

FINANCIAL CENTRE ASSOCIATION OF VANUATU

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BOB LOUGHMAN WEIBOR – HON. PRIME MINISTER OF THE REPUBLIC OF VANUATU

ALATOI ISHMAEL KALSAKAU – HON. DEPUTY PRIME MINISTER AND MINISTER RESPONSIBLE FOR INTERNAL AFFAIRS

MARC ATI – HON. MINISTER RESPONSIBLE FOR FOREIGN AFFAIRS, INTERNAL COOPERATION AND EXTERNAL TRADE

JOHNNY KOANAPO RASO – HON. MINISTER RESPONSIBLE FINANCE AND ECONOMIC MANAGEMENT

With the Vanuatu economy threatened by the global response to the pandemic crisis, the time for bold thinking and decisive action to support our financial sector is now.

Dear Hon. Ministers,

During normal times, Vanuatu's financial sector contributes around 10% to the nation's economic output. With our tourism and hospitality industries now decimated by international travel restrictions, development of our financial sector and foreign direct investment has never been so important to ensure the ongoing health of our economy and the well-being of our people.

So far Vanuatu has been lucky to have been spared COVID-19, but with hotels and resorts closing, approximately half of our country's economic activity has vanished overnight, along with the influx of foreign currencies we need to procure essential medicine, equipment and materials.

The pandemic crisis has no end in sight. Most services in Vanuatu will end up being severely impacted. While most countries have yet to reach peak contagion, many struggle with economic shutdowns, the negative fallout of which is already being reported by our members in banking, insurance, brokerage, accounting, law, consulting, real estate and other professional services. (The Vanuatu Financial Centre, www.fca.vu)

In our view the COVID 19 crisis has only exacerbated an issue that has long threatened Vanuatu – its overreliance on tourism and handicraft in the face of a globalized economy. This time it's a virus; but Vanuatu's defenses against external pressures were already weak before the ripple effects of COVID 19 hit our shores, and will remain so once the current crisis has passed.

As with any sound investment strategy, we believe further diversification will become Vanuatu's key barrier against risk.

Now that the spigot has been shut on tourism in Vanuatu for the foreseeable future, foreign currencies will have to come from other sources. Our International Finance Centre will help cushion the blow to our economy by continuing to pursue and attract overseas business. Professional service firms (accountants, lawyers, insurance) that facilitate the formation and the maintenance of International Companies(IC) and Financial Dealer License (FDL) registrations are creating wealth and employment for the nation. The IC and FDL sectors are bringing transactional activity and foreign currencies into our local banks and much welcome revenue to our Government via VFSC fees.

The Finance Centre industry could bring precious diversification to Vanuatu's economy in the near and long term, helping to support many local jobs in small and medium businesses.

Beneath the current crisis lies an opportunity to strengthen our International Finance Centre, building our nation's economic resiliency for today and for the future. The Centre has been around for about half a century and needs to be updated to not only mitigate the impacts of the current crisis but to help diversify Foreign Direct Investment (FDI) in Vanuatu. Every small increase in FDI through our member companies has an exponential impact on our country's economy; through supporting infrastructure and development projects, creating well-paid jobs and fostering education and advanced skills training.

Our proposal: we suggest **a task force be created** to devise a strategic plan to grow our International Finance Centre while ensuring full compliance with international expectations, as modeled by other nations such as Singapore, Liechtenstein, Luxemburg, Bermuda, Cayman Islands, British Virgin Islands, Jersey and Guernsey.

The task force would seek avenues to leverage our existing assets in a strategic way and grow the FCA member base to generate more business overseas, more jobs locally, and more sustainable wealth for our community.

The task force's strategy could encompass a variety of accommodative measures for FCA members such as the following (these examples are for indicative purposes only):

- Cancel the 5% tax on VAT-exempt exported services, as was recently proposed by some members of the Government;
- Amend the International Company Act to allow IC's to rent offices and employ both local and foreign workers in Vanuatu
- Waive VIPA application requirements for IC or local companies that do not sell products and services to Vanuatu residents (VIPA involvement should only apply to enterprises seeking to access the local market, not to companies based in Vanuatu that export 100% of their products or services)
- Require all IC's to lodge yearly financial reports to the VFSC and to submit them to an audit upon request within a 6-month period under penalty of deregistration, in order to show the rest of the world our good faith and vigour in the pursuit of transparency and compliance.

Again, Vanuatu is very lucky to have been spared the virus itself, but its current impact demonstrates beyond any doubt that the time for bold, innovative thinking about how we develop our financial sector is

now, even as our industry navigates the many constraints on our small nation imposed by the world's financial community.

We could address the OCDE/EU/FATF remarks and requirements while modernizing our International Finance Centre, offering to align ourselves to the current world best practice. This is very achievable with the support of the Government of Vanuatu.

If we all come together –VFSC, RBV, VCA, FIU, the financial services industry, the bank, the legal community, accountants, insurers, etc.– we can build a deeper, lasting economic resiliency for Vanuatu in the face of this crisis and any that come our way in the future.

Yours faithfully,



Martin St Hilaire

Chairman

Port Vila, Vanuatu, 23 April 2020

