Vanuatu like any small island developing state continues to experience many development challenges despite our modest economic growth throughout the last decade. Due to the susceptibility to extreme external economic shocks, distance from and dependency on external markets, and constant natural disasters owing to our location in the “Pacific-rim of fire” and “Pacific cyclone belt”, Vanuatu has still to be considered one of the most vulnerable countries in the world.

It is therefore our opinion that the Vanuatu Government still needs to build a resilient and sustainable economy as a pathway for post LDC as unforeseen consecutive natural disasters and economic shocks would devastate our economy. Vanuatu recognises that graduation is inevitable, whether sooner or later. Therefore the Vanuatu Government is delighted that the Istanbul Programme of Action platform has considered a smooth transition period for graduating countries. Vanuatu sees the smooth transition period as a precondition to any eventual graduation to ensure that negative impacts are addressed through policy interventions targeted towards our vulnerabilities and capacity development.

Current Vanuatu development aspiration, vision, short to long term development plan are documented and translated through under the Vanuatu Prioritise Action Agenda (PAA) and the Planning Long and Acting Short (PLAS) Documents. Those two documents are being seen as the bible for Vanuatu planning direction and vision for the next 5 to 10 years. The following pillars are considered under PAA and PLAS as Strategic development direction and planning to advance Vanuatu as an Healthy, Educated, Wealthy and Just nation to the future:

- Private Sector Development and employment Creation
- Good Governance and Public Sector Reform
- Macro Economic Stability and Equitable Growth
- Primary Sector and Environment
- Basic Services and Social Development
- Education and Human Resource Development
- Infrastructure and Utilities

Economic progress

- Vanuatu continued to enjoy positive growth for the past 10 years at an average of 5.0 per cent, as a result of the country’s commitment to economic reform policies
and newly large scale Infrastructure developments successfully negotiated with our traditional development partners.

- As a result of this growth the country’s GDP per capita generally continued to increase.
- However, we continue to face very significant challenges in our economic sector particularly lack of appropriate infrastructure because of our geographical location and disparities coupled with our traditional values and custom practices in particular in the rural areas. Further our literacy level and lack of appropriate human resource development plan is still as well a big challenge.
- Whilst our national economy continues to grow Vanuatu population in particular those living in the rural areas are still facing hardship and are not directly benefiting from this growth because in most cases Vanuatu’s Traditional and Commercial Economic base depends entirely on the world prices in particular dependency on external market price factors.
- Government is adamant that the success to an economy and a fair distribution of wealth among the people of this Country can only be achieved with a strong partnership with Private Sector and Civil societies.
- Government strongly believe that ongoing support and investment in the Education is the key for the success of a state and in particular investment in the Human Resource. This will have indirect and indirect impact in our local economy, our productive sector and equally well a fair distribution of wealth and services back to our population in both rural and urban areas. There are risks associated with Vanuatu graduation to LDC with regards to ongoing financial assistance received by our traditional development partners with the consideration of the current ongoing financial crisis faced by the developed countries in the world and the world economic crisis. This will certainly continue to affect our Socio-Economic development and affect private investment in short to medium term.

**Trade facilitation**

- Being a Member of LDC Vanuatu still continue to enjoy the preferential trade terms extended to LDCs by developed countries. Vanuatu Graduation to LDC is critical and Vanuatu can certainly lose in access to trade preferential treatment and this will automatically affect some of our exports which will likely faced with higher tariffs in particular our main commodities. This is meaning increasing in the prices of the exports from the importing countries which will automatically affect the competitiveness of our products.
- Fish, beef, and coconut oil represent at least 30% of Vanuatu’s total exports meaning that the loss of trade preferences will have a significant negative impact on our exports which will put at serious risk on the sustainability of our development.
- The government will make best use of the transition period to develop options for products that will be affected the most by way of identifying new markets or negotiating trade agreements with some of the importing countries such a Japan and others Asian States to ensure that we continue to enjoy some market access.
to these countries. However, it is well known that trade negotiations take significant time and effort, meaning that a three year time-interval may not be sufficient to avoid disruption to our export markets. These considerations should therefore be fully taken into account when deciding over Vanuatu’s LDC graduation.

- With the recent lift of the ban on Vanuatu Kava by the European Union which constitutes one of our main commodities for pharmaceutical used. This is a major achievement on our Trade negotiation with EU under this trade preferential treatment and hopefully will advance and strengthen our ongoing negotiation on Economic Partnership Agreement (EPA) with EU.
- The government is committed to increase production and improve our export supply capacity. It is hoped that doing so would increase our share of global trade and also enable us to value add.
- However, distance to markets, poor infrastructure and high cost of transport, lack of access to capital, and very high cost structure represent serious constraints that will be difficult to overcome over the short-term.
- The government is also committed to work with importing countries to address the technical and health related barriers that are put in place by developed countries to ensure that our exports meet the importing countries conditions.

**Overseas development assistance**

- Vanuatu is dependent on external development assistance and the fears in graduating to LDC status will certainly have a negative impact on our future ODA arrangement towards our socio-economic development.
- It is therefore in our interest that development assistance targets our structural weaknesses even in the event of graduation. The cost of infrastructure in a country such as ours is very high therefore development assistance is necessary to finance some of the essential infrastructures to facilitate trade and socio-economic development.
- In light of the process to obtain our graduation status Vanuatu Government is currently venturing and committing itself with the assistance of Development Partners and External Funding Agencies into some new emerging Infrastructure development such as the new Port Vila urban Infrastructure development, Inter-islands Shipping Services, Port Vila Lapetasi Warf, Rural Road Infrastructure development in Malekula and Tanna two main Agricultural Islands of Vanuatu with high potential on tourism development and the new proposed International Airport on Efate. It is anticipated that once those projects are implemented they will bring an impact to the overall growth of the Country’s economy rising up to more than 3.5 % beginning as of next year onward. Most of those projects implementation plan begin next year 2015 and estimated to complete by end of 2017. Other major infrastructure prospective plan in Vanuatu Government Vision for the next 5 to 10 years are in the loop and in the negotiation stage and will depend entirely on Vanuatu financial capacity and capital investment to confirm their implementation.
• Despite this the Vanuatu government is pleased to note that current arrangements will not be affected until after the transition period lapse. We note that graduation will be taken into consideration in the 11th EDF with the EU, and also Vanuatu will lose certain benefits from the UN after the 3 years transition period. We also note that if Vanuatu graduates its contribution to the UN peace keeping operations budget will increase.

**Economic Vulnerability**

• Vanuatu ranks as one of the highest disaster prone country in the world due to our location in the “Pacific rim of fire” and Pacific cyclone belt”, meaning that we are prone to frequent earth quakes and threat of tsunamis and frequent cyclones resulting in damages to infrastructure which seriously hamper our socio-economic development. Whilst some of this can be addressed through policy interventions, the remoteness of the islands and its proness to natural disasters cannot be fixed therefore poses a great risk for a small country such as Vanuatu.

• In addition to this, climate change is a very serious challenge for us as it threatens our development gains. Our coastal areas are being washed away resulting in resettlement of coastal communities to higher ground and our traditional food crops are no longer producing the same yields as they used to so we are in need of new hybrids or varieties of crops that can produce better yields to meet both domestic and export demands. The impact of climate change for us is real. It calls for the redistribution of our already scarce resources meant for socio-economic development to adaptation and mitigation programmes.

• In the event that we graduate it is likely that Vanuatu will lose access to certain climate funding. As an LDC, we are still having difficulties in accessing the funds earmarked for climate change projects due to stringent procedures. We anticipate greater difficulties upon graduation if these measures are not carefully address. These are areas that United Nations will need to be able to address in order to create confidence to countries who are graduating.

**Health and Education**

• Vanuatu attaches great importance to the social sectors particularly in the areas of health and education as after all a healthy and educated population will help a country to prosper. The government has for the last nine years allocated an annual average of 35 percent of is national budget to the two sectors. It is true that our social indications in both education and health have improved considerably.
• However, we have consistently argued that despite historical improvements these are mostly evident in the urban areas while the improvements in the remote areas are less evident. Due to the dispersion of the islands access to health services are still limited and school fees levied still hinder parents from remote islands from sending their children to school. The government with assistance from development partners will continue to pursue improved quality of education and access to better health services.

• With the recent construction and opening of Port Vila new Japanese funded Hospital and continual assistance to Health Sector Vanuatu is adamant that Health services will improve drastically and will contribute to the wealth of our population across the country, However the Challenges will be on new emerging diseases and existing one such as NCD and HIV/ AIDS.

• On the Education Sector despite of the high portion of budget allocation of more than 3 billion vatu a year we are still faced with ongoing low literacy level. This is still a big challenge and Government is trying in vain to address this situation through initiating new development of Education Policies and new institutional arrangement within the Education Sector.

Transition Strategy

• Vanuatu government believes that the transition period provided under the clause of Istanbul Program of Action will enable Vanuatu and its development and trading partners to put in place policy interventions to address the possible negative impact of our graduation from LDC to support Vanuatu’s post LDC life. Vanuatu would like to ensure that its development and trading partners including the UN continue to provide assistance to support the transition of Vanuatu out from LCD to avoid sudden reductions in financial and preferential treatment.

• On Vanuatu’s side Vanuatu government is currently establishing a committee to work on policy interventions to address the negative impact of getting out of LDC. The committee is currently working with development and trading partners to work on a smooth transition strategy and also to review and monitor the transition process to ensure that Vanuatu ease into a sustainable development path. This process is taking us almost 2 to 3 years phase.Transition period is a temporary measure intended to ensure smooth passage from LDC to a Developing Country. However, it does not provide remedy to the “permanent challenges” of vulnerability. . Our smallness, susceptibility to negative impacts of climate change and vulnerability to natural disasters are “permanent characters” that no transitional measure could ease within the transitional period. So, once the transitional period lapses, and as negative impacts of climate change deepens with the scaling back of climate change funding, our people will face even more challenges.

• The UN will need to ensure that proper UN General Resolutions are adopted to ensure that Smaller Island States graduating from LDC continue to enjoy certain preferential treatment. This is not due to their development status, but due to their permanent characteristics. We have to isolate the issue of these permanent
challenges with the issue of positive growth in economy. Growth fluctuates, but our smallness and vulnerabilities remain.

- Vanuatu hopes that United Nations will consider the potential negative impacts on our graduation if some of the above listed issues are still pending without proper attention.