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Annals of Aid: Vanuatu and The United States Millenium Challenge Corporation

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Vanuatu, with a population of 200,000, is a medium sized Pacific state that became independent from the British-French Pacific Condominium in 1980. Vanuatu has rich agricultural land, marine resources and many beautiful tourist sites. Like other Pacific islands, it is well located with respect to burgeoning Asian markets. But instead of harnessing its resources to catch up to high living standards, Vanuatu's per capita income (around $1,500) has barely risen in 25 years. Most of the benefits of high aid flows have been appropriated by a small elite in Port Vila. The elite enjoys the lifestyle of the expatriates who still fill many professional and management positions whereas most ni-Vanuatu are subsistence farmers and urban shanty dwellers.

No society of Vanuatu's size can support the costs of its political and bureaucratic superstructure. Vanuatu has a Parliament of 58 members led by a Prime Minister and Cabinet of 12 other Ministers each with a government department. The Reserve Bank of Vanuatu issues currency and exercises all the other functions of a central bank. There are six regional presidencies. The judicial system is based on English and French law with recent accretions of American law. Vanuatu is a member of the United Nations and 29 other international organisations. Because it was a condition of continuing French (and subsequently European Union) aid, Vanuatu operates in three languages—French, English and *lingua franca* Bislama.

Vanuatu's economic policies prevent growth. Communal land tenure has been enshrined in the Constitution. Apart from limited urban land and some private rural estates, land is not titled or registered and cannot be used for development. This deprives more than 80% of the population of cash incomes. Women's work in gardens feeds the population. Agricultural exports come from the few long established estates. Most men in the countryside are underemployed. The consequences are dire for young men who inevitably drift to towns where there are no jobs. Public utility monopolies create high costs and limit power, water, sanitation and communications to wealthy urban areas. Transaction costs for business are high and arbitrary so that corruption is rife. The fiscal base is limited to a partial value added tax and import taxes. There are no income or corporate taxes. Public service wages and salaries take up more than half the budget revenues. There is no funding for infrastructure maintenance let alone development.

A limited off-shore banking sector has come under some surveillance to deter money laundering and tax avoidance, but for some 4,500 off-shore registered companies there are no controls so that the sector is still seen as a corrupting influence. The sector only employs some 200 ni-Vanuatu employees and its contribution to revenues is also very limited. Its net impact on the economy is probably negative.

Again, like the rest of the Pacific, Vanuatu has received generous annual aid flows, notably from Australia. Aid flows have maintained the political and bureaucratic structures, but aid also creates

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costs. Upward pressure on the value of the *Vatu* deters exports and import substitution. Resources are drawn to the public sector. Incomes in rural areas are depressed. And aid has enabled Vanuatu to avoid reforming its economic policies.

Australia, working with the Asian Development Bank and the World Bank, became unpopular in Vanuatu when it attempted to persuade Vanuatu governments to pursue growth policies through a Comprehensive Reform Program in the late 1990s. This Program failed. Mending fences, the new Prime Minister Ham Lini and the Australian Minister for Foreign Affairs, Alexander Downer, signed a joint *Good Governance Statement of Principles* on 17 December 2004 and followed it with a new 'joint strategy' for development in March 2005.

But Vanuatu had the upper hand in the negotiations. On 8 March 2006 the US Millennium Challenge Corporation approved a five year $US65.69 million Compact with Vanuatu for, yet again, an 'institutional strengthening' program for the Ministry of Public Works plus funding for the transport infrastructure that failed to be maintained by previous aid flows. The funding is to be front-loaded, reducing Australia' share of aid to Vanuatu from 75% to 45%. The Compact does not include the policy reforms identified as essential for Vanuatu's growth and hence for improved living standards. Although the outcome is likely to boost Port Vila by the target 15% over five years, for most ni-Vanuatu nothing will change. But the 2008 election should go well for the Lini Government!

Introduction

Vanuatu, with a population of 200,000 set in a scatter of idyllic islands in the South Pacific, was colonised by Great Britain and France in the 19th century as the South Pacific Condominium. With the French and English linguistic and colonising skills of the time, the islands inevitably came to be known as the South Pacific Pandemonium. The colonial era did little but pervert flexible traditional economic and social societies to give enhanced power to 'big men' through whom the colonial administrations ruled the islands.

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When Vanuatu became an independent republic in 1980, it had only a handful of educated ni-Vanuatu[1] and little infrastructure outside the pretty harbour of Port Vila. The new 'nation' was saddled with a preposterous constitution that disregarded its population size and almost total illiteracy to establish a Parliament of 52 members led by a Prime Minister and Cabinet of 13 Ministers, each with all the appurtenances of office in terms of salary, vehicles and staff, government departments to match, and a consequent public service that could manage a country 20 times Vanuatu's size. There are also six provincial presidencies. A judicial system based on English and French law with recent additions from United States law is a consultant's delight and treasure trove. The International Monetary Fund (IMF) contributed a central bank (the Reserve Bank of Vanuatu) with a full complement of currency and monetary functions. Vanuatu became a member of the United Nations and, in due course, 29 other international organisations, including, of course, the duplicative Pacific Forum and Secretariat of the Pacific Community.

France insisted that Vanuatu, notably its education system, should remain bilingual to receive its, and eventually the European Union's aid. With perhaps 200 local dialects, few ni-Vanuatu then spoke the vernacular Bislama, let alone English or French. This created work for bilingual Canadians who escaped their country's bitter winters to translate documents from English into French and vice versa, tempering work pressures with deep sea diving excursions to the island of Santos where World War II debris has been so attractive that an underwater post office has been established.

These foundations, maintained by large aid inflows, have encouraged economic and social policies that have resulted in 25 years of stagnating living standards for the more than 80% of ni-Vanuatu who live in rural areas. In a region notorious for low growth, Vanuatu has been one of the worst performing states.[2] It is thus astonishing that it has been able to persuade the United States Millennium Challenge Corporation, established to avoid the old, bad ways of giving aid to undeserving countries by identifying countries that 'rule justly, invest in people and promote economic freedom', that it is the most deserving country in the Pacific.[3] The Corporation's largesse for Vanuatu is $US65.69 million ($A88 million) over the next five years.[4]

This paper discusses Vanuatu's economic performance and the effects on living standards in the context of the Pacific, with particular attention to why high aid flows have failed to stimulate growth and development. The paper reviews how the Millennium Challenge Corporation's methodology of choosing its beneficiaries made it possible for Vanuatu, clearly one of the worst performing Pacific states, to promote itself as the most worthy in the Pacific of the Millennium Challenge Corporation's funding. A final section discusses the likely outcome.

Vanuatu's economic performance since independence

Vanuatu shares a paucity of reliable data with other poorly performing Pacific economies. In spite of some 20 years of sustained efforts to train economists, demographers and statisticians[5] and large expenditures by multilateral and bilateral aid donors, statistical offices (notably in Vanuatu) remain the orphans of the Pacific's copious public services. They are perceived to be dead ends to careers because they are highly politicised, being expected to produce politically 'suitable' data. This has meant that basic birth, death, marriage and other registries do not reach into the countryside and other social indicators are even more dubious. Political motivations make employment, underemployment and unemployment figures even more unreliable. The central banks' macroeconomic and financial data are the only reasonably reliable economic data series available in the Pacific.

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The Asian Development Bank, the World Bank and the IMF are the principal multilateral sources of economic and social Pacific data.[6] They do not have the resources to validate the data reported to them by Pacific governments. Apart from reasonably accurate macroeconomic data, these data sets are therefore not consistent from year to year or internally consistent within each year. Other international agencies' Pacific data are even less reliable.

The large volume of aid flowing to the Pacific has spawned a large number of surveys and reports. Consultants are forever evident in the Pacific, but their work is of variable quality. While some reports contain useful information, they have to be checked, reviewed and reconciled for reasonable assessments of economic and social trends.

Economic growth and living standards

Chart 1 shows per capita income changes for selected Pacific countries since 1975.[7]

Tonga's positive performance is deceptive, owing more to falling population as a result of high emigration rates than to economic growth. Samoa has also had high emigration rates, but is the one Pacific economy that opted for economic reforms. These have translated into the highest per capita income growth and development in the region. Fiji has periodically struggled to improve its market signals, but its economic growth has barely exceeded population growth (despite considerable emigration of Indian Fijians). Its performance has been far below its potential. Mauritius, an island of comparable size with a similar sugar-dependent economy in the 1960s, moved, through market oriented policies, from half to twice Fiji's per capita income between 1975 and 2005.[8]

Vanuatu's official data suggest that it barely increased its per capita income from $1,418 ($US1,064) in 1975 to $1,533 ($US1,150) in 2005 (in 2005 US constant dollars).[9] It has, with the Solomon Islands and Papua New Guinea, been the worst economic performer in the Pacific.

After 25 years of independence, more than 80% of ni-Vanuatu have a subsistence existence in villages without cash incomes. They lack the simplest amenities. The absence of water supplies, sanitation and power is felt in homes and schools.[10] There is practically no health care. Unless there is broadly based economic growth, data for

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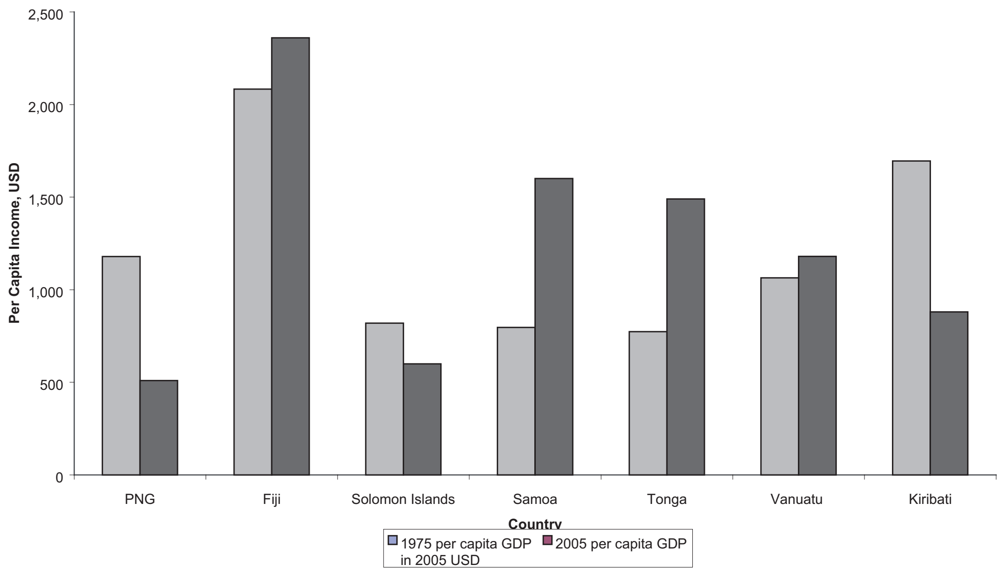
Chart 1: GDP per capita in 1975 and 2005 in 2005 US Dollars



Source: World Bank, *World Development Indicators*, passim

subsistence economies such as Vanuatu's largely reflect trends in the capital. Vanuatu's economic performance was poor in the 1980s so that per capita income fell below pre-independence levels. Growth appeared to accelerate in the 1990s, but this reflected extravagant budget deficits with high recurrent expenditures rather than underlying real economic growth that would have improved the lives of the subsistence population. When economic growth again lagged behind population growth in the 2000s with the effort to bring budgets under control, the rural populations were only affected by further decline in health and education expenditures. The Asian Development Bank's *Outlook* for 2005 concluded once again that 'the most worrying policy issue is still that of how to deal with the long-term decline in income per head, particularly in rural areas. In 2004, real GDP per head was below the real level of 20 years earlier, with the benefits of economic growth largely captured by those in urban employment in the public, tourism and financial sectors.'[11]

In marked contrast ni-Vanuatu politicians, bureaucrats, a handful of foreign enterprise employees and business owners, largely concentrated in Port Vila, form a distinct elite. They have outposts in the six provincial Presidencies and reach out, through elections to the 'big men' who deliver the votes of the largely illiterate countryside. The ni-Vanuatu elite lives side by side with the representatives of international organisations and the many expatriate consultants in Port Vila in Western comfort. Its children are educated to Western standards so that they can inherit their father's jobs and businesses. But Port Vila also has a shanty fringe where village youth come in search of a better life. Here there are no amenities. Not surprisingly, 'by 2004 there had been a substantial increase in the number of reported crimes, notably of petty theft in urban areas by the unemployed and poorly skilled…This may be an early warning of a long term adverse impact on law and order of income stagnation.'[12]

Any serious concern for Vanuatu must be with subsistence ni-Vanuatu. The National Statistical Office's indicators of longevity, maternal, infant and child health appear to be unrealistic.[13] In reality health services in the countryside have deteriorated since the colonial period. There is almost no health care. The simplest medication is not available. Women die in agony of childbirth complications. If HIV/AIDS appears, as it has in Papua New Guinea, it will be unstoppable. Yet the World Bank and the Asian Development Bank republish the National Statistical Office's indicators without comment.

The multilateral aid organisations, abandoning growth objectives for an obsession with 'poverty' agendas have wasted millions calculating percentages of people living in 'poverty' in terms of numbers living on a dollar a day. In the Pacific only small numbers of marginally situated rural dwellers go hungry. But the proportion of rural dwellers with basic amenities, access to decent education and health is negligible. Household survey data lead to exaggerated measurements of poverty in countries such as Australia and the United States because respondents consistently report incomes that are lower than expenditures and because not all sources of income are included. Where cash incomes are negligible the proxy of 'living on a dollar, or two dollars a day' for adequate food intakes is meaningless. The World Bank is, nevertheless, carrying out a household income survey in Vanuatu rather than confronting the government of Vanuatu with the reasons for deprivation in the countryside and using its funding to alleviate it.

In 2002 the IMF quoted a figure of 7% of urban households and 75% of rural households living on less than $1 a day on the basis of a National Statistical Office figure, without commenting on the validity of the concept or the data.[14]

The Asian Development Bank followed the UN Millennium Development Goals' listing of targets to be achieved by 2015 for its Pacific members.[15] After 'consultative workshops' in the Pacific, it became obvious that the term 'poverty' is perceived to have connotations of hunger and destitution that do not properly reflect the nature of the communities consulted.[16] The first European sailors to come to the Pacific envied the islanders' ease and comfort that contrasted so sharply with their harsh lives. Western beachcombers soon came to the Pacific in search of its abundance. Academics came to speak of 'primitive affluence'. But Pacific peoples also want to attain health and longevity and acquire the education that would enable them to work and live at Western standards. These would be achievable with the liberal economic policies that the East Asian 'Tigers' proved effective and that have been followed by other rapidly developing countries, including China and India. But liberal economic policies emphasise production while Millennium Development Goals are about distribution. The Asian Development Bank ignored the needs of the Pacific to fulfill its obligations to the aid industry's empty rhetoric.

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Causes of Vanuatu's lagging economic performance

Contrary to the culture of complaint encouraged by academics and international aid agency staff and consultants, the Pacific's growth problems do not arise from a lack of natural endowment, distance from markets or small size. The Pacific islands are rich in agricultural and marine resources with minerals in several islands and excellent tourism sites. They are close to the burgeoning markets of Asia. Norfolk Island is the smallest of the Pacific islands, but has Western living standards. Iceland has the same population size as the Solomon Islands, a much more remote location and a very unFAVOURable climate. Yet from a fishing base it has become, with liberal economic policies, one of the highest per capita income countries in the world.

The Pacific has received the world's highest per capita aid flows during the past 30 years, equaling ten times per capita aid to Africa and a hundred times the aid to the two large—and rapidly growing countries—of Asia.[17] Vanuatu has received more aid per capita than other medium sized islands (Table 1).

Table 1: Total and per capita aid flows to the Pacific, millions of US 2005 dollars, independence to 1999 and 2000 to 2004

	Independence to 1999	2000- 2004	
	$US million	Total average annual flows $US million	Average annual flows per capita $US
Fiji	1,993	37.5	42
Solomon Islands	1, 868	73.4	136
Samoa	1,373	31.5	157
Tonga	883	20.4	115
Vanuatu	1,625	32.4	289
Kiribati	750	15.3	148

Source: H. Hughes, Aid has failed the Pacific, *Issue Analysis*, No 33 (Sydney: Centre for Independent Studies, 2003) and OECD, Geographical Distribution of Financial flows to Aid Recipients, 2000-2004 (Paris: 2006)[18]

Australia has been the principal bilateral donor to Vanuatu, accounting for some 75% of all aid flows during 2000-2004, with Japan in second place. France and the European Union have made a contribution to French education. Bilateral aid dominates aid flows.

Aid and the Dutch Disease

Aid has... largely benefited the Vanuatu urban elite.

A paucity of aid has thus not been Vanuatu's problem. Aid flows have been a major cause of the Pacific's and Vanuatu's growth difficulties because they create unearned economic rents or 'Dutch Disease' costs for the Vanuatu economy. Aid flows have put an upward pressure on the value of the *Vatu* currency, making exports and import substitution costly. They have drawn resources from the private to the public sector, raising public wages and salaries faster than revenues. Aid has therefore largely benefited the Vanuatu urban elite. The bilateral and multilateral aid officials, consultants and Non Government Organisation (NGO) staff crowd Port Vila housing, hotels, resorts and restaurants, accounting for the profitability of much local business. Membership of international organisations provides Vanuatu officials and bureaucrats with such travel opportunities that it is often difficult to find a senior ni-Vanuatu in a Port Vila office.

Economic theory explains that when economic rents of aid accrue to urban areas, rural incomes are depressed below levels that would otherwise prevail.[19]

The costliest effect of aid flows, however, has been associated with successive Vanuatu Governments' ability to play donors off against each other to prevent a 'conditionality' dialogue that would lead to economic reform. While individual donors are responsible for aid efficiency, the coordination of aid among donors is known to be an important factor in aid effectiveness. Vanuatu has long followed a 'shopping list' approach to aid donors, facing each aid delegation that comes to town with a list of projects and programs it wishes to have funded. This enables Vanuatu to present projects for funding that donors find attractive, while economising on project and program preparation by getting aid funded consultants to prepare projects for the 'shopping list'.

When it became evident that allocating aid to projects and programs on the 'shopping list' was not leading to growth in the early 1990s, the World Bank and the Asian Development Bank, supported by Australia's AusAID, instead of pursuing growth targets, succumbed to the aid industry's 'capacity building' and 'governance' fashions and persuaded the Government of Vanuatu to accept a Comprehensive Reform Program. It was to make the Port Vila bureaucracy, notably such components as the Public Works Department, efficient and effective. The Asian Development Bank kicked off the program with a $20 million loan in July 1998 that funded consultants for the Comprehensive Reform Program for the following five years. In 2004, Craig Sugden, an experienced Pacific analyst, and Odo Tevi, the Governor of the Reserve Bank of Vanuatu, concluded that 'the CRP is yet to realise the hoped for growth dividend.'[20] Funds were twice used to refinance the Vanuatu National Provident Fund—the elite's superannuation scheme—after it had been eviscerated by corruption. The Asian Development Bank and the World Bank, increasingly disappointed by the failure of the Comprehensive Reform Program and Vanuatu Governments' refusal to implement economic reforms, limited their lending.[21]

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The Anglophone/Francophone origins of the Pacific Pandemonium contributed to political instability and misuse of the Comprehensive Reform Program funding. All the interest groups that formed Vanuatu governments lacked interest in honest government, making the Program's failure inevitable. The professional weakness of aid agency staff and consultants, biased in favour of a central role for government rather than market signals, was a contributing factor. Budgetary and monetary management inputs were an exception where professional economists improved practices not only in Vanuatu, but also in other Pacific countries in 2000s. Samoan governments, however, have been the only ones to generate reforms in the Pacific.

Government finance.

Expatriate economists in Vanuatu's Ministry of Finance stabilised fiscal and monetary accounts in the 2000s. Budget deficits/surpluses were limited, inflation was brought under control and foreign borrowing was contained by greater prudence. Concessional borrowing declined because of the multilateral banks' inability to make their lending effective.

Vanuatu budgets, like others in the Pacific, are opaque and there is often little relationship between forward estimates and actual expenditures. The public revenue base is weak. It relies principally on import tariffs, but these are eroded by exemptions to public and favoured private enterprises. There is a limited value added tax. There is no income tax. More than half of total expenditure is spent on wages and salaries and most of the rest on material inputs. Vanuatu's high aid flows are not reflected in counterpart development expenditure in the budget (Table 2). In part this is due to the 'boomerang' nature of Pacific aid with consultants and contractors absorbing large shares of aid, but it also indicates Vanuatu's lack of commitment to development.

Table 2: Government finance, millions of US dollars, 2002-2004

	2002	2003	2004
Total revenue	65.7	63.9	73.6
(grants)	6.6	3.4	6.2
Total expenditure	93.1	84.7	77.1
(Wages and salaries)	36.1	37.4	37.6

Source: Asian Development Bank, *Key Indicators*, 2005, Manila

Land tenure as a cause of economic stagnation

The core of Vanuatu's problems has been its neglect of agricultural development. The Asian Development Bank's *Private Sector Assessment*[22] is the most recent in a long series of reports drawing attention to the failure to develop agriculture and thus the economic opportunities for ni-Vanuatu on which wider economic and social development could be based. While land has always played a key cultural role in the Pacific, rigid communal land ownership was not a pre-colonial Pacific tradition. There was defined ownership of land, reefs and even individual palm trees. The colonial powers moved from traditional flexibility of ownership of land to strengthen the power of 'big men' through whom they ruled. In Vanuatu the common ownership of land was then enshrined in the Constitution. In Port Vila and Luganville some land became individually owned by ni-Vanuatu in the colonial period; but most urban land was taken over by the colonial governments. Some land was also alienated for agricultural estates that still supply the bulk of exports. Otherwise 'land that is inalienable and individually owned, with mapped boundaries, registered and titled, is unknown.'[23]

Common land is the source of the power and status of 'big men'. It cannot be used as collateral by farmers, or for other income earning opportunities. This denies incentives to save, invest or engage in any entrepreneurial activities. Unless land is unlocked, ni-Vanuatu families will continue to be locked out of the formal economy, restricted and stifled.[24]

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Off-shore banking

For the Vanuatu elite, off-shore banking, inherited from the colonial era, has been a valued resource. The OECD's and United States' attempts to reduce money laundering has limited the profitability of the banking component of the sector, cutting the number of off-shore banks from 103 in 1990 to 34 at the end of 2001 when there were also 10 trust companies incorporated as domestic companies but principally providing off-shore services, and 15 insurance companies.[25] These organisations have come under increasing scrutiny as a result of OECD interest in reducing tax avoidance and the passage of the first Patriot Act by the United States in 2001. But regulatory requirements are largely voluntary. The onus is on the banks to report their clients for suspicious transactions. In any case, some 4,500 international companies registered in Vanuatu merely pay an annual registration fee and remain completely uncontrolled.[26]

Around 4,500 off-shore registered companies only employ some 200 ni-Vanuatu employees; its net impact on the economy is probably negative.

The legitimate benefits of the sector to Vanuatu, consisting largely of registration fees, make a small contribution to the budget. It was estimated to be 2% in 2001.[27] Only some 200 ni-Vanuatu are employed in the off-shore sector. Off-shore banking has raised the costs of the three Vanuatu domestic banks (ANZ Banking Group, Westpac Corporation of Australia and the nationally owned National Bank of Vanuatu). The IMF concluded in 2002 that 'on balance, the reputational impact from the OFC sector appears to be negative.'[28] This still appears to be the situation today.

Exports

Merchandise exports consist of copra and coconut oil (since the establishment of a processing mill), beef, timber and cocoa. Kava exports grew until Europeans discovered that while traditional use of kava had no more ill effects than the modest use of alcohol, kava abuse was as detrimental to health as other substance abuse. Agricultural exports mostly come from existing large land holdings because of the restrictions on land use.

In spite of its beautiful coastlines and deep sea diving attractions, Vanuatu does not perform well in terms of tourist arrivals.

In spite of its beautiful coastlines and deep sea diving attractions, Vanuatu does not perform well in terms of tourist arrivals (Table 3). The North Marianas and American Samoa, the New Zealand associated Niue and the Cook Islands, Samoa, Fiji and Tonga all have higher rates of arrivals.

Table 3: Recent tourist arrivals in the Pacific per 1,000 of population

Papua New Guinea	10
Fiji	484
Solomons Islands	10
Vanuatu	303
Samoa	515
Tonga	358
Micronesia Federated Republic	176
Kiribati	38
North Mariana Islands	7,336
Marshall Islands	119
American Samoa	754
Cook Islands	3,968
Palau	4,745
Tuvalu	119
Niue	1,330

Source: Country statistics for 2000—2005 posted by PRISM at http:/www.spc.int/prism.

Vanuatu's total merchandise and service exports per capita are among the lowest in the Pacific and the Pacific performs extremely poorly in comparison to rapidly growing sub-Saharan African countries (Table 4).[29] (Exports as a share of GDP are, of course, a misleading indicator: countries with low exports also have a low GDP so that Fiji and Mauritius have the same share of exports in GDP, but fast growing Mauritius has twice Fiji's per capita exports.)

Table 4: Recent Pacific merchandise and service exports per capita and as a share of GDP.

	Exports per capita US dollars	Exports as a percentage of GDP
Papua New Guinea	515	66
Fiji	1,054	56
Solomon Islands	300	59
Vanuatu	186	12
Samoa	328	3
Tonga	313	9
Micronesia Fed Republic	169	9
Kiribati	86	15
Marshall Islands	155	9
Mauritius	2,884	55
Botswana	2,113	40

Sources: Data for various years from 2001 to 2005, from IMF for Papua New Guinea, Solomon Islands, Fiji and Vanuatu, *Statistical Yearbook 2006* available at http://ifs.apdi.net.im; for Samoa and Tonga from World Trade Organisation, *Statistics Database*, available at http://stat.wto.org and for Kiribati and Marshall Islands from Asian Development Bank, *Key Indicators 2006*, available at www.adb.org

Experience suggests that to achieve meaningful growth rates, Vanuatu would have to increase it export per capita tenfold.

Botswana and Mauritius have been used for comparison because they have sustained growth for some 30 years to raise living standards far above those of Vanuatu. The critical role of exports in economic development has not only been demonstrated by strongly growing countries, notably in East Asia, but also in economic theory and countless empirical studies of development. The experience of the two strongly growing sub-Saharan countries suggests that Vanuatu would have to increase its exports per capita tenfold to achieve meaningful growth rates.

The inability to use land productively has already been noted as a principal barrier to development. The powerful Vanuatu Commodities Marketing Board distorted export prices, reduced returns to producers and was said to be egregiously corrupt. Its export monopoly was finally lifted in 2004, but its retention as an institution with the power to purchase prescribed commodities within Vanuatu illustrated the failure of the Comprehensive Reform Program to close down unproductive public service units.

According to the IMF, in 2002 Vanuatu's nominal tariff range was 0-55%, in Fiji it was 0-27%, in Samoa it was 0-20% and in Tonga it was 0-25%.[30] There appears to have been no significant tariff reduction in Vanuatu since 2002. Producers complain of high tariffs and of arbitrary 'drawback' provisions that exempt importers from tariffs and make customs payments a lottery. Customs collection figures that enable average custom duties paid to be calculated have never been made available to analysts working on Vanuatu.

Together with the currency appreciation of Dutch Disease aid effects, tariffs constitute a trade policy bias against exports and import substitution.

Infrastructure Costs

High infrastructure costs and unreliable services, even by Pacific standards, are a bane of life and of production costs in Vanuatu. The failure to maintain roads, ports and other transport facilities despite allocations of aid to the transport infrastructure, has raised production costs in comparison with better maintenance in other Pacific islands, notably Samoa and Fiji. Paul Holden, Malcolm Bale and Sarah Holden argued persuasively for the decentralisation of maintenance and construction of transport infrastructure away from the Port Vila bureaucracy.[31] And maintaining principal roads is not enough. Feeder roads to villages are lacking, but there is little incentive for local road construction and maintenance when there are no cash crops to sell or schools and health facilities to use.

A second airline has improved access to Vanuatu for tourists, but the Pacific as a whole suffers from counterproductive national airline policies and the failure to coordinate tourism. Shippers have been allowed to supply some inter-island services but shipping is still irregular and costly.

Modern telecommunications are regarded as key to shrinking distance to markets, but Vanuatu's telecommunication costs are high even by Pacific standards. The private/public Telecom Vanuatu Limited (TVL) is a third each owned by the Government of Vanuatu, Cable and Wireless, and France Telecom (of which two thirds is owned by the Government of France). TVL has exclusive rights to domestic and international phone services until 2012. This monopoly is outrageously costly.[32] It is a tax on all economic activities and on tourists. It seems incredible that France continues to exploit such a small former colony as Vanuatu in this way in the 21st century.

In a region marked by inefficient public utility monopolies, Vanuatu's power services stand out as being costly and grossly inefficient.

In a region marked by inefficient public utility monopolies, Vanuatu's power services stand out as being costly and grossly inefficient. Most large establishments and even some small ones have their own generators because of the uncertainty of service. But the UNELCO power monopoly has a 40 year concession for Port Vila and Luganville. There is no oversight of this utility. Not surprisingly, there is little power in the rest of the country.

Water supply, sewerage and solid waste management are poor in Port Vila and do not reach the shanty settlements. In the rest of the country they are nonexistent.

Business transaction costs

The absence of a secure transactions framework and the high real costs of doing business have been identified as a key barrier to development in Vanuatu.[33] The business regulatory framework appears at first sight to be simple, with mail-in business registration and a straightforward company law. But company registry costs are elevated by a notaries law that applies to many business transactions, with high mandatory notarisation costs. Even more importantly this law grants notaries the power to prescribe their fees.[34] The business transactions framework is not only complex but arbitrary, so that the costs of starting a business are very high. In addition, by Pacific standards, Vanuatu has developed a poor reputation for foreign investment 'because of onerous regulations to obtain investment permits and work permits for foreign labour'.[35]

Core corruption in Port Vila has not been tackled through the law courts even where corruption is well known and has been reported by the media.

Corruption flourishes in these circumstances. It is acknowledged to be so prevalent that the Asian Development Bank with the OECD, mounted a program in Vanuatu for 2004-6 as part of their Anti-Corruption Action Plan for Asia and the Pacific. In June-July 2006, 160 meetings are to be held in all 80 islands of Vanuatu with the use of 'dramas and workshops' in the outer islands.[36] The program is laughable because the large scale, core corruption in Port Vila among leading politicians and bureaucrats has not been tackled through the law courts even where corruption is well known and has been reported by the media. The ni-Vanuatu of the countryside and outer islands are the victims, not the perpetrators.

The Asian Development Bank's technical assistance project to stimulate small and medium business is providing employment for Asian Development Bank staff and consultants, but is doomed to failure in the absence of government policy changes that would lower infrastructure and transaction costs.

The labour market

Vanuatu's stagnation is acutely reflected in the structure of its labour market (Table 5).

Table 5: Employment, under- and unemployment and annual additions to the labour force in selected Pacific countries, 2004

	Population	Labour force—population aged 15-65	Formal sector employment		Estimated under—and unemployment	Estimated annual addition to the labour force
	Number	Number	Number	Percentage of labour force	Number	Number
Vanuatu	200,000	98,000	24,000	24	35,000	5,000
Solomons	540,000	260,500	57,000	22	79,000	16,000
Tonga	112,000	55,000	16,000	29	17,000	3,000
Samoa	177,000	87,000	50,000	57	22,500	3,500

Source: Estimated from country data

Vanuatu's labour market is marked by two conflicting characteristics: in Port Vila and the other centers of development, such as tourist resorts, there is an acute shortage of skills at all levels, from jobs requiring mere literacy, through trade and sub-professional occupations to professional and administrative positions. This is why so many expatriates still fill positions that should, after 25 years of independence, be occupied by ni-Vanuatu. Vanuatu has lower formal sector employment than other medium sized Pacific island states except the Solomons.

About half of the labour force is under- or unemployed.[37] In rural areas this particularly affects men. Women work in gardens and orchards from an early age, but men's traditional roles of making gardens, hunting and defending their villages have either been greatly reduced or eliminated so that most are underemployed. This particularly affects young men who have no role in rural society. Young people drift to Port Vila where they cannot find jobs, are marginalised on the shanty periphery and contribute to growing crime.

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A second critical labour market problem arises from the failure of education in Vanuatu. Anglophone education in the Pacific has come to be dominated by two ideologies: teaching in the hundreds of local vernaculars in primary school and post-modern philosophies that do not teach reading, writing and arithmetic rigorously. Australian and New Zealand University Education Departments that trained most senior level teacher trainers and senior education department bureaucrats on aid scholarships are the sources of these twin philosophies. They have also influenced the consultants who deliver the substantial aid flows to education, reinforcing post-modern philosophies. The French schools, to their credit, have maintained literacy standards in French and better levels of numeracy. Teaching in local vernaculars is in practice impossible because neither teachers nor instruction materials are available. Absenteeism is high among poorly paid teachers. Bored children drop out of school and parents are disappointed with their children's lack of progress and poor job prospects so that schools are not maintained by local communities. Most Pacific islanders have thus been doomed to some of the worst education outcomes in the world.

The schools attended by the elite in the principal urban areas are much better; nevertheless, many elite families send their children to boarding schools abroad.

Vanuatu's primary school attendance figures, alleged to be 96%,[38] do not portray reality. They grossly exaggerate actual attendance and when children are at school, they are not learning. Literacy levels of 76% (Table 6) also exaggerate actual functional literacy in Bislama, French or English.[39] Secondary education in Vanuatu is admitted to be weak with an official annual attendance of less than 5,000.[40] The underlying problem of secondary education is the absence of literacy and numeracy at the end of primary years. Parents and children will not appreciate schooling until its content improves and until productive farm opportunities and jobs are seen to be becoming available. These problems, and resulting labour shortages in a high under- and unemployment economy, will not be resolved until the basic education philosophy in Anglophone schools is abandoned.

Vanuatu's education problems parallel those in Papua New Guinea and the Solomons. Samoa, Tonga and Indian Fijian schools have much more rigorous primary schooling, followed by more effective secondary schools with substantial private funding for schools. Many parents want their children to be able to find jobs abroad.

Vanuatu and the Millennium Challenge Corporation

The dissatisfaction of the principal donors with the failure of the Comprehensive Reform Program to make changes in Vanuatu's public sector and the unwillingness of governments to reform policies that were stultifying progress came to a head at the of 2004 when Australian Federal Police assisting in a major drug haul were expelled from Vanuatu by the Vohor Government. They were reluctantly reinstated after the Australian government protested. *The Sydney Morning Herald* editorialised: 'The Government of Vanuatu is flagrantly disregarding fundamental standards of sound governance. Officials convicted of serious offences are pardoned and reappointed, weakened laws facilitate money laundering and tax minimisation, press freedom is suppressed and lax immigration controls leave open at least the possibility of terrorists establishing footholds on Australia's eastern front. And yet, the Government of the Prime Minister, Serge Vohor says Australia should continue to pay more than half of Vanuatu's foreign aid'.[41]

Because its non-performance threatened aid sources, Vanuatu was turning to new donors by exploiting China's and Taiwan's ambitions in the Pacific.

Relations between Australia and Vanuatu returned to normal when the Lini Government took office[42] although Vanuatu's policies remained unchanged.

Aware that its aid sources were coming under threat because of its non-performance, Vanuatu was turning to new donors by exploiting China's and Taiwan's ambitions in the Pacific. These attempts came to a head at the end of 2004 with rewarding, but apparently not substantial, new aid inflows.[43] In the meantime the generous funding of the Millennium Challenge Corporation had come toVanuatu's attention through its UN connections in New York. The campaign to prove that it was the most deserving country in the Pacific for the Millennium Corporation's funding began. During the 2004 Vanuatu elections Messrs Sope, Vohor and Carcasses each claimed to be responsible for convincing President Bush to give money to Vanuatu.[44]

The selection criteria of the Millennium Challenge Corporation

The Millennium Challenge Corporation (MCC) was created as a new agency, independent of the US Aid Development Agency (USAID) that had over the years been judged to have transferred large volumes of aid to countries that had not used it to improve living standards. Political pressures dismissed the hypothesis that aid was inherently flawed (as Peter Bauer, Milton Friedman and other economists have argued since the 1950s). A new agency was needed to make large new aid flows efficient and effective.

To fulfill its obligation to grant funds only to countries with a 'demonstrated commitment to just and democratic governance, economic freedom and investing in people', the MCC uses the following criteria to judge candidates' relative eligibility.

1. Ruling justly: the criteria used by the MCC are political rights, civil liberties, control of corruption, government effectiveness, rule of law and voice and accountability.

Limited data for these criteria are published for the Pacific. The MCC appears to rely on the World Bank's 'GRICS' (Governance Research Indicator Country Snapshot) that gives Vanuatu a high score for 'voice and accountability', but low scores for government effectiveness, regulatory quality, rule of law and control of corruption and no score for political stability. The Corporation's charts are so opaque that it is impossible to follow them and data and data sources are not released. On these criteria Vanuatu's top performance is extremely puzzling. In the 2002 elections Vanuatu had 127,092 names on the electoral roll when the 1999 census recorded 107,068 people over the age of 18.[45] Nothing had changed by the 2004 elections. The political consequences of fighting among its elite families have resulted in the greatest instability in the Pacific after the Solomons Islands.

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Vanuatu's corruption has not been assessed by Transparency International, but the *Global Corruption Report, 2005* cited Vanuatu as not having signed the UN Conventions against corruption or against transnational organised crime as an indication of its reputation for high levels of corruption.[46] To date, Vanuatu has not signed either convention. Government effectiveness has not only been below Samoa's and Fiji's, but also below Kiribati's and Tuvalu's.

2. Investing in people: the MCC categories used are immunisation rates, health expenditures, primary education expenditures and girls' primary education completion.

Data for these categories are published, but they are provided by country statistical offices and must be used with care. World Health Organisation (WHO) data, nevertheless, suggest that Vanuatu's immunisation for measles and DPT3 are lower than Samoa and other Pacific states.[47] Per capita health and education expenditures (much more meaningful though a little more trouble to calculate than health and education shares in budgets or GDP) are the lowest among medium sized Pacific countries. Published literacy rates are below Fiji, Samoa and Tonga with their vastly better education systems (as discussed above). Girls' participation in education and participation in secondary education are also lower than in Tonga, Samoa, Fiji and several of the former American territories. Note that Tongan, Samoan and Indian Fijian schools also have considerable private inputs so that public expenditures per capita understate how much Vanuatu's total education spending is below comparable Pacific states.

Table 6: Recent social indicators of public health, education and literacy

	Per capita public health expenditure	Per capita public education expenditure	Adult literacy
	US$	US$	%
Fiji	94	118	92.9
Solomon Islands	29	NA	NA
Vanuatu	44	86	74
Samoa	88	107	98.7
Tonga	91	64	98.0
Micronesia Fed Rep.	143	NA	NA
Kiribati	49	NA	NA
Marshall Islands	210	NA	NA

Sources: World Health Organisation, Core Health Indicators, World Health Organisation, Education for All: Global Monitoring Report 2006 (www.unesco.org) and World Development Bank, World Development Indicators, 2005, Washington DC.

3 Economic freedom: the criteria used in this category are regulatory quality, credit (presumably sovereign not commercial), days to start a business, trade policy, inflation and fiscal policy (budget deficits).

Neither the Heritage-Wall Street Journal's *Index of Economic Freedom* nor the Fraser Institute's *Economic Freedom of the World* covers the medium and small sized Pacific territories. Objective comparable data are also not available for regulatory quality or days to start a business; the qualitative information available for similar Pacific countries places Vanuatu at the bottom of each of these categories (together with Papua New Guinea).

Estimates of sovereign risk vary among the few sources that cover the Pacific. Vanuatu's sovereign risk has no doubt improved since the Lini Government replaced the Vohor Government, but policies have not changed in Port Vila so that it would be surprising if prudent lenders did not place it in a higher sovereign risk category than Samoa, Fiji, the Federated States of Micronesia, the Marshalls, Palau, Kiribati and Tuvalu.

As indicated above, budget management has improved throughout the Pacific with concomitantly low inflation, so that Vanuatu's performance is average. The World Trade Organisation (WTO) has published average tariffs for Papua New Guinea (6%), Fiji (7.3%), Solomon Islands (22.2%) and Vanuatu (13.8%).[48] On these figures, Vanuatu has the highest tariffs except for the Solomons. But the Papua New Guinea figures are highly misleading if not absurd, for it has high tariffs and non-tariff barriers on goods produced domestically, with effective protection of more than 100% on several items. The IMF's 2002 tariff data (see above) also record Vanuatu's tariffs as the highest in the Pacific.

The World Bank *Days to Start a Business* survey suggests a better than average result for Vanuatu. But such qualitive surveys are meaningless when, as in Vanuatu, corruption rather than legislation has a greater impact on business start ups.

...by the highly subjective criteria chosen by the Millennium Challenge Corporation, it is difficult to see how Vanuatu emerged as a top performer among its peers.

Is Vanuatu a top performer in the Pacific?

In sum, even by the highly subjective criteria chosen by the MCC, it is difficult to see how Vanuatu emerged as a top performer among its peers. Samoa and Fiji perform considerably better on all of the MCCs criteria. So do Kiribati and Tuvalu.

It would be interesting to know why the most reliable data sets that are available even for small countries in the Pacific have been excluded from the Corporation's funding criteria. Long-term per capita GDP growth rates are, with all their shortcomings, generally accepted to be highly correlated with governments' desires to see better futures for their people, their policy formulation and execution and economic and social well-being outcomes. Basic economic and social indicators such as exports per capita, expenditures on education and health per head of population have also been ignored in favour of less meaningful and/or subjective information that is known to be of limited value. Growth per capita would have also clearly indicated that Samoa and Fiji have delivered far better outcomes to their people than Vanuatu. Data sets, however, can only go so far.

Qualitative analyses of Vanuatu and other Pacific territories appear regularly in the *Pacific Economic Bulletin.* Development is without any doubt difficult. If it were not, a third of the world's population would not be living in East European, Central Asian, Latin American, Middle Eastern and sub-Saharan African countries that, like Pacific ones, are only growing slowly or not at all. Severing the MCC from USAID may have left that agency's mistakes behind, but importantly it has deprived the MCC of the accumulated knowledge of what has been and can be achieved in development. This enables sharp governments to use aid to stay in power although, year after year, they fail their people.

The Vanuatu-Millennium Challenge Corporation Compact

The $US65.69 million dollar MCC funding for Vanuatu is for five years. Prospects for further funding were already being talked about at the meeting on March 7, 2006 at the US Consulate in Sydney that launched the project the day before the Compact between the MCC and Vanuatu was signed in Port Vila[49]. The project is to be front-loaded: with funding concentrated in the early years to make a significant impact. There is the next election in 2008 to consider.[50]

The project has two components:

1. Civil works for the reconstruction of priority transport infrastructure on eight islands, covering roads, wharfs, an airstrip, and warehouses; and
2. Institutional strengthening efforts and policy reform initiatives in Vanuatu's Public Works Department, including: provision of plant and equipment for maintenance; introduction of service performance contracts; establishment of local community maintenance schemes; and introduction of user fees. These efforts aim to ensure the sustainable operation and maintenance of Vanuatu's entire transport infrastructure network, not only those assets built or rehabilitated with MCC funds.

The project 'is expected to have a transformative impact on Vanuatu's economic development by increasing average income per capita by 15% within 5 years and directly impacting the lives of more than 65,000 poor, rural inhabitants—almost a third of the entire population'.[51]

For old Vanuatu hands such as the construction company representatives and consultants who attended the Sydney Consulate meeting, the Compact had an air of *deja vu.* The project components had been easy to prepare because much of the proposed 'reconstruction' was maintenance that had already been prepared by aid paid consultants for Vanuatu's aid shopping lists and funded, in some cases several times. The Asian Development Bank, for example, in 2005 had a technical assistance project that included ports.[52] The Public Works Department had been the target of 'capacity building' under the Comprehensive Reform Program though 'user fees' were admittedly not a major component of previous road projects. Are the rural ni-Vanuatu to zoom along toll roads?

Conclusion

John Salong, a ni-Vanuatu commentator considers that 'Vanuatu is NOT going to use the MCC funds to govern justly…Vanuatu is not planning to use the MCC funds to alleviate poverty through growth…again the Vanuatu government has neglected to use the MCC funds to engage the people to invest in human resources'.[53]

Without fundamental reforms in land tenure the countryside cannot increase its output and productivity. Feeder roads would then be needed to get produce to markets. Unless the publicly owned infrastructure monopolies are broken, tourism and other formal sectors will not thrive. Without a thoroughgoing reform of the way that bureaucrats deal with the private sector, there will be no increase in small business. Unless the content of primary education is changed, children attend primary school and go on to secondary school, there will not be an educated labour force. This is why the MCC-Vanuatu Compact is not seen as benefiting rural and urban fringe dwelling ni-Vanuatu but, once more, as a tragic misallocation of aid funds. Without reforms the majority of ni-Vanuatu have no hope of reaching the decent living standards they crave.

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Endnotes

[1] Natives of Vanuatu

[2] Helen Hughes, Aid has Failed the Pacific, *Issue Analysis*, No 33 (Sydney: Centre for Independent Studies, 2003) and Helen Hughes, The Pacific is Viable!, *Issue Analysis*, No 53 (Sydney: Centre for Independent Studies, 2004) give detailed supporting data for Vanuatu's relatively poor performance in the Pacific context.

[3] Millennium Challenge Corporation, Fact Sheet, 3 February 2006 (mimeo) (Washington DC: 2006).

[4] 'Vanuatu and Millennium Challenge Corporation Sign $65M Compact', *Port Vila Presse* (3 March 2006).

[5] The Australian National University has supported professional training in graduate economics, demography and public administration in the Pacific for 30 years with the assistance of a generous Australian government scholarship program. Finding candidates from Vanuatu for this endeavour has been extremely difficult because of the very small number of reasonably well qualified students emerging annually from Vanuatu.

[6] AusAID ceased to finance the Australian National University's Pacific databank in the early 1990s that had been supporting island statistical offices to review and publish consistent data, moving this endeavour to the then South Pacific Commission (now the Secretariat of the Pacific Community) in Noumea to give the islanders 'ownership of their data'. The SPC used the AusAID funding to establish the 'Prism' website, contributed hardware to Pacific island statistical offices and held several jolly seminars on statistics in Noumea, but it lacks the professional resources to assist Pacific offices to generate reliable data. Years of funding have not resulted in reasonably reliable and comparable data.

[7] Growth figures for all Pacific territories are presented in Helen Hughes, The Pacific is Viable!, *Issue Analysis*, No 53 (Sydney: Centre for Independent Studies, 2004).

[8] World Bank, *World Bank Atlas* (Washinton DC: 2006), passim.

[9] For simplicity of comparability across the Pacific these figures are based on World Bank per capita income data. The trends indicated by Chart 1 have been checked against country statistical series and qualitative reports as being reasonably representative.

[10] In reality less than 20% of the population—those living in the more salubrious urban areas—have reasonably drinkable water on tap. The rest of the population relies on creeks.

[11] Asian Development Bank, 'Vanuatu' in *Outlook 2005* (Hong Kong: 2005), 233.

[12] Craig Sugden and Odo Tevi, 'Vanuatu's search for growth', *Pacific Economic Bulletin* (19 March 2004), 13.

[13] Sugden and Tevi, above, comment that social data need to be interpreted with care because the suggestion 'that Vanuatu has been able to achieve substantial development, in some key areas, without income growth' is, reading between the lines, not credible. Life expectancy at birth of 69 years and associated mortality rates are thought to be particularly dubious. Papua New Guinea's life expectancy of 55 years (World Bank, *World Development Indicators 2005* (April 2005), 121) is thought to be closer to reality for lagging Pacific societies.

[14] International Monetary Fund, *IMF Country Report No 02/266, Vanuatu: selected issues and statistical appendix* (December 2002), 2.

[15] Asian Development Bank, The Millennium Development Goals are: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental stability and develop a global partnership for development.

[16] Asian Development Bank, *Millennium Development Goals in the Pacific: Relevance and progress*, (Manila: March 2003).

[17] Helen Hughes, Aid has Failed the Pacific, *Issue Analysis*, No 33 (Sydney: Centre for Independent Studies, 2003).

[18] OECD, Geographical Distribution of Financial flows to Aid Recipients, 2000-2004 (Paris: 2006).

[19] Peter Warr, 'The Gregory Thesis Visits the Tropics', Paper presented the conference in honor of Bob Gregory, 16 June 2005, Departmental Working Papers from Australian National University, Economics RSPAS (mimeo) (Canberra: 2006).

[20] Sugden and Tevi above, 'Vanuatu's search for growth', 11.

[21] Asian Development Bank loans and technical assistance: Cyclone emergency rehabilitation, 1999, $US2 million; Comprehensive Reform Program, 1998, $US20 million; Technical Assistance Skills Development, 2000, $US250,000; Rural Financial Services, 1999, $US250,000;

Outer Island Infrastructure Development, 1999, $US750,000 (Source: Asian Development Bank, *Vanuatu Country Report*, www.adb.org).
World Bank loans: Housing Project, 1991, $US3.4 million; Multiproject Credit, 1986, $US2 million; Primary and Secondary Education Project, 1998, $US8 million; Education Project, 2001, $US3.5million (Source: *World Bank*, www.worldbank.org).

22 Paul Holden, Malcolm Bale and Sarah Holden, *Vanuatu—A Private Sector Assessment: issues, challenges and policy options*, Enterprise Research Institute for the Asian Development Bank (Manilla, May 2003).

23 Holden, Bale and Holden, *Vanuatu—A Private Sector Assessment*, 6.

24 Hernando de Soto, *Mystery of Capital,* Basic Books (New York: 2000).

25 International Monetary Fund, *IMF Country Report No 02/266, Vanuatu: selected issues and statistical appendix* (December 2002), 17.

26 As above.

27 As above.

28 As above, 20.

29 The World Trade Organisation (WTO) reports unrealistically higher exports from Vanuatu, of $US740 per capita. In contrast, its export figures for Papua New Guinea, the Solomons Islands and Fiji are the same as the IMF's. The World Bank's and Asian Development Bank's figures for Vanuatu exports are the same as the IMF's.

30 *IMF Country Report* 14.

31 Holden, Bale and Holden, *Vanuatu—A Private Sector Assessment*, 30-57.

32 R. Duncan, 'Information and communications technology in the Pacific islands—marginalisation by monopolisation', *Pacific Economic Bulletin*, 19:2 (2004), 129-131.

33 Holden, Bale and Holden, *Vanuatu—A Private Sector Assessment*, 30-57.

34 As above.

35 As above, 15.

36 ADB/OECD 'Anti-Corruption Initiative for Asia and the Pacific', The Secretariat, 5th Steering Committee (mimeo), (Manila: 5-7 July 2004).

37 Vanuatu National Statistics Office, Labour Market Indicators, claims urban unemployment of 6.6% and a ridiculous rural unemployment rate of 0.6%. Male unemployment of 2% and female unemployment of 1.3% is inconsistent with total unemployment. http://www.spc.int/prism/country/vu/stats/Economic/lamkt_indicators.htm

38 World Bank, *World Development Indicators 2005* (April 2005).

39 John Salong, 'Opinion: Should the USA reconsider Vanuatu's Eligibility for the MCA?', *Port Vila Presse*, (1 January 2006), claims that Vanuatu is ranked 16th in the Pacific in literacy.

40 Vanuatu National Statistics Office data posted on Prism, http://www.spc.int/prism/country/vu/stats/.

41 *Sydney Morning Herald*, (1 December 2004).

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44 Salong, 'Should the USA Reconsider Vanuatu's Eligibility for the MCA?'

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47 World Health Organisation, *World Health Report 2005*, Statistical Annex

48 World Trade Organisation, *Trade Statistics Database*, http://stats.wto.org.

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