



Doing Business in Vanuatu

Location

The Republic of Vanuatu is a Y-shaped archipelago of over 80 islands. It is located 1,750 kilometers east of Australia and 800 kilometers west of the Fiji Islands.

The capital is Port Vila, located on Efate Island, which has a population of around 29,356 (1999) inhabitants. The second-largest town is Luganville on the island of Espiritu Santo, with a population of around 10,738 (1999) people.

The principal languages of education and business are English and French, reflecting the dual English and French administration of the islands prior to independence in 1980. The local people, called Ni-Vanuatu, speak more than 100 dialects but Bislama, similar to the Pidgin spoken in Papua New Guinea and Solomon Islands, has become the most common language and is one of the three official languages used in Vanuatu.

Government

Vanuatu gained independence in 1980. Prior to this it was known as the New Hebrides and was governed by both British and French administrations in a Condominium arrangement. The Republic of Vanuatu is a Westminster-system parliamentary democracy. The legislature consists of a 52-member single-chamber parliament, elected for a four-year term by universal suffrage.

The head of state is the President, who is elected for a five-year term by an electoral college, and the head of government is the Prime Minister, elected by secret ballot by the members of Parliament. The Prime Minister appoints the thirteen member ministerial Cabinet.

A National Council of Chiefs (Malvatumauri) advises the government on matters of custom, land tenure and the preservation of Vanuatu's traditions. The independent judiciary consists of a chief justice and three judges. The judicial system is based on

At a Glance

Population: 209,920 (2006)

Land Area: 12,190 km²

EEZ: 680,000 km²

GNP: USD 287 million (2005)

Major Industries: tourism, agriculture, fisheries, forestry and offshore financial services

Merchandise Exports (FOB): USD 35 million (2006)

Major Exports: copra; coconut oil, beef; timber; cocoa and kava

Merchandise Imports (CIF): USD 171 million (2006)

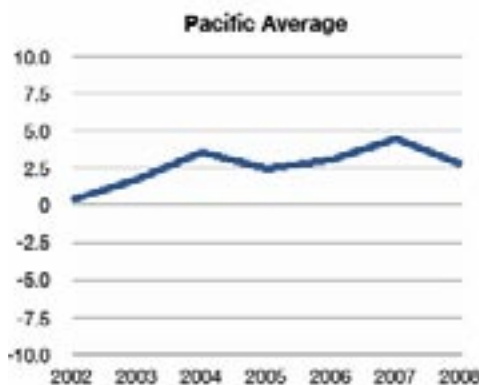
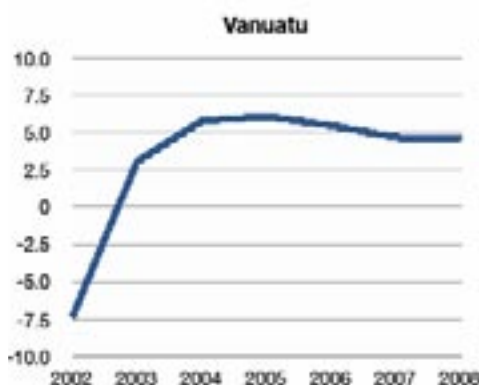
Major Imports: machines, transport and equipment; food and live animals; mineral fuels; and manufactured goods

British law and most routine matters appear before the magistrates' courts.

In response to the economic and political challenges facing the country, Vanuatu has pursued a wide-ranging reform programme with assistance from the Asian Development Bank and other international aid donors. Vanuatu's comprehensive reform programme provides a blueprint for good governance through institutional renewal, the development of redefined role for the public sectors and improved public-sector efficiency, private-sector led growth and improved equity between sectors of the population.

On March, 2, 2006, the United States of America acting through the Millennium Challenge Corporation (MCC), signed a Compact Agreement with the Government of Vanuatu to provide a grant of approximately US\$65.7 million, this Compact "entered into force" on April 28, 2006. The five-year Compact program addresses the country's poor transportation infrastructure and consists of eleven infrastructure projects – including roads, wharfs, airstrips and warehouses - the program aims to benefit poor, rural agricultural producers and providers of tourist related goods and services by reducing transportation costs and improving the reliability of access to transportation services. Further more it aspires to have a transformative impact on Vanuatu's economic development by increasing average income per capita by 15 percent within 5 years and directly impacting the lives of more than 65,000 poor, rural inhabitants—almost a third of the entire population.

GDP Growth (%) 2002-2008



Source: ADB Asian Development Outlook, 2007. 2007 and 2008 are estimates.

Economic Profile and Performance

The economy grew by an estimated 5.5 per cent in 2006, a fourth straight year of growth but at a reduced pace compared with 2004 and 2005. Growth moderated in the services sector, where solid expansion still was recorded in tourism-driven transport, hotels, and restaurants, and the real estate subsectors, and in the small industry sector. Agriculture lifted production, recovering after a contraction in 2005. Vanuatu's economy is based primarily on small-scale agriculture, which provides a livelihood for about 65 per cent of the population (primarily in the informal sector). Fishing, offshore financial services, and tourism are other mainstays.

Tourist arrivals rose by about 6 per cent in the first quarter of 2006. The fiscal position in 2006 (a deficit estimated at 0.5 per cent of GDP), rate of inflation (about 1.6 per cent), and level of international reserves (7.5 months of import cover) were noteworthy outcomes given that the Government needed to fund an increase in public sector wages resulting from a late-2005 decision of the Government Remuneration Tribunal, despite there being no provision for the additional expenditure in the 2006 budget. This apparently was achieved through greater fiscal discipline, improved tax collection, and a reduction in unbudgeted spending. The downside is that cuts in recurrent and capital expenditures exacerbate a basic problem, namely, improving the strategic allocation of public resources to productive uses.

Economic Outlook

The Government forecasts growth of 4.6–4.7 per cent in 2007 and 2008. Tourism is expected to benefit from an expansion of air services and the completion of tourism projects, construction will gain from Millennium Challenge Corporation spending, and agricultural production is forecast to pick up further. Small budget surpluses or near-balance positions are expected, and inflation is projected to remain at around 2.5 per cent.

Source: ADB Asian Development Outlook, 2007

Industry Sectors

The main industry sectors in Vanuatu are:

Agriculture: This sector comprises approximately 9.5 per cent of GDP (2005) and the key sub-sectors include beef production copra, coconut oil, cocoa and kava. All of these products are exported to world markets and Vanuatu beef is well regarded for its quality in the Japanese market. Eighty percent of the rural populations are involved in subsistence farming.

Construction: The construction industry in Vanuatu is also relatively small and several local companies are involved in road and other infrastructure construction projects, as well as housing. Overseas companies undertake most of the larger construction projects, including large hotels.

Financial Services: Vanuatu's tax-free status and supporting regulations have resulted in a successful Offshore Financial Centre, where international companies can be formalized within 24 hours. A number of international banks and accountancy companies support the Centre's operations. As at 31st December 2006 a total of 5042 companies, mainly international companies, were registered with the Vanuatu Financial Services Commission. (Vanuatu also operates an international shipping register, which is well regarded for its high standards. Over 500 vessels are registered under the Vanuatu flag).

Fisheries: The current fishing industry in Vanuatu is not large however there is the prospective for further growth given its past history where an export processing plant used to be based and which closed several years after independence. Deep Sea-sea fishing is undertaken by only a small number of operators to supply the local market. The development of aquaculture has also been encouraged seeing the first commercial prawn farm in operation in 2005 supplying the local and overseas market.

Forestry: The accessible and commercially viable forest reserves in Vanuatu are limited. There are no large-scale logging or milling operations. Local timber is used for the production of furniture and construction.

Manufacturing: The manufacturing sector in Vanuatu is relatively small and most of the manufacturing operations are geared to supplying the local market. The locally produced products include a variety of processed foods (bakery items, ice cream, cheese, beverages), plastic goods, small boats, timber products and furniture, a limited range of microcircuits and clothing. Those products achieving sales to export markets include the down stream processed products of vanilla, spices and sandalwood oil.

Other Services: The wholesale/retail sector, support services for the tourism industry (inbound travel agencies, hire care companies, tour operators, restaurants, etc.) and the financial services sector (accountancy companies, banks) are concentrated in the Port Vila area.

Tourism: Over the last few years this sector has continued to contribute significantly to the economy (17 per cent of GDP) and has the potential for considerable growth. With increased promotion and political crises in its neighboring countries of Fiji Islands and Solomon Islands tourists arrivals have increased seeing a total of 68,179 tourists in 2006 and a further 85,922 cruise ship passengers. The majority of tourists are from Australia, followed by New Caledonia and New Zealand. With the commencement of direct international flights to Espiritu Santo in December 2006, it is anticipated that tourists' arrivals will continue to increase.

Labour and Human Resources

Three-quarters of the active workforce in Vanuatu are engaged in agriculture or other primary industries such as fishing, with only a small proportion involved in the manufacturing sector. Most experienced workers speak English and French but unskilled workers in the non-urban areas are unlikely to speak fluent English or French.

Semi-skilled workers are readily available for new projects and foreign investors are expected to employ locals where the expertise is available, however the Vanuatu Investment Promotion Authority (VIPA) is empowered to grant such permits to additional expatriate employees for not more than three years if a citizen of Vanuatu cannot provide the particular skill. It is however, encouraged that local employees be trained wherever possible and new investors are required to provide a training plan for their local employees as part of their investment proposal to VIPA.

Each approved foreign investment is entitled to residence and work permits for at least two positions requiring professional, technical or managerial expertise.

The Vanuatu National Training Council (established by the VNTC Act No.13 of 1999) is the accrediting and authorizing authority on vocational education in Vanuatu. It works with the industry to develop and provide labor market training needs.

In terms of labour market regulations, Vanuatu's minimum wages are covered by the Minimum Wage and Minimum Wages Board Act (42 of 1984). All employers and employees are each required to contribute 4 per cent of wages and salaries to the National Provident Fund. Legislation exists to facilitate labor dispute resolutions (Trade Disputes Act 3 of 1983).

The minimum wage in Vanuatu is around USD\$2.01 (20,000 Vatu) across the board.



Infrastructure

Vanuatu has a reasonably well-developed infrastructure. Under the Millennium Challenge Fund, it plans to reconstruct priority transport infrastructure on eight islands, covering roads, wharfs, airstrips and warehouses.

Reliable diesel and hydroelectric power and water supplies are available in the urban areas of the country, while the telecommunications and data transmission system is of a high standard because of the requirements of the Offshore Financial Centre. Both national and overseas telecommunication services are provided by the privately owned Telecom Vanuatu Limited (TVL). The country's network has been completely renewed and is fully digitalized. TVL is also progressing with an ambitious programme to include in its network all rural areas throughout the country. TVL is also the Internet, international data-transmission and mobile phone provider. Pacific Data Solutions also provides e-commerce services.

International air connections are excellent with regular international connections between Port Vila and Australia, New Zealand (Air Vanuatu), the Fiji Islands (Air Pacific), New Caledonia (Aircalin) and direct international flights commenced December, 2006 from Lugainville, Espiritu Santo to Brisbane, Australia and the Solomon Islands (Solomon Airlines). The national airline, Air Vanuatu, has plans to expand its services to cater for the expected increases in tourist arrivals from Australia and New Zealand. Domestic air services are also provided by Air Vanuatu, which flies to about 30 domestic airstrips throughout the country.

A total of seven overseas shipping lines provide both container and general cargo international services to and from Vanuatu. Most of the shipping services are on a monthly basis and the routes all involve calls into other Pacific Island ports en route to Australia or South East Asia. Dedicated tankers and vehicle carriers also call at the main port in the capital, Port Vila.

The ports at both Port Vila and Lugainville can handle both standard and refrigerated 20-foot shipping containers but freight destined for the regional centre's is usually unpacked and sent in smaller consignments.

Coastal freight services are provided by a number of private companies but the majority of their vessels have a cargo capacity of well below 100 tonnes. Shipping containers cannot be handled at most of the smaller ports and many of the smaller locations do not have wharves. Services to the larger ports in the islands are regular but those to the more remote locations are infrequent. The cost of coastal freight is also high.

A number of international banks and the local bank, the National Bank of Vanuatu, offer a full range of commercial and offshore banking services. There is also a wide range of international standard accountancy and financial advisory companies operating in Vanuatu and in this regard there is excellent support for local businesses.

There are three tertiary institutes in the Port Vila area – a teachers' college, an agricultural school and a campus of the University of the South Pacific, which specializes in law studies. Good-quality primary and secondary schools are also available in most parts of the country.

Investment Policy and Regulations

Under the Comprehensive Reform Programme, the government's investment policy remains one of encouraging and welcoming foreign investment.

The government has enacted the Foreign Investment Act (No.15) 1998 to create a favorable environment for foreign investments. Under the Act, the Vanuatu Investment Promotion Authority (VIPA) is responsible for promoting and facilitating all foreign investments.

All foreign investors should get an approval from the VIPA Board and should approach VIPA for inquiries and foreign investment applications. The average period of time involved in processing an investment application from the point of submission to the final approval is three weeks. A limited number of small-scale activities are, however, are restricted to Vanuatu citizens. Examples include small food processing, kava bars, small-scale building service operations and hotels/motels with less than 10 rooms (further details can be obtained from VIPA).



Investment incentives are applied on a project-by-project basis. The primary incentive for investment in Vanuatu is its freedom from corporate tax, income tax, estate duties and non-capital gains tax. In addition there is no withholding tax and Vanuatu does not have any treaties or double taxation agreements with other countries. All investments over 1 billion Vatu enjoy zero duty.

Tax Exemptions

The Government of the Republic of Vanuatu has provided for the granting of exemption from payment of customs duty on goods imported for manufacture or process, and a reduction to a minimum rate of not less than 5 per cent on specified imports as mentioned in Schedules III of the Vanuatu Customs Tariff under Section 1 for Economic Relief as follows:

- v X.1 Goods imported for Manufacture or Process (Total exemption)
- v X.3 Goods imported for Agriculture, Horticulture, Livestock or Forestry Projects
- v X.5 Goods imported for a Tourism Development Project
- v X.6 Goods imported for Mineral Exploration and Extraction
- v X.9 Fisheries Industry Equipment

Application for exemptions prior to the commencement of a project is recommended and the grant of exemption is always subject to the condition that the goods imported fall within the policy guidelines laid down by the Government of Vanuatu.

New investment in Vanuatu is welcomed by the Government particularly in areas of industry, tourism and agriculture.

Value Added Tax

Value Added Tax (VAT), otherwise known as GST in other countries, is a tax on consumption as legislated by the Value Added Tax Act No. 12 of 1998. It is charged and accounted for at a rate of 12.5 per cent.

If you have an annual turnover of VT 4 million or more in your taxable activity, then you must register for VAT.

Land

About 90 per cent of the land in Vanuatu is held by its traditional owners. The government owns the majority of the balance, most of which is located in the urban areas of Port Vila and Luganville.

Land can be leased from either the government or traditional land owners. No negotiation with traditional land owners can be undertaken without the prior permission of the government, which is granted by the Department of Lands in the form of a certificate of negotiation. Land leases are for 75 years and are renewable.

The Land Use Planning Office within the Department of Lands has prepared an extensive database on land quality, tenure, topography, existing use and environmental issues. This database is a useful source of information for overseas investors seeking land for particular purposes.

Trade Relations

Vanuatu is engaged in several trading arrangements in the region which will provide for an advantage to businesses; this includes the Pacific Island Countries Trade Agreement (PICTA) and the Melanesian Spearhead Group Free Trade Area (MSG-FTA), which provides for duty free access for imports and exports within the Melanesian countries.

Vanuatu also has duty-free access to Australia and New Zealand under the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA), and to the EU under the 'Everything but Arms' initiative. It is currently under going negotiations in the European Union Economic Partnership Agreement (EU-EPA) and the World Trade Organization (WTO).



Business Development Assistance



CHAMBER OF COMMERCE AND INDUSTRY OF VANUATU

The Chamber of Commerce and Industry of Vanuatu was established in 1995 to represent the commercial interests of the private sector in Vanuatu. The Chamber provides training courses for business operators in a wide range of areas (management, marketing, business planning, export markets, etc.). It also undertakes training courses for other organizations in Vanuatu.

DEPARTMENT OF COOPERATIVES AND NI-VANUATU BUSINESS DEVELOPMENT SERVICES

The Department of Co-operatives and Ni-Vanuatu Business Development Services (DCNVBDS) is the new name following the amalgamation of the Department of Cooperative and Business Development Services and the Department of Ni-Vanuatu Business Development Center.

The Department runs training courses on small business management, provides individual consultations with ni-Vanuatu business operators and entrepreneurs and manages the ni-Vanuatu Micro Finance Scheme which provides micro-loans to ni-Vanuatu businesses. Contact should be made directly with the Department in Port Vila or through the provincial offices.

VANUATU INVESTMENT PROMOTION AUTHORITY (VIPA)

The VIPA is a government statutory body that handles all investment promotions, overseas new investments and opportunities in Vanuatu. It provides services to investors to aid in the set up or expansion of their businesses.

VANUATU NETWORK OF WOMEN FOR THE DEVELOPMENT AND SUSTAINABILITY OF MIROFINANCE INSTITUTIONS

The organization provides disadvantaged women with access to microfinance, income earning opportunities and training for those involved.

VANUATU RURAL DEVELOPMENT TRAINING CENTRES ASSOCIATION (VRDTCA)

This resource centre provides technical assistance and advice to all the rural training centers around Vanuatu. They also assist with income generating projects and activities.

Financial Services

ANZ BANK (VANUATU) LTD

There are two ANZ branches in Vanuatu, one in Port Vila and one in Luganville on the island of Espiritu Santo. The bank offers a full range of commercial services.

WESTPAC BANK, VANUATU

Westpac Bank, Vanuatu, has two branches, one in Port Vila and one in Luganville. The bank offers a full range of commercial bank services Non-Financial Services include: advice; investment services, e.g. funds management; and project and advisory services.

NATIONAL BANK OF VANUATU

The National Bank of Vanuatu is wholly owned by the Government of Vanuatu. The bank offers a full range of commercial bank services and has 19 branches located in the various provinces.

Useful Contacts

CHAMBER OF COMMERCE AND INDUSTRY OF VANUATU

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The Pacific Islands Trade & Investment Commission, Sydney

Who We Are and What We Do

We are one of four overseas agencies of the Suva-based Pacific Islands Forum Secretariat (PIFS). PIFS has other overseas offices located in Japan, New Zealand, and the People's Republic of China.

We work closely with a network of government and private sector agencies in the 14 Pacific Islands who are members of Pacific Islands Forum.

Our aim is to improve the capabilities of their private sector; in particular in enterprise, export and tourism development.

Our Functions

1. To assist Pacific Island enterprises develop sustainable business and trade activities.
2. To assist Pacific Island governments and private sector service providers develop their tourism potential.
3. To support private sector growth in the Pacific Islands, including promoting intra-regional investment.
4. To support business linkages between government and enterprises in the Pacific Islands and Australia through efficient and effective dissemination of market information.

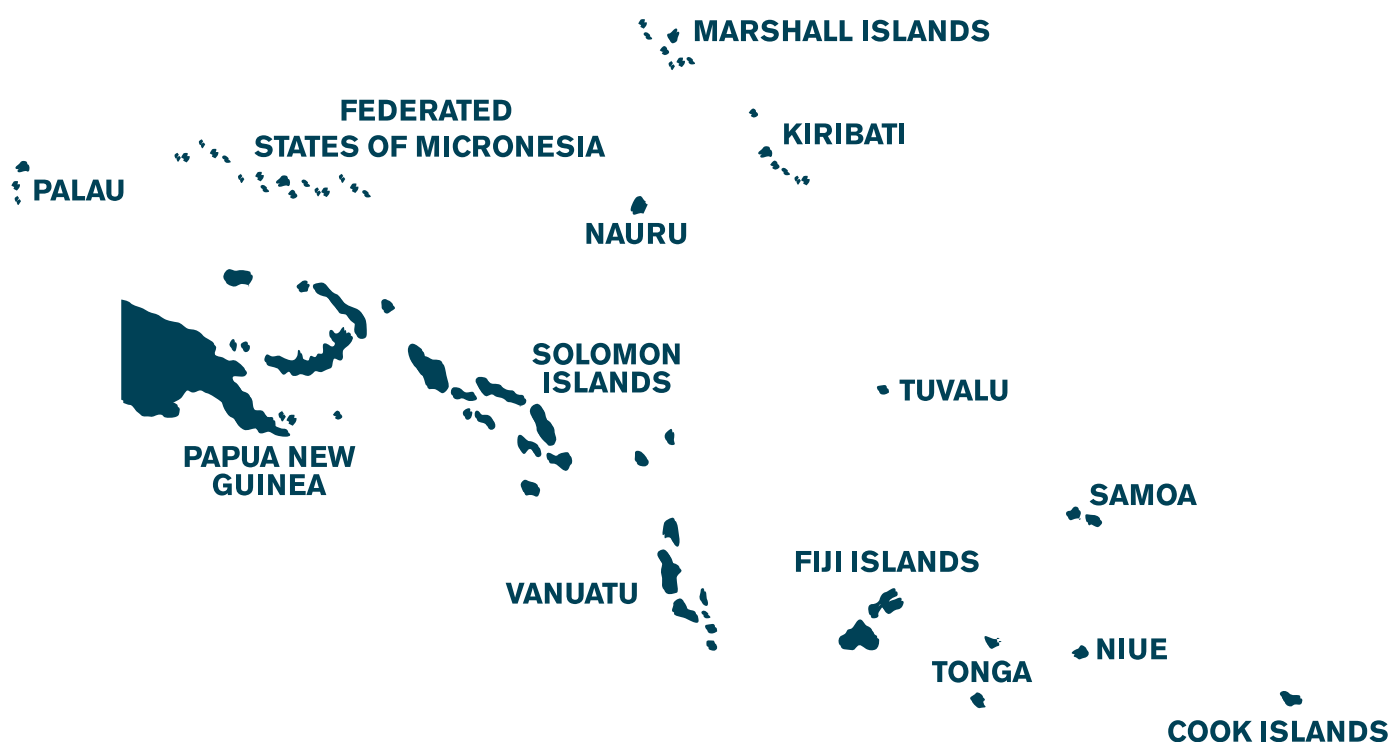
Out Special Projects Unit

- Supports private sector development in 14 Pacific Islands Countries.
- Promotes intra-regional investment development.
- Supports the business development programs of Small Island States (SIS).
- Supports skills development, including through capacity building initiatives.

Our Newsletters

Our newsletter provides practical information about trade, tourism and investment trends in the Pacific Islands and Australia. Pacific Outlook also contains up-to-date information on developments on regulatory changes and requirements for trade and industry in the region.

Our newsletters are published on a bi-monthly basis. Register online at www.pitic.org.au for your free subscription.





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