

Summary

Agriculture, fisheries, and forestry (including subsistence-level activities) accounted for 23 percent of the gross domestic product (GDP) of the Republic of Vanuatu and virtually all its merchandise export earnings in 1999. Most Ni-Vanuatu rely on their own subsistence efforts to meet their basic food and shelter needs. Despite some successes, as in the production and export of cocoa, coffee, copra, timber, beef, and other commodities, plantation agriculture and smallholder commercialization have been slow in developing. Since independence in 1980, the gross product of this sector has grown at an average annual rate of only 1.6 percent in real terms, below the average of 2.2 percent for the economy as a whole. Population has grown faster than the economy's productive capacity. As a result, real GDP per capita is 10 percent lower today than in the early 1980s. The slow growth of the economy is due largely to the lack of growth in agriculture and fisheries.

Development Opportunities

Vanuatu has a highly distorted economy and its pattern of production certainly does not reflect its comparative advantages. The distortions tend to shift resources away from the traded goods sector, particularly exports, toward the nontraded goods sector. If these distortions were removed agriculture-based exports would increase substantially. Traditional exports such as copra, cocoa, beef, and kava would have higher returns. Profitable opportunities for a range of new exports, particularly fresh food and indigenous food, could also emerge. The export of indigenous nuts offers some potential, but this potential must be developed and realized by the private sector rather than with selective assistance from the Government or the donor community.

Agricultural products could be processed further in Vanuatu. However, such a development is undermined by the high cost of raw material feedstock, high electricity prices, tariffs on imported inputs, and a range of other factors that have made it less attractive to invest in long-lived assets. To the extent that the Comprehensive Reform Program (CRP) will remove some of these constraints, processing will become more attractive. This has been shown in the case of the new coconut oil mill on Santo. The scrapping of the export monopoly of the Vanuatu Commodity Marketing Board (VCMB) and reductions in trade taxes have made oil production more viable.

Vanuatu has no clear comparative advantage in fisheries. Its fisheries resources are not very abundant, and fishing to supply the local and overseas markets is high-cost. Even with the protection of very high import duties, the fisheries sector has had only modest development. However, the policy and regulatory environment might be a more important constraint on the commercial development of fisheries than the resources themselves. Tuna caught in Vanuatu's exclusive economic zone (EEZ) could undergo shore-based processing, but local costs would have to be substantially reduced.

Development Constraints

A plethora of distorting taxes, policies, and regulations have sapped the development of agriculture and fishing in Vanuatu. The story is a familiar one: high trade taxes; the lack of competition in markets for credit, shipping, utilities, and other agricultural and fisheries inputs; and inefficient and loss-making state-owned farming and marketing bodies. Problems of access to viable parcels of land for farming under Vanuatu's *kastom* land system are said to be a major hurdle to commercial development. Access rights to near shore-fishing grounds are also complicated by traditional ownership arrangements. Land and sea transportation is unreliable and usually expensive; as a result, seeds, fertilizers, and other inputs are often unavailable. Markets are small, and they are often distant and costly to reach. Government-granted monopolies and anticompetitive regulations have moreover stunted the growth of wholesale and retail markets. Agricultural extension is largely ineffective. Lack of competition and ineffective Government oversight in the provision of key utilities such as power, communications, and water have led to excessive charges. International competitiveness has been undermined by an exchange rate mechanism that is only indirectly related to developments in the economy and is prone to serious overvaluation because of large capital inflows in donor projects and trade taxes.

Potential investors in commercial activities have shied away in the face of uncertain Government policies and attitudes, arbitrary decisions by public officials, excessive bureaucracy, and poor public enterprise management. By sponsoring ill-conceived development projects that subsequently became a major burden on the Vanuatu economy, the international community is also partly to blame. Investment returns in agriculture and fisheries, including those in donor-sponsored projects, have been disappointing. In all likelihood, donor and public-sector investment has diminished, rather than advanced, the development of the sector.

These distortions have discriminated particularly against commercial agriculture and fishing. Over the past decade, the smallholder sector has done better than the plantation sector in Vanuatu in meeting subsistence requirements and contributing produce to commercial markets. But this only means that smallholder food gardens, which minimize on the use of capital and other purchased inputs, are less vulnerable to distortions. The smallholder sector, given its constraints, is reasonably efficient and provides a relatively high subsistence living standard and a relatively high degree of food security. However, to write off commercial agriculture would be a mistake.

Institutional Capacity Constraints

The Ministry of Agriculture, Quarantine, Forestry, and Fishing (MAQFF) has a severely depleted capacity. This is due in part to the CRP “rightsizing” exercise, which sharply reduced staffing and budgets, and in part to the 1993 dismissals following the civil service strike. The Ministry is not fully capable of conducting its core functions. The extension service is weak and lacks staff with the right experience and training. The Fisheries Division does not have enough staff to enforce regulations, protect against overfishing, and ensure appropriate compensation for the community. Overall, the Government lacks a well-defined role in agriculture and fisheries, such that scarce Ministry resources are devoted to noncore activities, some of which have dubious benefits.

The Forestry and Quarantine divisions, in contrast, are well focused on their core activities. While donors have largely neglected the Fisheries Division and may have induced the Agriculture Division to undertake noncore and questionable programs, technical assistance to the Forestry and Quarantine divisions in recent years has been well targeted.

The CRP provides a firm basis for removing impediments to the development of agriculture and fishing. The CRP has induced a shift in the Government’s policy emphasis on economic development. The level of Government direction and intervention in the economy is being reduced in favor of an enhanced role for the private sector. As the Government progressively withdraws from production and marketing activities, it is focusing on facilitating sustainable private-sector development by removing impediments and putting in place regulatory regimes to ensure the development of competitive markets that serve the community interest.

The CRP has focused to date on the big picture: public-sector reform and economy-wide policy reform. While the actions taken under

CRP will ultimately benefit the private sector, many constraints on development remain. Commercial activities will benefit significantly if export taxes were abolished, interisland shipping and marketing made more competitive, and import duties reduced. However, reforms in this regard have not gone far enough and many constraints continue to hamper agriculture and fisheries development.

The prospects for economic reform in Vanuatu are uncertain. Economic development hinges on the continuance of the CRP. However, while the Government has affirmed its commitment to the CRP, it must contend with considerable political opposition as well as a growing level of discontent and impatience with reform among the Ni-Vanuatu. Often opposition reflects self-interest. It may also be a reaction to the short- to medium-term costs that the reforms have imposed on sections of the community, particularly through public-sector redundancies and service cutbacks, and it may indicate a lack of understanding of the longer-term benefits of reform. There is concern that market-oriented reforms will widen the gap between the rich and the poor and will fail to create enough jobs for displaced workers and new entrants into the labor force. There is also a widespread view that Vanuatu, being a small remote island community, cannot compete with the rest of the world without the help of Government policies.

The pace of reform under CRP could slow down, and there may be reversals in a number of areas. For one, the privatization of some loss-making state enterprises, including agricultural enterprises, has stalled. The domestic airlines, Vanair, has been driven to the brink of bankruptcy by political interference and weak management.

Social stability in Vanuatu is still high despite rising underemployment and growing income disparities. But a weakening commitment to the CRP process and increased political instability, and the possible capital flight that these developments would bring about, would all worsen economic performance, severely testing the considerable patience of the Ni-Vanuatu people and making social unrest more likely.

The economic and institutional reforms recommended in this review are all consistent with CRP principles. They are intended to maximize the economic and social contribution of agriculture and fisheries to the people of Vanuatu. In many cases, the CRP has not yet addressed the recommended reforms. However, the CRP is not a static process and the reform matrix is updated as the reforms proceed. Most of the reforms recommended in this review can be included in future CRP actions.

Toward a Sector Strategy

Sustainable economic growth in Vanuatu will depend on the development of activities in which Vanuatu has a comparative advantage. This is likely to be in agriculture, processed agricultural products, and tourism, all of which are based on Vanuatu's resource endowments. Vanuatu does not appear to have a comparative advantage in manufacturing, mining, and fishing (except perhaps for offshore tuna), and these are unlikely to develop significantly in the next decade without Government subsidies. Encouraging the domestic production of import substitutes through protection will not contribute in a cost-effective way to food security, will inflate the cost of basic necessities to Ni-Vanuatu, and will certainly not contribute to economic growth. As international experience shows, protectionism detracts from national income rather than adding to it.

Sustainable growth in agricultural and fisheries production would become more achievable if the public sector, through agencies such as the MAQFF and the Ministry of Trade, were to work in close partnership with the private sector toward common development goals and objectives. The strategy should be to marry the private sector's commercial interest in agriculture and fisheries development with the Government's overarching interest in economic and social development.

Government can remove impediments to development, introduce regulations to protect the community against inappropriate developments and activities, and facilitate private development by providing cost-effective market information, extension services, and research in areas that private providers do not adequately serve. The Government could catalyze and sustain private investor interest. It needs to inform the private sector that it intends to create a policy and regulatory environment more conducive to profitable development, and it needs to make a credible commitment to maintaining this new environment indefinitely, at all costs.

Yet, providing an enabling policy and regulatory framework is a necessary condition but not the only condition for development. Government institutions such as the MAQFF must also have the required institutional capacity to regulate and to collaborate effectively with the private sector in bringing about the desired economic growth of the sector.

From an economic standpoint, investment funds should be directed to activities where the social returns are highest. In most cases, these would be in the private sector rather than in the public sector. However, donors and multilateral agencies provide little direct fund-

ing assistance to the private sector. International donors assisting a country toward economic development focus on strengthening public-sector institutions and putting in place enabling policies that will strike down barriers to investment. In the private sector they confine themselves, for the most part, to credit assistance and joint-venture participation. The financial capital for developing agriculture and fishing must therefore be supplied by private financial institutions, on competitive terms to attract the necessary capital. In creating a more conducive and stable business environment in Vanuatu, the Government can significantly increase the supply and reduce the cost of credit to private investors mainly by fostering competition in the supply of investment capital and by lowering investment risk.

The MAQFF lacks the institutional capacity to do all these effectively because of budget cutbacks and depleted staff resources. Unfortunately, the Government will be unable for some time to provide the MAQFF with the necessary funds and resources. Well-directed funding to strengthen the institutional capacity of the MAQFF would potentially have a very high social rate of return. However, the grounds for such an investment need to be prepared through the adoption of national sector policies for agriculture and fisheries. Otherwise there is little guarantee that funds will not be used to perpetuate inappropriate activities, particularly government involvement in agricultural production and the supply of inputs.

Vanuatu's agriculture and fisheries sectors lack policy direction—a “road map” as it were—to guide stakeholders, private and public, toward agreed objectives. A national agricultural policy approved by all stakeholders is a matter of the highest priority.¹ The role of government needs to be defined and circumscribed. The core functions and activities of the MAQFF and other government agencies in relation to these sectors must be established. There is also a need to develop a strategy for implementing policies and for restructuring and strengthening the Ministry. Without such a clear policy and mandate for the Ministry in advance of investment in institutional strengthening, funds will be frittered away on activities that are better done by the private sector or that generate little social benefit.

The policy statement, formally adopted by the Government, must come first; institutional strengthening to implement this policy and

¹ The development of a clear policy framework has been an important factor in focusing the work of the Forestry Division and donors on activities that are clearly set out in the National Forest Policy. Some useful lessons to be learned from the forestry policy development process are discussed in Wyatt and Bartlett et al. (1999) and AM Gerrand (2000).

to strengthen the capacity of the public sector to effectively perform its mandate must follow. But this does not mean that the necessary reforms and institutional strengthening have to be delayed unnecessarily. The Prime Minister's speech on Independence Day highlighted the importance of agriculture, particularly small-scale production, and of expanding training and financing for farmers. CRP reforms are already benefiting the sector and these reforms will continue. A number of reforms are recommended in this review for the Government and the Ministry to implement. The CRP also gives guidelines for the MAQFF restructuring. A reasonably high degree of consensus about what the agricultural policy should state and what the Ministry should be doing probably already exists. However, the details need to be hammered out and some legitimate areas of contention need to be resolved. There is no reason why a policy cannot be formulated, adopted, and implemented in a relatively short time.

Proposed Technical Assistance

Most support for agriculture, fisheries, and forestry is currently provided with Australian, French, and New Zealand assistance. Included here is the support for the Vanuatu Agricultural, Research and Training Center provided by CIRAD; the Belaru cooperative project funded by Agence France de Développement; and individual advisers in the Quarantine and Forestry divisions provided by New Zealand and Australia. In addition, a major new project proposed for funding by the European Union, the Producers' Organization Project (POP), will provide support for smallholder producers of several major crops. This support, which is expected to benefit about 1,200 smallholders, will include assistance in crop production and marketing and in the formation of producer's organizations, as well as financing for crop production and processing. The project is expected to begin in 2001. If implemented well, in accordance with market principles and within the right policy and institutional framework, the POP could provide a much-needed boost to the sector. However, if it is implemented in a way that is not sustainable, it will fail. A sound sector policy framework would greatly improve its chances of success.

Following is a summary of a cluster of technical assistance projects and an investment project developed by the Review Team for funding by ADB and other donors, to strengthen the capacity of the Ministry for the effective conduct of its core activities and to facilitate private-sector involvement in agriculture and fisheries development. Details of the proposals are contained in Appendixes 10 to

18.² Figure 1 shows the conditionality and phasing of the TA projects in agriculture and forestry.

Agriculture

Vanuatu National Agriculture Policy. This TA will assist the Government in establishing and managing a participatory process, involving all stakeholders in the agriculture sector, of developing and implementing a national agriculture policy accepted by stakeholders, the Government, and the major political parties. This policy would provide a set of principles to guide the Ministry in determining its role and core functions.

Human Resource Development Plan for MAQFF. The TA is designed to assist the Government in a comprehensive assessment of the core activities of the Ministry and its human resource requirements for the effective performance of its role in national agriculture policy. This TA is conditional on the completion of the policy and its approval by the Government.

Project Preparation for the Vanuatu Agricultural Development Capacity Building Project. The TA will formulate a sector investment project to strengthen the capacity of the MAQFF and other relevant agencies to promote growth in the agricultural sector and to create opportunities for smallholders to increase their incomes from farming. The TA is conditional on the adoption of the national agriculture policy and the recommendations of the human resource needs assessment. The TA will identify detailed project components and costs, programs and activities, schedule of activities, investment benefits, implementation risks, and funding arrangements.

Vanuatu Agricultural Development Capacity Building Project. The loan project will assist the Government in promoting growth in the sector and creating opportunities for smallholders to increase farm incomes. This project would be conditional on the adoption of the national agriculture policy and the recommendations of the human resource needs assessment TA. The project would seek to rebuild the institutional capacity of the MAQFF to enable it play a more effective role. The investment project would have a number of compo-

² Appendixes 1 to 9 give the outline terms of reference for the Review Team (Appendix 1) and the persons they consulted for this report (Appendix 2); a summary of the main points discussed at the meeting held on 6 October 2000 to review the team's report (Appendix 3); a rundown of developments in the agriculture (Appendix 4) and fisheries (Appendix 5) sectors; the CRP and the reforms it is instituting in the agriculture and fisheries sectors (Appendix 6); fisheries policy issues (Appendix 7); a reform strategy matrix for the fisheries sector (Appendix 8); and an analysis of the strengths, weaknesses, opportunities, and threats facing the Fisheries Division (Appendix 9).

nents involving institutional capacity building in policy development, agricultural extension services, and research programs.

In addition to these recommended technical assistance and loan projects, other areas of assistance were suggested to the Review Team. A number of people advocated technical assistance for the development of the indigenous nuts industry. While there has been some private-sector development in this area, these advocates felt that the further development of the industry was being held back by the Ministry's lack of knowledge and poor institutional capacity. Technical assistance for organic farming was also recommended.

However, international experience and the experience of Vanuatu in particular would indicate the inappropriateness of singling out a particular product or group of products for technical assistance. If the products are commercially viable, the private sector generally does not need Government or donor support to encourage development. The development of the indigenous nuts industry will benefit from the policy recommendations in this report that support the removal of impediments to development in agriculture and the economy in general. It will also benefit from the recommended technical assistance for institutional strengthening mentioned above.

Fisheries

Development of a National Fisheries Policy: The TA will promote the sustainable development and management of the fisheries sector in Vanuatu by strengthening the capacity of the Fisheries Division to manage increased fishing activity effectively. It will assist in the development and implementation of a national fisheries policy, to be drafted with inputs from all relevant government agencies (central and provincial), the fishing industry, and other stakeholders. The TA will also assess fisheries and related laws for consistency with policy objectives, sound fisheries management principles, fisheries laws in the region, and Vanuatu's regional and international commitments. Any required revisions in the laws will form the basis for the implementation of a functional legislative framework for the future sustainable development and management of the sector.

Institutional Capacity Building of the Fisheries Division. At the same time, a second TA, which will be in place for five years, will begin improving the institutional capacity of the Division. This will mean identifying weaknesses in management, corporate planning, structure, functions and activity areas; developing consultative mecha-

nisms for government authorities and industry; and implementing management plans.³

Forestry

Inventory of Vanuatu's Forest Resources. The TA project will assist the Government in the comprehensive updating of Vanuatu's forest resources inventory, a requirement of the approved national forestry policy.

Development of a Forestry Management Plan. This TA hinges on the completion of the inventory assessment TA. The development of forestry management plans will enable the Forestry Division to bring together and implement the requirements of the forestry policy and the Code of Logging Practice and the proposed inventory assessment.

The development of the sector could be further speeded up through faster and more reliable processing of investment approvals and logging lease agreements. A small-scale technical assistance could be provided to support related management activities.

Other Areas

Capacity Building for the Development of Provincial Development Master Plans. The Government has adopted a decentralization policy. The objective of this TA is to assist provincial governments in instituting participatory and consultative processes within the Rural Economic Development Initiative (REDI) approach to provincial development plans.⁴ The central and provincial governments have recognized REDI as an appropriate planning and coordinating mechanism for provincial development planning.

³ No loan for rebuilding the institutional capacity of the fisheries sector is recommended. One reason for this is that fisheries management authorities, if functioning properly, are capable of generating funds through the cost recovery of management services and through the granting of access to fishing grounds. However, funds may well be required in the initial stages of institutional strengthening to help build up management and enforcement capacity. The investment loan for agricultural capacity building could be extended to cover the needs of the Ministry as a whole, including the Fisheries Division.

⁴ REDI is a "bottom-up" planning approach developed by several ministries to plan and coordinate infrastructure and other service provision to the outer islands.

Figure 1: Priority Agriculture Projects of Vanuatu for ADB and Other Donor Funding Support

