several years, no signs of an additional significant deterioration in the LDC indicators for Vanuatu have been observed during the monitoring period.

However, in a country as vulnerable to natural hazards as Vanuatu, which faces frequent extreme climate events, the longer-term reconstruction plan within the framework of the smooth transition strategy should recognize the importance of strengthening resilience of the population to enhance existing coping mechanisms.

In this context, the Government of Vanuatu is encouraged to prepare a smooth transition strategy, utilizing the extended period of transition until 2020. The strategy may focus on successful implementation of policies to offset possible impacts from graduation, and to secure necessary technical and social support throughout the reconstruction phase, and for possible disasters in the future.

¹² Government of Australia, Australian Government expands Seasonal Worker Programme, June 2015, available from <https://www.employment.gov.au/news/australian-government-expands-seasonal-worker-programme>