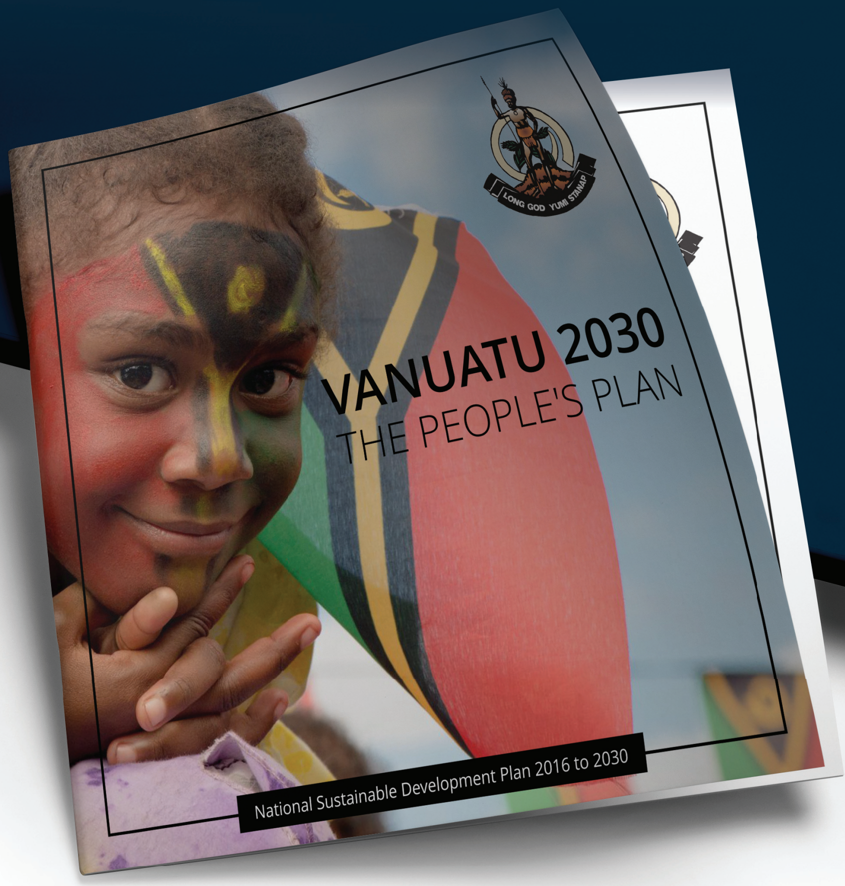
WORKING TOGETHER:

A ROAD TO PARTNERSHIP FOR THE GOVERNMENT OF VANUATU AND VCCI

DECEMBER 2020



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Purpose:

The purpose of this paper is to present to the Government of Vanuatu the concept of a new way of working with VCCI. This paper looks back at 2020, notes the challenges which the country has faced, and how it has coped. It then looks forward to 2021, proposing how we transform the way in which the public and private sectors work together for the benefit of the whole country. This vision focuses on the big picture, whilst acknowledging the complexity and difficulties of the current situation.

Vision:

A genuine transformation in how the public sector (being the Vanuatu Government and its subsidiaries) and private sector (being registered businesses, NGOs, CSOs and churches) work together, to support the short-term stability and long-term development of Vanuatu.

Aims:

We suggest the following shared aims:

1. Vanuatu remains COVID-19 free
2. The economic disruption - both short and long-term - caused by COVID-19 is minimised as far as possible, in a sustainable manner
3. Vanuatu remains ready to cope with any other natural disasters
4. The public and private sector begin to genuinely work together to support the long-term implementation of the National Sustainable Development Plan, and the National Human Resources Development Plan

Summary of 2020

2020 has been a year of immense challenges for Vanuatu. It has faced not one but two disasters – the global crisis caused by COVID-19, with major economic implications for Vanuatu; and the devastation caused by Category 5 Tropical Cyclone Harold. Either one of these disasters alone would have made 2020 one of the most challenging years in Vanuatu's history. A variety of other events, including ashfall on Tanna, the continued displacement of many from the volcanic eruption on Ambae, and climate change affecting the weather cycles, have only compounded the principal challenges -- making 2020 the most challenging year in memory.

Challenges faced by Government

The Government, being responsible for disaster management, response, and recovery, has faced a near overwhelming amount of work as a result of the twin disasters, placing huge pressure and responsibility on some key Government employees. For example, the National Disaster Management Office only has 12 full-time staff and has only ever had to deal with natural disasters. This year it has also been tasked with keeping COVID away from our shores. Similarly, the Ministry of Health has had to take the leading role in the responses to both COVID-19 and TC Harold, on top of their usual day-to-day work of providing health services to the people of Vanuatu, and trying to reform many aspects of healthcare delivery. Similar issues arise within all the front-line Government agencies.

This situation has been made worse by the fact that our borders have been closed, which has meant that the Government has been unable to utilise international support to the fullest extent. On top of this, the fact that the whole world has been thrown into disarray as a result of COVID-19 has meant that the usual aid which one could expect following a Category 5 cyclone did not materialise. Pacific partners could not mobilize, for example, FRANZ and their large vessels and helicopters. With borders closed regular servicing could not occur for companies such as Vanuatu Helicopters, leading to their two helicopters being grounded at the start of June.

Challenges faced by the Private Sector

The Private Sector has also faced an incredibly difficult year. Whilst the primary challenge for the Government has been to deal with a huge amount of critical responsibility, for the private sector the predominant issue has been a reduction in turnover and opportunity. It was absolutely the correct and necessary decision to close the borders. But this had huge economic impacts.

As tourism ceased many hotels and businesses became immediately unprofitable, leading to them either closing temporarily, or operating at vastly reduced staffing levels. Thousands of employees lost their jobs during the April to June quarter, with many others having their hours drastically reduced. Many other sectors who also depended directly on tourism to a lesser degree also suffered. For example handicraft vendors reported a fall in income of 80%.

The knock-on effects means that local people are now spending less of their money in local businesses, who in turn see reduced income. On top of this, business confidence, business-to-business spending, and investment have all suffered. Simply put the whole business sector has been impacted to some degree. In the September VCCI survey of 203 businesses, the average fall in revenue for June-August was 50% compared to the year before, or 40% when hospitality businesses were excluded. A striking example is Stret Price, whose revenue was down 38% in September 2020 versus September 2019. Stret Price, amongst many other businesses, also reported a large fall in income on Government pay-days, despite the fact that these customers still have the same wages as before. This is likely due to the need of the community support network, whereby Government/public sector employees are supporting increasingly large numbers of family or community members with basic necessities, thereby leaving them with lower disposable income to spend on themselves.

One source of data has been provided by an accountant, which looks after 42 SMEs. Their year-on-year revenue figures are provided below

	June	July	August	September	October	Total
Real Estate	-34%	-38%	-26%	-47%	-45%	**-39%**
Other Services	-17%	11%	-3%	-27%	-27%	**-16%**
Primary Sector	-8%	-25%	-15%	-22%	-34%	**-21%**
Accommodation/Restaurants	-82%	-87%	-93%	-92%	-89%	**-89%**
Construction	-34%	-64%	-70%	-77%	-81%	**-65%**
Retail/Wholesale	-9%	-35%	-19%	-26%	-18%	**-22%**
Transport	-13%	-31%	-35%	0%	0%	**-18%**
Motorvehicles - sale and repair				-29%	5%	**-14%**
Finance & Insurance	-5%	-17%	-8%	-5%	-22%	**-12%**
Information/Communication	-60%	-78%	32%	2%	-10%	**-62%**
Overall	**-26%**	**-43%**	**-39%**	**-30%**	**-31%**	**-34%**

The fall in demand has also of course heavily impacted the informal sector. Bus drivers in Port Vila report that their income is 40-50% lower, whilst in Tanna the Tafea Land Transport Association has reported even larger losses to income. The quantity of kava drunk in Port Vila is nearly a half of what it was before COVID-19, whilst the price for kava has fallen by 30%, which means far less money is flowing back to the islands. Demand by locals for fruit and vegetables has also fallen, as more people turn to their own gardens. This further compounds the economic impact for these vendors, also suffering from the loss of demand from hotels, resorts and restaurants. For businesses in Santo and Pentecost, they have also had to deal with the devastating impact of TC Harold. The economic and welfare issues for the people have been severe.

In order to survive, businesses have primarily cut costs, or utilised personal savings. For most small to medium sized businesses (10-50 employees) a high proportion of owners and managers have taken little or no wages at all. Many have utilised their own personal savings to keep their business open (47% according to the VCCI September Survey). In summary, the economic implications of COVID-19 have been felt across the country, and, with the borders still closed and the threat of COVID still present, there is a high possibility that the economic impacts will only worsen.

Overall summary

The challenges detailed above have been immense for the country. Dealing with a Category 5 Cyclone and complete border closures in the same year would have been unimaginable 12 months ago. ***Despite this, Vanuatu as a nation can be proud that it has so far stood up to these challenges remarkably well, and with every part of society having contributed to this – the Government, the private sector, donors, NGOs, and most importantly the people of Vanuatu.***

The major success in 2020 has been that Vanuatu has remained free from COVID-19. When a case was reported, the systems put in place by the Government worked perfectly to ensure that the person was identified, isolated, and risks managed accordingly. This is a simply remarkable achievement for the nation, and something which should be acknowledged and celebrated. This is especially true in light of the fact that the country has repatriated thousands of ni-Vanuatu citizens from overseas, developing robust systems to ensure that this is done in a safe manner.

On the economic side, despite the drastic fall in revenue, many businesses are still operating, with key staff employed, and having adapted to the new COVID-19 world. ***This has been helped by*** *unprecedented support from the Government to the private sector – for example the Employment Stabilisation Programme. The social fabric of Vanuatu has held up strongly, with the community system ensuring that support has continued to be provided to the most vulnerable, including the newly unemployed.*

The country has adapted to the borders being closed and has developed innovative ways to cope. For example, the Ministry of Agriculture's response to food shortages after TC Harold included transporting root crops from unaffected areas to high priority areas. Another example is the Oxfam Cash Transfer programme, which is still in the process of distributing hundreds of millions of Vatu to some of the most vulnerable people in Santo, Tanna, and Efate. Both of these new initiatives were developed by substantially under-staffed teams.

Outlook for 2021

The overall outlook for 2021 is highly uncertain, in particular the economic outlook. This is because there are two great unknowns – whether Vanuatu will remain COVID-19 free, and at what point the borders with our major trading partners will be able to reopen for the movement of people between our closest neighbours (New Caledonia, New Zealand and Australia). If COVID-19 does spread to Vanuatu it will be socially and economically disastrous. On the other hand, if the borders are unable to reopen for the entirety of 2021, then there is a heightened risk of economic disaster.

Potential Challenge 1 – Widespread COVID-19 Outbreak

Vanuatu has spent the past nine months preparing for the possibility of a COVID-19 outbreak. There are now dedicated isolation wards in the two main referral hospitals (Vila Central Hospital in Port Vila and Northern Provincial Hospital in Luganville), and numerous protocols and systems in place.

Despite this, overall, the country is still poorly equipped to deal with a widespread outbreak, with limited intensive care capacity, a generally underdeveloped health care system, a weak surveillance system, and a general low-level understanding of COVID-19 amongst the population and healthcare workers. Demographic factors include a very youthful population, which should lessen the impact, but there is also a very high incidence of non-communicable diseases, which increases the risk profile of the nation. In addition to the direct losses of human lives, a widespread outbreak would have numerous other negative outcomes. These include, but are not limited to, severe disruptions of essential services, severe disruption to schooling, reduced access to healthcare services for other needs, increased financial strain, increased social issues at home, increased mental health issues, increasing pressure on the community support network, increased nutritional issues, and potential social disorder.

The economic impact would also be incredibly severe, with lockdowns resulting in falls in demand for goods and services, closing businesses, and damaging to the economy.

This paper agrees and reaffirms that the first priority for the Government and the country should be to remain COVID-19 free. After that, support to the economy, in a manner which benefits both the short and long-term, should be a critical second priority for Vanuatu.

Potential Challenge 2 – Borders are unable to reopen

Due to a range of factors, no-one can say with any degree of confidence when or how the borders will reopen. There are a number of factors though which point towards the possibility of some travel corridors opening towards the middle of 2021 – particularly with New Caledonia, and also Australia and New Zealand. If these countries can become COVID-free then the TamTam bubble becomes an increasingly realistic option. This is supported by successful vaccine developments, with the UK recently becoming the first country to roll out vaccines to the general population, although the vaccine is highly unlikely to be able to play a significant role in allowing Vanuatu to reopen in 2021. Furthermore, the Ministry of Health has led on developing the National Health Sector Response and Preparedness Plan, developing a quality testing regime, and establishing the National Immunisation Coordination Committee. If the borders were able to reopen, this would undoubtedly provide a large boost to the economy.

If however the borders remain closed for all of 2021, the economic implications cannot be ignored. This is a highly plausible scenario, which is out of Vanuatu's control. Given this possible reality, Vanuatu must develop a strategy to deal with the implications.

Many businesses in the private sector have remained hopeful that borders will re-open soon, providing them with the confidence to continue operating. If borders continue to remain shut many businesses will need to make tough decisions to manage ongoing revenue losses.

In the December 2020 VCCI Survey, the average fall in revenue was 48% for October 2020 compared to October 2019. With regards to current jobs, 30% of businesses said that they will need to make staff redundant in the near future, with a further 41% considering this. After the initial large number of job losses in March/April, there have been successive losses in subsequent months – for example survey respondents had 9% fewer full-time employees in October to that at the start of September. This highlights the continued pressure on the economy: not a single shock, but instead a gradual decline in demand which is the most fundamental concern we as a nation face.

Furthermore, the Financial Services sector has so far been able to offer leniency to its clients, with all major banks introducing interest-only re-payments, or a re-payment grace period for suitable clients. These arrangements have been critical to many businesses being able to continue to operate. However, a large number of these support mechanisms are currently due to end shortly. With businesses unable to service their loans many will be forced into bankruptcy, causing business closures and job losses. This would leave the banks with a large number of assets of declining value, which would place pressure on their balance sheets. This situation would also Government finances, with less businesses operating there is less VAT returns able to be collected from the private sector.

The economy has also been strongly supported by the Government, which has provided a large amount of fiscal relief to the private sector in 2020, thereby helping to significantly lessen the economic impacts of the COVID-19 crisis on businesses. Many of these mechanisms were particularly well designed due to the direct support they provided, putting substantial quantities of money directly into businesses for staff salary support. These include:

- The Employment Stabilisation Programme, SME Grant, and the School Subsidy programme
- Repatriation activities providing a boost to hotels and guest houses, providing them with a much-needed source of income. This alone has assisted in providing jobs, boosting income and supporting skills development
- The fiscal boosts from response and recovery activities in connection with TC Harold, as well as events such as Yumi40 provided trade and income to many businesses
- The VNPF pay-out put over VUV 2 billion back into the local economy

For 2021, the Government has announced two key stimuli. The first is up to VUV 17.8bn of spending on infrastructure, and the second is the VUV 2.7bn loan scheme. The infrastructure spending is an excellent initiative. The VCCI supports the Government's approach and is willing to offer support to accelerate the process, and to ensure that the projects benefit the people of Vanuatu as much as possible.

In regards to the VUV 2.7bn loan scheme VCCI has undertaken consultation with both the banking sector and business sector to gauge their support for the initiative. Feedback can be found in Annex 1.

Overall, there are many causes for concern in regards to the economy for 2021, even if the borders do open at some point in the second half of the year. ***The fact remains that a high proportion of businesses are not secure, and that it is critical that support is provided to businesses now. Support will help them to maintain staff, stabilise confidence, and support the long-term development of the nation. This will put the country in the best place to deal with whatever happens.***

Potential Challenge 3 – A large Natural Disaster

Vanuatu is ranked as the most disaster-risk prone country in the world. The question for Vanuatu is not so much whether Vanuatu will have a disaster in any given year, it is more a question of how many and how bad the disaster(s) will be. Therefore, in thinking about the outlook for 2021, the country must be ready for more disasters. This inherent vulnerability to natural disasters makes it even more imperative that the risks of the other two potential disasters – further economic downturn and a COVID-19 outbreak – are minimised as much as possible. At the time of writing, there is a possibility of a severe cyclone hitting Vanuatu in the week commencing 14th December, which highlights this risk.

Where do we go from here?

Vanuatu has coped remarkably well with the challenges of 2020. The worst is not over however, with the prospect of a COVID-19 outbreak, further economic pain, and further natural disasters all distinct possibilities. Given this heightened risk environment, the Government and private sector must work together to reduce the risk, in order to put Vanuatu in the best position to get through 2021, and to lay the strongest possible foundations for long-term development.

Shared Commitments to work on together for the good of the nation

This document suggests a number of areas where the private sector and Government should agree to strengthen collaboration. These are all broad and high-level suggestions of co-ordination, but each of them is of huge importance to the long-term development of Vanuatu. The areas are Agriculture, Infrastructure, Education and Skills, and Climate Change.

Commitment 1 – Public Private collaboration and investment in the Primary Sector

Links to the NSDP: ENV 1.1, ENV 1.3, ENV 1.4, ENV 1.5, ECO 1.1, ECO 1.2, ECO 1.4, ECO 1.7, ECO 3.1, ECO 3.3, ECO 3.4, ECO 4.2, ECO 4.5, ECO 4.9

Vanuatu is at its heart a rural nation, with a strong tradition steeped in ties to agriculture. Roughly 75% of the nation is engaged in agriculture to some degree, with many people still inhabiting the same land that their ancestors have lived on for generations. Despite this the size of the primary sector in relation to GDP contribution is relatively small, making up only 20% of GDP. On top of this, Vanuatu is a highly food insecure nation that relies on importation of food items - in 2018, over 20,000 tonnes of rice were imported,[1] with food imports being equivalent to roughly 70% of Vanuatu's energy needs.[2] Much of this imported food is of low quality, causing numerous cases of NCDs around the country, and contributing to the country's trade deficit.

There is therefore an overwhelming economic and social case to be made that the Government's current path of increased support to the primary sector is the right thing to do, albeit in tandem with support to

[1] Own calculations based on Department of Customs and Inland Revenue Data
[2] Own calculations based on Department of Customs and Inland Revenue Data

the rest of the economy. The private sector must be clear in accepting and promoting this logic, and should be more vocal in saying so.

Far too often the private sector focusses on the details, highlighting concerns with specific proposals, and fails to acknowledge the bigger picture. That said, many of the concerns the private sector raise are also valid. The fundamental truth is that developing agriculture in Vanuatu is exceptionally difficult – the nation is a tiny archipelago in the middle of the Pacific Ocean with very high input costs, poor infrastructure, and limited access to technology, trying to compete against countries that can do it cheaper and easier. By far the best chance of success for the primary sector is if the Government and private sector work together to unlock its potential.

One particularly striking example of this is the development of the kava industry; in the aftermath of TC Pam the Department of Agriculture and Rural Development worked with the farmers to massively ramp up production, through a highly successful nursery programme, whilst collaborating with the private sector to increase quality. It is clear that in a short period of time, the level of production has sharply risen, whilst proportion of low quality 'tudei' kava has fallen substantially. During the same period, the Vanuatu Government has led the charge on having kava recognised by the Codex Alimentarius Committee, and kava has grown from being just under 15% of merchandise exports in 2014 to nearly 60% in 2019.[3] This has led to substantial welfare gains across the country. Looking forward, as kava supply is projected to increase substantially, this is a further example for the Government and private sector to work together to grow global demand and market access opportunities.

What is the private sector currently doing to support agriculture development, and what can it do in the future?

Successful agriculture development requires private sector investment across the value chain. For example, kava export businesses employ hundreds of staff, they buy from thousands of kava farmers across the country, and promote quality production. They invest in machinery, laboratories, product research and development and export market growth. To progress in business local investors need to be mentored by those more experienced which is provided by the private sector itself.

VCCI is currently undertaking several initiatives to support the development of businesses in the agriculture sector.

These include:

- Export Ready training and end to end HACCP and Organic accreditation fully funded for businesses identified as having export potential in the next 12 months.
- Preparing for 2021 launch of Start Smart, supporting provincially based farmers, manufacturers and entrepreneurs to set up their business model, develop their agri-business and support profitable and sustainable business practices. Funding obtained via NPP/EDF 11 funding.
- Direct mentoring support via our business support services to businesses involved in product development, using primary sector outputs (such as coconut oil, cacao, kava, nut products etc).
- Advocating and lobbying at national level for appropriate enablers to agribusiness trading such as support and communications around PACER Plus, duties and shipping solutions.

[3] Source: Vanuatu National Statistics Office Trade Statistics

Commitment 2 –Use infrastructure investment to benefit the whole nation and the local building and construction industry

Links to the NSDP: ENV 2.2, ECO 1.1, ECO 1.,2, ECO 2.3, ECO 2.8, ECO 3.1, ECO 3.2, ECO 3.3, ECO 4.2, ECO 4.5, ECO 4.9

Market chains need infrastructure. Quality roads, wharves, and airports can help farmers to access markets. They allow more tourists to reach new and interesting destinations. Reliable transport allows movement of people, goods and services, students to access education, and the sick to reach medical attention. It improves the quality of life for people from rural communities. For many communities within Vanuatu, poor infrastructure places a ceiling on the speed at which they are able to develop. Similarly, to agriculture, there is therefore a strong economic and moral case to be made for increasing expenditure on infrastructure. Within Vanuatu examples of successful infrastructure projects which have transformed the development opportunities for communities include the roads on Efate and East Coast Santo.

This is an excellent time to be working on large infrastructure projects. Each will bring short-term economic boosts through job creation and local purchasing of materials, and long-term benefits through increased capacity of the labour force. One example of this is to invest in improvements to the Bauerfield Airport – with international flights grounded this is an excellent time to be advancing its planned investments and improvements.

The private sector acknowledges and supports the Government's plans for improving infrastructure across the country, noting the transformational impact that they can have. There are of course the economic stimulus benefits from the building of the roads themselves, and private sector would like to partner with the Government on to ensure that these benefits are maximised. This includes developing policies ensuring that all Government contracts require a minimum proportion of ni-Vanuatu workers (80%+), that all Government contracts require sourcing of a minimum percentage quantity of materials from local providers, and that all projects involving international contractors have clear training and upskilling plans for local personnel. There must be a collaborative approach to upskilling our own local companies, so they are able to tender for larger scale projects, and thus make sure money stays in the country.

What is the private sector currently doing to support development of the local construction and building industry, and what can it do in the future?

Individual businesses within the private sector continue to upskill and support development of its own workforce. For example where certification/specialist skills are not available in Vanuatu, businesses fund the education and upskilling of its staff overseas, at their own cost.

VCCI is currently working with Reeves International, the head contractor for the Cook & Tiroas Barracks infrastructure project, assisting with local contracts development, local firm training programs to upskill local contractors in quoting, tendering and budget management. If given the opportunity VCCI can continue to partner with key contractors for the benefit of local companies, if such key contractors are required to include development of the local industries.

VCCI has recently completed work on the development of the Vanuatu Building Industry Improvement Project Strategy Paper. This project will create a national board that will focus on the development of key enablers of the sector such as policy, standards, training and registration.

Commitment 3 – Education and skills revolution

Links to the NSDP: SOC 2.1, SOC 2.2, SOC 2.4, ECO 1.1, ECO 1.9, ECO 4.5, ECO 4.9

In recognition that human resource development is one of the key engines for sustainable economic and social development, the Government developed the National Human Resources Development Plan 2020-2030, which clarifies priority areas for education and training investment over the medium to longer term. The NHRDP is based on extensive research and data analysis and is intended to guide investment in education and training over the next 10 years – and by design it should be a system that works closely with industry and the productive sector to ensure that skills development match skills demand.

To enhance the work being done by the NHRPD implementation committee, the VCCI has formed the National Industry Labour Working Group, which members extend to PSET providers including APTC and Skills Partnership, Youth Challenge, VQA, Department of Youth and Sports, and Department of Labour.

The private sector is committed to assist in the development of a relevant and targeted NHRDP implementation strategy, with the tourism sector already having commissioned an independent tourism skills development strengthening strategy which now completed has been presented to the VQA for inclusion in their overall planning.

What we need is to also address the more immediate needs of the unemployed population. *We suggest that the Government and private sector develop and implement an adult education skills scheme to build the basic skills of young people and those interested in building their employability skills in urban areas, but rural areas also.*

It is an unfortunate reality that many unemployed people in Vanuatu lack basic skills in language, literacy and numeracy. It is also noted in the NHRDP, Trade Policy Framework Update and from direct feedback from the private sector that there are skills gaps in soft skills such as confidence/customer service, time keeping, problem solving and critical thinking.

The Government currently has an opportunity to take advantage of the private sectors readiness and availability to assist in developing a scheme to build the basic skills of its future provincial workforce, while addressing employability issues in urban areas. The format could follow a basic module model whereby each new skill is recognised by VQA and potential employers.

The idea will take substantial work to design and implement, but initial suggestions include:

- A focus on LLN – language, literacy, numeracy
- A focus on soft skills for future employability
- Utilisation of skilled workers from the private sector who are currently not working and can mentor and train
- In order to incentivise attendance, participants may receive a stipend of up to 15,000VT a month (equivalent) to attend. This payment should be based on attendance (as well as encouraging people to attend, this would also provide a substantial welfare boost to the country)
- This could be developed with donors in mind– for example, asking Australia and New Zealand to refocus their support to the long-term goal of skills development for those in most need

Commitment 4 – Green energy revolution

Links to the NSDP: ENV 1.4, ENV 1.2, ENV 2.2, ENV 2.3, ENV 2.5, ENV 2.6, ECO 1.1, ECO 1.7, ECO 2.1, ECO 2.3, ECO 2.8, ECO 3.1, ECO 4.1, ECO 4.5, ECO 4.9

The Government and Private sector to work together to achieve the targets of the NERM for 100% access to affordable electricity through 100% of Renewable energy by 2030.

The National Energy Road Map set out a plan for Vanuatu to have 100% access to affordable electricity through 100% renewable energy by 2030. While targets have been set, the actual progression hasn't materialized yet and only minor progression has been recorded. Looking at the NERM intermediary targets, Vanuatu should now have 65% of renewable energy supply, 100% access in urban areas and 30% in rural. The actual numbers are 22% of renewable energy, 80% access in urban areas and 17% in rural. It is clear that on the current pathway, Vanuatu will be highly unlikely to be able to meet its commitments.

Key lockers which are stopping progress include technical limitations, a lack of policy to support energy efficiency, a lack of incentives to support a shift towards renewable energy, unrealistic forecasts and assumptions in the NERM, and regulatory issues. All of these hurdles must be addressed if Vanuatu is to be able to meet its targets under the NERM, which would in turn unlock benefits for people around the country.

A more complete summary of these issues with a clear set of actions is attached as Annex 1. These solutions include:

- Revised demand forecast
- Enabling technological leapfrogging
- A revised energy mix with alternative RE options
- Implementation of Green taxes
- Regulatory reform

It is of the highest imperative that Vanuatu is able to meet these targets. Domestically, it will mean cheaper and wider energy access, which will improve both the welfare of the people of Vanuatu and the business environment – this is especially true for energy-intensive industries, such as manufacturing and value-addition of agricultural goods. Looking at the bigger picture, the most fundamental question for the long-term future of Vanuatu is whether the largest global polluters will change their energy consumption. Pressure from the most at-risk nations in the world will be a key component of the international debate over the next decade, and if Vanuatu is not making sufficient progress in this area, it will severely undermine its ability to make the case on the global scale.

In order to achieve this outcome, the Government needs to provide a clear regulatory and tax regime to promote transition, support to businesses to help them transition, and a clear policy direction. The private sector needs to provide investment and technical expertise to actually enact the changes.

What is the private sector currently doing to support development of green energy, and what can it do in the future?

Over the last 10 years there has been considerable private investment into solar and renewable energy. This has enabled companies such as Digicel and Vodafone to operate much of their remote technology through solar energy as well as providing off the grid energy systems to farms, villages and businesses across Vanuatu. These companies have employed and trained local staff who now have greater skills and are able to continue to develop and grow the renewable energy market in Vanuatu.

The Vanuatu Business Resilience Council is focusing on accessing funding via donor partners to support the Ministry of Climate Change to implement what's required to move forward under the National Energy Roadmap.

VCCI will continue to advocate for Vanuatu's target of 100% green energy by 2030.

A suggested full roadmap to implementation can be found in Annex 2.

What we can do now

Immediate solutions to enact in 2021

If the above commitments were all enacted, then this would be truly beneficial for long-term development, but have limited impact in the short term to support the economy. ***Therefore, this paper suggests five key solutions, which aim to support employment, people, and positive impact the economy in the short term, across the nation.***

Principles

The solutions are based on the following principles:

1. **Unity, togetherness, and community** – this is a vision for the entire nation, recognising the role everyone has to play, and how we need to work together
2. **Fairness** – this vision is mindful of equity issues. This refers to both the relationship between the Government and the private sector, and also fairness across all citizens of Vanuatu
3. **Trust** – for this vision to work, the Government and Private Sector will have to trust each other. This is also a unique opportunity to develop trust
4. **Sustainability** – this vision aims to support the long-term development of Vanuatu. This means it is mindful of the environment, of Government finances, and of business viability
5. **Certainty** – this vision provides certainty to everyone within Vanuatu, so they understand tthe economic plan, thereby massively boosting confidence and allowing everyone to plan for their own future
6. **Realism** – this vision is based on facts and realities
7. **Simplicity** – where possible, this vision is simple to understand and implement

Solution 1: Support to businesses, jobs, and welfare

Links to the NSDP: ECO 1.1, ECO 1.2, ECO 1.8, ECO 3.1, ECO 4.2 ECO 4.5, ECO 4.5, ECO 4.6, ECO 4.9, SOC 2.1

a) Wage Subsidy Scheme*: To provide VUV 15,000 a month to all registered employers who apply, for each full-time employee that is registered with VNPF. Announce that this scheme will continue until the borders reopen for tourism with Australia.*

b) Informal sector support: *To provide VUV 15,000 a month until the borders reopen with Australia to the hardworking informal sector men and women, or to single-employee businesses*

Wage Subsidy Scheme

- This is of course similar to the Employment Stabilisation Programme. To protect employers a focus on communications is required so that all employees understand the scheme and their responsibilities to continue to be committed to working.
- The figure of VUV 15,000 month is recommended because:
    - Fairness and Unity: the original scheme of VUV 30,000 meant that the Government was paying the entire wage for people on minimum wage. VUV 15,000 creates an equitable solution while recognising the realism that the private sector is under significant strain, and that the Government is the only entity with funding available to provide support to the community

    - Sustainability: the lower figure seeks to lessen the fiscal impact on Government reserves. The higher level of support also propped up inefficient firms who were going to close anyway, which is a poor use of Government funds
- The scheme is open to all sectors, with a firm agreement and expectation that businesses who do not need this support will not apply. If this scheme is exploited by any businesses within the private sector, then they will place the entire scheme at risk, which in turn would affect the rest of the private sector.
    - Why all sectors? This is to promote simplicity and trust. Large numbers of businesses were engaged in protracted discussions with MFEM due to only tourism businesses being selected as eligible. These protracted negotiations were very damaging for the relationship between the private and public sector, with many private sector entities believing they would receive support which never came. Furthermore, the negotiations took up a lot of time; of business owners and Ministry of Finance and Economic Management staff, whom spent exceptionally long hours working on the ESP. This time could have been used much more productively by both parties.
- A business should not apply if it does not meet one of the following two simple criteria:
    - The business is at risk of closing
    - The business will have to reduce its staff numbers without any support
- According to analysis from the VCCI December Survey, roughly 60% of businesses would meet either one or both of these criteria. These businesses had 54% of the total number employees at the time of the survey. This can be taken as a rough baseline for the expected size of the scheme. ***Assuming there are currently 20,000 fulltime employees registered with VNPF, with 60% of these receiving this support, this would cost VUV 180m a month.***
- The VCCI will run an extremely aggressive marketing campaign based at ensuring compliance with the criteria. This is of course a fiscal risk for the Government, but the simplicity of such a scheme as well as the chance to grow trust in a truly tangible way means that this is the best starting approach. If it becomes clear that this approach is not working, then the Government should work with the VCCI to develop alternative ways to support the economy.
- This entire scheme should be linked to VCCI reforms, which are discussed later.
- By providing this support until the border with Australia opens, this would provide certainty and build confidence for all, including the Government. It would enable everyone to focus on building back better in 2021, which would be far more productive for the nation. Australia is selected as they are the biggest country in the region, and by far Vanuatu's largest tourism market. Once the border can safely reopen with Australia, that will provide a sufficient economic boost that the subsidy scheme is no longer needed. It is also a very simple metric.

Overall, this proposed wage subsidy scheme has the potential to support the economy to survive, but in a transformational way. It would transform business confidence, support employment, boost demand, boost investment, support the financial services sector, and provide the most genuine chance to develop trust between the Government and the private sector.

Support to the informal sector

This includes bus and taxi drivers, fruit and vegetable vendors, handicraft vendors, and other informal workers. By expanding the scheme to include these people, this would showcase fairness and unity, as well as supporting the community. Many of these informal workers will now be reliant on the community support system for basic necessities. Supporting these workers will therefore reduce the pressure on those salaried workers. Furthermore, by increasing the income of these informal workers, there would be an immediate increase in the level of spending within the local economy, thereby boosting other businesses.

VCCI recognises that this is more complicated to implement than the proposed wage subsidy scheme. The two most fundamental questions are the eligibility criteria, and how the scheme would be rolled out. These are difficult policy questions. Other issues include verification challenges, and the low number of bank accounts held by those in the informal sector. Such a scheme needs to capture those who are truly working, and would need a dedicated PPP team to establish and manage the initiative.

No costing is provided for this idea, as it is dependent on which criteria the Government decides to use. If 3,000 workers were registered, then this would cost VUV 45 million a month. If 5,000 were supported, the cost would be VUV 75 million a month. The Government can consider the highly successful cash transfer programme led by Oxfam as an example of a potential methodology to help roll out this idea. Annex 3 provides a link to a video that explains how this unblocked cash transfer initiative works.

The combination of these two ideas would prove truly transformational to the economic outlook, and would be the single most impactful short-term solution to support the economy. They would give businesses the confidence that they will be able to survive 2021, and will help to support employment. This scheme will increase the amount of money in the system, which in turn will benefit the entire nation, including the agriculture sector, through increased demand.

Solution 2 – School Subsidy Scheme

Links to the NSDP: SOC 2.1, SOC 2.2, ECO 1.1

Support is provided until borders reopen with Australia at a rate of VUV 10,000 per term to each kindergarten for each student, and VUV 20,000 per term to each primary and secondary school for each student.

The school system has had a difficult year, with the lockdown in March/April disrupting the education of many, Tropical Cyclone Harold damaging many schools, and reduced income for many parents meaning they are unable to pay school fees. There is very limited data available to comprehend the actual overall impact on the education of children. The VCCI has undertaken research into the impact of COVID-19 on various privately owned schools and kindergartens, based in both Efate and Santo.

Every single school recorded a sharp increase in late payment of fees. For primary and secondary schools, the prevalence of late fees has increased by 50-100% compared to last year. Whilst most schools have made special exemptions this year due to COVID-19, meaning most students have continued to receive education, this is not sustainable. At the Kindergarten level, which did not receive support from the Government, there have been large drops in student numbers. Examples include a 30% fall in enrolment for a large, relatively expensive institution, to a 45% fall in enrolment for a small kindergarten which charges only VUV 6,000 a term.

All schools were extremely concerned about their prospects for next year. They are concerned that a large number of families who were able to complete payment of school fees for this year will not be able to afford school fees in 2021. School fees are often one of the largest expenditure items for families, and providing support would be of immense benefit to thousands of children around the country.

Our suggested approach is that the amount is less and paid to the schools more often, providing continuous support at a lower level. This will encourage goodwill between Government and communities, knowing that children will be able to receive continuous education for the whole of

2021. The expected cost of this scheme would depend on the exact design, although the VCCI notes that including kindergartens and private schools will be critical to support the education of children.

Solution 3 – Work together to improve the business environment

Links to the NSDP: ECO 4.1, ECO 4.5, ECO 4.9, ECO 1.4, ECO 3.1

Immediately put on hold legislation identified by the private sector as harmful. Prioritise compliance and regulation of existing policy and legislation, and work together to build an economic environment which works for all.

The Government has announced a number of potential policies which, if all enacted, would erode the relationship between Government and private sector, and cause substantial damage to confidence and to the economy. These include:

- The proposed addition of 33 new reserved occupations to the reserved list – this proposal is of particular concern, due to the immediacy of the change – it is currently due to come into force before the end of the year – and the extent of the damage which it could do to job creation, foreign investment, and Skills development. Further analysis provided in a position paper submitted by the VCCI to the Department of Labour is attached as Annex 4.
- The proposed changes to the Seasonal Workers Act, and the removal of agents.
- The proposed requirement for every business in Port Vila to have a permanent hand washing station.

VCCI, on behalf of all industry associations including the VHRA, VTOA, VTO, Finance Centre Association, government bodies such as VFIPA and VQA, requests that this legislation is removed from consideration and efforts refocused on the strategic design of the NHRDP Implementation Plan to build the skills of the labour force to meet industry demands, in partnership with the private sector. This is also the position of the Tripartite Labour Advisory Committee, whose membership includes business representation through the VCCI, workers representation through unions, and Government representation through the Department of Labour, the Department of Strategic Policy, Planning, and Aid Co-ordination, and the Public Service Commission.

Solution 4 – Work with the banks to assist SMEs

Links to the NSDP: ECO 1.1, ECO 1.8, ECO 1.9

The Reserve Bank to extend the deadline at which banks must have all deferred loans as on P&I and not classed as NPL (Non-Performing loans). This is currently set at 31st March 2021

The Prime Minister to send letters to the CEOs and Head Offices of the four commercial banks, asking them to extend support provisions to their clients until the end of 2021, for those banks which have the ability to do so

An extension to current support offered by banks would immediately reduce one of the biggest risks to the economy for 2021 – that of mass loan defaults leading to a downward spiral, and causing chaos to the financial services sector. This is a very simple idea, but the payoff could be substantial. The letter should note the realities of the banking sector, and that it will not be possible for support to be extended in all cases. Some banks will not have the working capital to extend the support measures. Further support from banks, combined with the other solutions – particularly Solution 1 – would help to offset one of the largest economic risks for 2021, of mass bankruptcies.

Solution 5 – Public and Private Commitment to Genuine Partnership

Links to the NSDP: ECO 4.9, ECO 1.1, ECO 1.2, ECO 4.5, SOC 2.1, ENV 1.1, ECO 3.1

VCCI would like to focus our partnership with the Government on three C's.

1. Communication
2. Consultation
3. Consideration

There are a few simple steps which the Government can take to improve our partnership. The first is improved and continuous communication and consultation with VCCI on behalf of the private sector. This includes policy development, project planning and implementation, and providing direction on how the private sector can assist. The VCCI also requests greater consideration of how decisions and actions made by Government impact the private sector. For instance, timely payment of LPOs would also substantially ease cash flow concerns for many businesses, with banks becoming increasingly risk averse in their dealings with businesses who are heavily reliant on the Government as a client.

The VCCI is limited in its scope of what it can do, predominantly due to its Act, and access to limited funding. It must be noted that currently the VCCI receives little budget from the Government for actual activities, with much of the budget to carry out its work coming from international donors. There are however a few simple actions, which, if taken in combination with the previous four solutions, would offer a unique opportunity to cement this relationship.

- VCCI will be reviewing its Act in the first half of 2021 and making changes to ensure that it truly represents the nation's business community, including focusing on emerging industries and agriculture. This will mean increasing the number of agriculture councillors.
- An agreement to launch a strong communication campaign to all members, informing them of the new and improved approach, and strongly stressing that only businesses who truly need the wage subsidy scheme should apply. This will be based on two arguments: firstly, that this approach is the best way to implement a scheme which would be of immense value to the nation, and if there are widespread and clear examples of businesses exploiting this trust, then this would immediately place the entire scheme in peril. Secondly, this would be a real, tangible, and genuine opportunity to transform relations between business and Government. Simply because there is so much at stake, this is the best chance the country will have to develop trust.
- If the other solutions are implemented, then this would create a huge upswell in confidence and trust. The VCCI should build on this, and launch a voluntary pledge, available for all businesses to sign. This pledge would be non-binding, but it would be a simple way of showing to the country that the private sector is serious about genuinely changing the relationship between the public and private sectors, and that they are committed to the long-term development of the country. This pledge could include:
    - A commitment that businesses will agree to only apply for the wage subsidy scheme if they need it, and that if their business improves to the level where they no longer need it, they will cease to ask for it.
    - A code of conduct that all businesses should behave with honesty, integrity, and kindness
    - A commitment to the long-term development of Vanuatu, including once this crisis has passed to train and upskill staff members, and to support where possible the implementation of the National Sustainable Development Plan

- A pledge to buy local and to support local businesses where possible, including for food and drink products

Conclusion

This paper offers a chance to agree to work collaboratively for transformative change to Vanuatu. It offers a roadmap to support the entire economy, and to genuinely change how the public and private sector work together. 2020 has been an incredibly challenging year, with a high potential that the future could be significantly worse than the present. If, however, the Government and private sector work together to offset the possibility of economic disaster, then these difficulties would represent the strongest opportunity to change how things are done in Vanuatu. This document identifies four critical areas which the Government and private sector should commit to work together for the long-term benefit of all, as well as five solutions to support the economy in the short-term.

Annex 1 – Analysis of VUV 2.7 Loan Scheme

The VCCI has undertaken consultations with the major commercial banks, as well as numerous businesses, to assess the likely impact of the proposed lending scheme from the Government. The exact design of the scheme remains uncertain, but consultations were based on the following assumptions:

i. It will only be for activities that can boost the economy, and which align with the National Sustainable Development Plan and Post Disaster Needs Assessment – it can either be reconstruction or new activities
ii. It will be lent at 1%, with a grace period of 6 months, both on the principal amount and on interest
iii. There is a term of 2 years
iv. The maximum loan amount will be VUV 100m
v. The banks can charge borrowers an application fee and an administration fee, which may add 4 percentage points to the cost of the loan
vi. The loans cannot be used for refinancing

The key findings from consultations were that:

- The scheme is complicated and not what the majority of those interviewed need – refinancing options was the overwhelming request from business owners and operators.
- The process would be labour intensive and time consuming – review committees, loan approvals, due diligence, and so on. It is likely that it would be mid-2021 before such a scheme could be set up, and the loan approval process then usually takes at least six months. On top of this, once a loan is received, it often takes a while for the expenditure and benefits to be felt. This would mean that very little money would actually circulate back into the economy in 2021.
- The term-limit is far too short. The current average business loan term is 10 to 25 years.
- Loan demand is very low - very few businesses would want to borrow in this current climate, especially given the high level of uncertainty. On top of that, banks have to follow ethical lending rules, which is to say that must only lend to businesses who they believe will be able to pay back the loans. Due to the current investment climate and weak outlook for the future, this would mean that there would only be a very small number of high-quality loans which meet this threshold.
- Liquidity is not the issue within the Vanuatu financial services sector. At the moment for every vatu lent, there are two vatu deposited. Putting additional liquidity into the banking system does not address the fundamental issues of low demand and confidence.
- Risks to the financial services sector – the banks already have a high proportion of impaired loans compared to industry standards, especially given the asset value of much of the collateral is falling. The sector is already relatively unprofitable, with the commercial banks making just VUV 50 million on VUV 62 billion of assets in 2019.
    - Interest rates in Vanuatu are lower than in comparable countries, such as The Solomon Islands, and there is a very high degree of competition given the size of the market, with five commercial banks.
    - Banking in Vanuatu is expensive, due to the very small size of the market, the high cost of doing business (especially for rural banking), and the high level of risk. If customers believe that they should be able to access loans at 1-5%, then this will further distort understanding of the financial services market.

Annex 2 – Green Energy Revolution

Current situation

Statistics show that about 80% of urban and 17% of rural households have electricity access. While targets have been set, the actual progression hasn't materialized yet and only minor progression has been recorded. Looking at the NERM intermediary targets, Vanuatu should now have 65% of renewable energy supply, 100% access in urban areas and 30% in rural. The actual numbers are 22% of renewable energy, 80% access in urban areas and 17% in rural.

The lockers

Technical limitations.

The Vanuatu grid can absorb a maximum of 40% of intermittent type of energy supply under its actual configuration, knowing that most intermittent energy sources are backed-up by fast speed diesel generators to stabilize the grid.

No policy to support Energy Efficiency

The scope of energy efficiency is broad and covers buildings, materials, electrical equipment, and transport in the NGEF guidelines. Until recently it was an untouched field with a large potential for improvement and, it will be part of the solution to develop a sustainable approach and reduce costs for energy and transport.

Lack of incentive for a shift to renewable energy

Vanuatu has no policy to incentivise a shift towards renewable energy, nor policies to penalise intensive and harmful use of fossil fuel. No feed-in tariff is available to individuals and private sector companies who wish to adopt modern RE tech as an alternative to grid supply.

Unrealistic demand forecast and technological options commanded in the NERM

Nationally Determined Contributions (NDC) Implementation Roadmap was developed in 2018 and focused on two possible scenarios for a shift towards 100% RE. Both scenarios rely on the same demand growth forecast which pre-date the recent Covid 19 outbreak and cyclone Harold. Both events will severely impact the demand for electricity (UNELCO already recorded a 40% drop in demand).

In terms of technology, refined coconut oil for operating existing diesel power generators is the main source of fuel supply proposed in both scenarios as a substitute to diesel in the base load production. We believe it is unrealistic for several reasons. Despite a business case being put forward since 1998 in the Pacific region for the substitution of coconut oil to diesel, it appears that some factors like inefficient supply chains, competition with food market and biological risks affecting the productivity have been largely underestimated and at this stage, to the exception of Vanuatu, no other country has moved forward with a commercial scale implementation while other RE technologies have advanced.

The ambition of the Biofuel component was driven by a Governmental National Policy launched in 2015, the 2016-2025 Vanuatu Coconut Strategy which was an ambitious plan to upscale the national capacity for harvest and transformation of the first national commodity production in volumes for exports being copra. Unfortunately, it was not factoring the impact of the damages inflicted on the plantations by two successive category 5 cyclones in 2015 (Pam) and 2019 (Harold), and the recent invasive strain of Coconut Rhinoceros Beatle.

Regarding the alternative scenario relying on geothermal power, it was first assessed in 2013, the commissioning of a drilling rig and conveying to Vanuatu shores plus the distance of 60km to cover with High Voltage lines (HV) from the extraction field to the main city are prohibitive in costs and risk to reward. A preliminary study and surface exploration phase also lifted significant barriers of which land issues and inefficient regulation due to the existing legal framework called an end to the project. Therefore, knowing that none of these variables have changed, the inclusion of Geothermal in the second scenario is questionable. Despite the potential in resource, the mobilisation costs to complete the exploration trial overpower the benefits and showing appetite for such a risk for a small economy could be detrimental.

The regulatory hurdle

When reviewing the legal framework and regulatory dockets, we observed a laborious and conflicting approach with the incumbent company operating the concession of Efate, which will expire in 2034 and supersedes the URA Act. In this configuration, every decision made by the regulator is disputed at court in a costly and time-consuming exercise with consequences borne by the customers.

The cost of regulation for electricity services expressed in USD per customer per year is 3 to 7 times higher in Vanuatu than in the region with a regional average of USD 22.99$ per head while Vanuatu records a cost of USD 71.51$.

Recommendations to achieve the NERM targets

Revised demand forecast

We recommend to revise the demand forecast and anticipate a lower estimate factoring for the recent economic downturn, the extended impact of the Covid 19 pandemic and, on a lower scale, the factoring of EE projects.

Enabling technological leapfrogging

Amongst other actions, the BRANTV Project provides technical assistance and expertise which allows the DOE and Vanuatu nationals to benefit from advanced research and should trigger a phenomenon identified as "leapfrogging", when a population is jumping several steps in the progression of its development to adopt modern technologies and solutions while leveraging from the lessons learned by precursors and avoiding the unforeseen costs of self-experiment.

A revised energy mix with alternative RE options

The proposed energy mix is a key issue since it is directly correlated to the allocation of the NGEF revenues and it should be inclusive of a wider range of technologies. Priority should be given to applicable, cost effective and sustainable RE options allowing for:

1) the substitution to diesel for the base load type of production in urban centres, and

2) alternatives to batteries for large storage capacity since international growing demand for lithium may prove challenging to supply in the near future though not sustainable, and Vanuatu does not have recycling protocols and proper management for disposal of used batteries.

As an example for the suggested review, a feasibility study should assess the substitution of hydrogen energy to replace diesel for large on-grid and smaller micro-grid rural power stations. It could also assess the possibility to re-allocate existing solar and wind capacity and/or set alternative intermittent sources and additional capacity to produce hydrogen for storage in lieu of feeding intermittent power to the grid. Such a combination would avoid the use of expensive battery storage while allowing for a cost-effective substitution to diesel.

Implementation of Green taxes

With a limited number of policies enforced through bans, Vanuatu has not yet tapped into the potential of financing its development through environmental taxes. Such policies are aimed at limiting behaviours and business habits which are harmful to the environment by either penalizing the polluter or rewarding environmentally friendly action. A shift to eco-taxes is usually targeting the implementation of a full cost accounting, a practice addressing the market distortions induced by pricing methods which are not capturing the environmental impact induced by an activity and leading to unsustainable wealth creation. Since Vanuatu has not yet dropped the first stone in the field of environmental taxes, a strategy needs to be defined and the appropriate type of taxation implemented considering the expected outcomes.

Green taxes revenues must be weighed against the overall tax and social contributions perceived. A green tax targeting pollution and waste generated by tourism activities could be designed around sophisticated communication campaigns to educate the visitors about their impact over the country and the mitigation measures they are contributing to finance through this individual based tax.

Financing

The NGEF is a progressive tool designed to enable the dissemination of alternative and innovative energy solutions to satisfy the power needs of the population. A combination of projects of different scales, technologies, target populations and type of financing will form the NGEF projects' pipeline of Renewable Energy (RE) and Energy Efficiency (EE) to address the needs.

Existing sources of funding

The Government's New Project Proposal (NPP) line of funding for Vt100m per year until 2024.

The reallocation of the energy fund and article 6 and 29 for an annual contribution of Vt22m per year over the whole forecast period.

Additional sources identified

Re-allocation of a portion of URA budget and levy on power bills for a total Vt60m per year starting mid-2021.

GGGI or alternative donor to finance the installation of 15 solar powered water pumps for urban and peri-urban water supply for a one-off grant of Vt90m.

Savings on EE investments through Water Utilities for Vt20m per year starting mid to end 2021 for the remaining period of the forecast.

PCREEE capital and research financing for 20% of every RE or EE related expense starting now towards end of the forecast period.

International donor contribution to finance the introduction of hydrogen and tidal technology for an estimated Vt500m over 2022 to 2025 period.

In VUV	2020	2021	2022	2023	2024	2025
Secured revenue	**148,916,585**	**128,697,500**	**160,872,500**	**195,275,000**	**199,235,000**	**92,305,000**
Pilot Fund Van Gov	25,416,585					
Government	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	
Luganville Section 5 - electricity fund	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
UNELCO Article 6	8,500,000	8,500,000	8,500,000	8,500,000	8,500,000	8,500,000
Loan Principal reco (-1%)	-	5,197,500	37,372,500	71,775,000	75,735,000	68,805,000
Forecast additional revenue	**118,996**	**40,698,333**	**94,680,000**	**94,283,000**	**93,886,000**	**93,518,500**
LIP Interests	118,996	1,365,000	1,680,000	1,533,000	1,386,000	1,018,500
URA re-allocation		30,000,000	60,000,000	60,000,000	60,000,000	60,000,000
EE savings from water pumping stations upgrade		8,333,333	25,000,000	25,000,000	25,000,000	25,000,000
RE savings from substitution			7,000,000	7,000,000	7,000,000	7,000,000
Penalties on breach of standard		1,000,000	1,000,000	750,000	500,000	500,000
Total Expected	**149,035,581**	**169,395,833**	**255,552,500**	**289,558,000**	**293,121,000**	**185,823,500**

Note: Additional revenue could come from green taxes but was not forecasted for it requires first the development of adequate policies and second appropriate economical study to sustain.

The road forward

Short term actions

Drafting and submission of a proposal to the Council of Ministers for the reallocation of URA budget and levy on power bills.

Drafting of a funding request for a consultancy to review the NERM targets and scenarios considering new RE technologies and potential for tidal and hydrogen power supply in Vanuatu. Development of a section on EE programs and solutions to be implemented through the NGEF.

Drafting of a funding request for a consultancy to assist the management and board of the NGEF to implement the 5y forward institutional sustainability plan.

Finalisation of the proposal with NBV for the launching of the Loan to Individual Projects program and implementation.

Mobilise resources (donor fund for a consultant) for an EE baseline study on GoV buildings to identify key buildings which EE could be improved and generate substantial savings. Cover a large array of building across provinces and shortlist "low hanging fruits" to start with.

Medium term actions (2021)

Legal review and amendment of the URA Act and NGEF Act considering the budget re-allocation proposal.

Recruitment of additional staff for the fund with a priority for a Finance manager and finance officer. Possible re-allocation of resources from URA.

Drafting of an MOU with the department of water and subsequent contract for the replacement of electrical water pumps by solar powered technology in urban and peri-urban centres with ongoing reversal of proportional savings to NGEF. Secure donor funding to facilitate the project with GGGI or PCREEE.

Long term actions

Development of the legal framework for the implementation of green taxes and true cost.

Annex 3 – Oxfam Unblocked Cash Transfer approach

Link to the video:

https://www.youtube.com/watch?v=kAOxzb-ao78

Project in summary: https://vcci.vu/oxfams-unblocked-cash-response-in-vanuatu-leading-the-way-globally/

Annex 4 – Analysis of Proposed Changes to Reserved list

Vanuatu Chamber of Commerce and Industry

POSITION PAPER

on the Proposed additions to the Reserved Occupations List under the *Labour (Work Permits) Act (CAP 187)*

This paper represents the position of the VCCI, on behalf of the private sector and as employers' representative on the Tripartite Labour Advisory Council (TLAC).

The VCCI is legally mandated to represent the business community, to collect and disseminate information on all matters of interest to the business community, and to provide information and advice to the Government on all matters affecting business and the economy in Vanuatu.[4] As a member of TLAC, the VCCI is also mandated to make recommendations on social, economic and labour issues.[5]

<u>The general position of this paper is that an expansion of the reserved occupations list at this time will undermine its very objective to increase the number of decent, productive employment opportunities in the short and long term. There will be inadequate workers available in the labour market, both ni-Vanuatu and Expatriate, to operate and grow business to restimulate Vanuatu's economy.</u>

Background

On 5 May 2020, the Commissioner of Labour issued written instructions to the Attorney General to amend the Reserved Occupations List under the *Labour (Work Permit) Act [Cap 187] (the Act)*. Amendments to the Reserved Occupation List requires the Minister to publish a notice of the proposed changes in the Gazette and the local newspaper.[6] The announcement was published in the Daily Post on 30 June 2020, stating that a 6-month period was given to consult employers and the public, which came into effect on 24 June 2020.[7] The 6-month consultation period is a legal requirement under the Act, which is not reflected in other labour related legislation such as the Employment Act (which coincidently saw amendments pushed through without any consultations, even with despite the TLAC being established for this very purpose). It is also a legal requirement under the Act for the Minister take into regard the comments when deciding on the proposed changes.[8]

Despite being in the midst of a global pandemic and economic crisis, resulting in numerous businesses already closing their doors – predominantly temporarily, but some permanently – and thousands of employees losing their jobs the Government has taken the initiative to place further restrictions on the labour market by proposing to increase the number of jobs on the reserved occupations list, thereby further restricting the ease of doing business. According to the communication to the State Law Office, thirty-three new categories of reserved occupations are to be 'urgently inserted in the Declaration of the reserved occupations list for the best interest of the people of Vanuatu'.[9] There are currently only

[4] *Section 3, Chamber of Commerce and Industry of Vanuatu Act*
[5] *Section 1B(a), Employment Act*
[6] *Section 9A(1), Labour (Work Permit) Act*
[7] Terence Malapa, *33 proposed changes to Reserved Occupations List,* Daily Post, 30 June 2020
[8] *Section 9A(c),* Labour (Work Permit) Act
[9] Commissioner of Labour, Written Instruction on Amendment of Declaration of Reserved Occupations List Under the Labour (Work Permit) Act [Cap 187], Communication to AG, State Law Office, 5 May 2020, at 2

24 reserved categories declared.[10]. It is important to note, that the categories of employment are reserved for Vanuatu citizens, not 'indigenous' ni-Vanuatu citizens, as is the case with the Reserved Investments list as pointed out by VFIPA CEO, Howard Aru.[11] Therefore, indigenous naturalised, Vanuatu-born, and investor citizens alike are still eligible to work in these categories.

The instructions to the State Law Office provided justification for the additional occupations on the basis that high numbers of Non-Citizens whom come to Vanuatu for employment both in the Public and Private Sectors are occupying positions, which according to the Department of Labour's data, can be filled by Ni-Vanuatu Citizens with good qualifications, merits and experience. As a result of these professions being occupied by Non-Citizens the rate of unemployment has increased and young graduates are being frustrated and discouraged. Furthermore, training plans submitted with work permit applications are not always effective, in that counterparts are not always taking lead of the occupation after the expiry of the work permit.[12]

There is also mention of a localization policy being developed to address unemployment, and to ensure graduates find work in the local labour market and be marketed to international markets under labour mobility programs. The NSDP is also referred to, specifically ECO 4.5 which aims to increase the number of decent, productive employment opportunities particularly for young women, men and people with disabilities.

It is important to note that the instructions refer to there being approximately 900 work permits at the time (the Department of Labour is yet to provide a list of existing work permits to include in the analysis). **900 work permits is the equivalent of 0.3% of Vanuatu's population**. According to the International Labour Organisation, the most recent data on unemployment was collected in 2009, and set at 4.6% (youth unemployment is over 10%).[13]

The 'positions' that have been instructed to be urgently inserted' into the list are as follows:

1. Accountant
2. Assistant Accountant
3. Assistant accounts manager
4. Assistant casino manager
5. Assistant director
6. Assistant distiller
7. Assistant financial controller
8. Assistant general manager
9. Assistant operation manager
10. Assistant manager
11. Assistant project manager
12. Assistant property manager
13. Auditor
14. Bricklayer
15. Carving designer
16. Craftsperson
17. Chief procurement officer
18. Financial controller
19. Furniture designer
20. Heavy duty mechanic
21. Hotel manager
22. Human resource manager
23. IT Specialist
24. Manager
25. Marketing manager
26. Painter
27. Pastry Chef
28. Project manager
29. Retail/store/shop manager
30. Sales assistant
31. Sales manager
32. Supervisor
33. Tour operator

[10] Declaration of Reserved Occupations under the *Labour (Work Permit) Ac*t, Gazette No. 25 of 1997
[11] Howard Aru, *Passports, illegal passports, certain new citizens and our beloved 'Reserved Investments' List,* Daily Post, 11 September 2020
[12] Murielle Metsan Meltenoven, 'Department of Labour Notice Reserves Occupations List & Letter' (2020)
[13] ILO, The ILO in Vanuatu, available at www.ilo.org

Key Issues

Damage to foreign investment and the economy

Unfortunately, there has not been an opportunity during the consultation period to undertake an economic analysis as to the actual impact these changes would make as there are too many variables to take into consideration during these uncertain times. Therefore, this section refers to the theory of what it is believed the impacts could be. The key to strengthening the Vanuatu economy will be business development and job creation. Vanuatu has a very young population, with 40% of the population under 15 according to the 2016 mini-Census, with a large number of these based in urban areas, and with an increasing proportion who will want to be part of the formal economy, and some of the highest urbanisation rates within the Pacific. The Vanuatu economy must therefore create thousands of new jobs over the next decade within the formal sector, whilst also improving income opportunities for those in the informal sector, such as farmers. Jobs are created by investment – either foreign or domestic. Investment also one of the key determinant of long-term growth. The driving question for jobs and employment is therefore how to increase all investment within Vanuatu – both domestic and foreign – and how to ensure that this is the type of investment which Vanuatu seeks – for examples investment which creates lots of good job opportunities for Ni-Vanuatu, which up skills ni-Vanuatu workers, which spreads wealth around the nation, and which contributes to the long-term sustainable and inclusive development of the country. Although there is no clear data currently, it seems certain that each investor within Vanuatu creates many more jobs for local ni-Vanuatu staff, even if one or two of their staff are expatriates on work permits for highly-skilled roles.

At the moment, the future prospects for investment within Vanuatu are unpromising. As two examples, access to finance remains incredibly difficult, whilst Vanuatu has fallen from 49 in 2006 in the World Bank's Ease of Doing Business Ranking to 107 in 2019. It is absolutely critical that this trend is reversed, and Vanuatu becomes a good place to invest again. This is especially true in light of the COVID-19 pandemic. Firstly, many people have lost their savings or businesses as a result of the economic crisis, meaning that there will likely be fewer potential investors. Secondly, investments are now riskier, due to reduced incomes and increased uncertainty around the world – interest rates were already very high within Vanuatu, making many investments unviable, and so any further damage to the business environment could prove to be particularly damaging.

These potential changes to the reserved list will undoubtedly have a negative impact on foreign investment, although again, sufficient economic research needs to be undertaken first as to better understand the size of these impacts. Key points are:

- Businesses which rely on these positions may choose to not invest at all – for example, a large hotel chain simply needs a hotel manager, or an accountant or auditor needs someone with very specific qualifications. If these potential investors are unable to guarantee that they will fill these roles with suitably qualified people, then they simply will not invest.
- Businesses which do not employ on these positions may also be less likely to invest, as they will have less confidence in the investor environment (for example, what guarantees are there that other jobs won't be added) and will have reduced access to highly-skilled workers – for example accountants. This may therefore reduce investment across the board, even in areas such as agriculture, which are broadly untouched by the proposed new additions to the reserved list.

- Domestic businesses often benefit strongly from the skills of workers who are here under work permits, either through doing jobs which they are unable to find local staff to do, or through training.
- Reduction in business and investor confidence, and damage to Vanuatu's global brand as a good and welcoming place to do business.
- The skilled workers who come in share knowledge and skills, and develop the long-term productive capacity of the nation. On the job experience is often far more important than education, and this learning often comes from colleagues.

Timing and COVID19

The closure of the borders in March 2020 due to the COVID19 crisis has resulted in the largest contributor to the formal economy, the tourism industry, effectively shutting down. A large number of hotels and resorts were forced to close immediately, resulting in 70% of tourism jobs being lost in the first 6 weeks.[14] A large number of expatriates on work permits have also left, although there is no available data on this[15], and there are further instances of work permits being cancelled which has left businesses, already struggling with the impacts of COVID19 without key staff to ensure business continuity. There have been instances, where workers have been legally prohibited from working in Vanuatu, but have not been in a position to be repatriated, resulting in financial support to their families abroad being cut-off and no ongoing financial support available in Vanuatu for basic living expenses. Their employers have been left in the position of losing a key staff member, not being able to recruit the skill set locally, and due to borders being closed, being unable to recruit a replacement, impairing the capacity of the business to operate.

For many businesses, surviving COVID19 requires innovation, skills and a reassessment of resource allocations. There is limited logic in the perceptions that businesses, in general, are indulging in the very expensive exercise of employing non-citizen workers when the required skills set and experience can be recruited locally. This lacks business sense, and in these challenging times, would be an unnecessary business expense. Of equal importance for business continuity is the retention of workers in key positions, with the proven experience and knowledge of the business. The addition of many of the reserved occupations listed above, at this point in time, will result in further negative impacts to existing businesses capabilities, both ni-Vanuatu owned and foreign investor owned. It would also harm business confidence, which would lead to a reconsideration of many new business investments. Any major reforms placing further restriction on business operations should be placed on hold until Vanuatu businesses have recovered from the impacts of COVID19 and TC Harold.

Inconsistency with existing government policy

Many of the occupations proposed to be added to the reserved categories are occupational categories that have been identified as having skill shortages and skill gaps under the National Human Resource Development Plan (NHRDP) and the National Trade Policy Framework Update 2019-2025 (TPFU), and therefore the changes are inconsistent with these policies. Due to the lack of data available from the

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[14] Elizabeth Naru Pechan, *Vanuatu: a tourism sector perspective on potential recovery from COVID-19 and TC Harold,* DevPolicy Blog, 5 May 2020, available at: https://devpolicy.org/vanuatu-a-tourism-sector-perspective-on-potential-recovery-from-covid-19-and-tc-harold-20200506-1/

[15] VCCI, Vanuatu Economic Outlook Report, September 2020 https://www.connectingbusiness.org/system/files/2020-09/VCCI007_Economic_Outlook_Report_LR.pdf

DoL, the NHRDP conducted an industry survey in 2018 with the support of the VCCI and other professional associations representing approximately one third of the private sector employment in Port Vila. It summarised:

"Finding skilled workers is the number one issue for employers in Vanuatu"[16].

Evidence on the unmet skill demand in Vanuatu was also summarised in the TPFU as follows:[17]

- *There is significant demand to improve the technical and basic skill amongst the existing workforce in preference to filling gaps through foreign worker recruitment.*
- *Part of the skills gap and shortages are filled by foreign workers predominantly in managerial, professional and technician/associate professional levels.*
- *The tourism sector has identified chefs and various types of managers (general, food and beverage, finance etc.) as the more significant areas of skill shortages and skills gaps.*
- *The manufacturing and agriculture sectors have identified maritime engineers, managers (again various forms) and sales and marketing staff as the areas they find most difficult to recruit locally.*

Each of the occupations mentioned in these summary points are included in the proposed additions to the reserved occupations. The recent National Human Resources Development Plan 2020-2030 (NHRDP), also recognises that there is a 'need for more ni-Vanuatu with skills and qualifications related to managers, professionals and particularly technician/associate professionals'.[18]

Where are the qualified citizens?

The instructions to amend the Declaration are pre-emptive of a localization policy being developed and implemented, and additionally refer to the domestic labour market being marketed to international markets under the Labour Mobility Programs.[19] This is relevant to the key issues addressed above – why are these amendments being proposed before a localisation policy has been developed and implemented? Accountable and transparent decision-making for labour market regulation should be grounded in policy, current data, and recommendations developed from analysis of the economic and social benefits and risks that would accompany the regulations (including each of the occupational categories listed).

The recently produced APTC Vanuatu Labour Market Analysis Report 2020 highlighted that there are a number of foreign workers in mid-skill level occupations, indicating that employers are having to incur additional expenses where domestic workers with suitable skills and experience are not available. The first recommendation made in the report is to target training and activities to address key national skills

[16] Government of Vanuatu*, National Trade Policy Framework Update 2019-2025, at 176-177, see also Chapter 8 for a more comprehensive breakdown*
[17] *Ibid,* at 83
[18] National Human Resources Development Plan (NHRDP), *Department of Strategic Policy, Planning and Aid Coordination,* 2020-2030, at 4
[19] Commissioner of Labour, *Written Instruction on Amendment of Declaration of Reserved Occupations List Under the Labour (Work Permit) Act [Cap 187],* Communication to AG, State Law Office, 5 May 2020, at 2

shortages and work ready skills.[20] Specific skill shortages identified and the corresponding occupations proposed to be added in the restricted occupations list are detailed in the table below:

Sectoral skills shortages identified by APTC	Occupations proposed to be added to list
Engineering and built environment trades	- Bricklayer - Carving designer - Craftsperson - Furniture designer - Heavy duty mechanic - Painter - Project Manager - Assistant Project Manager
Tourism and Hospitality	- Assistant Casino Manager - Hotel Manager - Pastry Chef - Tour Operator
Agriculture, Forestry and Fisheries	None specific to sector, but general key positions listed as 'occupations' on the list may impact this sector. It is unclear what 'project manager' entails, but this could impact upon this sector.
Business and ICT	- Accountant - Assistant Accountant - Assistant Accounts Manager - Assistant Director - Assistant Financial Controller - Assistant General Manager - Assistant Operations Manager - Assistant Manager - Assistant Project Manager - Assistant Property Manager - Auditor - Chief Procurement Officer - Financial Controller - IT specialist
Education and Health	None specific to sector, but general key positions listed as 'occupations' on the list may impact this sector.

Reliance on foreign workers increases the cost of doing business in Vanuatu, due to the significant investment and added risk for businesses employing foreign workers. Finding skilled and experienced workers locally is in the interest of all private businesses and public sector labour market.

[20] Australia Pacific Training Coalition, *Vanuatu Labour Market Analysis 2020,* at 31

Also highlighted in the APTC report is the lack of core skills within the existing workforce in areas such as language and literacy, self-management, time management, leadership and management, basic IT and technical skills.[21]

According to the Vanuatu Industry Survey 2018, 83% of businesses found it difficult to recruit Ni-Vanuatu workers with relevant higher-level qualifications, which left them with no alternative to recruit internationally. This is not a surprise given that the number of graduates from all of Vanuatu's educational institution combined only reached a total of 1,218 in 2018.[22] Put into perspective, in 2018, businesses would have had a pool of 1,218 graduates with little if any experience to employ, many of which would have been directly recruited by government institutions. Indeed, even Government institutions often face a short-fall in staffing levels, with the Daily Post reporting on 31/10/2020 that there are 4,590 vacant positions within Government.

These numbers do not reflect University of the South Pacific (USP) graduates. Records shared by USP indicated that although there were increases in the enrolment rates of ni-Vanuatu students, this was not equating to higher numbers of students graduating.[23] This is based on data from 2018. The Emalus Campus administration does not currently have records of ni-Vanuatu graduates from all campuses. The National Scholarship Office has also been unable to provide a list of students that have graduated in the last 3 years, with their corresponding qualification.

Where is the data to analyse the risks and benefits of these occupations being restricted?

As mentioned above, the recent National Human Resources Development Plan 2020-2030 (NHRDP), and the Trade Policy Framework Update both highlight that there is a 'need for more ni-Vanuatu with skills and qualifications related to managers, professionals and particularly technician/associate professionals'[24] and over 60% of businesses have had difficulty recruiting ni-Vanuatu with relevant technical qualifications and degrees.[25] Given this Plan only commenced this year and is intended to reach its goals over a ten-year period, there is no prospect that this gap has been bridged prior to the proposed additions to the Reserved Occupations List being announced.

The NHRDP's objectives were developed based on the limited data available on the labour market at the time.[26] Due to the lack of data available, the NHRDP and TPFU both recommended that a labour market system or central database for collecting labour market data be developed.[27] **No Labour market data or draft policies to support further restrictions on these occupations exists to date.** Although there have been some projects initiated for this purpose from the Department of Labour, ILO, National Statistics Office and the National Industry and Labour Market Working Group, this data will not be

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[21] *Ibid*

[22] Ministry of Education and Training Vanuatu, *Education Statistics, Basic Tables of 2019*, at 31; the institutions included are: Vanuatu Maritime College, Vanuatu Institution of Teachers Education, Vanuatu Institute of Technology, Vanuatu Nursing College, APTC, Vanuatu Agriculture College, Vanuatu Police College, and Agence Universitaire de la Francophonie (AUF).

[23] USP, *50 Celebrating the Pacific Shaping its Future*, 2018 Annual Report, at 71

[24] National Human Resources Development Plan (NHRDP), Department of Strategic Policy, Planning and Aid Coordination, 2020-2030, at 4

[25] Ibid, (Annex 3), at 64

[26] National Human Resources Development Plan (2020-2030) Technical Report, at 62

[27] For the list of data sources recommended to be collected, see National Human Resources Development Plan (2020-2030) Technical Report, at 39

available prior to the 6 month consultation period expiring. This once again reiterates the key issue of timing around the proposed amendments.

Recommendations/Alternative Options

The key recommendation from the position of the VCCI and its members is that the changes to the proposed additions to the Reserved Occupations List under the Labour (Work Permits) Act (CAP 187) be retracted.

There are a number of alternative approaches to address skills shortages across Vanuatu, currently being discussed by stakeholders engaged in the development of the National Human Resource Development Implementation Plan. There are also suggestions that have been shared during discussions with stakeholders as viable alternatives to the current proposed amendments to the list. They can be further discussed in collaboration with VCCI and the Private Sector.