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Monitoring of countries graduating and
graduated from the list of LDC category:
Vanuatu

**SUSTAINABLE
DEVELOPMENT GOALS**

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Summary

Vanuatu was heavily affected by Cyclone Harold and COVID-19 pandemic in 2020. Service export (tourism), major income source of the country, has reduced significantly, but the economy is expected to rebound to growth 4-4.5% in coming years.

The Government of Vanuatu has been implementing the STS and actively engaged with CDP, although it has not submitted its annual report on STS as of Feb 2022. The Committee found that the priorities of STS are very wide, and recommends the country to narrow down the focus and implement the strategy in stages. Promoting productive capacity, for instance, through digitalizing the economy, should be the central part of the short term recovery, as well as building resilience in the long run. Vanuatu is suggested to continue making efforts to overcome the limited statistical capacity with assistance from development partners.

The CDP recommends ECOSOC to call for international community to continue providing assistance to Vanuatu, particularly, on building climate resilience, disaster risk reduction and financing for development that could lead to promoting productive capacity.

Macroeconomic situation

Vanuatu has recovered from Cyclone Pam in 2015 and have shown steady growth in GDP, between 2.9-6.3 per cent per annum during 2016-2019 (see Table 1). In 2020, however, the country was severely affected by natural disasters and the COVID-19 pandemic. It was hit by Cyclone Harold (category 5 hurricane, affecting more than 159,000 people in Vanuatu) and a volcanic eruption.¹ Moreover, the country closed the border since March 2020, which prevented the local outbreak of the coronavirus, but heavily affected national economy. As a result, real GDP is estimated to have contracted by 2.3 per cent in 2020.² While it is in line with national estimates of 2.6 per cent contraction,³ the IMF expected a much larger decline, a negative growth of 6.8 per cent. It is forecast to rebound in 2022 with 4.5 per cent of growth⁴, underpinned by agricultural production, remittances, and construction activity.⁵

Government balance for 2020 is down from 7.1 per cent to -0.1 per cent of GDP, largely due to decreased revenues from tourism. Service export (tourism), which accounted for most of the income flows to the country, has reduced to one third compared to that of the previous year. The tax to GDP ratio is only 17.6 per cent.⁶

Table 1. Selected macroeconomic data for Vanuatu, 2015-2020

Indicator	2015	2016	2017	2018	2019	2020
GDP growth rate (per cent, constant price)	0.2	3.5	4.4	2.9	2.8	-2.3
Inflation rate (%)	2.5	0.8	3.1	2.3	2.8	2.9
Government revenue (billions of national currency)	28.0	30.1	34.1	39.8	41.3	45.0
Government expenditure (billions of national currency)	33.1	31.2	35.2	33.5	34.1	45.1

¹ IMF (2021). Article IV Consultation: Vanuatu

² UN DESA, World Economic Situation and Prospects, 2022.

³ Reserve Bank of Vanuatu (2021). Quarterly Economic Review, accessed 31 January 2022.

⁴ UN DESA, World Economic Situation and Prospects, 2022.

⁵ IMF (2021). World Economic Outlook, accessed 20 December 2021.

⁶ World Bank, WDI, accessed 20 December 2021

Government balance (billions of national currency)	-5.1	-1.1	-1.1	6.3	7.1	-0.1
Government balance (per cent of GDP)	-6.4	-1.3	-1.2	6.3	6.7	-0.1
Net ODA received (millions of US dollars)	186.6	129.1	132.7	130.9	130.6	
Balance of Payments (millions of US dollars)						
Current Account	1.9	26.3	-39.1	110.5	149.9	28.3
Goods, Credit (Exports)	38.8	50.2	60.5	63.0	45.5	46.2
Goods, Debit (Imports)	309.1	320.6	316.6	302.7	321.0	253.7
Balance on Goods	-270.3	-270.4	-256.1	-239.7	-275.5	-207.5
Services, Credit (Exports)	277.1	306.5	322.1	368.6	338.5	109.5
Services, Debit (Imports)	179.0	150.9	154.4	157.8	144.8	133.5
Balance on services	98.1	155.6	167.6	210.8	193.6	-24.0
Balance on Goods and Services	-172.2	-114.8	-88.4	-28.8	-81.9	-231.4
Balance on income	13.0	17.5	2.3	26.6	74.1	89.7
Balance on current transfers	161.1	123.6	47.1	112.7	157.6	170.1
Capital Account	83.9	48.4	49.2	39.7	60.6	81.3
Financial Account	25.8	-27.8	-57.0	240.8	224.3	90.9
Direct investment (net)	-29.5	-48.1	-37.2	-36.2	-24.9	-22.8
Portfolio investment (net)	9.3	-12.0	-28.5	-13.5	-6.0	8.8
Financial derivatives (other than reserves) and employee stock options
Other investment (net)	-53.3	-1.1	-72.9	244.9	158.4	35.6
Reserve assets	99.3	33.4	81.6	45.6	96.9	69.3
Reserves (months of imports)	6.2	6.3	9.1	10.1	12.4	18.1

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

LDC indicators

The GNI per capita of Vanuatu is estimated as \$3050.3 in 2022, which is well above the income-only graduation threshold of \$2,484 (see Table 2). The HAI score remained 77.1, still reaching the threshold level of 66.

The EVI score for 2022 is 46.3. Despite the declining trend, it remains above the threshold value of 32 or below. While the country is highly vulnerable to the ever-present danger of natural disasters⁷, it is noteworthy that the national disaster planning framework has been improved substantially in recent years.⁸

Table 3 presents some areas for particular attention. Tourism receipt fell sharply in 2020 while remittances rose as the share of GDP. Domestic saving was cut in half, adding challenges to finance the investment. Undernourishment has not improved much, and women empowerment, either.

⁷ Vanuatu is the world's most at-risk country for natural disasters, as measured by the UN World Risk Index.

⁸ IMF (2021). Article IV Consultation: Vanuatu

Table 2. Indicators for LDC identification, Vanuatu, 2018-2022

Year	GNI per capita	EVI	HAI
2018	2,938.7	46.2	77.0
2019	2,879.6	44.0	77.1
2020	2,948.1	43.6	77.2
2021	3,070.6	44.5	77.1
2022	3,050.3	46.3	77.1

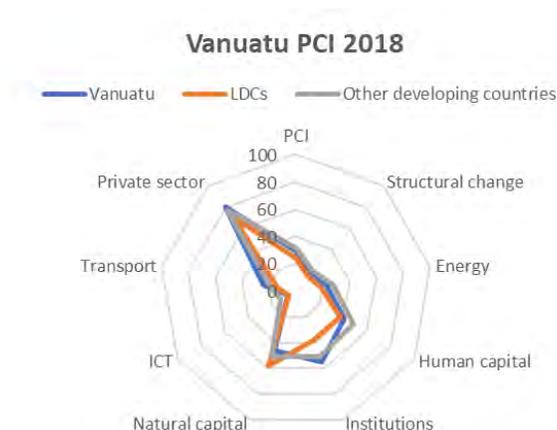
Source: CDP Secretariat

Table 3. Selected supplementary graduation indicators, Vanuatu, 2017-2021.

Indicators	2017	2018	2019	2020	2021
Remittances (% of GDP)	10.3	3.0	3.9	8.1	10.2
Tourism receipts as share of exports	79.0	72.1	70.6	62.8	
Gross domestic savings (% of GDP)	18.0	20.6	24.1	22.1	10.5
Prevalence of undernourishment	8.1	8.9	9.6	9.5	9.3
Women empowerment index	0.6	0.6	0.6	0.6	0.5

Source: CDP Secretariat

Productive Capacity



Vanuatu stands ahead of LDCs both in terms of its overall level of development of productive capacities and of most individual subcomponents of the PCI. This performance can be expected from a graduated country. Vanuatu's productive capacities are not as developed as those of its peer ODCs, but the gap is not wide. Examining the PCI subcomponents, there are three in which it outperforms the average ODC (Transport, Institutions and Private Sector) and three in which it trails ODCs (Energy, Human Capital, Natural Capital and Structural Change). With regards to structural change, the share of services is preponderant in Vanuatu's GDP, as the country has expanded its financial services and tourism services sectors, which puts it well ahead of LDCs in this dimension, but still somewhat behind ODCs.

Given that it is a SIDS and therefore a small country, its above-average performance in terms of transport can be expected. However, its below-average performance in terms of Human Capital is surprising.

The area in which Vanuatu has the widest gap vis-à-vis ODCs is ICTs, where the country stands at approximately half of the level of ODCs. However, this is also the dimension in which Vanuatu progressed most during the 2010s.

Table 4. Productive Capacity Index, Selected Countries, 2018 value.

Country	PCI	Energy	Human capital	ICT	Institutions	Natural capital	Private sector	Structural change	Transport
Angola	22.2	22.8	35.9	5.0	32.2	51.9	65.6	12.3	10.5
Bangladesh	26.8	25.3	44.7	6.7	37.7	58.1	72.7	16.5	13.6
Bhutan	30.1	22.4	46.5	9.2	63.3	41.5	73.9	16.7	21.7
Lao PDR	27.1	23.5	41.0	8.2	40.1	46.0	78.0	20.6	12.5
Nepal	26.3	18.3	46.2	7.8	39.9	52.3	70.6	15.9	14.8
Sao Tome and Principe	26.7	19.6	43.7	7.2	48.4	46.7	75.8	16.3	15.2
Solomon Islands	26.2	21.2	40.0	5.5	46.9	44.7	81.1	13.5	20.7
Vanuatu	29.4	23.1	41.2	6.7	55.5	46.2	80.4	17.7	24.2
LDCs	23.9	18.8	37.9	6.1	38.2	58.2	71.0	14.0	13.4
ODCs	31.9	27.8	48.7	12.4	51.4	51.3	77.7	19.4	19.2

Source: UNCTAD.

Data gap

In general, Vanuatu's statistical capacity index decreased to 36.7 in 2020, much lower than small states average 57.9 and LDC average 57.5. The country had the lowest scores for all three criteria: methodology, periodicity, and availability.

Smooth transition, national plan 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 was a bold action against the impact of the COVID-19 pandemic and natural disasters and was praised and appreciated by leaders of development community including the UN Secretary General.

Vanuatu has adopted the smooth transition strategy in 2019.⁹ 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.

⁹ <http://www.gradjet.org/country/vanuatu/>

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 export (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 signed the PACER Plus Agreement with 14 Pacific countries which came into force on 13 December 2020.

Vanuatu is enhancing resilience against climate change and natural disasters. The country has been operating National Disaster Management Office, which aims to decentralize disaster response system. Additionally, Disaster Risk Management Act 2019 was announced in February 2021. Vanuatu has received funding from Green Climate Fund for 1 project (\$23 million) and 6 readiness activities (\$2.1 million). From GEF, Vanuatu received \$14 million for 13 national projects and \$202 million for 34 regional/global projects. From LDCF, it received \$22 million for 5 national projects and \$49 million for 5 regional/global projects.

The biggest challenge facing the country is economic recovery from the pandemic. The government provided financial aids to households, firms and employment in the tourism in April 2020 and May 2021. Nevertheless, economic activity is contracted sharply due to extended border closure. In particular, tourism and related sectors are affected, and infrastructure projects are being delayed. Moreover, Vanuatu aims to vaccinate 40% of the population by June 2022. Still, logistical challenges and vaccine hesitancy remain concerned.

The CDP held a virtual consultation with the Government of Vanuatu on 6 December 2021. The country shared the progress on its implementation of smooth transition strategy (STS) and informed that it will submit the report to the CDP. Vanuatu focused on several parts including trade, productivity and national systems. It was highlighted that all these issues are integrated into the government corporate plan. Regarding the trade, the country has reviewed the trade policy framework and has been running the stimulus package to address pandemic situation, mainly due to border closure. Besides, as the impact of the coronavirus was most critical on tourism sector, the government came out with measures such as macro/microeconomic policies, labor mobility programs and projects which employ the locals who lost their job in related sectors.

The CDP members welcomed the progress achieved by Vanuatu and pointed out the importance of building productive capacity. It was recommended to diversify the economy and to focus on several goods and services to improve competitiveness in the global market. In addition, following the presentation on Enhanced Monitoring Mechanism (EMM), the government of Vanuatu promised to communicate with the Statistics office. Some of feedbacks were about engaging the country and other UN agencies in indicator development process and adding health or migration related indicators. It was also suggested that these indicators be in line with the monitoring framework of the Vanuatu National Sustainable Development Plan (VNSDP).

In conclusion, Vanuatu graduated from LDC category by making significant progress on HAI and income. Though its EVI remains higher than the graduation threshold, the country has prepared for the smooth transition strategy. However, continuous efforts should be made to recover from the impacts of the Coronavirus and to strengthen its climate resilience.

