



How Vanuatu's COVID-19 policies can catapult economic recovery through the private sector in 2022

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The Vanuatu Government's investment in agriculture, livestock, fisheries and forestry to mitigate the economic downturn and job losses from prolonged border closure is currently concentrated at the producer level. A more balanced weighting of policy initiatives across the value chain will strengthen economic recovery in 2022 - and we have four recommendations to achieve this.

In 2021 the government [investment of approximately VT1.2 billion](#) sharpened [policy focus](#) on the productive sector and trade, which is primarily private, both informally and formally. A combination of one-off and on-going subsidies to the productive sector - defined as agriculture, livestock, fisheries and forestry - have progressed the government's policies towards key transformations including increased mechanisation of agriculture and affordable agri-logistics. Some subsidies assist with reduced costs for farming equipment for example the [70/30 and 60/40 initiatives](#) where government contributes to the bulk of costs for specified items. Other subsidies comprise cash payments in the form of industry development grants, as well as the [Commodity Subsidy Program](#) which supports businesses through capital to purchase, process and export agricultural products. Informal sector policies managed by the [Vanuatu Primary Producers Authority \(VPPA\)](#) have also assisted farmer access to subsidies and improved government evidence-based planning.

Clearly, Vanuatu's value chain approach in the productive sector is successfully facilitating producer engagement. However, this concentration at the producer level sits alongside small-scale subsidies further along the chain, such as for aggregators and manufacturers, but with no support for exports. Domestic and international market access continues to be a policy challenge; there are only a handful of manufacturers who are able transform raw products to globally accepted quality standards (see Fig. 1).

Figure 1: Heat map of relative concentration of government and partner initiatives to support investment in each sector

SME input	Farmers	Agri-logistics	Traders cooperatives	Manufacturers value-addition	Export

Notes: Darker colours indicate higher concentration of program investment. This diagram was developed by the authors, based on publicly available information from Vanuatu government and donor partners (EU, DFAT, MFAT, ADB, WBG, other MFI and NGO's) and is illustrative of policy initiatives to show where the investment and policy weighting is along the value chain.

We propose four areas to enhance a value chain policy approach for the productive sector to catapult economic recovery in 2022:

1. **Reduce the cost of doing business (CODB) to help make businesses more efficient and bankable.** CODB across the value chain is highest in the logistics, manufacturing and exports of goods which creates a bottleneck in accessing markets. The export market is a key determining factor in unlocking private sector potential and in building increasing revenue to government. A combination of domestic and international freight subsidies in the medium term would enable businesses to bounce back to pre-COVID levels. For example, the [Commodity Subsidy Program](#) successfully supported one exporter to [export root crops to New Zealand](#) and wider up-take will help build a stronger value chain.
2. **Put job creation at the forefront of policy investments to stem rising unemployment and deepen contributions to the economy.** Since COVID-19, approximately 3000 [jobs have been lost in the tourism industry](#) with higher total job losses likely although this is not officially tracked. During the pandemic, only around 3000 people have [departed on labour mobility schemes](#) which is 20% of pre-COVID labour mobility flows. There is an opportunity to link unemployment policies with investment in the productive sector through enhanced, [targeted skills development programs](#). As more than 99% of the 8,000 registered Vanuatu Primary Producers Authority (VPPA) members currently use family members to work on farms, it will also be essential for family-based labour forces to be recognised under national labour laws to deepen contributions to the formal economy.
3. **Invest in quality standards that secure niche markets, domestically and internationally.** Government efforts to unlock export markets must be ramped up to ensure seamless flow across the value chain. This could include improved, and

wider, market access to incentivise national innovation and entrepreneurship, but could also deepen government support for enhanced domestic value-adding processes to reach quality standards that grow economic value across the sector. Enabling private sector investment at the value-adding end of the value chain, assists with full flow across the entire chain and keeps the economy moving.

4. **Continue support for formalising the private sector.** In January 2022, with the assistance of the Pacific Horticultural and Agricultural Market Access Program ([PHAMA Plus](#)), VPPA was able to identify and help 60 primary producers to formalise their businesses. Departments under the Ministry of Agriculture and the Ministry of Trade have embarked on similar undertakings to assist primary producers. The Ministries' principal aim is to subtly and gradually move the bulk of Vanuatu's smallholder producers from the informal to the formal sector. Economic stimulus packages have included the incentive to register a business through reduced business license fees.

Gaps in policy implementation and programs can create inefficiencies and constraints. The private sector - especially in a pandemic context - can play a significant role in catapulting economic recovery and job creation, if these policy implementation gaps are adequately addressed. Policy responses that address only part of a value chain risk weakening the overall policy response to aid economic recovery. Effective policy making occurs when support for the entire ecosystem or value chain (and their interactions) is comprehensive and balanced.

Distributing Vanuatu's current proactive policy initiatives more evenly along the value chain and reducing the cost of doing business will unlock private sector investment (domestic and foreign), expand job creation, realise government policy ambitions and further catapult Vanuatu's economic recovery.

Disclosure

The views expressed are those of the authors only.

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