VANUATU PRIVATE SECTOR ECONOMIC UPDATE

OCTOBER 2021

VANUATU CHAMBER OF COMMERCE AND INDUSTRY

ACKNOWLEDGEMENTS

The purpose of this report is to provide an update 'one year on' to the September 2020 Vanuatu Economic Outlook Report. The initial report was written to assist both the public and private sector understand how businesses are faring during the ongoing economic crisis caused by the global COVID-19 pandemic. This report does not include predictions, or macro-economic modelling. Instead, it seeks to shine a light on the economic mechanisms impacting the economy currently.

The Vanuatu Chamber of Commerce and Industry would like to thank the following contributors for sharing their stories:

Au Bon Marche, Air Taxi, AJC, Alubat, Ambae Co-operative, ANZ, AVL, Ballande Farm, Big Blue, Bill Iapsen Enterprise, Bred Bank, Bruns Kava, BSP, Budget Solar, Caillord and Kadourd, Cabinet Topographique & Foncier Ltd., Carpenter Motors, Cello Vila, Chiefs Nakamal (20 vatu vendors), Chiko Farms, CM Store, Daily Post, Dynamic, EcoTours, Ephraim Tabi, Eratap, ET Plantation, First National, Fletchers, Fonu Enteprise, Forney Enterprises, Gaston, Guard Island Security, Haos Blong Handikraft, Healthwise Pharamcie, JB Barbershop, Kava sellers, Kaviere School, KD Enterprise, Santo, Lakatoro Consumer Co-operative, Lalawali Co-Operative, LCM , Lemax Store, L'houselet, LMS Co-operative, Lugnaville Market, Magech Construction, Malekula Holiday Villas, Marie's Pharmacy, Messy Haos, Mount Hope Station, MultiMedia Ltd., Nambawan Café, Natangura Café, NBV, Novo Dental, Novo Medical, Origin, Orovy Restaurant, Pacific Supplies, Pacific Timber & Hardware, Paradise Sunset Bungalows, Pikinini Playtime, Pro Builders Vanuatu, Rah Paradise, RecycleCorp, Samson Store, Santo Fish Market, Santo Hardware, Shefa Land Transport Association, Stret Price, Tafea Land Transport Association, Tahos Timber, Tamanu, Tanna Coffee, Tebakor Fuel Station, Telsat, Teouma Prawns, Teouma Valley Farms, The Espiritu, The Havannah, The Hub, Tiwi Trader, UNELCO, Unity Store, Santo, Vanua Printer & Services, Vanuatu Abattoir Limited, Vanuatu Agricultural Supplies, Vanuatu Beverage Ltd., Vanuatu Insurance Brokers, Vanuatu Poultry, Vanuau Copra and Cocoa Exporters , VATE Industries , Vendors at Man Ples Market and the Main Market, Venui Vanilla, VKIA, Vodafone, Waisisi Fishing Association Cooperative, Wan Fu Teng, and Yasur View Lodge.

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METHODOLOGY

The dominant methodology used in the development of this report were interviews. This qualitative research technique involved asking open-ended questions to converse with respondents and collect data from the owners, managers, and staff of various businesses from around the country. These interviews were held from August to October 2021 and were generally held in-person if the business is based in Port Vila, or by the phone otherwise.

There was a large degree of crossover in the businesses interviewed with the 2020 report. This was for three reasons: firstly, the mix last year was felt to be a good mix, and so there was limited need for wholesale change. Secondly, this allows a comparison to be made and thus creates a better narrative arc. Finally, these businesses had already indicated a willingness to co-operate, and so it was simpler to utilise the same businesses.

Fifteen sub-sectors of the economy were again analysed, using the Ministry of Finance and Economic Management (MFEM)'s Gross Domestic Product (GDP) breakdown. The sectors include Crop Production, Livestock, Fisheries (under the Agriculture, Fishing & Forestry Sector), Manufacturing, Utilities, and Construction (Industry Sector), and under the Services sector there is Retail and Wholesale Trade & Motor Vehicles (which are combined for this report), Transport, Accommodation and Restaurants, Information and Communication, Finance and Insurance, Real Estate, Education and Health, and Other Services. This report does not consider the Forestry, Mining & Quarrying, and Government services sub-sectors.

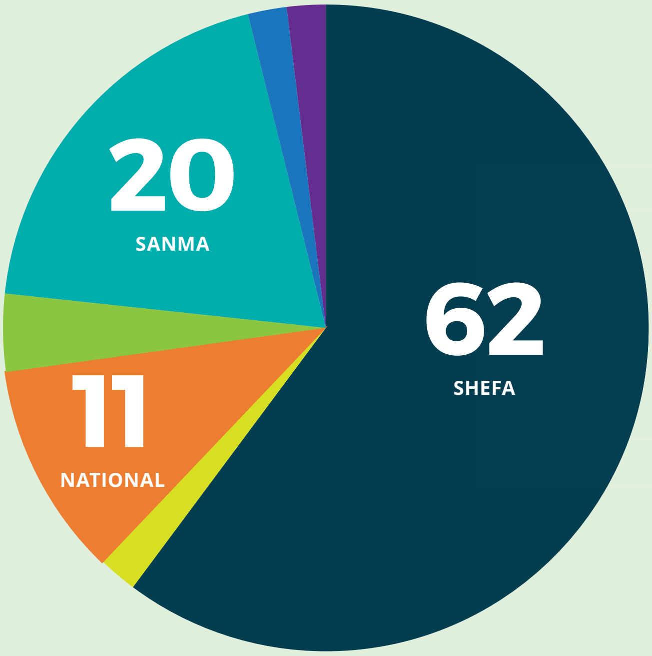
In some scenarios, businesses have been assigned to a category which supports the narrative of the sub-sector, rather than the sub-sector which they technically belong in. For example, hardware stores have been included in construction, rather than retail.

Where possible, representative bodies have been also consulted. For example, by talking to the National Vanuatu Kava Industry Association and kava sellers within Port Vila, and combining this with VNSO data, it is possible to draw conclusions as to how provincial kava farmers are faring.

The VCCI also performed an online survey of businesses within their database. Only 117 responses were received compared to 203 last year. This lower response rate is attributed to survey fatigue, and the length and detail of the survey. Due to small sample sizes, the only groups for which there is detailed analysis are the *'accommodation & restaurants'* sub-sector (38% of respondents), as well as businesses who were eligible for the wage subsidy scheme (56%).

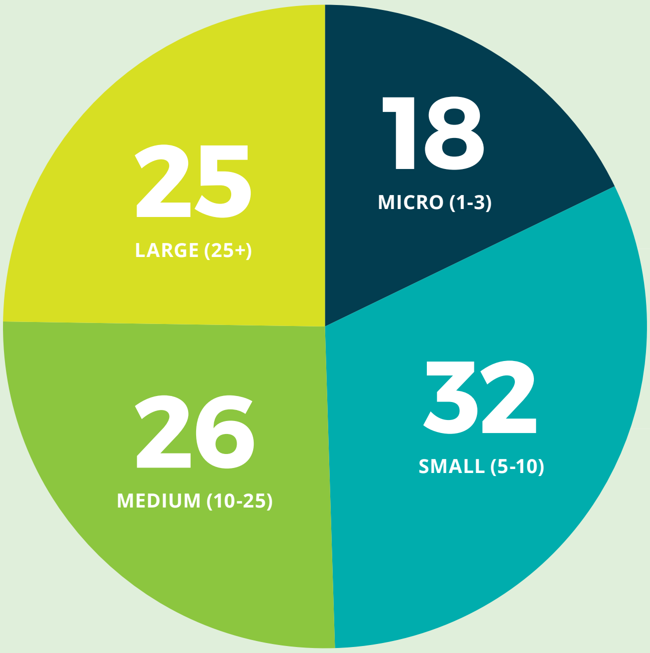
Interviews and survey findings are supplemented by other data sources, including the Vanuatu National Statistics Office (VNSO), the Reserve Bank of Vanuatu (RBV), and data provided by from an accountancy firm in Port Vila.

INTERVIEWEES BY PROVINCE



SHEFA	62
SANMA	20
TAFEA	4
MALAMPA	2
TORBA	2
PENAMA	2
NATIONAL	11

INTERVIEWEES BY SIZE OF BUSINESS



MICRO (1-3)	18
SMALL (5-10)	32
MEDIUM (10-25)	26
LARGE (25+)	25

LIMITATIONS

A key limitation to this research is lack of available data on the economic impact of COVID-19, combined with the lack of reliable economic data available. This means that there are a number of questions which this report raises, which cannot be answered. For example, what has the impact been of a reduction in income for many families on the ability of children accessing basic education.

The case studies are all predicated on the assumption that the businesses provided truthful and accurate information. For smaller businesses in particular financial literacy levels are varied.

The interviews predominantly focused on Port Vila – this is for a number of reasons. Firstly, it is the economic hub of the nation and it is where the majority of formal employment is. Secondly, it is the most economically diverse part of the nation, with by far the widest range of businesses. Finally, it was the only location where face-to-face interviews were held, and these are the easiest and most productive interviews. It remains incredibly difficult to get accurate economic information for large swathes of the population – particularly those living in rural areas. This report also does not consider how employees who have lost their jobs are faring. This is out of scope of the report, but their welfare is a crucial part of the bigger picture.

There were a number of firms with whom interviews were sought, but who either did not want to be interviewed or who did not respond at all. It is possible that there was a bias in which firms chose not to take part – for example those whose businesses are more at risk may be more willing to go on the public record, which in turn would bias the results.

Whilst the Vanuatu economy is very small and relatively simple, and so this qualitative based approach does have strong merit, this report of course does not cover off all aspects of the economy. Examples of missed segments include the local kava market in Santo, or construction businesses which have particularly benefited from Government expenditure. This is fine as the report does not seek to provide a comprehensive summary of all aspects of the economy but is again something to be considered when reading the report.

Finally, there is expected to be a heavy bias in the online survey responses. Respondents were more likely to be formal businesses, more likely to be larger, heavily concentrated in urban areas, by virtue of answering an online survey had some degree of computer literacy, and finally were more likely to be heavily impacted by the economic crisis – as shown by the fact that 56% of the survey respondents reported qualifying for the wage subsidy scheme, which is significantly higher than the actual figure. Furthermore, the low financial literacy of many of the business owners further reduces confidence in the inputs. As an example a visual eyeball of revenue numbers shows numerous obvious errors, which are corrected for as appropriate – such as some questions simply not being used.

KEY FINDINGS

There were several key themes emerging from qualitative data gathered during the interview process.

Overall, the majority of businesses interviewed reported that turnover remains considerably down. This can be attributed to less money being injected into the local economy via tourism, the fact that thousands of people have either lost their jobs or are on reduced hours/pay, and that numerous high-spending expatriates have left the country.[1] This has been offset to some degree by higher Government spending, seemingly higher remittances from seasonal workers (although the lack of data makes this very hard to confirm), and from increased spending from high net-worth individuals who are no longer able to travel internationally.

Despite these mitigations, the overall picture is still one of heavily reduced demand.

As an example, data provided by a local accountancy firm confirms that total turnover for their 42 business clients was 40% lower in July 2021 than July 2019.[2]

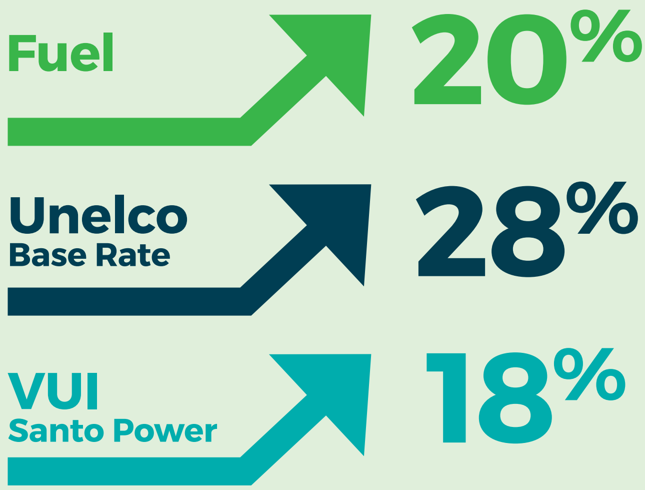
As an example from the informal sector, the 20 vatu food vendors at Port Vila's Chief's Nakamal have reported a fall in sales of 70% on a normal day. Many survey respondents reported demand continuing to fall – 58% said turnover was lower for June-August 2021 compared to the year before, with just 19% reporting an increase.[3]

This slow decline in demand can also be seen in businesses plans for their workforce. 20% of survey respondents reported that they had plans to reduce their workforce size in the near future, with a further 41% being unsure.

1 No data was available on the number of expatriates who have left
2 This dataset was incomplete. July was the most recent month with data for 2019 and 2021. This dataset will be biased towards small to medium businesses in
3 The remainder reported unchanged revenue, a minority of whom were closed

Numerous businesses interviewed reported an **increase in the cost and difficulty of doing business in Vanuatu.** One key factor is the increased cost in global shipping, accompanied by delays to many ships. Other factors include an increase in the global prices of fuel (approximately 50% since January), which in turn has impacted on the price of fuel at the pump in Vanuatu which has risen approximately 20% since January, and the price of electricity - UNELCO's base rate has increased by 28% since January and VUI has risen by 18%. 35% of survey respondents reported a substantial increase in the cost of doing business, with a further 35% reporting a slight increase.

INCREASES IN COST OF DOING BUSINESS SINCE JAN 2021



Whilst prices are not as high as they have been in the past, these price increases have come at a time many businesses have already reported a substantial fall in demand. Businesses have a choice of either passing on the cost increases (leading to inflation and reduced demand), of absorbing the cost increase and further reducing profit margins, or of a mixture of both. **There remains a high risk of imported inflation for the wider economy.**

Merchandise exports have fluctuated due to a combination of lower international demand and issues associated with global shipping. Overall exports in 2020 were 11% lower than in 2019, whilst exports in Quarter 1 of 2021 were the lowest recorded (quarter) since 2010. Conversely, exports in Quarter 2 were higher than any quarter since 2017. Overall, for the first half of 2021 exports were almost exactly the same level as in the first half of 2019, although the composition has changed, for example kava exports fell 42% over these two periods, whilst copra exports were up 268%.

Those interviewed consistently reported an **acute oversupply of kava,** caused by a combination lower demand and increased production. This has led to reports of many farmers being unable to sell their kava. There was widespread frustration from within the industry at the slow implementation of the promised commercial export pilot into Australia of kava products.

Microbusinesses in Port Vila were unvaried in reporting sharp falls in income. This group without exception reported a fall in income of at least 50% compared to before COVID.

This group were most likely to report that they were struggling with affording basic living costs including school fees. In case of a widespread outbreak, this group reported being extremely vulnerable – for example there was widespread concern about how they would afford the most basic goods during any lockdown.

For **larger, more formal businesses within Port Vila, there was more variation in their situations.** Unsurprisingly, the smaller a business, or the more dependant it was to international tourism, the more likely that the business reported being at risk of not surviving this economic crisis. A significant number of businesses in this category reported remaining in a highly insecure position due to the fall in demand and increased cost of doing business. For these businesses, cash flow is tight as are profit margins. There was varying ability to cope with a lockdown, with many businesses reporting being highly There was limited scope for diversification for these businesses.

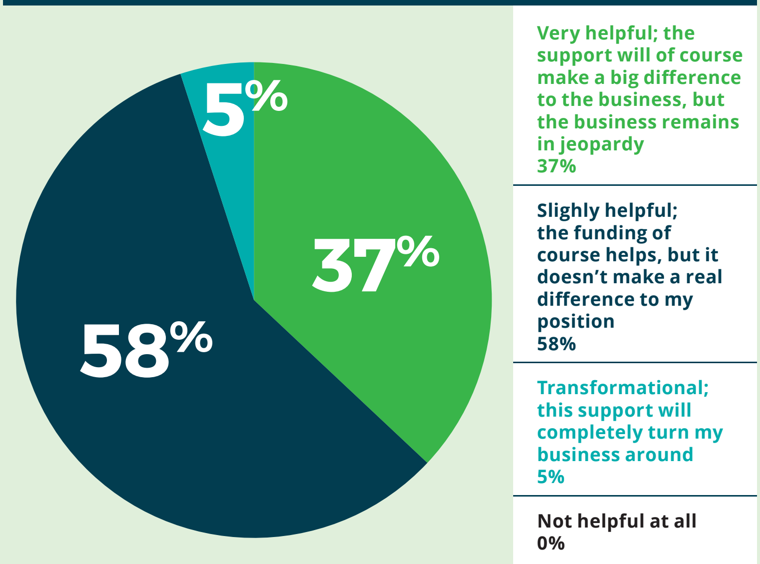
Businesses operating within municipal council zones were overall the most positive in their situation and outlook. They reported a lower reliance on earnings via agriculture and tourism than other areas, and a higher exposure to Government expenditure. With a few exceptions, these businesses generally had high confidence levels in surviving COVID, with some businesses continuing to invest. Some microbusinesses in the zones – such as transport operators – did report a large fall in income.

Within **provincial/rural Vanuatu, there was a wide variation in the economic impacts of COVID-19 depending on the specific economic characteristics of each community.** Those communities who were more dependent on tourism or kava sales in particular reported larger falls in income, with reports of children no longer attending school. Examples include Central Pentecost and East Tanna, whose high reliance on kava and tourism respectively has been compounded by recent disasters (TC Harold and Mt Yasur ashfall). Conversely, communities with a larger number of men and women on seasonal work programs, and/or Government employment reported much more limited impacts.

Businesses were far more used to the situation than last year, having had another 12 months to adjust. However, business confidence in the medium-term remains low, with over 50% of survey respondents reporting low or very low confidence that they would be operating in 5 years.

The views from the private sector on the Government response to the economic crisis were mixed. The concept of the second **stimulus package was generally well received,** although the delays in its implementation in 2021 have impacted its immediate effectiveness. The Small Business Grant in particular was highlighted as being of particular benefit to micro and small businesses. The Wage Subsidy Scheme was generally seen as beneficial, in some cases transformational. Many businesses interviewed were not aware they were eligible, with a limited number choosing not to apply.

WHAT IS THE IMPACT OF THE WAGE SUBSIDY SCHEME ON YOUR BUSINESS?



Numerous businesses interviewed reported **increased Government spending** as having helped to support their business over the past 12 months, although the benefits were relatively concentrated. Conversely, **many businesses reported large outstanding payments from the Government,** with delayed payments a key factor affecting cash flow.

There was **widespread fear about what the economic impacts of a widespread COVID outbreak at low vaccination rates would mean to the economy.** Only 5% of businesses surveyed stated they would continue to operate at full staff levels during an extended lockdown, with only 36% of non-tourism businesses saying that they would be able to pay their staff for more than 4 weeks in a lockdown (23% were unsure). With many businesses reporting being in such precarious positions, it is unclear what the eventual impact would be for the economy if there is a further drop in demand and/or further disruption to supply. There were **varying levels of preparation reported for a lockdown scenario.** In general essential service businesses have detailed plans in place whilst smaller non-essential businesses were far less prepared.

Many businesses reported that they were **highly uncertain** about surviving a prolonged **border closure** (defined as another 12 months from time of survey). For example, within the 'Accommodation and restaurants' sub-sector 59% of those surveyed had very low confidence that they would be operating if the borders are unable to open until 2023. Many businesses are depending to some degree on support from commercial banks, or on continued injections of cash from owners/investors. Each individual business has its own set of characteristics which dictates how much longer they can sustain this for.

51% of businesses in this Accommodation and Restaurants sub-sector reported using personal savings for survival.

There is an extremely high level of uncertainty within the business community, caused by a raft of internal and external factors. **The lack of a clear roadmap from Government** out of the current border closure scenario was a commonly reported contributor to this uncertainty. Businesses were united in their desire to see an **accelerated vaccination program rolled out nationally** as laying the foundation for economic recovery.

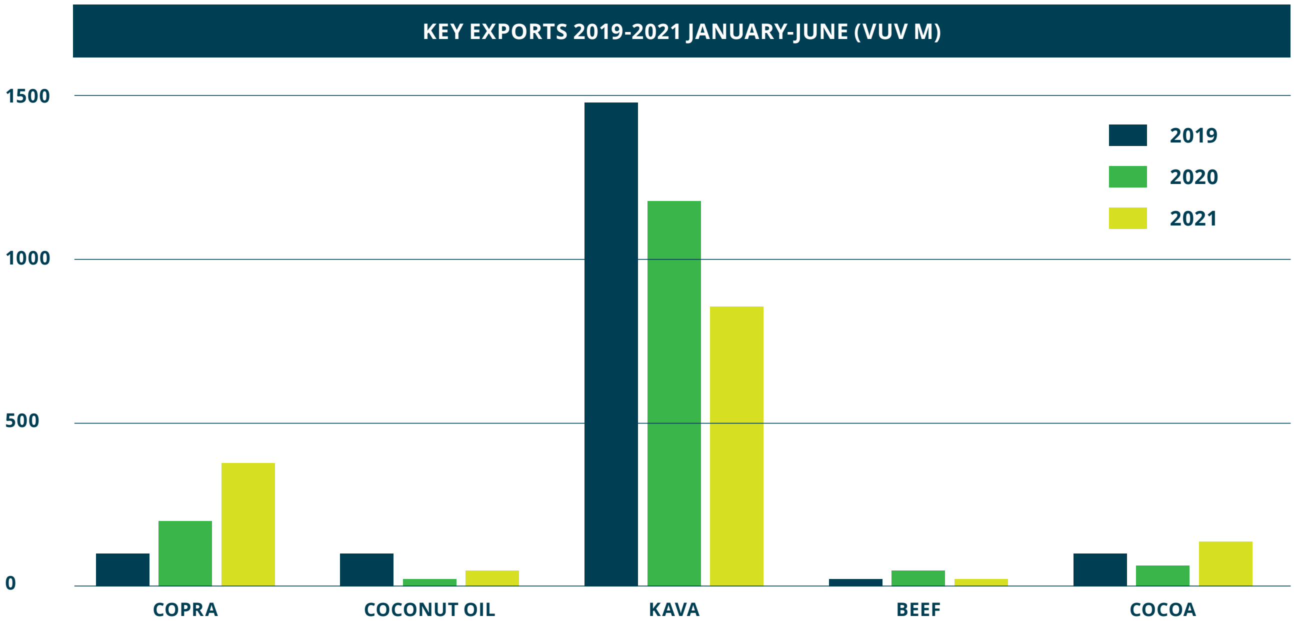
Overall, the **risk level of further negative economic shocks remains exceedingly elevated.** There are a number of contributing factors to this, including but not limited to: Vanuatu's low level of preparedness for COVID (vaccination rates, public health readiness, business preparedness), when COVID will come to Vanuatu, when borders are able to re-open to tourism (and what this looks like – for example what is the future of Air Vanuatu), when the next natural disaster occurs and what this looks like, and what is happening currently within the financial services sector (such as correspondent banking or potential EU blacklisting).

SUB-SECTOR ANALYSIS

The following sub-sectoral analysis focuses on the private sector and does not include Government sectors.

CROP PRODUCTION

SUMMARY



Crop production can be split into two separate categories – subsistence farming and commercial farming. Subsistence farming remains critical to ensuring that people have sufficient access to food, and whilst there is no data for this, anecdotally levels of subsistence farming have increased in response to COVID economic stressors.

Commercial crop production continues to display signs of a lack of demand, particularly from the domestic market. This can be linked to reduced sales of fruit and vegetables by tourism related businesses such as resorts and hotels, and also less disposable income in urban areas.

Kava sellers have reported a reduction in demand within Port Vila, predominantly driven by falls in income for locals in both the formal and informal sectors. There is now a reported acute over-supply of kava, with many farmers unable to find buyers for their product. The heavily anticipated opening of a commercial trial into the Australian market will offset this to some degree – and whilst there remain numerous unknowns with regards to how this market will operate, it should remain a high priority project for all parties.

Merchandise exports (which are dominated by crop production) have recovered to nearly identical levels for 2019. In 2020 merchandise exports fell 11% compared to 2019, whilst exports in Q1 2021 were lower than any quarter since Q1 2010, but they recovered very strongly in Quarter 2 however.[5] In the first half of 2021 there were notable falls in exports of kava, whilst there were large increases in copra. This fluctuations in exports has been caused by a combination of reduced demand from overseas, difficulties in international shipping, as well as changing international prices.

Supply-side data does not exist, so it is very difficult to assess how successful the Government's push to increase agricultural production has been over the past 18 months. Access to market and increasing demand remain critical issues for commercial agriculture.

5 Source: Vanuatu National Statistics Office. Figures not adjusted for inflation. If adjusted for inflation Q1 2021 was the worst quarter performance since Q1 2008

CASE STUDIES

The vendors at **Man Ples Market** continue to see reduced sales – such as stall operator Rose Jack, from North Efate, said that before COVID-19 she would regularly be making VUV 5,000 a day, whereas now it is VUV 2,000 a day. She had savings before the crisis started, but these have gone to paying her children's school fees. Her overall financial position is precarious, and she would not have any money for a lockdown. This story was repeated by numerous vendors. This included the vendors at the 20 vatu food stall, who also reported a fall in income from VUV 4-5,000 a day to VUV 1-2,000 now.

Whilst some fall in sales of fruit and vegetables can be linked to lower sales to the tourism sector, the 20 vatu market is purely local – thus showcasing the fall in disposable income circulating in local communities.

As part of a push to professionalise the market, vendors were encouraged to get their business licence in August 2021, which meant they did not qualify for this year's Small Business Grant under the Government's 2021 stimulus package program.

A similar story was heard at the **Main Municipal Market** in Port Vila, where vendors have reported that pre-COVID their income was generally between VUV 5-8,000 a day. After the borders closed, this fell to VUV 3-4,000 a day, with larger fluctuations than before. The decline in demand from resorts was felt to be one of the driving factors behind this. Since the Municipal Council introduced new parking regulations, their daily income has fallen again to now VUV 2-3,000 a day. Their costs have remained the same, with a table costing VUV 400 a day and transport to and from the market with their produce costing at least VUV 1,000 a day. Those who had savings have used them, and they all reported money as being tight. The vendors generally had municipal licences to sell but not business licences, and so did not qualify for this year's Small Business Grant.

Interviews with representatives from **Luganville's Main Market** reported that vendors are struggling to sell their produce. Previously - depending on their product - vendors could make up to VUV 15,000 in sales in a day. This has now reduced to approximately VUV 8-9,000 a day, and so in response vendors are now increasingly staying on two days rather than one to sell their produce.

Teouma Valley Farms have faced a difficult year, although it is difficult to know how attributable this is to COVID-19. Key challenges have been production issues, most notably flooding caused by exceptionally heavy rain and a disease outbreak. It did take longer to resolve this than expected due to the delays in getting the correct equipment into the country. They reported that demand continues to be supressed by COVID, but overall has remained steady. The business is continuing with its expansion plans and is in a relatively confident position.

The kava vendors at **Anamburu Kava Markets** all reported that sales continue to be well below pre-COVID levels. Consultations were held with numerous vendors, such as Brian Tabi from Pentecost, who reported that before it would take two days to sell 100 kilograms of kava, it now it takes a full week. The prices remain lower too – at VUV 500-700 a kilo - whereas prior to COVID it was VUV 800-1,000 a kilo. In part this was attributed to greater competition, but predominantly it was felt it was due to lower demand, with many kava bars having closed. Those who had savings before COVID now report they do not. Many reported difficulties in being able to now afford school fees. They were highly uncertain how they would cope if COVID came, but those who had business licences said that the Small Business Grant would be of immense help to them.

The **Vanuatu Kava Industry Association (VKIA)** reported that many exporters are dealing with a substantial over-supply of kava.

CASE STUDIES

They believe this has been caused by a fall in demand from the local market, an increased supply of kava both within Vanuatu and from other kava producing countries, and fluctuating demand from key markets. This oversupply reportedly began before COVID, but has increased since early 2020.

The increased difficulties in shipping are of course impacting the exporters. For the USA for example small orders are no longer as viable as they were previously, predominantly due to the sharp rise in the cost of air freight. More recently, the lockdown in New Caledonia resulted in kava bars being closed, which further reduced demand. The VKIA was firm in their belief that the trial of commercial kava export to Australia must begin as soon as possible; particularly given the over-supply currently being experienced.

Forney Enterprises reported a strong year, with growth in both of their key markets – the USA and Kiribati, with their size allowing them to adapt to COVID related challenges relatively easily. They have slightly increased staff numbers to 180, but they are experiencing an over-supply of kava. They have implemented a booking system for kava sellers, whereby farmers are required to book in advance as to when they will deliver, with a current two-week waiting list. They are currently working on increasing production capacity, in part in anticipation for the proposed Australian trial. A COVID lockdown is a key concern as any extended loss of production would put key markets at risk to international competition. They are also concerned about the proposed taxes on the kava industry.

Bruns Kava is a relatively small kava exporter. Shipping costs for smaller quantities have become prohibitive to the US in 2021, so focus has shifted to closer markets – particularly New Caledonia. The recent lockdown in New Caledonia saw demand for kava down by 90%. Not being able to receive payment in USD via NBV has also made it difficult to get paid. Bruns reported their concern over their business reputation, putting further strain on cash flow. They are seeing an increase in enquiries about small-scale exports, which is positive for when shipping prices and timeframes return to normal.

Ephraim Tabi is a kava agent based in Pentecost who is linked in with hundreds of kava farmers. Because of drops in demand he has been unable to purchase any kava for three months, despite there being a sharp increase in the level of supply. Whilst Ephraim predominantly focuses on export, he also noted that the Port Vila market has fallen substantially. He reported that many kava farmers are struggling for money, combined with the impact of Cyclone Harold, and that there are a high number of cases of kava farmer’s children no longer attending school.

Vanuatu Copra and Cocoa Exporters (VCCE) reported being particularly impacted by restrictions to container numbers available via shipping. Over the past 6 months they had enough cacao for 16 containers, but were only able to secure less than a third. They reported holding large amounts of stock in storage and they were trying to find a solution. This is impacting their cash flow, and whilst the business is able to continue to purchase currently, if the situation were to worsen, they would have to consider reducing purchases.

Vanuatu Agricultural Supplies reported heavily reduced demand at their retail outlets, with turnover 40% lower than before COVID-19. Many of the same trends as last year have continued – for example extremely low sales of pasture seeds for the cattle sector. The project side of the business remains strong, which is ensuring that they are able to keep all staff on. To counter issues around shipping they have had to substantially increase the amount of stock they hold.

LIVESTOCK

SUMMARY

The total weight of beef slaughtered at the abattoirs continues to decline – falling 11% from 2019 to 2020. This is accentuating a long-term decline, with total weight in 2020 being almost half the 2012 level. There has been a slight recovery in the first half of 2021, with total weight slaughtered up 18% on the corresponding period from the year before.

Although beef exports did slightly increase in 2020 compared to 2019 (VUV 80m to 85m), this was driven by an excellent Q1 2020 performance (VUV 42m) with exports for Q2-Q4 falling 33% compared to the corresponding period from 2019.[6] Exports of beef for the first half of the year were 25% down year-on-year. There is very limited data available on the impact of the Government's cattle restocking program, with some key players firm in their belief that it has negatively impacted the commercial sector. There is sparse data on the smallest cattle farmers and what the impact of COVID has been on them.

The domestic poultry industry has been particularly impacted by COVID-19, with the industry's dependence on the importation of input materials (day-old chicks and feed) heavily affected by the disruption to regular air and sea cargo. The industry has been further impacted by increased competition through cheap imports.

6 Source: VNSO Quarterly Statistical Report 2021

CASE STUDIES

Vanuatu Abattoir Limited reported a fall in demand from the local market of 50-60%; this has been attributed to resorts and hotels remaining closed and reduced demand from restaurants. The business has now focused on building its export market – previously exports were 30% of the business, and now they are 70%. Exporting beef is harder and less profitable than the local market, especially due to increased competition from Australia, whose beef exporters are now targeting the Pacific market due to trade disputes between Australia and China. The abattoir is currently only just breaking even – not taking into account depreciation – and has reduced some operations, such as closing a freezer. It is running on a minimum staff and overall is in a precarious position.

Ballande Farm reported a fall in sales of approximately 20-25% compared to before COVID times. This has mostly been driven by a fall in demand for veal, with demand for steers and heifers being broadly unchanged. The prices which they receive from the butcheries hasn't changed. The heavy rains at the start of the year led to a sharp increase in the number of weeds, which the farm is dealing with.

For pigs, demand has remained relatively unchanged, although local production is very small. Getting feed is increasingly difficult and expensive, and at times they have had to substitute feed with copra meal, which isn't as good. They have kept all their staff and are in a relatively confident position. They have a plan in place for continuing production in case of a COVID outbreak.

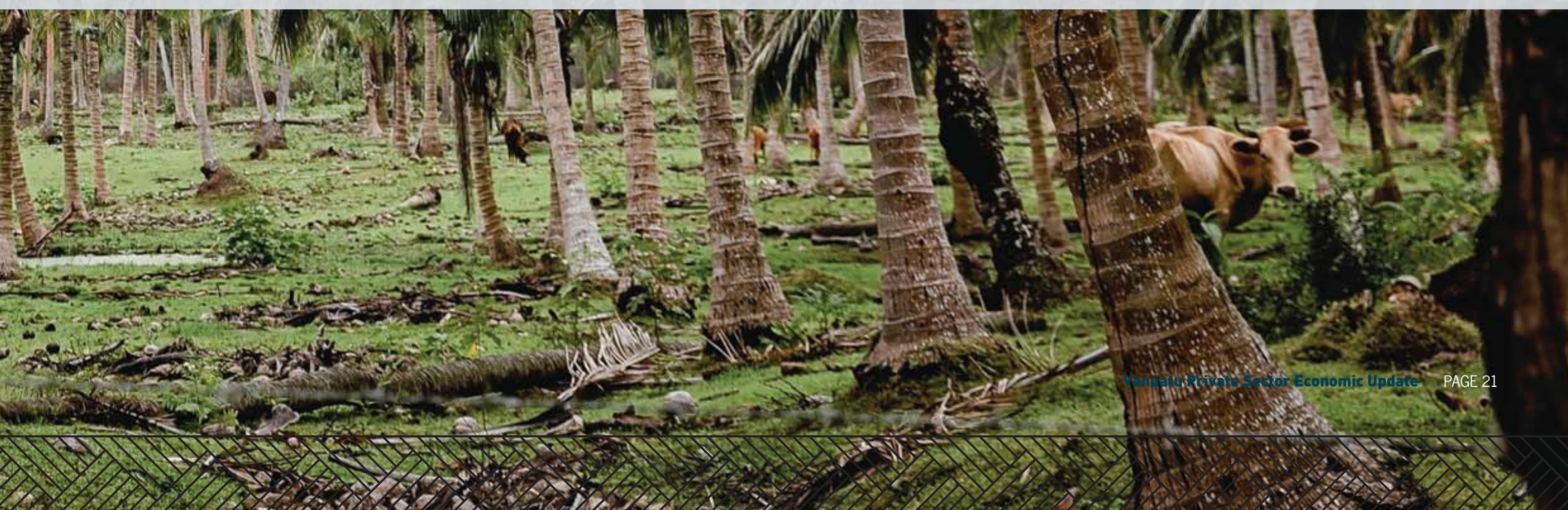
Mount Hope Station in Santo is currently only selling to domestic butcheries, and they reported a drop in demand of approximately 30-40%. The business was well suited to absorb this however, as they were in a phase of planning whereby they were building up their stock, and so they have continued on with this as planned. They have maintained all 37 staff and have protocols in place to continue to operate in case of a widespread outbreak.

The damage caused by TC Harold to **ET Plantations**, combined with reduced domestic market and land tenure issues, has meant that the owners have decided to wind down their operations. They were predominantly focused on breeding cattle to sell to other cattle farms. They reported this market has greatly reduced as a result of the reduced demand for beef in Port Vila as well as the impacts of the Government restocking program and prohibition on the slaughter of female cattle. They are therefore in the process of selling off as many assets as possible.

Chiko Farm reported a substantial fall in revenue as demand has fallen across the board. This has been exacerbated by increased competition from imported eggs, including some which seemingly have health and safety concerns.

Chiko were heavily impacted in 2020 by difficulties in their restocking of baby chicks (losing 20,000 chicks due to flight delays out of Auckland), and then suffered a three-month delay in their packaging when the Evergreen blocked the Suez Canal. This led to them being unable to distribute their eggs as normal. Since then, shipping costs for their other imported goods – most notably feed – have increased by at least 30%. Chiko have reduced their production and have roughly halved their staff. They are preparing their plans for being able to continue production if there is a COVID outbreak.

Vanuatu Poultry faced a very difficult 2020, reporting a fall in sales of 60% and exceptionally tight cash flow. The situation has slightly improved since, but meat production is still only half what it was before COVID, and egg production at 70%. The fall in their high-quality meat product with high input costs, and so hotels and resorts were key clients. Demand for eggs is unstable, with imported eggs in particular driving large fluctuations. This, combined with the difficulties at getting key input goods (layer eggs, day-old chicks, and feed) into the country have made planning exceptionally difficult, and the increased shipping costs have further put strain on the business. They are currently receiving support from the bank and have roughly halved their staffing levels. They are putting in place procedures so as to be able to continue production if there is a COVID outbreak.



CASE STUDIES

FISHING

SUMMARY

Fishing – similar to crop production – is crucial for both subsistence and commercial production. On the subsistence side there is no data, but it seems very safe to assume that production has at the very least been maintained, if not increased, remaining a crucial source of protein for many.

For commercial fishing, hotels and resorts were a key market. This market has all but disappeared over the past 18 months. The dispersed nature of this market and the lack of data makes it difficult to assess the overall impact, and the case studies are relatively weak for this sub-sector.

Exports of fish are one of the standout successes from 2020, increasing to VUV 191m from VUV 33m, driven by the SinoVan facility.[7] Growing this and ensuring that the benefits are felt across a broader segment of society remain the obvious next steps.

Teouma Prawns have in essence ceased all operations. This is due to a variety of factors; drop of sales by over 75%, loss of key clientele who are tourism operators and restaurants and lastly, high operational costs being fuel and power. They have been unable to replenish their stock of prawns, which generally comes from Thailand. In response to this, they closed the operations and froze their prawns, and are now reaching the end of their stocks. They qualified for the stimulus package, which will help to support a skeleton staff with basic maintenance of the facilities, until such a time when it is viable and possible to reopen, either partially or fully.

Waisisi Fishing Cooperative in Tanna reported a continued reduced demand for their fish, with weekly sales falling from VUV 40-50,000 to VUV 20,000. Reduced demand from tourism operators was reported as a key driver of this. Their crops have continued to be impacted by the ash fall of Mount Yasur, and so they have to buy much of their food. Money is tight for its members, and they have applied for the small business grant, which will provide some support.

Luganville Fish Market was damaged by TC Harold and has not been fully repaired. The manager of the market (a JIKA volunteer) left when borders closed and has not been replaced. This means much of the sales are now happening outside in ice boxes. They reported sales dropping immediately once borders closed/the cyclone hit, and whilst they have recovered, they are still below pre-COVID levels.

7 Source: VNSO Quarterly Statistical Report 2021

CASE STUDIES

CONSTRUCTION

SUMMARY

There is much more variation within the construction sub-sector than most, with some businesses reporting excellent results over the past 12 months, and others struggling to find contracts. After a very difficult 2020 for many businesses – particularly in Port Vila – they now reported that their job pipeline is now improving as an increasing number of mid-to-large projects commence. The businesses interviewed below do not include any which are benefiting from Government funded projects, whilst anecdotally there are certain businesses which are doing very well from these. The sector has benefited by the commencement of the Australian Government funded Cooks Barracks project. This project has employed 50 local staff directly, and another 190 across nine sub-contractors. Since the project began the managing contractor for the barracks job Icon Reeves has spent nearly VUV 500m in-country.[8]

The sector remains heavily reliant on imported materials, and so the cost of construction is likely to increase in the coming months as price increases are passed on. It remains unclear how much this will impact on demand or the viability of projects. For hardware stores and other associated retailers, those which have been able to manage to ensure they have sufficient stock in case of shipping delays have been far less impacted.

KD Enterprise in Santo have seen a large reduction in sales through their retail outlet, with the boost they initially enjoyed after TC Harold now having come to an end. They reported a fall in sales 16% compared to before COVID-19. The project side of the business is holding up, although this is predominantly through projects which were started before COVID-19.

Looking forward, the pipeline for future work is limited. The only new projects on the horizon are Government-led, with future private sector demand having nearly disappeared. This is a common story across the construction industry in Santo. Unless this situation improves, this business will be forced to reduce staff numbers. The increased cost of freight and disruption to global shipping has also meant that the business has at times faced shortages in supplies.

Cabinet Topographique & Foncier Ltd are a surveying company, who reported revenue down by approximately 50%. This is both due to a lack of major projects, as well as a reduction in the number of small projects. The pipeline of work remains uncertain. They have stopped nearly all re-investment into the business, and the owner has not taken any money from the business. This has enabled them to keep all their staff, and the wage subsidy scheme will provide strong support for this. They are unable to send their machines overseas to be recalibrated due to the cost and time this now takes, and tight cash-flow, but they have sufficient new machines to be able to continue to function. They are worried about the potential impact of a lockdown on their staff and business.

8 Source: Figures provided

CASE STUDIES

Fletcher Construction reported an immediate collapse in revenue from the COVID-19 crisis, with revenue down by up to 85% in 2020. This was predominantly been caused by a lack of large projects over the past few years, which are Fletcher's key market. In response to this, they have secured as many small jobs, including in the islands, and have cut as many costs as possible, including reducing staff working hours. Key concerns are to maintain crucial skilled staff.

The pipeline is a little more promising with the company securing ADB and VNPF contracts and and more in the pipeline. 2020 to 2021 was reported to be by far the hardest period they have ever had to operate through, although Fletcher's did note they have confidence in the long-term for the sector in Vanuatu.

Majech Construction started in 2020 focusing on small renovations and repairs. 2020 was quiet, but 2021 has been a lot better, as the business builds its reputation. They now employ 11 staff, and the future pipeline of work is busy. They credit the help of VCCI's women in business program with this growth. In case they had to pause work due to a lockdown they have budgeted for how to support staff for a period of time.

Fonu Enterprise is a new construction company with 16 staff. They have a long-term contract on the barracks project, which is providing full-time work for half of their staff. For the half of the workers they were in the process of finishing a project, and after that they had no work in the pipeline, and so there was a high degree of uncertainty.

VATE Industries have seen fluctuating demand, but overall reported being down approximately 15-20% compared to before COVID-19. This has been driven by hotels not investing, and a reduction in major contracts. Demand from other sources has generally been maintained, with slight growth in the local market. They are worried about the impact of an outbreak, and the subsequent drop in cash-flow circulating throughout the economy.

Pro Builders Vanuatu were generally quite busy before COVID, with a steady stream of work – a mixture of residential builds and Government jobs. Since the borders closed however the work has dried up, and the cancellation of contracts agreed to pre-COVID has meant that their 14 staff have all had to seek alternative employment. There is some hope of work in the pipeline, which they are preparing for if it happens. The owner has been relying on his wife's income, and they are struggling to pay for basics such as school fees. The Small Business Grant will be of big support. They are worried about the impact of a lockdown and being able to afford supplies and are considering going back to Ambae in preparation.

A **large electrical contractor** reported that their business has continued to perform strongly, with the diversification of business operations ensuring that their business is able to operate at full capacity. Secured projects are a mixture of public and private work, and are now being underpinned by a major contract with the Australian Government funded Cooks Barracks [projects. Retail sales have also continued to hold up, helped by the business ensuring they have high stock levels at all times. The increased cost of shipping and of raw materials will mean that some prices will also have to increase correspondingly. The lack of clarity makes planning for a COVID outbreak difficult, but they are classed as an essential business and so would be able to continue to operate to some degree.

Pacific Timber & Hardware reported a fall in sales of 28% compared to before COVID, with demand from the tourism sector and from expatriates in particular near disappearing. Demand from the local market, including from the islands, has held up well. Their major issue has been shipping – including 12 containers being stuck in Fiji for six weeks. This has led to shortages of stocks. In response to delays they are now doubling the level of stock they hold. Some staff have left who have not been replaced, and so overall staff numbers are slightly down.

Santo Hardware reported an increase in sales in 2020, boosted by reconstruction efforts after TC Harold. This year sales have returned to 2019 levels, which has allowed the business to maintain a steady position, including slightly increasing staff numbers. The increase in shipping costs and associated delays are beginning to have an impact on the business however, and prices are now starting to increase in response. The business is in the process of developing protocols for how to operate in case of a widespread COVID outbreak.

CASE STUDIES

MANUFACTURING

SUMMARY

The increase in costs has particularly impacted the manufacturing industry, for whom electricity, fuel, and shipping are often a relatively high proportion of their costs. The exporters of low-volume high-value goods are finding it increasingly difficult to ship their goods internationally, and others are seeing their margins reduced to unprofitable levels as costs increase.

The domestic demand for the products of manufacturers is strongly correlated to how reliant they were on the tourism sector before the borders closed. Handicraft vendors generally reported being in real difficulty, with many businesses unsure of continued survival. For businesses whose main source of demand was elsewhere within the economy, there have generally been slight falls in demand. These businesses mostly reported being confident of surviving.

Gaston have sought to diversify their business since COVID-19 began through opening a specialty coffee shop and offering a broader range of locally made products to their customers. They reported that this has helped to replace much of the lost income from chocolate sales to overseas visitors, but it is less profitable and more labour intensive. The business remains in a precarious position, currently just breaking even each month. The bank has been very supportive so far, and the Wage Subsidy Scheme provides increased certainty in retaining staff and remaining operational.

Issues with international shipping have made exporting very difficult and expensive. Chocolate needs to be transported by air, and the cost has increased roughly 600%, meaning that there are now only very limited exports. Exporting cacao is difficult as many buyers are themselves now short on cash, which is further compounded with the difficulties in shipping and extensive delays due to accrued backlogs in international ports of transit.

Venui Vanilla reported a fall in revenue of 70% since COVID-19 began.

The local market, which depended heavily on sales to tourists, has fallen substantially, with the company losing out on up to VUV 2 million a month in sales. The international market has seen a collapse in price due to falling demand, with the price for Vanuatu's product – which is a premium crop – falling by as much as 70%. This combined with a sharp increase in freight costs of up to 350% has meant that the buying price offered to farmers has halved, which in turn has led to some stopping production, thereby impacting on supply. This has been further compounded by the impact of climate change on vanilla production in South Santo.

Venui have reduced their staff numbers from 8 to 6, and they no longer use local village contractors. The business is being supported by outside income from its owners and other businesses. The second stimulus package will provide support to the business, as will support from PHAMA Plus in meeting reported Government regulatory burdens.

CASE STUDIES

The vendors at the **Haos Blong Handikraft** reported little to no business, with Josephine Gideon, the President of the Local Handicraft Connections Association, reporting falls in income of 95% for her members. Many vendors have left, whilst those remaining are simply trying to keep their businesses alive for when the borders can reopen. Money is exceptionally tight for the vendors, many of whom are struggling to afford basics. The Port Vila Municipal Council recently reinstated their rent of VUV 12,000 a month, which many vendors cannot afford this. They were almost without exception desperate for the stimulus package to arrive.

Jenny Tari, who was making VUV 200,000 a month before COVID, a figure which reduced to VUV 5,000. She felt that this is in part because much of the local market has exhausted their demand for handicrafts. Jenny is being supported by income from another business but is considering moving back to Ambae due to her financial difficulties.

Tanna Coffee reported a fall in revenue of 50% in 2020, with demand from the local market falling due to the loss of the tourism sector. In response they have focused more on exporting; previously exports represented 25% of income, and now represents 80%. Exports are however far less profitable, particularly with the increase in air freight costs – with Air Vanuatu prices increasing from VUV 90 a kilo to VUV 600. This has in essence eroded nearly the entirety of the profit margin, leaving the business in a precarious position. Staff hours have been reduced to three days a week, and the business has relocated to save costs. The stimulus package will help in both business survival, and towards buying the crop from the farmers next year, with cash flow remaining tight. It was reported that a lockdown would likely close down Tanna Coffee.

Alubat's revenue was reported to be 26% below pre-COVID levels, which is a slight improvement on last year. Demand is being driven by Government projects and local renovations. As staff have left, they have not been replaced, leading to a slight fall in numbers. They are confident in the business surviving, but if there were a lockdown for a few months, they would expect to struggle substantially.

After a difficult 2020, **RecycleCorp** noted that they have seen their business recover to approximately pre-COVID levels, albeit with increased difficulties exporting due to the disruption to shipping. This has been driven entirely by an increase in global commodity prices, as the global economy begins to consume again following the initial slump caused by the pandemic. The first stimulus package was vital at this time for allowing them to maintain all staff, providing support at exactly the right moment.

Vanuatu Beverage Limited reported very little change in their total turnover since last year. However, this has predominantly been driven by increased demand for their new products which are still in their growth phase. Sales of water have fallen by 20%; this is partly attributable to lower demand from resorts, as well as no longer supporting TC Harold, but it is mostly due to lower local demand. The increased cost of shipping has however nearly entirely removed their margins, and so they are now just breaking even. They remain confident in their long-term position, and are continuing with their expansion plans.

Pacific Suppliers have more confidence than last year, having had more time to adapt to the new market. That said, it remains a very difficult market to operate in, with the business reporting turnover being down 36% year-on-year for their most recent financial year. The laundry side of the business remains heavily depressed, down 90%. They tried to replace the demand from the tourism sector, but there was limited demand. They have reduced costs where possible in order to keep as many staff employed, but if sales drop any further it would be extremely difficult to maintain current numbers. Increased costs and difficulties related to shipping have reduced their margins further. Both the first and second stimulus packages have proved to be of great help for Pacific Supplies to maintain their staff.

Tahos Timber have seen a drastic fall in sales of up to an estimated 80%, with 2020 a very difficult year for the business. This year there has been some improvement, as construction companies in particular have begun to increase their demand, although the business remains noticeably slow. Staffing numbers have fallen from 12 to 3. If a COVID-19 lockdown was to occur they would question whether to open again or not.

CASE STUDIES

UNELCO reported a fall in demand for water and electricity has decreased by 10% to 15% compared to pre-pandemic levels (2019). The overall consumption drop has been primarily driven by decreasing demand from businesses – both small businesses (down 10-15%) and large businesses (-22%). The number of customer disconnections for unpaid bills, an indicator of economic hardship, remains higher than in 2019, but has fallen since from its peak levels reached in 2020. Following a constructive electricity tariff decision, UNELCO is restarting its investment plan to expand access to energy in Efate and increase renewable energy generation. UNELCO has kept all staff on at full time, and its management believes that it has probably now reached the level of consumption corresponding to 'local' demand, and it is confident that barring a local outbreak and the ensuing downwards pressure on demand, it can continue to fulfill its essential services mission at current demand levels.

UTILITIES

SUMMARY

Demand for utilities has plateaued somewhat compared to last year's levels. The utility providers are generally large businesses, who have been able to adapt to a lower level of demand relatively easily, and they remain confident of their long-term position. As the businesses have adapted, they have now restarted investing into their services. They have in place protocols for if COVID comes and are confident in continuing to be able to provide their vital services.

Increasing global prices of fuel has meant that prices are increasing at the pump here in Vanuatu – with the price of diesel increasing by 17.5% from January to September 2021 and the price of unleaded increasing by 22.4%. This has led to an increase in the UNELCO base rate of 26%. The price increases have been particularly stark recently, and so it remains to be seen how demand for utilities will change in response. Whilst the global price of gas has increased and continues to do so, there has so far been no move to increase prices within Vanuatu.

Origin reported a very slight uptick in demand compared to last year, but they are still down approximately 30% overall compared to before COVID. This improvement has been driven in part by an increased push to the islands, thereby opening up new markets. The Wage Subsidy Scheme has supported them in keeping all of their staff. They have a full operational plan ready in case of a widespread outbreak. Origin remains very confident in their long-term position, and are investing in expanding their capacity.

Tebakor Fuel Station are in much the same position as last year. Demand is down by a reported 19%. They have received a boost in demand as Pacific Petroleum no longer refuel drums, so those sales have been redirected to individual stations, and they have also seen an increase in demand from construction related activities. They have kept all staff in order to maintain quality service, but the manager remains on a heavily reduced wage. They remain confident at their current operating levels, but their business model – of very high turnover and low margins – makes them vulnerable to the shock caused by an outbreak, and means they are concerned about their ability to pay their business licence.

Au Bon Marche reported a slight recovery in their fuel sales, which are now down 15% on pre-COVID levels. They attributed this small recovery to the construction sector.

9 Source: Figures provided by Au Bon Marche
10 Source: Calculations on UNELCO data

CASE STUDIES

RETAIL

SUMMARY

A large number of retail stores were interviewed, as they are a good metric for how much money is circulating in the domestic market. The overall picture is similar to last years findings. Rural stores interviewed across the nation all reported fall in incomes compared to before COVID, showing the flow-on impacts of the economic crisis around the country.

The increase in shipping costs is a major concern for the retail industry, given its high reliance on imported goods.

Larger retail stores have generally been able to absorb the fall in revenue, and are confident in their long-term position. Smaller retail stores which do not sell essentials are in a more precarious position. Of those interviewed below, Stret Price offers the best example, but anecdotally there a number more who are in similar positions. For these businesses cash flow is increasingly tight, but they generally feel able to continue operating at current levels of demand. Any widespread COVID outbreak would potentially lead to many smaller businesses considering their options if a lockdown occurs.

Au Bon Marche (ABM) reported a fall in revenue of 15% at its retail outlets and 20% at wholesale outlets. The fall in sales at wholesale has been attributed to fall in demand from resorts and hotels. As staff members have left some roles have not been replaced, leading to a slight reduction in the workforce size. The exception is security, which has been increased due to increased theft. The increased time and cost of shipping has impacted on the business at times, leading to shortages of key products. They are continuing with key investments and expansion plans.

LMS Co-operative in Port Olry have continued to see revenue decline slowly, and they estimate it is now 30-40% below pre-COVID demand levels. This has been caused by a fall in income across a range of sectors, most notably tourism, but also key agricultural industries – copra, cattle, and kava. They have still kept all staff on and had not at the time of interview applied for the stimulus package due to not being aware of it.

Lemax Store in Sola reported a large reduction in the amount of money circulating within the local community. They said there has been a sharp fall in their lowest daily takings; before COVID-19 VUV 20,000 would be their lowest day, a figure which has now fallen to VUV 3,000. They have reduced staff numbers from two to one. At times their suppliers have been unable to provide them with everything which they wanted, but there has been no changes in price yet.

Lalawali Co-operative on Maewo estimated that their demand has dropped by an estimated 25% since the borders closed, although there has been a slight improvement in demand recently. This is attributed to lower income across the key agricultural products – particularly copra, but also kava. The taro market has held up well. They have slightly reduced their staff levels in response.

CASE STUDIES

Samson Store in Nguna has seen a sharp fall in sales. Before COVID, they reported usually make VUV 20,000 of sales in a day. Now however the business is very quiet, with the store rarely selling more than VUV 10,000 – and often less than VUV 5,000. This has been caused by a fall in income from both tourism and agriculture. A high number of seasonal workers have been keeping money flowing into the community, which has been used to support school fees and home construction. The first stimulus package was used by the owner to establish a new business selling bricks, and they are thinking how they can use the second package to upgrade their store.

Lakatoro Consumer Cooperative reported a recovery in sales this year to roughly pre-COVID levels, after demand was down heavily in 2020. This is attributed to having a few consistent sources of sales – most notably local schools for goods from their bakery, and Government (both permanent civil servants and Government events).

Unity Store in Santo reported a 17% fall in sales at their retail store, and a 19% fall in sales at the petrol station. This has been caused by a fall in tourism, and through increased competition. They have a plan ready for COVID-19 if it does come. They buy from a wholesaler, which has not yet increased its prices, and so they have not been impacted by the challenges caused by shipping.

Stret Price have continued to struggle, reporting sales down 22% this year compared to 2019. The business remains in a precarious position of just making enough money, but it is very tight. They noted demand fluctuate depending on what is happening in the wider economy – for example sales fell when ‘Blessed To Be Blessed’ was taking large numbers of deposits, leaving people with less disposable income. Stret Price are having to increase the size of their orders due to delays in shipping, which is placing further strain on their cash flow, which remains very tight. They are very worried about what a potential lockdown would do for their business, with a high probability they would be forced to close. They still have 40 staff, and have also noticed an increase in theft.

Bill Iapsen Enterprises in Tanna reported slight reduction in turnover last year of 10-15%. In response the business has sought to diversify by opening up new ventures, including a butchery, a restaurant, and a bottle shop. This has helped support the business, and there has also been a slight improvement in local demand this year, boosted by large events held in Tanna in 2021. They have kept all staff on, but have faced a sharp increase in the cost of doing business, particularly shipping and freight. Some of the price increases have been passed onto the customers.

Cellovila reported a sharp fall in demand from the tourism business. They have managed to diversify well however, and so overall turnover remains strong. This has been achieved through increased sales of cleaning and sanitation products, as well as of certain high-end products. They have managed to slightly increase their staffing numbers. The increased freight costs since May 2021 are putting strain on the business, and they may have to pass some price increases onto customers. They will have to temporarily close their toilet paper production plant between 18 September and 23 October 2021 due to delays in getting raw materials in, although all staff will remain on full-pay. They are confident in their position, including if a lockdown comes.

Dynamic Supplies reported an improvement in sales since they opened their retail outlet, although they remain 40-60% down on before COVID-19. They are increasing their shipping out to the islands and are continuing to invest in Project Local (buying and on selling local produce). The increase in shipping costs has reduced their margins, and there has been a slight reduction in staff levels, as Dynamic have chosen to not replace all staff who have left. The Wage Subsidy Scheme will be very helpful in supporting cash flow and in supporting their decision to retain all remaining staff. They remain confident in their future, including in getting through a lockdown.

Solar Supplies Vanuatu reported steady demand for their products compared to last year, albeit still well down on pre-COVID levels. They have adjusted now and have a higher level of confidence in the future than last year, although they remain worried about the impact of a lockdown. Their shipping costs have nearly doubled, and so at some point they will likely have to increase their prices. They are currently investing in a new premises for the business.

CM Store reported a slight recovery in demand since last year when they were 30% down compared to before COVID. As they predominantly buy their goods from wholesalers within Vanuatu, they have not seen any increase in prices yet, although they expect this to change. They have an increased level of confidence in survival, and still have the same staffing levels, although they have seen an increase in theft.

A large retailer based in Santo reported a modest increase in revenue compared to before COVID-19. This is in part attributed to the Oxfam cash transfer program, which provided direct support to the most vulnerable, which was directly spent in the local economy, particularly on basic goods. The business is currently adjusting to the shipping disruption, which makes it very difficult to plan stock levels. For the most part they have absorbed the increased shipping costs themselves. The business remains cautious due to the inherent uncertainty and has placed both short and long-term investment plans on hold, although they are upgrading existing facilities.

Carpenter Motors reported an immediate fall in sales of 40% when the borders closed, and demand has plateaued since. Sales to businesses has been the most impacted, but sales to individuals – including to the islands – has also slowed. The sales of parts and of servicing both suffered last year, and whilst sales of parts has recovered to pre-COVID levels, servicing remains just over 30% down. A global shortage of semiconductors has meant at times they have faced delays in getting cars, whilst the shipping problems are impacting on getting spare parts. They had been plans to expand before COVID, but these plans have been placed on hold until there is greater certainty.

Their business model requires them to order cars and trucks 3-5 months in advance. Any extended lockdown would be extremely challenging for the business, as they would still have to meet their financial obligations for the cars and trucks they have ordered.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ACCOMMODATION & FOOD SERVICES

SUMMARY

This sector has unsurprisingly been the most affected over the past 18 months, given its heavy dependence on tourism. 100% of the survey respondents saw a fall in turnover from June-August 2019 to 2020, with a further 54% seeing a further fall from June-August 2020 to 2021, and only 9% experiencing an increase (the remainder had unchanged demand from last year). The domestic tourism market is small enough to only sustain a limited number of operators, with many business owners having taken the decision to close – most temporarily but in limited cases permanently. Those operators that chose to remain open are generally just covering their costs, with many owners continually injecting money into their businesses, via personal savings or loans.

Rural tourism remains impacted, with many operators suffering very large falls in demand, and struggling to maintain assets or staff skills. This comes on top of an extended period of success for this segment – from 2014 to 2019 there was annual growth of 14% in visitor numbers to the outer islands. Along with kava, provincial tourism was the biggest economic development success story of this period, and a rapid recovery of this sub-sector should form a key part of any economic recovery.

The inherent uncertainties of operating in a pandemic are making business planning extremely difficult, especially for the larger and more formal businesses. For these businesses, the lack of a clear plan for border reopening is a source of great frustration within the industry. Each business is at a varying level of vulnerability in case of an extended border closure. Only 13% of accommodation/restaurant respondents to the survey had a very low confidence that their business will still be running in a year, but this rises to 59% if borders are unable to reopen until 2023. There were varying degrees of optimism as to the future of the industry – some businesses felt confident that there is an opportunity to attract a new type of tourist from short-haul markets, particularly if the Government is proactive.

Common concerns raised were the maintenance of deteriorating assets, as well as the loss in staffing skills. No business reported having seen any update on the Tourism Support Program, although this may not necessarily end up being an issue, as this funding will be most important in the run-up to the borders reopening. Readiness to reopen varies, with some being ready to go immediately, and with others requiring at least three months.

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The Espiritu reported fluctuating demand, with some periods being nearly fully booked, and others where they are extremely quiet. Overall, revenue is down approximately 50% on 2019, a slight deterioration on last year. The majority of their customers are those travelling to Santo for professional reasons, and they have been helped by many of the alternatives within Luganville closing. They have kept all their staff, albeit on slightly reduced hours. They are still trying to get new managers into country to improve the running of the hotel. They qualified for the Wage Subsidy Scheme, which has boosted their confidence in surviving and to keep all staff employed.

Yasur View Lodge reported an almost total loss in demand, from having numerous guests every week to having a handful of guests every two months. They previously employed six staff, but now it is just the family running the business. They are struggling to maintain all of their facilities, and so are focusing on a limited number of bungalows. The Small Business Grant will prove to be very helpful for supporting needed maintenance to these bungalows.

Rah Paradise Bungalow reported a substantial fall in tourism. Before they would nearly always have international tourists, whereas now they only receive one or two sets of tourists a month. This has been offset to some degree by an increase in Government business, although this is at a lower price. Overall they estimated being down at least 50%. This has contributed to a fall in staff from seven to two, as well as an associated fall in purchases from the rest of the community. Whilst the owner said his children are able to attend school, he reported other children in the community are no longer able to attend due to the impacts of Covid. The owners also host five children from Ureparara, whose parents are struggling to afford school fees due to the fall in the copra market for remote communities. Maintenance of facilities is a challenge, but they are confident in continuing to provide a quality service when borders reopen.

Malekula Holiday Vilas have recovered strongly since last year, driven by a sharp increase in the number of Government officials visiting Lakatoro – meaning income is higher than in 2019. They have increased staff numbers and are seeking to expand capacity, so as to be able to cater for both markets when borders reopen. They reported that the limited of COVID on the community is limited – for example there were no reported cases of children no longer being able to attend school as a result of the economic fallout.

Paradise Sunset Bungalows in Epi had international tourists nearly every week, thanks to its good connections to Port Vila. Their turnover has fallen by at least 50%, with the remaining market being Government officials, the Australian Defence Force, and limited domestic tourism. They have reduced staff numbers from six to two, and are buying substantially less from the community. They are using this opportunity to try to upgrade their facilities, so as to be able to expand their market once borders reopen. The owner reported a slight fall in cash flow in the community, through both tourism and through farmers struggling to sell their produce. The community has been supported by a large number of seasonal workers, which has helped to ensure that children are still attending school – with community fundraisers helping those who cannot afford it.

Orovy Restaurant in Emua, North Efate, depended heavily on the international tourist market, which was supplemented by the expatriate market. They had five staff, and when the borders closed, they continued to try to operate, but after a month they decided to temporarily cease operations as they were only seeing very low levels of sales on the weekends. They are ready to reopen when borders reopen, but will need a few months for basic maintenance. They have reduced their purchases from local fishermen and fruit and vegetable providers.

The overall reported impact on the community has been limited though. Tourism within Emua is limited, and it is a hub for North Efate (thanks to its wharf and NBV branch) which has meant its roadside markets are reported to have only seen a slight reduction – although sales to Port Vila have seen a larger fall. This is further supplemented by the community having a large number of seasonal workers, and a good number of professional employees in well-paid and secure jobs in Port Vila, who commute daily.

Eratap Resort made the decision to mothball their business until borders reopened. This was based on a feeling that the local market was simply not sufficient for the business to meet costs, and its losses would be smaller than if they opened. They currently have 10 staff working full time in security and gardening, their main other costs are severance liabilities and overdraft interest repayments. The Owner/General Manager has not drawn any wage since the borders closed. The situation was compounded by the fact that the Resort closed on 31 January 2020 for 2 months for major renovations, the borders closed one week before their reopening date. They are funding this situation through borrowing from the bank, and through the sale of assets most notably their family home. It will cost them a very significant amount of money to reopen, and they will need sufficient warning to be able to do so. The lack of certainty is making planning for business survival and recovery exceptionally difficult.

Tamanu have so far managed to continue operating through a mixture of support from the bank, quarantine, sales to the local market, and reducing costs. They have reduced staff numbers from 45 to 27, with those remaining working roughly half-time, and the owners are now putting in additional money to support the business. The local market alone is simply not sufficient to sustain the business, and the reduction in quarantine numbers makes things harder, although the Wage Subsidy Scheme will provide some support towards this. They are confident in their longer term position, although the unknowns around border reopening dates makes planning exceptionally difficult.

Nambawan Café reported a fall in income of 60%, driven by both the lack of tourists and a fall in demand from local customers. They have been forced to reduce their number of staff from 26 to 10, who are now all working part-time. The owners have not taken any money out of the business since COVID began. The wage subsidy scheme will prove to be of substantial help with the business, boosting their chances of survival. However, any lockdown would likely lead to the closure of the business in the short term.

Natangora Café reported income roughly halving since the borders closed, with the loss of tourists having a substantial impact. They have adjusted their menu to try and target the local market more, but this has only had limited

CASE STUDIES

impact, with a small number of customers eating lunch. The business is uncertain about their future, and the wage subsidy scheme will prove to be of great help, allowing the business to increase staff hours.

L'Houstalet reported a fall in takings of approximately 80% since the borders closed. They have reduced the number of staff from 30 to 20, with the remaining staff working shorter hours. The owner is not taking a salary and has sold real estate property in order to support the business. This is allowing him to continue to inject funding into the business and means that there is a very high confidence of the business surviving. In case of lockdown they would pivot the business towards offering takeaway. The current Wage Subsidy Scheme is supporting the business, and overall the position is calmer than last year.

The Havannah have reopened for three days a week and has reported demand being just sufficient enough to cover operating costs. They are focusing on maintaining their property and staff skill sets ahead of the future border reopening. They have 28 staff working part-time and the Wage Subsidy Scheme will provide real support towards their staffing costs. They have provided transport for 650 local residents to the vaccination facilities in Port Vila. The owners of The Havannah believe vaccinations is the key to the safe re-opening of borders and economic recovery.

The Hub has currently two long-term tenants, but earnings from these are not sufficient to cover the running costs of the operation. The owners are currently using this opportunity to renovate and improve their facilities using their own savings, but there remains an extremely elevated level of uncertainty about the future.

Vanuatu Ecotours reported revenue falling dramatically due to the border closure. They have a large number of **community business partners**, who they work with to create experiences for tourists and sell internationally. These community businesses have seen a corresponding fall in income and many have been unable to maintain their assets. Vanuatu Ecotours offers occasional discounted tours and activities for the local market, but have scaled back these activities, as residents are a very unreliable market (often no-shows and unwilling to pay cancellation fees) making these activities not financially viable at the prices offered. The main purpose of activities for the local market has been to keep some operational capacity and to keep the guides' skills sharp. The business decided to apply for the Small Business Grant as it is easier than to apply for the Wage Subsidy Scheme and it will support their staffing costs.

The business is in essence in a holding pattern waiting for borders to re-open. They have faith in the tourism market has the potential to recover quickly, as they have been receiving lots of enquiries from operators in short-haul markets who previously had no interest in Vanuatu. They believe that building back capacity will be a critical challenge for the tourism industry.

CASE STUDIES

Telsat Pacific reported a steady fall in income over recent years, as hotels and resorts continued to reduce their demand, and as expatriates and locals have cancelled services. Overall they reported being down approximately 80% compared to before COVID. They are now operating in a holding pattern, including having put their staff on reduced working hours and have slightly reduced the number of channels they offer. There continues to be exceptionally sparse demand for advertising on 1nomo. The second stimulus package will provide relatively small support to the business, given wages are a very low part of their running costs. They have a high confidence in surviving COVID-19, due to having no debt or outstanding costs.

INFORMATION AND COMMUNICATION

SUMMARY

The large telecommunication companies – which were on a strong growth path prior to COVID – have seen revenue roughly flatline since borders closed. This reflects the increasing importance of these companies to the population, with access to phone services increasingly being seen as a basic good, and so demand is relatively income inelastic. These large businesses are very confident in surviving the current COVID crisis.

For smaller businesses however, they do not have as reliable source of income as the large telecommunication businesses. For those which depend on advertising, they continue to see a large fall in sales – reflecting the cost saving decisions made by other businesses across the economy. These businesses are in a more precarious position, with exposure to debt being a critical factor as to their long-term confidence.

Vodafone have managed to achieve modest growth over the past year, reporting that growth in the consumer market being sufficient to offset the fall in income from other segments mainly that are dependent on tourism and inbound travelers. After a decline in 2020, income from the business sector has been stabilized. They are continuing with their investment plans, although these are naturally being scaled back after a period of very high investment.

The Daily Post reported a fall in revenue of 26% from Q4 2019 to Q4 2020, meaning that they did not qualify for the stimulus package. There has been a slight further fall in revenue this year. Government demand for advertising has remained constant, whilst on the private sector side demand from big businesses has fallen slightly but there has been a small increase in demand from small businesses, as these businesses have realized how long the economic crisis will continue for, and so have seen the need to restart advertising. As some staff members have left they have not been replaced.

MultiMedia Ltd reported a slight increase in demand for its services from the Government, whilst private sector demand has remained low. They have managed to secure some sources of funding from outside the country to produce innovative programs which have helped the business. The staff are currently working half hours, and the business is currently just breaking even, with cash flow in particular being extremely tight. The Wage Subsidy Scheme may enable increased hours, depending on the specific position of the business when it is paid, and it will certainly increase the chances of the business surviving. The bank remains supportive, and whilst the business is an essential service, it is unclear what the impact of a lockdown would be on its sales.


TAXI

TRANSPORT

SUMMARY

Micro transport operators in urban areas have relied heavily on tourism and continue to report heavily reduced demand and income. These owner operators and drivers are often living day-to-day and are particularly exposed to loss of income during an all-encompassing COVID related lockdown. Port Vila based bus drivers have displayed low take up rates of the vaccine and of safe business operations training, something which must be urgently addressed. Small and medium sized businesses which depend on transporting tourists continue to be in precarious positions.

In the short term the Shipping sector expects schedule integrity across the Pacific to continue to be impacted as local authorities take steps to manage COVID-19 risk. Overall demand for cargo remains at unprecedented levels and services are expected to be at capacity for the foreseeable future. The global situation of unprecedented demand coupled with port congestion continues to drive supply chain disruption and a pronounced capacity shortage. This macro setting will not change in the near term.

Global indexing that track freight rates show the World Container Index per 40 foot container 351% up vs the same period in 2020. By comparison the increases by the lines servicing the Pacific are less than 10% when compared to the global trend. All shipping lines are very conscious of shipping affordability. Their increases are measured and about long-term sustainability and should be evaluated in terms of the market developments. Container handling and bunker (Fuel) costs are rising significantly and the global charter market for vessels suitable for pacific trades has increased 305% compared with 2020 (not all shipping lines own their own vessels, they charter). In addition to soaring costs of idle ship time Port congestion has reduced overall capacity by more than 30%. Maintaining Covid safe crewing and carrying out ship maintenance in covid times comes at a high cost.

CASE STUDIES

Tafea Land Transport Association continue to report notably reduced demand, with income having halved for most operators since March 2020. There is very limited domestic tourism, and the agricultural producers are unable to pay what they used to for transport of produce. This has led to many operators accepting lower prices. Many operators have had their vehicles repossessed by the bank, whilst those able to are supporting their transport business with income from other businesses. The Small Business Grant will be transformative for many of these operators.

Shefa Land Transport Association reported that incomes for their members have continued to decrease, with income for most bus drivers and common transport operators down approximately 30% on last year. Fuel prices have also increased, further placing strain on operators, who are often struggling to pay for their loans – with many members losing their vehicles – as well as for basic necessities such as school fees and food. For taxi drivers and tour operators, income remains at near zero, with many having gone onto seasonal worker schemes. The Small Business Grant will be a great help for many of the operators. The Association sees a strong recovery of tourism as being fundamental for the long-term of their businesses.

Sanma Land Transport Association reported a sharp fall in income thanks to the compound impacts of TC Harold and COVID. It was estimated that daily income has fallen from VUV 5-6,000 a day to VUV 2-3,000. This has been caused by higher unemployment as well as the loss of tourists. They reported some members struggling to pay school fees and their loans for trucks. The Small Business Grant will be useful for these members, although it was noted that regular monthly payments to help with cashflow would have been the most beneficial.

Tiwi Trader reported a reduction in the interisland movement of retail goods which has led to an overall fall in revenue of 40% since COVID-19 began. Movement of goods from the islands to Port Vila have remained mostly unchanged. They have reduced their prices and faced an increase in costs too, which has meant that their margins have been squeezed substantially. They are currently just making enough to run the business. They have been supported by Government funding to run routes which are otherwise uneconomical and have maintained all 15 staff.

Air Taxi reported a fall in turnover of up to 80% since border closures. Demand has fluctuated, with the first quarter of 2021 being especially bad. In response the business has made as many savings as possible, including reducing staff numbers from 28 to 15, with some remaining on reduced hours. The business is currently just breaking even, and the Wage Subsidy Scheme will provide great support to the business surviving, as well as enabling a slight increase in the staff size. They are very worried about what a lockdown would mean for their business.

Airports Vanuatu Limited (AVL) had enjoyed a strong few years in the run-up to COVID-19, culminating in Government support for the Tourism 2020-2030 Shared Vision plan. Since the borders closed they have been reliant on Government support in order to continue to operate. They had some capital set aside for planned asset investments, but these projects have all been put on hold. They have reduced their staff numbers from 240 to 160, which is the minimum needed to safely continue their functions. If COVID-19 were to come, they have their protocols in place and would be able to continue to operate – including meeting internationally required standards. The social distancing rules means that they are currently unable to process more than one large plane at a time, thereby increasing the urgent need to expand terminal capacity at Port Vila airport.

A **Freight Forwarder** reported a slight fall in revenue, down just over 10% compared to 2020. Imports have stabilised now – they fell 17% in value from 2019 to 2020, but in Q1 2021 they were slightly higher than in both Q1 2019 and 2020. Air freight continues to be in very small quantities. Challenges faced by shipping is making their work more complicated, but they continue to operate at full staffing levels, albeit on reduced hours (but not reduced pay). They have reduced costs as much as possible and are confident in their long-term position.

CASE STUDIES

REAL ESTATE

SUMMARY

Real estate businesses reported that the local sales market has continued to hold up well – reflecting the fact that the economic crisis has not impacted equally upon all segments of society. The international market has been greatly affected, with very few buyers willing to purchase properties without being able to view them first.

This is reflected in Government revenue, which has reported a fall of only 7% on property sale related tax from 2019-2020, although this was in large part due to a record quarter in Q1 2020. For the period Q2-Q4, property taxes fell by 31% from 2019 to 2020. This downward trend has continued in 2021, with the 78m revenue being the lowest figure since Q4 2013. This figure was also 68% down on a year before, and 38% down on Q1 2019.[11]

The rental market continues to be heavily depressed. Whilst there are still new houses being built, this was another market which was experiencing strong growth before the pandemic, and so the rate of new buildings has slowed down as a result of the economic crisis. There is confidence that once borders are able to reopen that the sector will rebound quickly.

Caillard & Kadour's long-term rental occupancy rates have worsened in 2021; they reported being 10% down in 2020 compared to 2019, and they expect this to increase to 27% in 2021 (vs. 2019). This has been caused by a number of people leaving and by other tenants downsizing. Unpaid rent is becoming an increasing issue. They have so far managed to keep all staff employed, but will have to reassess if there is no improvement in this market. The short-term holiday rental market, connected to tourism, has been hardest hit, so skeleton staff are now managing this arm of the business and maintaining the properties, but the business still has large fixed costs which they have no income to cover.

They reported the sales market being approximately 25-30% down on pre-COVID. This fall continues to be driven by a drop in sales to the international market, and they expect a strong rebound once borders are able to reopen. The local market has continued to hold up well. Finally, on property development, C&K have paused their planned investments, such as building new offices and accommodation. They are waiting until the borders are able to reopen before they restart their investment projects.

First National reported a sharp fall in turnover – down 50% last year compared to before COVID – at which level they were just breaking even. This was driven by a sharp fall in the rental market and a collapse in international sales, whilst the local sales market held up well. Recently however they have seen a sharp increase in international inquiries, seemingly driven by lockdowns in Australia. This has led to some international sales online, which has put the business in a far more confident position. They have kept all staff and have upgraded their office space in anticipation for a growing market once borders re-open.

11 Source: VNSO Quarterly Statistical Report 2021


BRED
BANK

FINANCE SERVICES & INSURANCE

SUMMARY

The financial services sector has indicated an improvement in conditions since this time last year, with banks reporting a decline in the number of businesses requiring the need to continue repayment deferrals on their loans.

For customers who still require some form of loan repayment assistance, the commercial banks indicate they will continue to assess each request on a case-by-case basis. Where possible, financial institutions will endeavour to provide continuous support for viable going concerns as long as responsible lending guidelines and regulatory obligations are adhered to.

According to the 2021 Annual International Monetary Fund Article IV country report, the asset quality of financial institutions in Vanuatu have deteriorated in recent years. In 2019, nonperforming loans represented 14.4% of total gross loans across all Financial Institutions. In 2020, the percentage of non performing loans compared to gross loans increased to 19%. To further illustrate the challenges which financial institutions encounter according to the IMF Article IV country report there were nearly VUV 1.5 billion of impairment losses for the sector in 2020. This was 71% higher than in 2018, but only 17% higher than in 2019.

There was general consensus amongst financial institutions interviewed that widespread COVID transmission or extended boarder closures would exacerbate economic instability, given this perspective and the reality that the true economic impact caused from COVID will take time to play out, it is anticipated that the portfolio quality of institutions will further deteriorate in the short to medium term.

Return on Assets in 2019 was just 0.1%, reflecting the broader issues with the sector and the economy prior to the economic crisis. In 2020 this fell to -0.1%, and the return on equity was -0.6%, a fall from 0.9%.

The cost of doing business has also increased for the sector, which contributed to decreased profitability. Non-interest expenses rose to 78.1% of gross income in 2020. A contributing factor to the rise in expenses is the fact that compliance costs have increased. This is a global phenomenon and Vanuatu is not immune as it faces greater scrutiny on the world stage on its ability to maintain international standards in relation to Know Your Customer (KYC), Compliance and Sanctions obligations.

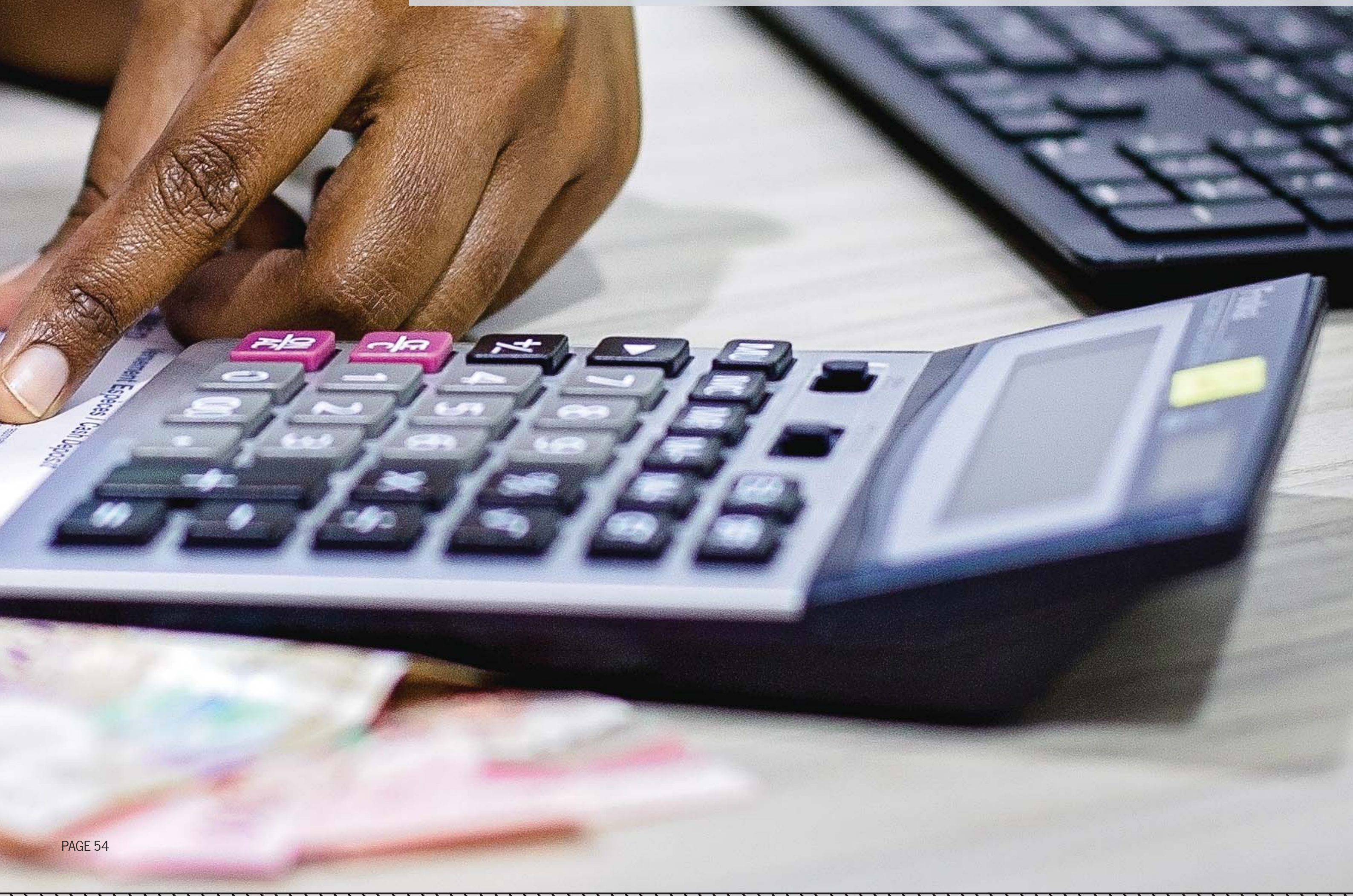
The established commercial banks are adequately capitalised. In particular, the international banks have strong balance sheets as well as the benefit of well capitalised parent entities, whom in the event of unforeseen economic shock will likely inject additional capital.

New investment – both foreign and domestic - has been low whilst borders remain closed. This was one of the many factors which is driving high levels of concern within the commercial banks about the short-to-medium term outlook for the economy.

CASE STUDIES

National Bank of Vanuatu are continuing to look at their individual customers on a case-by-case basis. This was the approach taken from the start and means that they are confident in the position of their balance sheet. The loss of the National Australia Bank correspondent banking in June 2021 remains a major issue for NBV, and one which they are trying to resolve as their highest priority. They continue to see reduced investment demand into the economy.

Whilst their cost of doing business is rapidly increasing, cash flow is steady and they have so far kept all their staff employed, and all of their services. They are limited in their ability to change their model of doing business if there were to be a widespread outbreak, as a large proportion of their staff do not have the option of working from home, and space is limited at the office. The bank does have detailed action plans to keep staff and customers safe should an outbreak occur.



ANZ continue to report a reduction in new loan activity, with the majority of loans growth driven by organic growth in industries which are less impacted. They continue to assess each business on an individual basis, and the proportion of businesses who are requiring some form of assistance as a result of COVID has decreased, businesses have begun to adapt to the new operating environment and pivoted to alternate markets to sustain incomes. There is still a reasonable level of residential investment with local buyers. Foreign exchange export flows has marinated at reasonable levels due to increased one off flows from aid partners including but not limited to Governments and NGOs

Bred Bank still have a percentage of their loan book on either full or part COVID-support package assistance. This includes both business and personal customers and whilst across their lending portfolio, a higher proportion relates to the tourism sector.

Bred as a matter of precaution have increased their level of provisioning last financial year to accommodate for any future potential losses related to the Covid-19 crisis but overall remains in a strong financial position, which was further reinforced this financial year with a fresh capital injection of Euro 5.0M. All of their regulatory ratios are at the upper hand of the scale. With borders remaining closed and the level of vaccination at yet the level it would be comfortable with, Bred is uncertain about the broader economy in the ensuring years.

BSP reported continuing to provide support to clients who have been particularly impacted by the COVID-19 crisis. With borders still closed, tourism and related industries continue to be under pressure and BSP continues to work with customers to support them as best as possible through these continued border closures. BSP also continues to work with the RBV, government and regulatory bodies to ensure that any additional support measures provided are appropriately passed on to our customers.

Wan Fu Teng reported continuing to offer support on a case-by-case basis to its clients, although given its customer base is small and relatively new they are not too exposed. The vast majority of their new loans are financing, and they are seeing very limited organic growth within the market. The majority of their personal customers are still employed, with many working in Government or for professional services.

Buluiana Cooperative on Ambae reported a sharp increase in the number of loans after people began returning after the volcanic eruption. Since the COVID-19 economic crisis began, they have seen increasing issues around cash flow from their members, with an increasing number struggling to pay back loans. They are being supportive and flexible with their members, depending on an individual's ability to pay. They have also seen savings deposits roughly halve.

Vanuatu Insurance Brokers Ltd (VIB) reported a smaller reduction in insurance activity this year, having seen the majority of the impacts last year. This year they have begun to see the impacts flow through the economy, as clients are reducing insurance premium spends across a wide range of Policies (e.g. Workers Compensation and Home Contents insurance).

Whilst many individuals, families and businesses are seeking to reduce premiums, some Policy premiums are unfortunately increasing and largely due to a continued increase in global reinsurance costs – of up to 50% in some cases, reflecting the specific business activity. VIB have kept all staff on and are using this economic downturn as an opportunity to concentrate further on quality service delivery and diversified products for example Premium Funding.

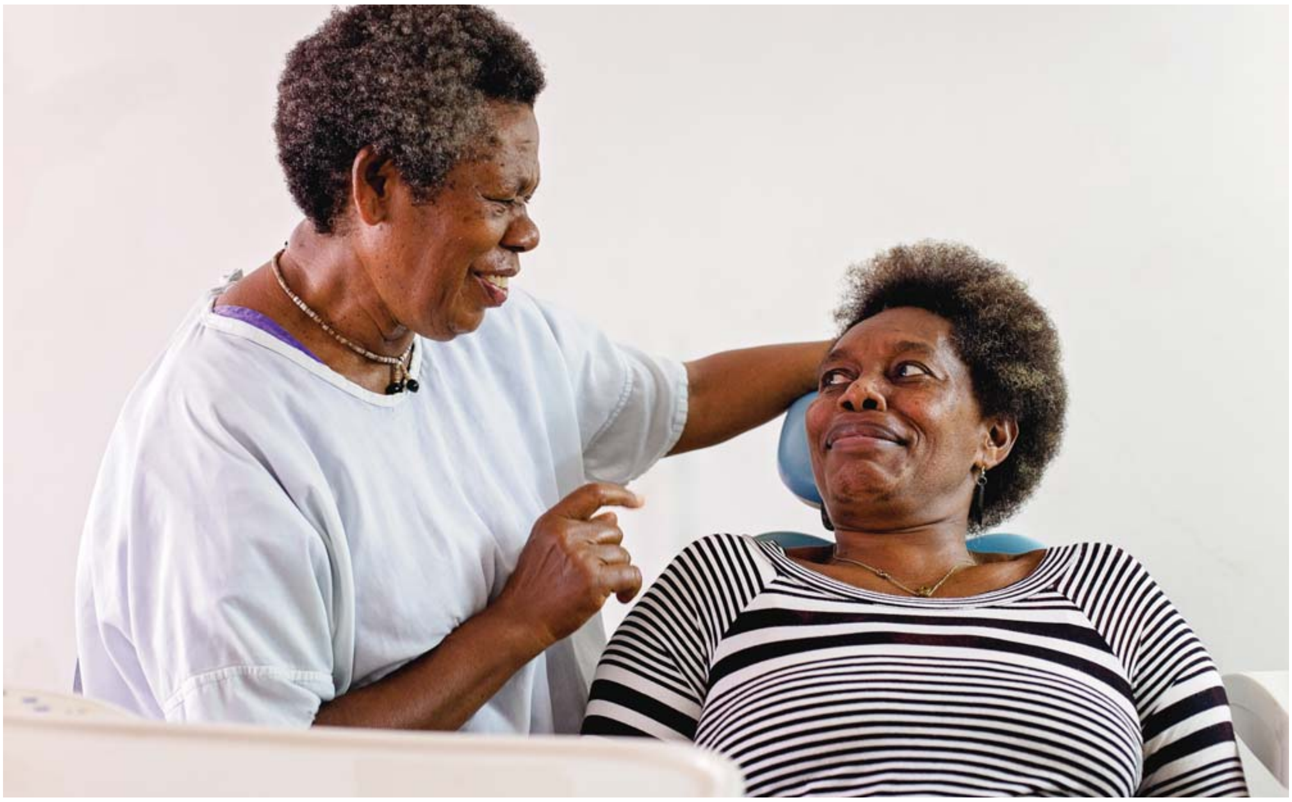

KN95
KN95
Strepsils

HEALTH, EDUCATION, & RECREATION

SUMMARY

This analysis focuses on a very limited number of businesses and assesses how they are tracking. Health and education are two of the key building blocks of a society, and it is out of the scope of this report to assess what the impact of the crisis has been on them. Anecdotally however, there has been a sharp increase in the number of children who are no longer attending school due to lack of income – the case study of Kaviere Kindy is a particularly stark example. Understanding the impact of the pandemic on health and education is a key policy question which should be addressed as a matter of urgency.

The businesses in this sector have generally all been impacted but are (with some notable exceptions) in a position where they are relatively confident in their long-term future. A widespread COVID outbreak at insufficient vaccination levels would likely lead to schools closing, with severe impacts on the long-term development of the country. With regards to the health service providers within the private sector, they would likely be able to continue to operate to some degree, although their role in responding to the hypothetical health crisis remains unclear. The public health sector remains severely ill-prepared for this scenario.



CASE STUDIES

Pikinini Playtime reported so far enjoying a good year, with numbers of students continuing to grow. Whilst some parents have lost their jobs, numbers have been supported by seasonal workers, and through increased demand from Government workers. Their expansion into Santo – which began last September – is so far progressing well. Conversely, they reported outstanding fees are more than double than experienced in the past.

Novo Medical reported a reduction in demand of approximately 30-35% compared to before COVID. This is predominantly due to the disappearance of the international tourism market, whilst local demand is roughly constant, with some surges caused by seasonal workers. Novo Dental have seen a similar fall in demand, although this is driven by a fall in local demand. Both businesses have excess staff for this level of demand but have kept everyone employed. They have placed some expansion plans on hold, exacerbated by difficulties in getting highly skilled technicians into the country. Because they ship dangerous goods and items requiring a cold chain, the disruption to shipping has been particularly felt. Overall they remain confident in their long-term position.

Messy Haos opened in October 2019 and started out successfully. However, when borders closed they saw an immediate surge in cancellations, before they closed down as per Ministry of Education guidance. Upon reopening, they reported demand being very slow, but it began to recover in July 2020. Demand has recovered in particular from those whose incomes have been largely unaffected, such as diplomats and Government workers, whilst there's been a clear fall in demand from business owners, ni-Vanuatu who worked in Tourism (or other sectors that are now impacted by COVID 19) and those working in the private sector. The staff numbers have reduced from 25 to 9, and the owners have not taken any money out of the business – instead they have been doing additional work to support themselves. The business is in an insecure position, and if there's any further downward trend in demand the business would be at risk. The business would almost certainly be forced to close permanently if there was a lockdown.

Healthwise Pharmacy (across the two stores) reported a fall in sales of 20-25%. The increase in shipping costs is making doing business more difficult, but overall, the business is in a relatively comfortable position. The exception is their mail-order business – exporting medicine to the US – which has in essence ceased due to shipping delays and costs. The business has kept all its staff, and is considering how best to get through a lockdown, although they are relatively confident in their position as an essential business. The business has placed all expansion plans on hold until there is greater certainty.

Marie's Pharmacy in Port Vila sells almost exclusively to the local market. When COVID hit they placed a very large stock order, and so have not experienced any shortages. Sales were reported to be roughly consistent with before COVID, and if there was a widespread outbreak they are considering trialling online sales, or only selling through a window so no-one has to enter the store.

Kaviere Kindy in Teouma reported an immediate fall in demand after borders closed, with many parents having lost their income, notably tourism workers, cleaners, and gardeners. Those who have lost their jobs have been seeking other income opportunities, particularly selling basic agricultural products, but sales are not sufficient. School fees are just VUV 6,000 a term, but still student numbers have fallen from 38 to 24. Remaining parents are often struggling to pay, and the school is doing its utmost to ensure all children get as good an education as possible. The school has reduced the number of teachers from three to one, and whilst they do have hopes for building another classroom they simply do not have the funds.

CASE STUDIES

OTHER SERVICES

SUMMARY

It is by nature difficult to provide a coherent analysis for this sub-sector, given its mixed nature. Professional services have been relatively unimpacted, with a limited number of actors benefiting from the extremely limited scope for overseas workers to enter the country. For other businesses it is more mixed, with the exposure to tourism being the key determinant. The case study for Guard Island Security is particularly stark in terms of its implications.

Guard Island Security reported a continued reduction in contracts, moving from 180 staff pre-COVID to 130 a year ago, to just 80 now. They are continuing to see more clients struggle to pay invoices – particularly in the tourism sector. They have noted an unprecedented number of burglaries in recent months – higher than at any point during their eight years of operation. They have reduced their prices as much as possible to support their clients but cannot reduce them any further. Fuel is their second biggest cost and so the price increase is having an impact. They are continuing to train staff, but they are worried about the social impacts of a widespread COVID outbreak. They were unaware of the Stimulus Package 2021, but it will provide immense support to the business, given staffing is their main cost. The business is continuing to support former employees with basic food items and assistance with applying for seasonal work programs.

There was insufficient local demand for **Big Blue** to remain operating, and so they have now ceased operating commercially for the time being. They have reduced their staffing to four people working twice a week on reef conservation, partly funded by the owners, and partly by other sources of funding. Because they have reduced their activities so substantially, the second stimulus package will only give them very limited funding, and so it of limited use.

AJC reported that their clients have generally seen relatively constant income since last year, although there have been a few who have seen a decline and who are now very much struggling to pay bills. There has been a small increase in late payments, but generally this has been . Whilst there have been requests from businesses for support in investing in improving their systems, very few have had the cashflow to implement these changes. They have had no new clients, including no new foreign investors. The process for getting new people into the country remains unclear. They remain concerned about both the impact of a lockdown and of the expected post-Christmas quiet period.

JB Barbers have reported a recovery in sales, having seen an initial drop-off after the borders closed. They maintain their operations in both Port Vila and Santo, with eight staff, and have approximately 20 ex-staff who have set up businesses of their own across the country in the main municipal areas.

ANNEX 1

LEVEL OF CONFIDENCE YOUR BUSINESS WILL STILL BE RUNNING IN...		3 MONTHS	1 YEAR	5 YEARS	IF BORDERS DON'T OPEN UNTIL 2023
All Businesses	VERY LOW CONFIDENCE	11%	11%	19%	35%
	LOW CONFIDENCE	24%	40%	32%	29%
	HIGH CONFIDENCE	32%	25%	31%	24%
	VERY HIGH CONFIDENCE	32%	23%	19%	11%
Accommodation + Restaurants Sub-Sector	VERY LOW CONFIDENCE	16%	13%	18%	59%
	LOW CONFIDENCE	36%	51%	42%	34%
	HIGH CONFIDENCE	38%	24%	24%	5%
	VERY HIGH CONFIDENCE	11%	11%	16%	2%
Business eligible for the Wage Subsidy Scheme	VERY LOW CONFIDENCE	9%	14%	25%	45%
	LOW CONFIDENCE	33%	48%	38%	35%
	HIGH CONFIDENCE	38%	23%	21%	11%
	VERY HIGH CONFIDENCE	20%	15%	16%	9%

DO YOU HAVE PLANS TO REDUCE YOUR STAFF SIZE IN THE FUTURE	YES	NO	UNSURE
All Business	20%	40%	41%
Accommodation/Restaurant Sub-Sector	27%	24%	49%
If Eligible for Wage Subsidy Scheme	26%	29%	45%

ON A SCALE OF 1-5, WHAT IS YOUR CONFIDENCE IN...	YOUR BUSINESS	YOUR SECTOR	THE ECONOMY
All	2.8	2.6	2.4
Accommodation/Restaurant Sub-sector	2.5	2.2	2.4
Other sectors	3.1	2.8	2.3
If Eligible for Wage Subsidy Scheme	2.6	2.3	2.3

WHAT WOULD THE IMPACT BE ON YOUR BUSINESS IF THERE WAS A LOCKDOWN OF...	2 WEEKS	2 MONTHS	6 MONTHS
Largely unaffected - we would continue to operate at full STAFFING LEVELS	17%	5%	5%
Continue to operate, but at slightly reduced staffing levels	19%	19%	11%
Continue to operate, but at heavily reduced staffing levels	20%	29%	34%
Cease operations until the lockdown is finished	42%	42%	30%
Permanently cease operations	2%	4%	20%
If Eligible for Wage Subsidy Scheme	2.6	2.3	2.3

WOULD YOUR BUSINESS BE ABLE TO PAY STAFF DURING A MONTH-LONG LOCKDOWN	
Yes	**27%**
No	**47%**
Unsure	**25%**

WHAT WOULD THE IMPACT OF A MONTH-LONG LOCKDOWN BE ON YOUR BUSINESS	
Limited impact - we would continue to be able to operate after the lockdown, with the same staffing level as before	**33%**
We would likely to continue to be able to operate, but with reduced staff levels	**51%**
We would be very unlikely to be able to re-open after a month	**16%**

WHAT IS THE IMPACT OF THE WAGE SUBSIDY SCHEME ON YOUR BUSINESS?	
Very helpful; the support will of course make a big difference to the business, but the business remains in jeopardy	**37%**
Slightly helpful; the funding of course helps, but it doesn't make a real difference to my position	**58%**
Transformational; this support will completely turn my business around	**5%**
Not helpful at all	**0%**

WHAT IS THE IMPACT OF THE WAGE SUBSIDY SCHEME ON EMPLOYMENT	
It provides support to jobs which are under threat if the situation deteriorates	**33%**
It's allowed me to keep existing staff numbers or hours, which would have definitely been reduced otherwise	**40%**
It will allow me to increase staff numbers	**2%**
It will allow me to increase staff hours	**5%**
I would have definitely increased staff numbers of hours if the funding was paid on time and regularly, but the delay in payment has stopped this happening	**5%**
I would have maybe increased staff numbers of hours if the funding was paid on time and regularly, but the delay in payment has stopped this happening	**16%**

DID YOU KNOW?

Every business with a valid business license is automatically a member of the Vanuatu Chamber of Commerce and Industry

www.vcci.vu
Tel +678 27543