

VANUATU

AUGUST 2018

# BUSINESS

## REVIEW

EXTENSIVE, THOROUGH AND PROFOUND

# THE DEBT TRAP MYTH



Reports of our imminent economic  
demise are exaggerated

# THE DEBT TRAP MYTH

Reports of our imminent economic demise are exaggerated

‘Debt-trap diplomacy.’

It has a nice ring to it, you’ve got to admit. The bookended Ds and Ts create a pleasing syncopation that makes it trip lightly from the tongue.

But in Vanuatu at least, there’s no evidence that it’s an actual thing. In fact, our latest fiscal and financial figures are showing that our debt is not likely to trap us at all, even in the worst-case scenarios.

Foreign policy notwithstanding, income from China has put this country in the strongest economic position it’s been in, arguably since this young country was born.

The government of Vanuatu has been running significant fiscal surpluses for a few years now. This has allowed it to accumulate a cash reserve that the Daily Post estimates to be in excess of VT 6 billion.

Its fiscal position is so strong, the Department of Finance and Treasury has begun paying down debts ahead of schedule.

In its half-year fiscal and financial report, DoFT announced:

“For the first time the Government has begun reducing debt levels by prepaying loans. This was planned last year due to improved fiscal

will lean back in his chair, raise a brandy snifter to his nose, and announce, ‘Mission accomplished. They’ve taken our advice.’

For the first time the Government has begun reducing debt levels by prepaying loans.

conditions. For the first 6 months of this year, in total domestic debt has been reduced by more than 20% (VT 1.4 billion). External debt has also been reduced significantly targeting over VT 1.5 billion. By end of year, around 6 or more loans will be paid out in advance (4 have already been paid out this half year). The paid out loans belong to the Asian Development Bank (ADB) and Exim Bank of China. Other smaller loans from the World Bank are targeted as well.”

If countries want to trap us in debt, they’ll have to dig the pit deeper.

Inevitably on hearing this news, more than one Canberra wonk

And if they were giving it back in 2013, they’d be right. Because that’s when efforts began to mitigate the 2020 cash flow crunch. Finance officials state that even though there have been draw-downs in recent months, no new loan agreements have been signed since 2016.

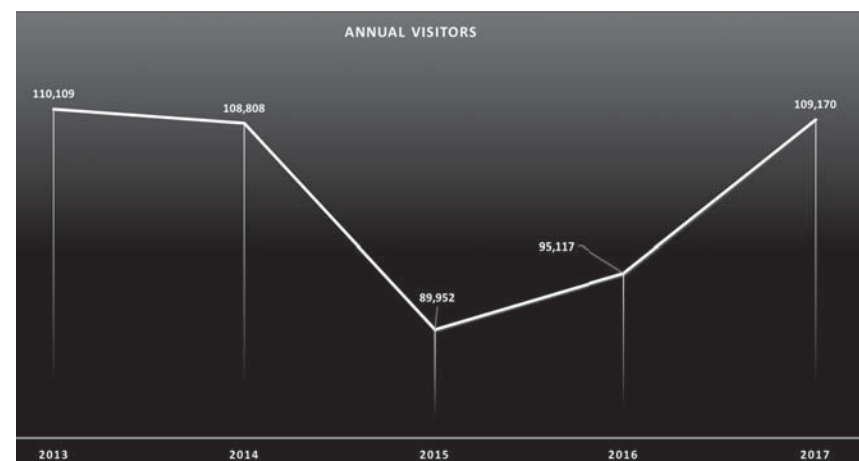
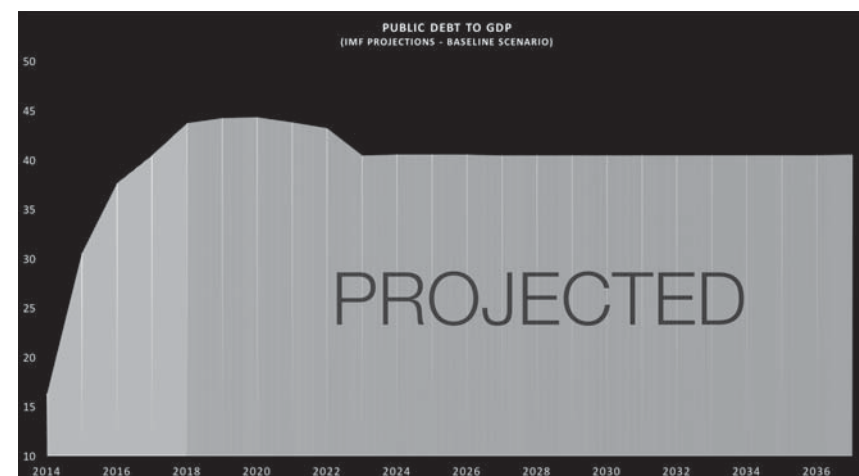
Today’s fiscal situation results partly from happenstance, partly from strategy. The implications of a happy confluence of circumstances has not been lost on the nation’s financial planners, and faced with the decision between being the grasshopper or the ant of Aesop’s fable, they chose a little of both.

## Record revenues

GDP is soft, running nearly half a point behind the global average, and two points behind the average for emerging markets. It’s small but positive, and seems destined to remain steady in the mid-term. It’s probably a more realistic depiction of the Vanuatu economy. Massive reconstruction projects in the wake of cyclone Pam made it look like the economy was growing rapidly when in fact the service sector was in crisis.

But government revenues are running hot. This year, the country will finally rise above the ruin wrought by 2015’s cyclone Pam. Tourism arrivals are at last on track to exceed their 2013 high water mark. People are staying longer, too—averaging nearly eleven and a half days now, compared with slightly more than nine a few years ago.

Revenues are miles ahead of projections. When the VAT was increased at the beginning of the year, tax revenues were expected to rise, but only modestly. Generally, these things take time to manifest. Last time, it took about 18-24 months for income to ramp up. But at the halfway mark in the fiscal year, Vanuatu’s tax intake so far this year is more than 7% above budget expectations.



## Better processes

Part of this comes from significant investment in the department of Customs and Inland Revenue. Efforts to improve effectiveness are paying off bigger and sooner than expected. Even in 2017, before the VAT increase came into effect, overall revenues were 22% over budget, and 23% above GDP growth.

The shocker, though, was non-tax revenues. Every year since the country began selling passports, non-tax revenues have run roughshod over predictions. Every year, the government has taken the increase in stride and bumped its predictions for the following year.

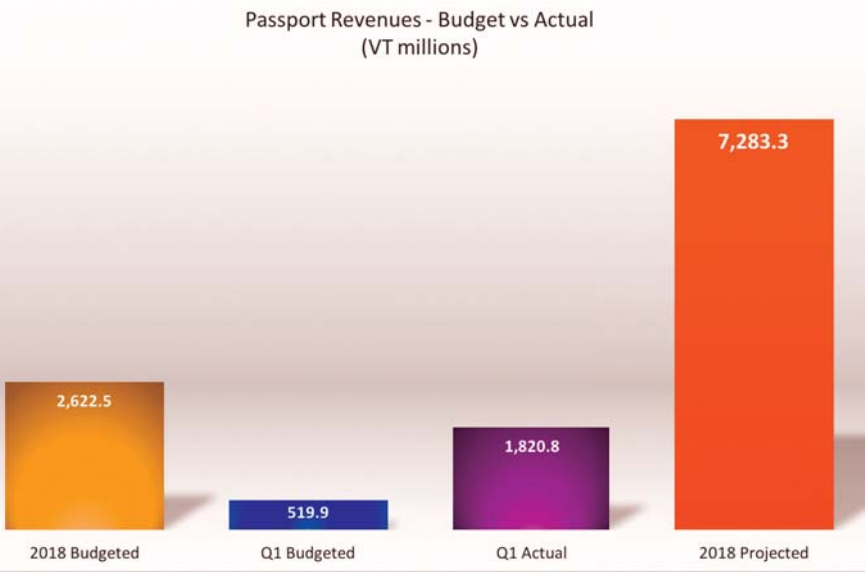
In 2017, passport sales were more than twice the projected revenues, accounting for about 16% of overall government income. This year, they are on track to nearly double again.

Not only do passport revenues neatly cover the impending debt hole; they create a substantial hill that needs to be navigated. >

No proper passport policy

This creates some liability of its own. Years after the first programme was instituted, the government of Vanuatu has yet to establish any clear policies around the process, its purpose, and who should be qualified to provide the service. Allegations are rife that connections matter more than qualifications when applying for agent status.

And the fact that agents can subcontract the due diligence process to third parties who are not subject to any scrutiny at all is worrying to say the least. The Daily Post has run a series of exposés on people peripherally involved in these activities, questioning why senior government figures continue to create the appearance of endorsing them, even after questions were raised.



The primary consideration seems to be the ability of the individual to drum up revenue and development assistance for the government, rather than the person’s professional or educational qualifications.

Semi-secret agents

One sub-agent, for example, claimed to have expertise and experience in nuclear energy, ‘novel inventions’, telecommunications, oil refinery operations, and humanitarian coordination activities for something called an ‘association of resurrection’. There is no evidence of any impropriety, but the question remains: are these the right people to represent Vanuatu to the global investment community?

Privately, business people and government officials are candid about the liabilities created by these programmes, and sceptical about their long-term viability.

DoFT officials have repeatedly

warned cabinet that these revenues cannot be leaned on. Nonetheless, a new spending dynamic has arisen. For three consecutive years, the government has indulged itself with increasingly large supplementary budgets. It has to be stated that the supplementary appropriations are by and large needful things, and have been spent through appropriate channels.

But the process surrounding supplementary spending is more ad hoc than the formal budget creation process, and it creates a dangerous dynamic, in which Finance officials are asked to adjudicate between competing spending proposals. This is clearly counter to Parliament’s mandate to set spending priorities.

So far, the decisions have been mostly reasonable, and the government has been sober in how it’s disposed of the windfall. It’s coming in so fast now that department quite literally cannot spend it fast enough. Finance officials have asked departments to spend what they’ve already been allocated before asking for anything more.

With solid cash reserves, strict limits on recurring spending, and—for now at least—a moratorium on new loans, it’s just not correct to use the phrase ‘debt-trap diplomacy’. Not in Vanuatu at least.

And perversely, it’s revenues from China that have made that possible. ■

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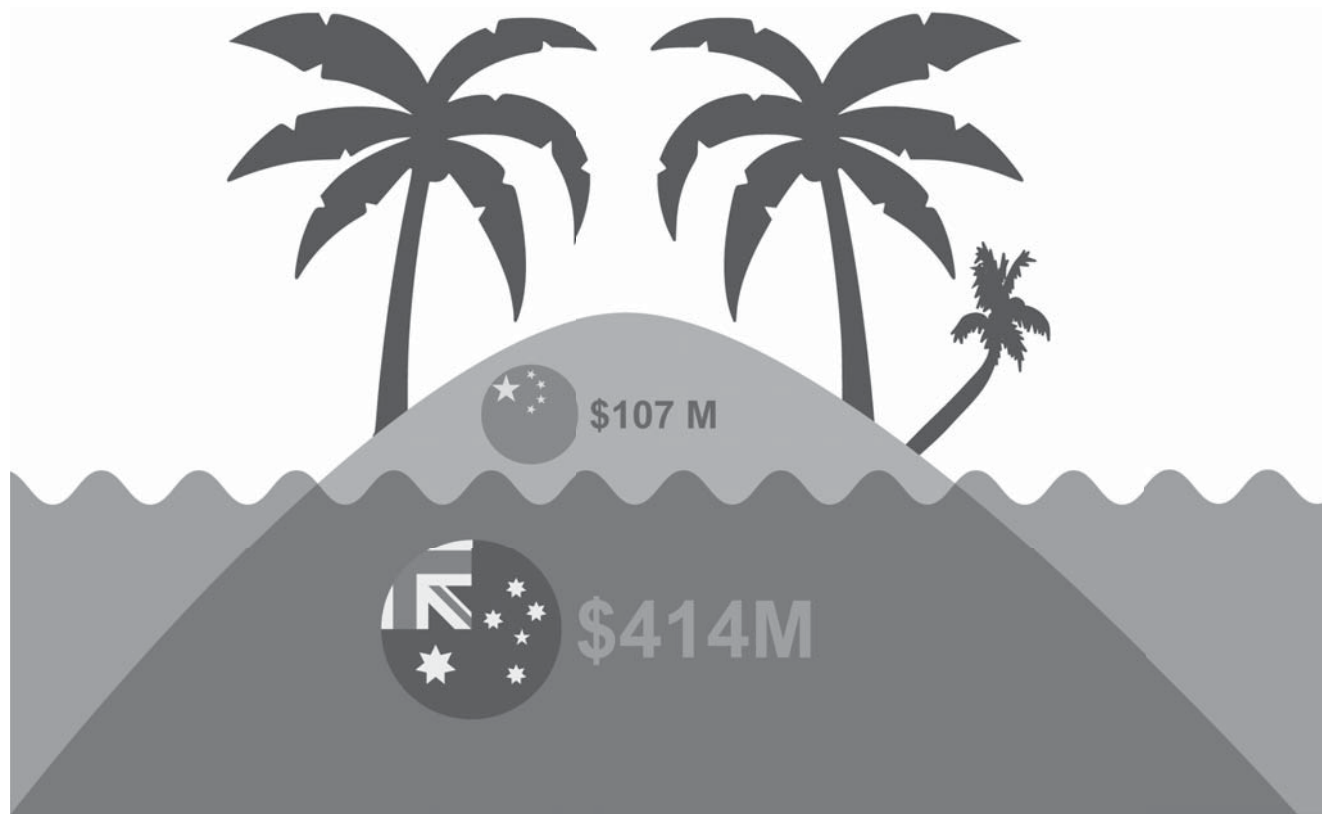
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# The Aid Island - a reality check



## The confusing debate about development leadership in the Pacific

**Australian officials have been criss-crossing the Pacific recently, underlining not only Australia's outsized contribution to development aid in the Pacific, but also the country's central geopolitical role, and that wonderfully intangible thing: Leadership.**

This whole space is fraught with misperception.

Last week's unveiling of the Lowy Institute's Pacific Aid Map went miles toward showing in clear terms just how dominant Australia is in terms of overall generosity. Optimistic promises notwithstanding, no other nation

even comes close.

But it would be unwise to expect a direct relation between influence and spending. How the money is spent matters, and why and how it matters is often not obvious.

### Smaller than they appear

When aid spending is concerned, the objects in the mirror may be smaller than they appear.

As the Lowy Institute's recently unveiled Pacific Aid Map demonstrates, the

Ask the average person on the street, and their assessment of the relative size of donor contributions will be based mostly on the evidence right in front of them. In Vanuatu today, that means the conversation will be almost all China, almost all the time. Between a few high-profile 'gifts' from the People's Republic and several high-profile private sector developments, people are confronted with tangible evidence of China's largesse.

What is less evident, but immensely impactful, is the role the Telecoms Regulator plays in requiring service providers to extend internet services to 98% of the population. Or the fact that Customs and Inland Revenue exceeded income expectations by more than 23% due to efficiency gains. Or, over the next couple of years, the ability for individuals and business owners to pay all of their government fees and taxes through a single window.

Telco revenues rose 15% in two years. Bandwidth usage increased by nearly two orders of magnitude over the same period. DFAT grants were hardly the only reason for these policy wins, but they were a key ingredient.

[Full disclosure: The Pacific Institute of Public Policy received \$164,285 from Australia's Governance for Growth programme two years prior to the author's employment there. The author also contracted briefly for another recipient agency, and

was paid indirectly from DFAT funds.]

Improvements in service delivery and assistance in skilling up key departments are one of the reasons Vanuatu is in such a healthy position vis à vis its public debt.

And even though we all benefit from these things, there's very little to see unless you know where to look.

DFAT does itself no favours in this. Their risk-aversion when it comes to publicity is legendary. Not entirely without reason, it must be said. In 2002, a tense armed standoff pitted paramilitaries against police in Port Vila when the Prime Minister was accused of being an Australian stooge.

But the perverse outcome of this institutional gun-shyness is that where Chinese-funded projects tend to roll out the red carpet for journalists, media are often made to feel like the enemy when approaching DFAT-funded projects for details.

And as a result of this, nostra culpa, the resulting press coverage is often direly boring.

And the result for the average citizen is Ni Vanuatu get more mileage, if you will, out of the nearly invisible spending—over \$414 million since 2011—than they do out of a conference centre they might see the inside of three or four times in a year. (That's not to denigrate the conference centre. Whatever its suitability to purpose, it's seeing fairly frequent use.)

Ask them which donor is more influential in their lives, and the answer is the one they walk past on the way to work, not the one that helped put Facebook on their phone.

### A Blessing and a Curse

Australia, China and others run the risk of competing to be the most visible tip of the aid island at the expense of the vast seamount necessary to hold that bit up.

As one Australian official stated recently, what's the point of having all these nice things if you don't have the means to keep them?

The formulation of development as a kind of branching-logic flow chart in which you decide between infrastructure or capacity building, loans or grants, China or Australia, Japan or the EU... that kind of thinking does everyone an immense disservice. It perverts the very purpose of development assistance.

Infrastructure is woefully lacking in the Pacific. Any development partner that doesn't want to help build things is not helping enough. And carping at others for doing it is not going to win friends.

But just as important: bootstrapping the means to support and sustain the commerce and social intercourse that access to travel, communications and government services entails. This is where Australia has always over-achieved. It is well-positioned to improve how it leverages this ability.

For an increasingly isolated Australia, whose weakening global alliances need to be shored up with a stronger individual presence in the Indo-Pacific, using development aid as an expression soft-power can be a blessing.

It can also be a curse. ➤

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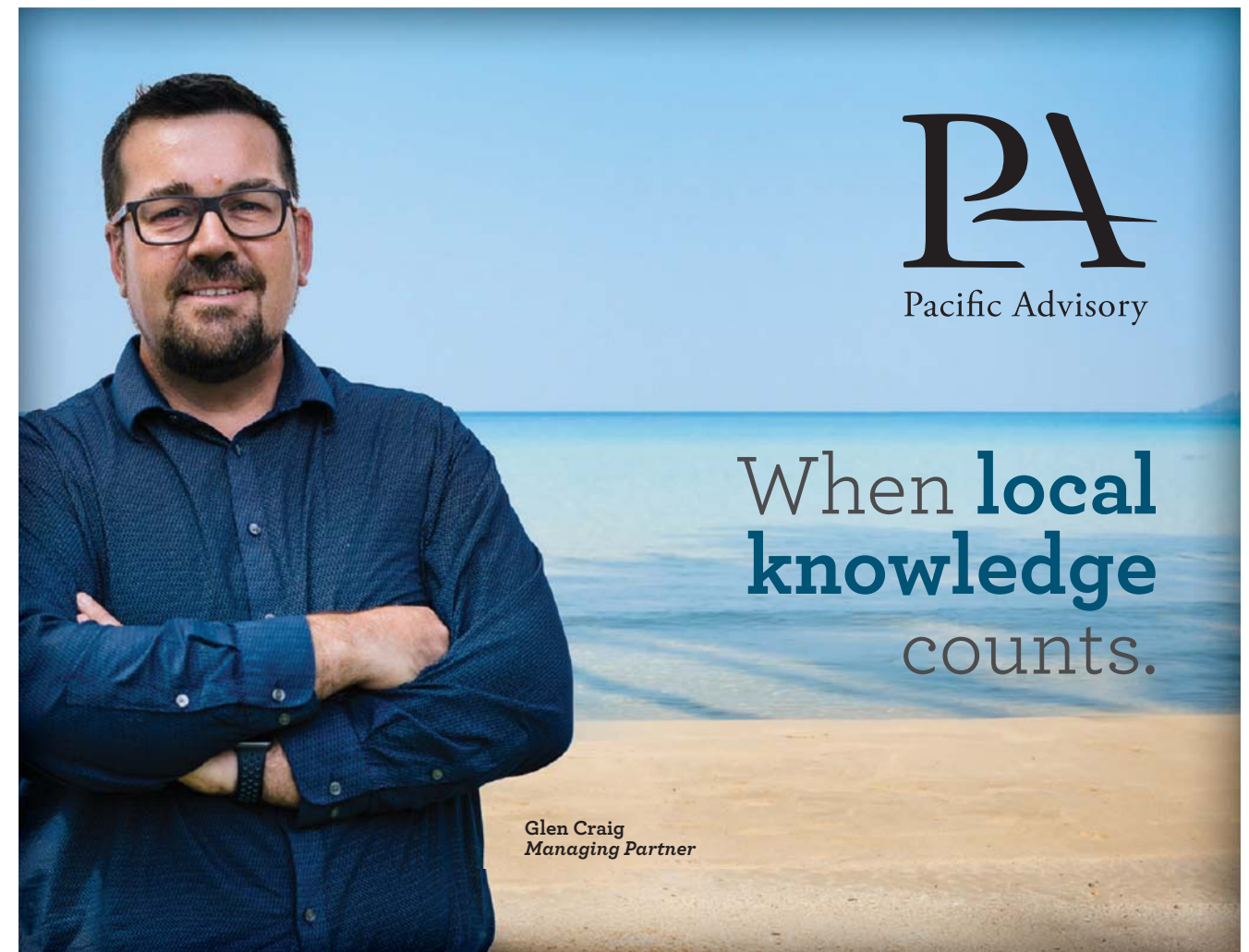
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First, it will have to curtail the overtly racist fringe within its own government, and find ways to increase spending in spite of prejudice against all but Europeans. The damage that this divisive rhetoric does internationally cannot be overstated.

### Strings attached—just admit it

Second, it will have to own its achievements, for better and for worse. The idea that development assistance has no strings attached is a tired lie, and breeds cynicism.

Yes, aid projects have no overt quid pro quo. They'd better not have.

But to assert hand on heart that the bilateral relationship between developed and developing countries doesn't come with a raft of obligations is folly. To pretend to deliver aid out of high-minded principle one day, then to hold it over a country the next is plain hypocritical. Better to make no bones about the situation from the start, and be consistent about it. Anything else is counter-productive. Avoiding this fundamental truth twists the power dynamic such that it outright requires duplicity and double-talk between development partners.

China is perfectly frank about which boxes must be ticked: One China. Silence or support concerning the South China Sea. Sign on to Belt and Road. Don't criticise how we run our country, and we won't tell you how to run yours.

When the Australian's Antony Klan triumphantly quoted a Vanuatu journalist who told him that the Chinese Ambassador had admitted that 'there's no free lunch', he neglected to say the statement was

made in the context of bilateral relations, not development projects.

It was a frank and honest appraisal of a healthy and respectful engagement between two nations. People are absolutely right to question the immense gaps in that relationship: Complacency,

inmate population, for example, have improved vastly in the wake of a 2009 exposé about human rights abuses in Vanuatu prisons. That is almost entirely due to quiet engagement by New Zealand, which understands the limits of punitive justice in a way that resonates with Pacific islanders.

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even comfort, in the face of official corruption. Lack of concern about environmental damage. Cavalier attitudes toward the cost of owning the things they build. The list is long before anyone even gets near any strategic concerns. Callous disregard for human rights and due process.

By the same token, Australia isn't always a poster child for a 'rules-based international order'. The rules seem only to apply when it suits them. Timorese officials can be forgiven for scoffing at the phrase. It's obviously meaningless to Nauru's leaders.

New Zealand's vastly smaller development engagement is more consistent in many regards, and less bound to reciprocity. But it's also nearly invisible on the ground. With the exception of one landmark urban beautification project, Ni Vanuatu would be hard pressed to name a single NZ-funded project. But the lives of our

It's not yet clear what shape its much-touted Pacific Reset will actually take, but the decision to give ex-High Commissioner to Vanuatu Georgina Roberts a major role in the process will play well with the local audience at the very least.

Nonetheless, too much coyness is unbecoming in any partner.

Any nation seeking to provide leadership in the Pacific would do well to take a page from the Chinese and treat their neighbours as valued peers. And they should rip the pretence off their own engagement. Pacific Islanders deserve to know what they're getting from this relationship—and they deserve to know what's expected of them.

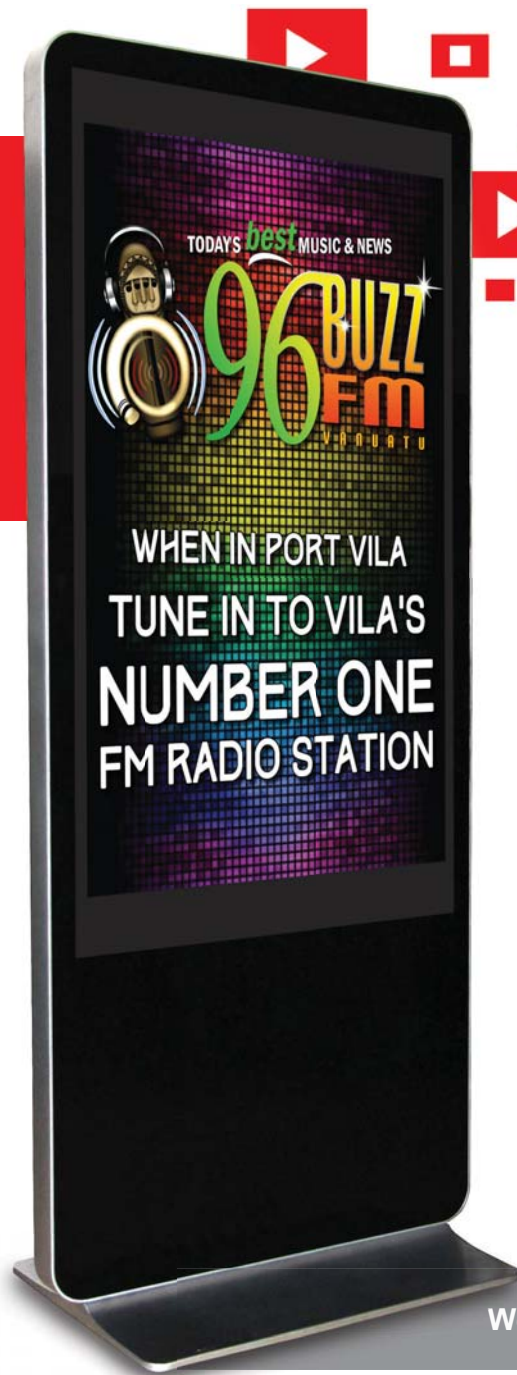
Once that's under way, it will be possible to justify more of the quiet interventions that help constitute the glue that holds the region's young democracies together. ■

Mathieu Laurent from Vanuatu Poultry is one of many small and medium sized businesses in Vanuatu seeing the benefits of using business services to help his business grow, increase profits and employ more people.

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**Business Link Pacific (BLP) works with business advisory service providers to deliver better quality and more affordable services to Vanuatu's Small and Medium Enterprises (SMEs). BLP supports these businesses because they are the drivers of local growth and job creation.**

SMEs play an increasingly important role in addressing development and social and economic challenges, accounting for more than half of all formal jobs worldwide.

Steve Knapp, BLP's Director said "SMEs are busy running their businesses and often do not know what local advisory services are available to help them. They also often lack the financial means to access the very services needed to help their business grow."

"Realizing the vast amount of local service provider experience, knowledge and skills that can be matched with businesses, we offer solutions to business services development. Vanuatu SMEs can benefit and access services from our partners via BLP's subsidy program," he said.

#### Local partnerships

BLP is a New Zealand Government funded, multi-country program started in 2017. It now operates in Vanuatu, Fiji, Samoa and Papua New Guinea. By working through local delivery partners in each country, BLP provides access to local and international business experts, technical specialists and mentors.

"Here in Vanuatu, BLP has partnered with the Vanuatu Chamber of Commerce and Industry (VCCI) to deliver our

innovative and sustainable approach to strengthen Vanuatu's business support networks", said Steve Knapp.

#### Unlocking potential

Business Link Pacific works on a B2B (business to business) model. Local service providers are supported to connect and supply business services that offer SMEs practical and affordable solutions.

BLP works with service providers in all segments of the service industry, including: business and financial accounting, business planning, recruitment and human resources, communication, marketing and e-commerce, IT systems, standards and certification advice, and export promotion and market linkages.

"SMEs can use these services and benefit by improving their business operations and profitability. Service providers also benefit as the demand for their business advisory services increases from an expanding SME sector and they are connected to new clients," he said.

#### Diagnostic and Referral Service

With VCCI, BLP operates a diagnostic and referral service for SMEs with Kesha Licht serving SMEs through the VCCI office. Kesha assesses the SMEs needs and then identifies and connects the SMEs to the best local service providers.

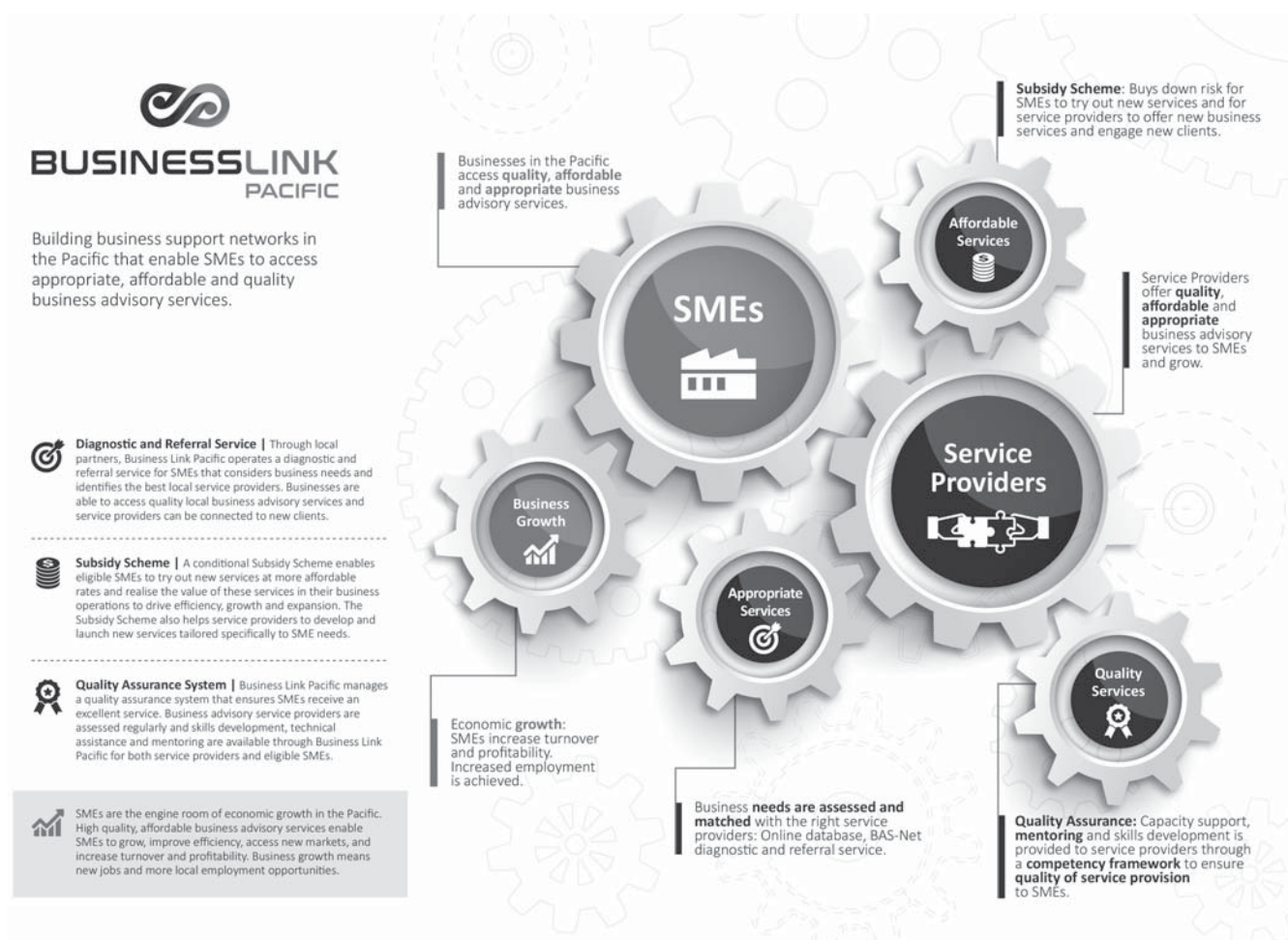
This service is currently accessed in person by the SMEs, but later in the year it will be available virtually



**"Currently our Vanuatu based business service providers include AJC, Barrett and Partners, vSolutions, James Kluck and Associates, Link Personnel Services, and Savvy Vanuatu"**

"Currently our Vanuatu based business service providers include AJC, Barrett and Partners, vSolutions, James Kluck and Associates, Link Personnel Services, and Savvy Vanuatu", said Steve Knapp.

through BLP's Business Advisory Service (BAS-Net) website. BAS-Net will serve as an online hub and business directory for SMEs to search and engage business service providers directly.



#### Subsidy Scheme

BLP also operates a conditional subsidy scheme to enable eligible SMEs to try out new services at more affordable rates. Businesses can then benefit from the value of these services to drive their efficiency, growth and expansion plans. The subsidy scheme also helps service providers to develop and launch new services, all of which are tailored specifically to the needs of local SMEs.

#### Quality Assurance System

Making sure SMEs are receiving an excellent service is a key outcome

via BLP's quality assurance system. Business advisory service providers are assessed regularly while skills development, technical assistance and mentoring are made available. This support is for both service providers and SMEs.

#### Learn more about Business Link Pacific

If you are one of Vanuatu's SMEs and you want to access business advisory services, please get in touch with Kesha Licht at VCCI at [business@vcci.com.vu](mailto:business@vcci.com.vu) or call 27543 Ext 19 or call mobile 555 5347.

If you are a Vanuatu based business advisory service provider who is keen to expand your offer, service or trial new services with new or existing clients, get in touch with us. ■

*Business Link Pacific can be reached through the New Zealand Ministry of Foreign Affairs and Trade in Auckland at [info@businesslinkpacific.com](mailto:info@businesslinkpacific.com) or call +64 21 209 3578.*





## NBV LAUNCHES NEW CURRENCY EXCHANGE AGENCY IN LUGANVILLE

“This additional service offered by the National Bank of Vanuatu will certainly help the Mamas, the transport owners and public at large in both rural and urban area of the province” addresses the Lord Mayor of Luganville town, Mr Onen Gaviga during the recent launching of NBV’s new Foreign Exchange Agency at Niscol Wharf in Luganville, Santo.

The opening of the new Foreign Exchange Agency in Luganville adds another milestone to NBV’s service expansion around the country. It is a third foreign exchange services within NBV network. NBV’s Area Manager North, Mr Lester Lulu adds, “This extra service will contribute to the development of tourism industry in the northern town, where tourist will exchange dollars for vatu when they disembark and be able to buy local handicrafts from the Mamas market and use services of the local tour operators in Santo”

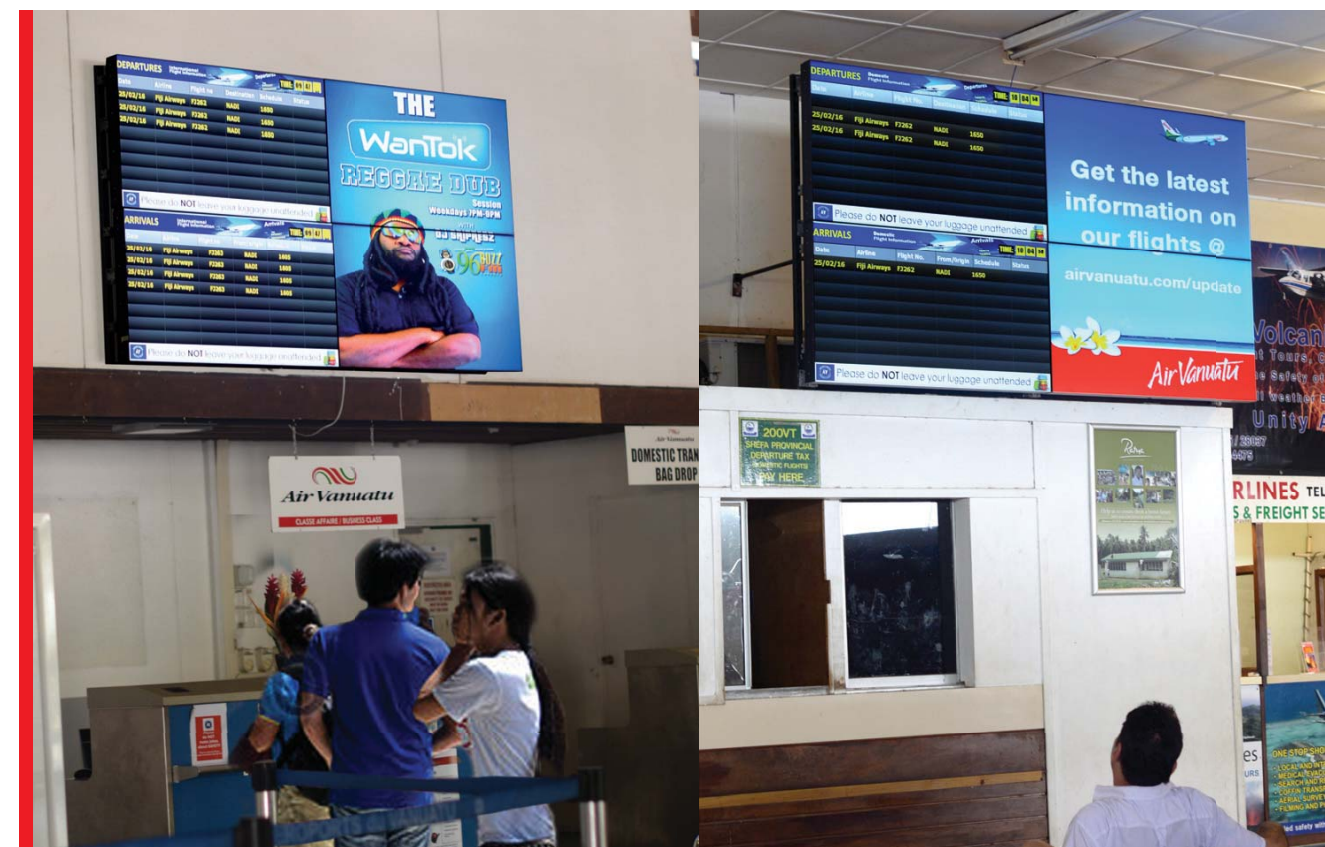
The new agency was officially launched by the Lord Mayor of Luganville town, Mr Onen Gaviga. Invited guests included; Acting SG for Sanma Province, Mr Prosper Buletare, representative from South Sea Shipping, Mr Tony Dennis, Captain Terry Ngwele, from Ports & Marine, Mr Nicholas Gordon from Customs, Pastor Jonathan Moses and NBV representatives from Luganville and Port Vila Branch.

National Bank of Vanuatu operates the largest branch network in Vanuatu through its main branches in Port Vila, Santo, Tanna, Malekula with representation of smaller branches in Aneityum, Erromango, Shepherds, Epi, Paama, Ambrym, Pentecost, Ambae, Maewo, Vanua Lava, Gaua and Mota Lava. This expansion is further complimented with 17 ATMS, online banking, mobile banking, microfinance literacy programs and 300+ community banking service centres delivered by local staff around the country



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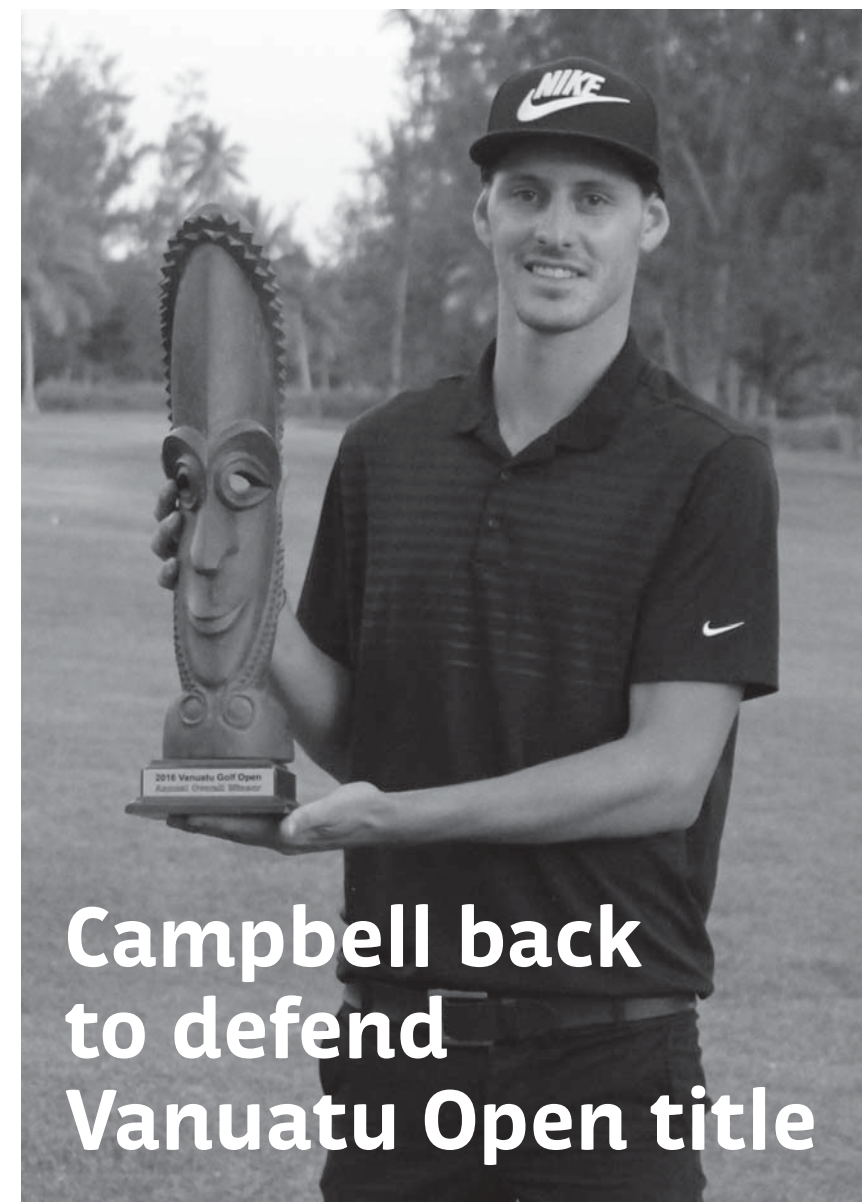


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## Campbell back to defend Vanuatu Open title

**Andrew Campbell will return to Port Vila Country Club to defend his Vanuatu Open title.**

Professionals from Australia, New Zealand, England, Fiji and New Caledonia will tee it up looking to take home the lion share of the AU\$50,000 in prize money.

Campbell's victory last year was not only the biggest of his career but would help him finish 11th on the 2017 Ladbrokes Pro-Am Series Order of Merit and secure playing rights on the 2018 ISPS HANDA PGA Tour of Australasia.

This year Campbell will need to be at his best to hold off a talented cast of professionals. Leading those is former US PGA Tour winner Andre Stolz who is back playing after some time off with injury and the 2018 SP PNG Open Champion, Daniel Gale who will make his way to Vanuatu for the first time and hopes to bring the same form he did to Papua New Guinea.

"I started the season with no status and now to have a Tour win under my belt I still can't believe it. I'm looking forward to playing

in Vanuatu for the first time and I hope to bring the same form I did to PNG," Said Gale.

Gale not only won the SP PNG Open but the Morobe Open a week earlier as well, his winning scores of 22-under and 23-under respectively is a good indication of his talent and if he can produce something similar in Vanuatu, it'll be quite a show.

NSW/ACT PGA Tournament Coordinator, Peter Welden praised the work of the organising committee and outlined the importance of the event.

"The South Pacific events are an integral part of the Ladbrokes Pro-Am Series. The Vanuatu Open attracts more players than any other South Pacific event," said Welden.

"There's a relaxed atmosphere about the event which in turn has seen many friendships between the professionals and amateurs grow over the years. Bryan Death does an amazing job coordinating the event and it's extremely popular for both amateur and professional competitors."

The 2018 Vanuatu Open will commence on Thursday 23 August with the winner being crowned on Sunday afternoon. ■







# State of the nation



A new information resource from Australia's Lowy Institute is opening eyes—and minds—about development aid in the Pacific. Given its outsize role in Vanuatu, it's useful and important for businesspeople to understand who's buying what, when and from whom.

Lowy is quick to admit that the database is incomplete. It would be unwise to assume that what's in the database is all that's there. But it does allow people to get a better view of how aid is spent in Vanuatu than they've ever had before.

Not surprisingly, given the source,

the data reflects well on Australia. It shows a vast number of projects across numerous sectors. Because the majority are in 'soft' areas such as governance and service delivery, it's difficult for people to discern their impact. Sadly, that is beyond the Lowy database's remit.

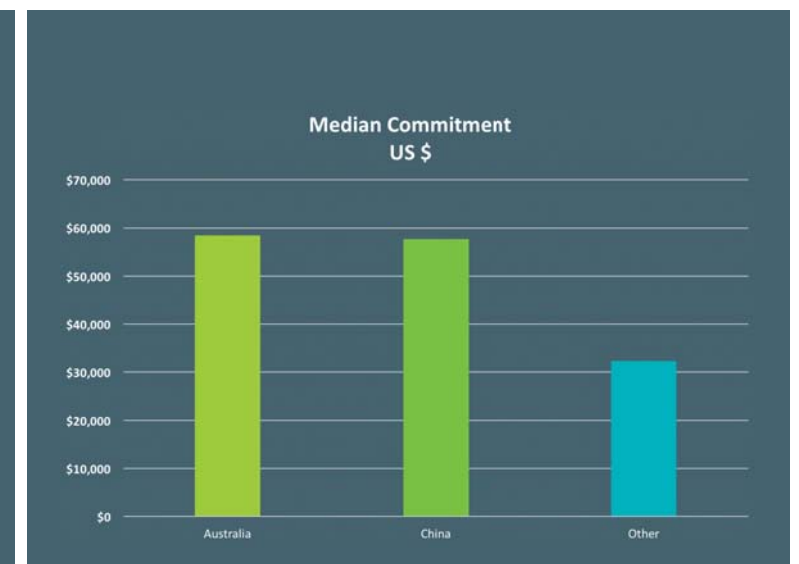
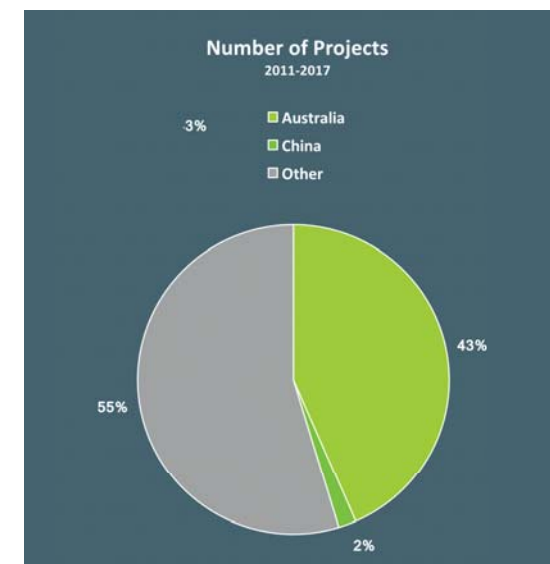
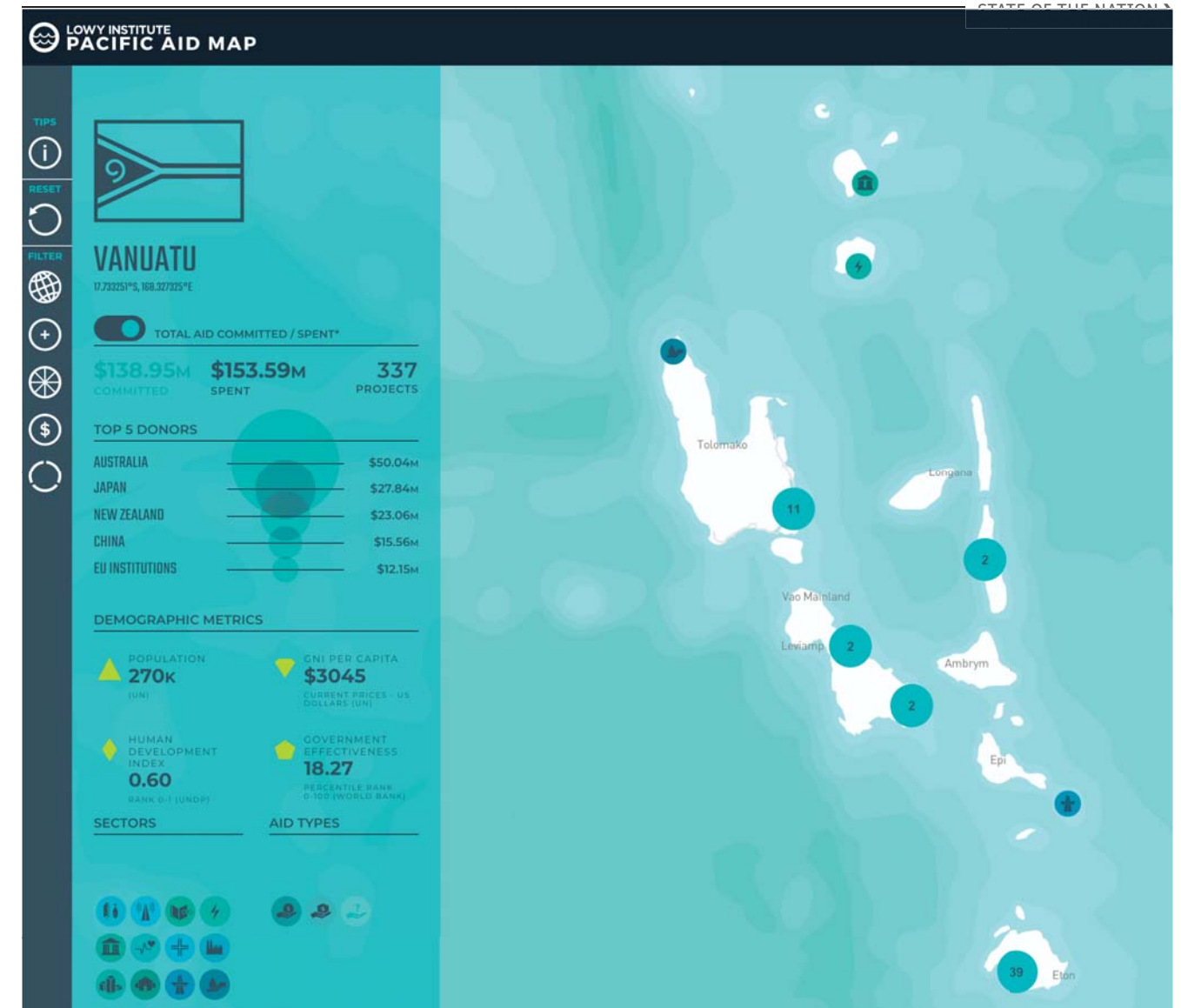
What does become clear, however, is that Australia looms much larger in terms of the depth and breadth of its engagement. While China may pride itself on the political bang for the buck they get with their high-level political engagement, Australia is everywhere.

This needs to be seen, however, in

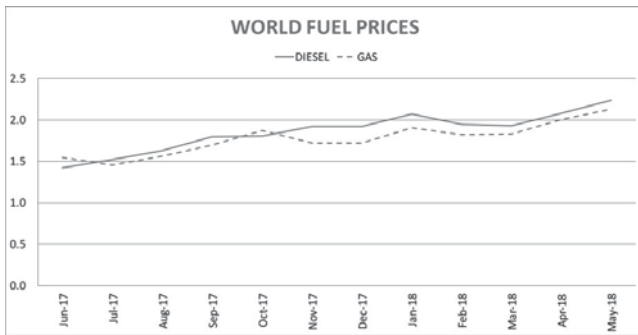
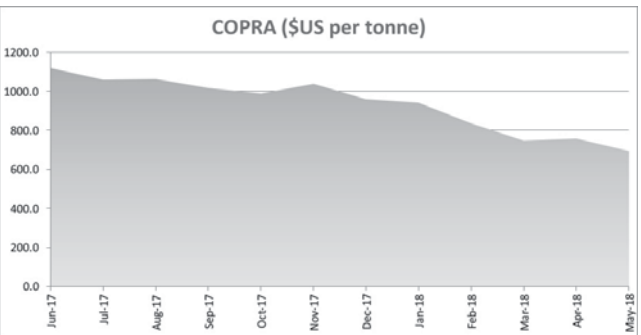
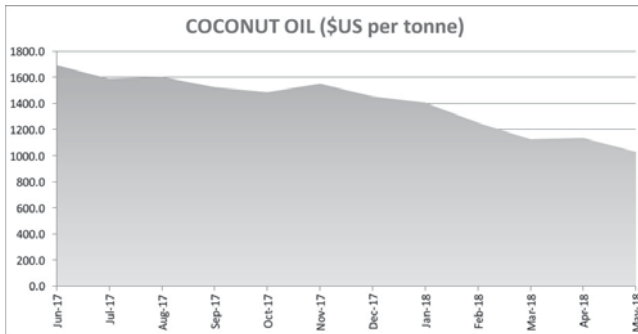
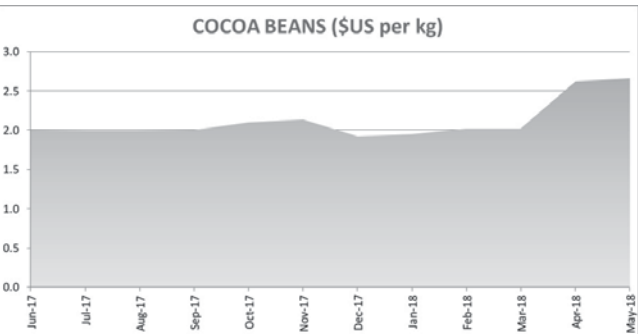
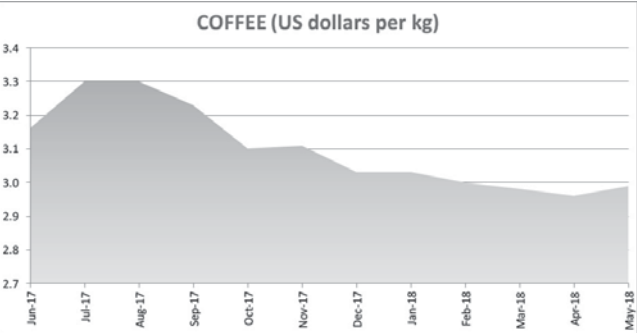
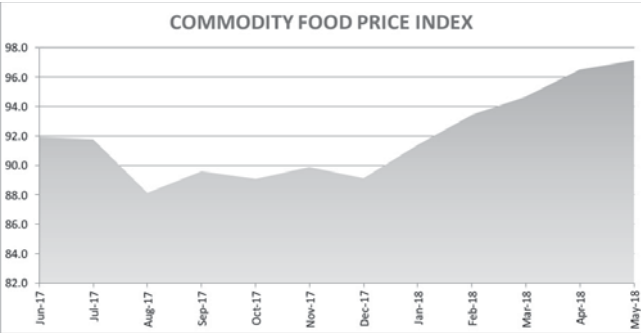
light of an overall effective decrease in aid. While spending in the Pacific has been ring-fenced and protected from recent massive budget cuts, it hasn't been raised in line with inflation. The result is a slow but general decline.

That is almost certain to change in the next budget, regardless of which party introduces it.

Whether that translates into the kind of soft power win that Canberra is increasingly interested in remains to be seen. But with tools like this, we can at least begin to tease out the implications of development aid in the Pacific. ■



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