



United Nations
CDP
Committee for
Development Policy

CDP2021/PLEN/5A.iii

Committee for Development Policy 23rd Plenary Session

United Nations
22-26 February 2021
Virtual meeting

Monitoring of Countries Graduated from
the Least Developed Country Category:

Vanuatu

**SUSTAINABLE
DEVELOPMENT** **GOALS**

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Developed Country Category:

Vanuatu

Contents

Summary.....	3
LDC indicators	4
Productive capacity	4
Data gap	5
Smooth transition and country specific factors	6

Summary

Vanuatu has made substantial progress on the income and HAI criteria to graduate from the list of LDCs in December 2020. While its EVI is still above the threshold, the country has made efforts to reducing disaster risks, increasing resilience. However, a closer monitoring in coming years would be required as the country needs to recover from the impacts of the COVID-19 pandemic and the Cyclone Harold, both of which struck the country in 2020 and possibly have long lasting impacts on the tourism sector.

Macroeconomic situation

Recovering from Cyclone Pam in May 2015, Vanuatu continued to grow at a slow but steady rate, between 3.2 and 3.5 per cent per annum during 2016-2019 (see table 1 and IMF Vanuatu country data). In 2020, the country was hit by the Cyclone Harold (category 5 hurricane, affecting more than 159,000 people in Vanuatu), and then stuck by the COVID-19, resulting in GDP contracting by 8.3 per cent.¹ Recovering from the impacts of both the natural disaster and the COVID-19 will be major challenges in coming years.

Government balance for 2020 is down to -7.7 per cent of GDP, reflecting spending on infrastructure projects, and decreased revenues from no travellers arriving. The tax to GDP ratios is only 18 per cent.² ODA, service export (tourism) and transfer income (remittances) accounts for most of the income flows to the country, and they will be heavily affected by the COVID-19.

Table 1. Selected macroeconomic data for Vanuatu, 2014-2018

Indicator	2014	2015	2016	2017	2018
GDP growth rate (per cent, constant price)	2.3	0.2	3.5	3.5	3.2
Inflation rate (%)	0.8	2.5	0.8	3.1	2.8
Government revenue (billions of national currency)	18.6	28.0	30.1	34.1	39.8
Government expenditure (billions of national currency)	21.3	35.7	33.5	35.2	32.1
Government balance (billions of national currency)	-2.8	-7.7	-3.4	-1.1	7.7
Government balance (per cent of GDP)	-3.5	-9.3	-3.9	-1.2	7.7
Net ODA received (millions of US dollars)	100.4	186.6	129.1	132.2	130.4
Balance of Payments (millions of US dollars)					
Current Account	67.0	-3.9	7.7	-56.3	85.4
Goods, Credit (Exports)	63.4	38.8	50.2	60.5	63.0
Goods, Debit (Imports)	269.3	309.1	320.6	316.6	302.7
Balance on Goods	-206.0	-270.3	-270.4	-256.1	-239.7
Services, Credit (Exports)	333.7	282.9	331.5	348.8	454.1
Services, Debit (Imports)	128.6	171.0	149.3	154.4	157.8
Balance on services	205.2	112.0	182.2	194.4	296.3
Balance on Goods and Services	-0.8	-158.3	-88.2	-61.7	56.7
Balance on income	4.7	2.2	-2.1	-10.9	7.3

¹ IMF Vanuatu country data, accessed 5 January 2021, and Economic Intelligence Unit, Vanuatu country report, accessed 5 January 2021.

² World Bank, WDI, accessed 19 January 2021.

Balance on current transfers	63.1	152.2	98.0	16.3	21.4
Capital Account	31.0	83.4	48.2	49.2	39.7
Financial Account	153.6	198.0	129.3	217.5	525.9
Direct investment (net)	-12.8	-29.5	-43.3	-37.2	-36.2
Portfolio investment (net)	-10.2	9.8	-11.3	-28.1	-15.1
Other investment (net)	164.4	118.4	150.4	201.1	531.6
Change in reserves					
Total Reserves (Millions of US dollars)	12.3	99.3	33.4	81.6	45.6
Reserves (months of imports)					

Source: GDP growth and inflation are from UN DESA, WESP, 2020 edition, accessed 18 Dec 2020. Government balance is from IMF, World Economic Outlook Database, October 2020 edition, accessed 18 Dec 2020. Net ODA is from OECD, OECD.Stat, accessed 18 Dec 2020. All external sector indicators are from IMF, Balance of Payment Data Reports, accessed 18 Dec 2020.

LDC indicators

As for the indicators used to identify LDCs, the GNI per capita of Vanuatu is estimated as \$2,992 in 2021, more than two times higher than the LDC graduation threshold established at the 2021 triennial review, \$1,222 (see table 2). The HAI score is 78.4 in 2021 which is well above the graduation threshold of 66 and continuing to increase little by little over the years.

The EVI score continued to decrease but stayed at 39.6, above the graduation threshold of 32 or below. While the country remains highly vulnerable to the ever-present danger of natural disasters³, it is noteworthy that the national disaster planning framework has been improved substantially in recent years.⁴

Table 2. Indicators for LDC identification, Vanuatu, 2017-2021

	GNI per capita	EVI	HAI
2017	2,997.5	40.0	77.4
2018	2,894.6	41.7	77.7
2019	2,814.5	40.2	78.0
2020	2,873.7	39.8	78.3
2021	2,991.5	39.6	78.4

Source: CDP Secretariat

Productive capacity

The performance of Vanuatu reflects at the same time the SIDS performance on the PCI, and a superior achievement than that of other SIDS (see table 3). On one side, Vanuatu upon its graduation scores above the LDC average (by 42%) on the overall PCI and its sub-components, with the exception of natural capital and energy. Its outperformance is especially remarkable in terms of institutions. On the other side, Vanuatu trails other developing countries. In this case, the gap is not very wide (11% behind on average). Still, efforts to catch up with ODCs should concentrate on ICTs, energy and human capital.

³ Vanuatu is the world's most at-risk country for natural disasters, as measured by the UN World Risk Index.

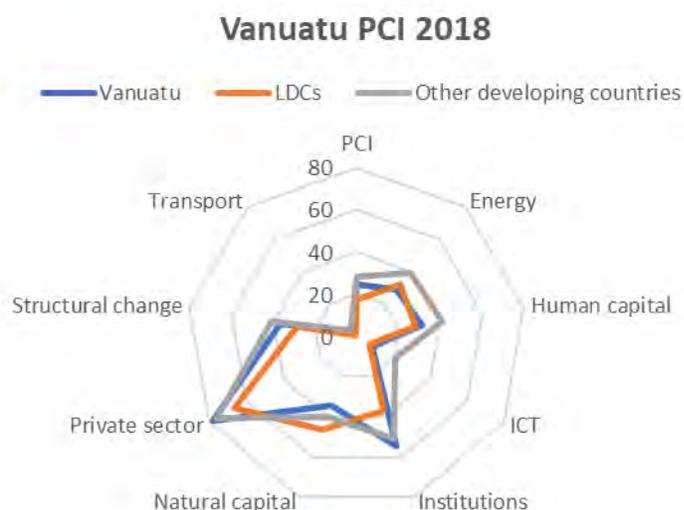
⁴ IMF (2019) Article IV Consultation: Vanuatu.

Table 3. Productive Capacity Index, Selected Countries, 2018 value

Country	PCI	Energy	Human capital	ICT	Institutions	Natural capital	Private sector	Structural change	Transport
Angola	14.5	34.1	23.8	5.0	30.2	48.1	57.6	21.5	0.3
Bhutan	28.5	49.7	37.9	13.8	62.4	43.7	72.0	35.3	2.4
Equatorial Guinea	18.0	25.1	24.4	8.0	22.3	37.9	64.8	31.7	1.3
Samoa	29.1	39.9	37.4	10.5	66.3	32.4	81.9	39.2	4.7
Sao Tome and Principe	19.9	28.4	34.6	9.9	47.9	36.7	69.4	33.4	0.6
Solomon Islands	22.4	33.9	29.9	6.0	46.3	50.1	78.3	26.1	2.2
Vanuatu	25.1	29.2	31.3	8.7	55.0	34.4	78.5	36.5	3.6
LDCs	17.7	32.0	28.3	7.4	36.9	46.5	66.6	28.9	1.1
ODCs	28.4	39.3	40.7	20.7	50.8	40.4	76.0	40.7	4.4

Source: UNCTAD.

Figure 1: Productive Capacity Index 2018, Vanuatu



Source: UNCTAD

Data gap

Vanuatu's statistical capacity is relatively limited, the score 48.9, lower than small states average 58.2.⁵ The country shares the same difficulties with other small island countries in building national capacity in updating national accounting.

⁵ World Bank. WDI. Accessed 28 January 2021.

Smooth transition and country specific factors

The government of Vanuatu officially announced that the country graduated from the LDC category at the national celebration event in December 2020. It is a bold action in the midst of the fight against COVID-19 and was praised and appreciated by leaders of development community including the UN Secretary General.

Vanuatu has adopted the smooth transition strategy in 2019.⁶ Full implementation of the existing National Sustainable Development Plan (NSDP) entitled “Vanuatu 2030, The Peoples Plan” is integrated with the transition strategy. The smooth transition strategy also outlines complementary LDC specific actions that are grouped in eight specific themes, namely 1) trade; 2) private sector development and productive capacity; 3) infrastructure; 4) macroeconomic stability and finance; 5) strengthening of national systems including planning, budgeting, and monitoring; 6) aid coordination and monitoring; 7) statistical systems and data; and 8) institutional and staff capacity development.

Some of the LDC-specific international support measures that have been provided to Vanuatu may change after the graduation:

The transition period for EU’s Everything-But-Arms (EBA) arrangement continues for another 3 years. But the country’s main exports (Kava, coconut, copra, beef, etc) are destined to Asian countries, Australia and the United States.

Vanuatu will continue to receive preferential market access based on regular GSPs, regional trade agreements and/or WTO arrangements. Vanuatu ratified the PACER Plus Agreement with eleven Pacific countries which came into force on 13 December 2020.

Vanuatu is making progress in improving resilience to natural disasters and climate change. Vanuatu has received funding from Green Climate Fund for 1 project (\$23 million) and 5 readiness activities (\$1.8 million). From GEF, Vanuatu received \$14 million for 13 national projects, part of 33 regional/global projects (\$202 million), and from LDCF, over \$30 million for 5 national projects.

The country’s most imminent challenge is to minimize the significant negative effect on the tourism sector and the broader economic downturn amid the global spread of the COVID-19 and dealing with the damage caused by Cyclone Harold. Strict border controls implemented during the pandemic have allowed Vanuatu to avoid an outbreak. An outbreak of the coronavirus would likely have grave implications for the health of the population, given limited testing capacity and weak healthcare infrastructure. The economic cost of border closures and the global recession have been substantial, given Vanuatu's reliance on the tourism sector.

In conclusion, Vanuatu has made substantial progress on the income and HAI criteria to graduate from the list of LDCs in 2020. While its EVI is still above the threshold, the country has made efforts to reducing disaster risks, increasing resilience. However, the impacts of the COVID-19 pandemic and the Cyclone Harold will need to be overcome in coming years despite the likely slow recovery of the tourism sector.

⁶ <https://www.gradjet.org/country/vanuatu/>