



# Republic of Vanuatu Rapid eTrade Readiness Assessment





# Republic of Vanuatu Rapid eTrade Readiness Assessment



© 2018, United Nations

This work is available open access by complying with the Creative Commons licence created for intergovernmental organizations, available at <http://creativecommons.org/licenses/by/3.0/igo/>.

The findings, interpretations and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the United Nations, its officials or Member States.

The designation employed and the presentation of material on any map in this work do not imply the expression of any opinion whatsoever on the part of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Photocopies and reproductions of excerpts are allowed with proper credits.

This publication has been edited externally.

United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/DTL/STICT/2018/5



## NOTE

Within the UNCTAD Division on Technology and Logistics, the ICT Policy Section carries out policy-oriented analytical work on the development implications of information and communication technologies (ICTs) and e-commerce. It is responsible for the preparation of the Information Economy Report (IER) as well as thematic studies on ICT for Development.

The ICT Policy Section promotes international dialogue on issues related to ICTs for development and contributes to building developing countries' capacities to measure the information economy and to design and implement relevant policies and legal frameworks. It also monitors the global state of e-commerce legislation ([unctad.org/cyberlawtracker](http://unctad.org/cyberlawtracker)). Since 2016, the section has coordinated a multi-stakeholders' initiative entitled eTrade for all ([etradeforall.org](http://etradeforall.org)), which aims to improve the ability of developing countries, particularly least developed countries (LDCs), to use and benefit from e-commerce.

Reference to companies and their activities should not be construed as an endorsement by UNCTAD of those companies or their activities.

The following symbols have been used in the tables :

**Two dots (..)** indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row ;

**A dash (-)** indicates that the item is equal to zero or its value is negligible ;

**Reference to “dollars” (US\$)** means United States of America dollars, unless otherwise indicated ;

**Details and percentages** in tables do not necessarily add up to the totals because of rounding.

For the purpose of this report: US\$1 = VUV 110 and VUV1 = US\$0.0091



## PREFACE

The eTrade for all Initiative, launched at the fourteenth Ministerial Conference of UNCTAD in July 2016, is a practical example of how to harness the digital economy in support of the 2030 Agenda for Sustainable Development, notably Sustainable Development Goals (SDGs) 5, 8, 9, and 17. The initiative seeks to raise awareness, enhance synergies, and increase the scale of existing and new efforts by the development community to strengthen the ability of developing countries to engage in and benefit from e-commerce by addressing seven relevant policy areas:

- E-commerce readiness assessment and strategy formulation
- ICT infrastructure and services
- Trade logistics and trade facilitation
- Payment solutions
- Legal and regulatory frameworks
- E-commerce skills development
- Access to financing

As part of the initiative, demand-driven assessments are envisaged to provide a basic analysis of the current e-commerce situation in the countries concerned, and to identify opportunities and barriers. The resulting reports will serve as a valuable input to these countries' involvement in various discussions related to e-commerce and digital trade, such as in the context of the UNCTAD Intergovernmental Group of Experts on E-commerce and the Digital Economy.

It may furthermore help LDCs to identify areas in which they could benefit from assistance by partners of eTrade for all.

The Vanuatu Rapid eTrade Readiness Assessment is the ninth such assessment conducted by UNCTAD and the third for a Pacific Islands Nation, after Samoa in July 2017 and Solomon Islands in March 2018. Requests for eT Ready assessments have also been received from Kiribati, Niue, Tonga and Tuvalu, which UNCTAD hopes to support in coming months. With this report, UNCTAD contributes to the recommendations of the joint WTO/UNCTAD/PIFS Workshop on e-Commerce for the Pacific to have all PIFS members benefit from an eTrade Readiness Assessment as a first step towards developing a coherent regional e-commerce policy; The Vanuatu Rapid eTrade Readiness Assessment and action matrix contributes as well to the Pacific Aid-for-Trade strategy action plan.

With the eTrade for all partners, UNCTAD is committed to supporting Vanuatu and other Pacific Islands Nations in their resolve to harness the potential of e-commerce for development.

**Shamika N. Sirimanne**

Director, Division on Technology and Logistics, UNCTAD



## ACKNOWLEDGEMENTS

This Rapid eTrade Readiness Assessment for Vanuatu was prepared by Sven Callebaut, UNCTAD Consultant, in close collaboration with a team comprising Cécile Barayre, Dominic Leong, Rahul Bhatnagar and Marian Pletosu, under the overall guidance of Torbjörn Fredriksson. Local inputs, support and guidance were provided by Fred Samuel, national consultant.

In Vanuatu, the consultant wishes to express his profound recognition to the Honourable Joe Natuman, former Deputy Prime Minister and Minister for Trade, Ministry of Trade, Tourism, Commerce, Industry and Ni-Vanuatu Business for requesting UNCTAD support in assessing Vanuatu's eTrade Readiness, to Mr. George Borugu, Acting Director General, Ministry of Trade, Tourism, Commerce and Ni-Vanuatu Business for chairing all in-country focus-group discussions and final wrap-up meeting. The support provided by the Trade Development Division, Ministry of Trade, Tourism, Commerce and Ni-Vanuatu Business before, during and after the in-country mission was very much appreciated.

The consultant is also grateful to the representatives of the Department of Customs and Inland Revenue (DCIR), Telecommunications and Radiocommunications Regulator (TRR) and of the Vanuatu Chamber of Commerce and Industry (VCCI) for participating in all focus-group discussions and for providing up-to-date data and statistics.

Comments and inputs provided by the following eTrade for all partner agencies' experts have substantially improved the final report: James Howe, Jimena Ayelen Sotelo, (ITC), Luca Castelli (UNCITRAL), Paul Donohoe (UPU).

In Geneva, the assessment was made possible thanks to the timely support of Ambassador Mere Falemaka and of Dr. Andrea Giacomelli, Aid-for-Trade Adviser, from the Permanent Representative of the Pacific Islands Forum to the WTO in Geneva.

Funding for this report was provided by the Enhanced Integrated Framework (EIF), a core partner of the eTrade for all initiative. The guidance and support of Simon Hess, EIF coordinator responsible for Vanuatu, is much appreciated.

The assessment benefited from inputs from more than 45 Ni-Vanuatu institutions in both public and private sectors, through the online eT Ready surveys and subsequent interviews in Port Vila. The consultant wishes to thank all individuals who took part in the focus group discussions in the Ministry of Industry and Commerce facilities in Port Vila on March 26-30, 2018.

Desktop publishing was prepared by Léna Le Pommelet and the cover was designed by Magali Studer. The document was externally edited by Nancy Biersteker.



# CONTENTS

<b>PREFACE</b> .....	<b>IV</b>
<b>ACKNOWLEDGEMENTS</b> .....	<b>V</b>
<b>ABBREVIATIONS</b> .....	<b>VII</b>
<b>EXECUTIVE SUMMARY</b> .....	<b>VIII</b>
<b>METHODOLOGY</b> .....	<b>2</b>
<b>SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS</b> .....	<b>3</b>
<b>FINDINGS UNDER THE SEVEN ETRADE FOR ALL POLICY AREAS</b> .....	<b>5</b>
1. E-COMMERCE READINESS ASSESSMENTS AND STRATEGY FORMULATION .....	5
2. ICT INFRASTRUCTURE AND SERVICES .....	12
3. TRADE LOGISTICS AND TRADE FACILITATION .....	18
4. PAYMENT SOLUTIONS .....	26
5. LEGAL AND REGULATORY FRAMEWORK.....	34
6. E-COMMERCE SKILLS DEVELOPMENT .....	37
7. ACCESS TO FINANCING.....	42
<b>CONCLUSION</b> .....	<b>47</b>
<b>THE WAY FORWARD: ACTION MATRIX</b> .....	<b>48</b>
<b>ANNEX I: VANUATU COUNTRY PROFILE ON ETRADEFORALL.ORG</b> .....	<b>54</b>
<b>ANNEX II: BIBLIOGRAPHY AND WEBSITES USED</b> .....	<b>56</b>



## ABBREVIATIONS

<b>ADB</b>	Asian Development Bank	<b>MTTCINVB</b>	Ministry of Tourism, Trade, Commerce, Industry and Ni-Vanuatu Business
<b>AfT</b>	Aid-for-Trade	<b>NCTF</b>	National Committee on Trade Facilitation
<b>APG</b>	Asia/Pacific Group on Money Laundering	<b>NSDP</b>	National Sustainable Development Plan
<b>ASMP</b>	ASYCUDA Support Mechanism for the Pacific	<b>NTDC</b>	National Trade Development Committee
<b>ASYCUDA</b>	Automated System for Customs Data	<b>NTFSC</b>	National Trade Facilitation Steering Committee
<b>ATM</b>	Automated Teller Machine	<b>OGCIO</b>	Office of the Government Chief Information Officer
<b>COD</b>	Cash on Delivery	<b>PCI</b>	Payment Card Industry
<b>CRMC</b>	Customs Reforms and Modernization Committee	<b>PICs</b>	Pacific Island Countries
<b>DCIR</b>	Department of Customs and Inland Revenues	<b>PICTA</b>	Pacific Island Countries Trade Agreement
<b>DFS</b>	Digital Financial Services	<b>PIFS</b>	Pacific Islands Forum Secretariat
<b>DP</b>	Development Partner	<b>POS</b>	Point of Sale
<b>DSPPAC</b>	Department of Strategic Policy, Planning and Aid Coordination	<b>PPP</b>	Public-Private Partnership
<b>DtF</b>	Distance to Frontier	<b>PSP</b>	Payment Service Provider
<b>EFTPOS</b>	Electronic Funds Transfer at Point of Sale	<b>RBV</b>	Reserve Bank of Vanuatu
<b>EIF</b>	Enhanced Integrated Framework	<b>SLO</b>	State Law Office
<b>ESWS</b>	Electronic Single Window System	<b>SME</b>	Small and Medium Enterprises
<b>FATF</b>	Financial Action Task Force on Money Laundering	<b>TDD</b>	Trade Development Division
<b>FIT</b>	Financial Inclusion Taskforce	<b>TDU</b>	Trade Development Unit
<b>FSP</b>	Financial Service Providers	<b>TFA</b>	Trade Facilitation Agreement
<b>G2P</b>	Government-to-People	<b>TPF</b>	Trade Policy Framework
<b>GDP</b>	Gross Domestic Product	<b>TPFIM</b>	Trade Policy Framework Implementation Matrix
<b>GfG</b>	Governance for Growth	<b>TRR</b>	Telecommunications and Radiocommunications Regulator
<b>GoV</b>	Government of Vanuatu	<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>ICT</b>	Information and Communication Technology	<b>UNCDF</b>	United Nations Capital Development Fund
<b>ISP</b>	Internet Service Providers	<b>UPU</b>	Universal Postal Union
<b>IT</b>	Information Technology	<b>US\$</b>	United States Dollar
<b>ITU</b>	International Telecommunication Union	<b>VFSC</b>	Vanuatu Financial Services Commission
<b>LDC</b>	Least Developed Country	<b>VPL</b>	Vanuatu Post Limited
<b>MFEM</b>	Ministry of Finance and Economic Management	<b>VSTAP</b>	Vanuatu Strategic Tourism Action Plan
<b>MNO</b>	Mobile Network Operator	<b>VTO</b>	Vanuatu Tourism Office
<b>MSG-FTA</b>	Melanesian Spearhead Group Free Trade Agreement	<b>WBG</b>	World Bank Group
<b>MSME</b>	Micro, Small and Medium Enterprises	<b>WEF</b>	World Economic Forum
		<b>WTO</b>	World Trade Organization





## EXECUTIVE SUMMARY

Key public policies on sustainable development, trade development and ICT development combined with strong economic foundations for a striving services and ICT led-economy are in place, but the economic opportunities associated with the e-commerce uptake are slow to materialize due to structural bottlenecks in financial regulations, knowledge and skills gaps and the size and remoteness of the economy. Yet, the E-commerce readiness assessment requested by the Government of Vanuatu is a testimony to the growing interest by the public and private sectors alike for inserting the country into the digital economy.

Development of e-commerce in Vanuatu should not be treated as a goal in itself. Vanuatu faces several obstacles to the effective deployment of communications and other infrastructure, e-commerce skill and knowledge gaps, access to devices, trust, protection of data, as well as content and applications. The Government has shown a strong interest in adopting economic and social policies that can facilitate the development of the Internet economy, of which e-commerce is only one segment. Unlocking its potential will also reduce distance to markets, reduce “sealockedness” and enable Vanuatu to leapfrog certain barriers associated with physical trade. For this to happen, public sector coordination is paramount. The call for greater coherence of policy actions through the formulation of an encompassing e-commerce strategy is one of the key recommendations of this report.

The Republic of Vanuatu is classified as a Least Developed Country (LDC) and is expected to graduate from the LDC category in December 2020. In the last decade, a dynamic services society has emerged: services contribute around 69 per cent to the GDP and provide decent employment opportunities for the increasing urban population. ICT services, in turn, are increasingly seen as drivers of socioeconomic development, particularly in the areas of financial inclusion, disaster preparedness and response, and for bridging the gender gap. The unique challenges to the infrastructure roll out in Vanuatu and other island countries and territories in the region, as well as a lack of scale, call for innovative business and partnerships.

The mobile phone industry in the Pacific Islands in general and in Vanuatu in particular has grown rapidly over recent

years, despite the challenges of being one of the most remote and geographically challenging regions. Mobile phones are bringing access to Internet and e-commerce to previously unconnected populations across the world, especially in developing regions where there is a lack of alternative access technologies.

Beyond mobile telephony, Vanuatu's ICT sector has witnessed a major transformation in recent years. Market liberalization has expanded the availability of ICTs, especially mobile communications, to virtually everyone in Vanuatu. Sector institutions, specifically the multi-stakeholder National ICT Policy Development Committee (NIPDC), the Office of the Government Chief Information Officer (OGCIO) and the Telecommunications and Radiocommunications Regulator (TRR), provide a foundation for further development of the sector. The Government has launched the Integrated Government (iGov) initiative and adopted the E-Government Strategic Roadmap to drive further utilization of ICTs in public administration. The private sector has started leveraging the ICT infrastructure for provision of e-commerce and digital services. For example, tourism and travel services are starting to be procured online or via phones, Internet banking is available to residents and businesses, the network of ATMs is expanding, and traditional products are becoming available for ordering online. Business associations have been reticent in their initial support of e-commerce but have caught up during the last years, in the light of increasing demands from their members, especially those trading internationally.

Strengthening the logistical and transport infrastructure services is also imperative for both domestic and cross-border e-commerce. Adopting universal address and postcode systems are key measures being considered. Sustained efforts to improve trade facilitation, through the standardization and simplification of trade procedures and documentation, will help Vanuatu to join regional value chains, including through business-to-business e-commerce. Current endeavours to automate and modernize customs procedures through ASYCUDA World have already borne fruit, such as in the form of improved revenue collection and reduced trade costs.

Internet banking (e-banking, mobile banking) is not widely spread amongst businesses due to lack of understanding and trust from the population in general and merchants



in particular. The financial ecosystem is evolving: the payment system landscape in Vanuatu has changed over time with the entry of new international participants. The intention of the Reserve Bank of Vanuatu (RBV) is to establish a sound platform on which further innovative payment systems can be developed by an increasingly broad range of payment service providers and on which a variety of payment instruments can be handled in a single system. The new payment system should provide a catalyst for e-commerce, as it includes provision for electronic retail payment solutions, clearing of interbank cheques in the same day, or immediate or close to immediate, where all forms of payments under interbank arrangements can be settled in real or instant time.

However, the opportunities for boosting online and e-commerce businesses across the country are limited. There is a lack of skills and knowledge, as well as training and education on ICT and digital technologies in general. Information is available on the Internet or on an online integrated system created to enhance accessibility and availability of products to the buyers and consumers. Unsurprisingly the percentage of adults with access to basic financial services is limited, mainly due to challenging geography, poor infrastructure and the high costs associated with delivering services to sparse

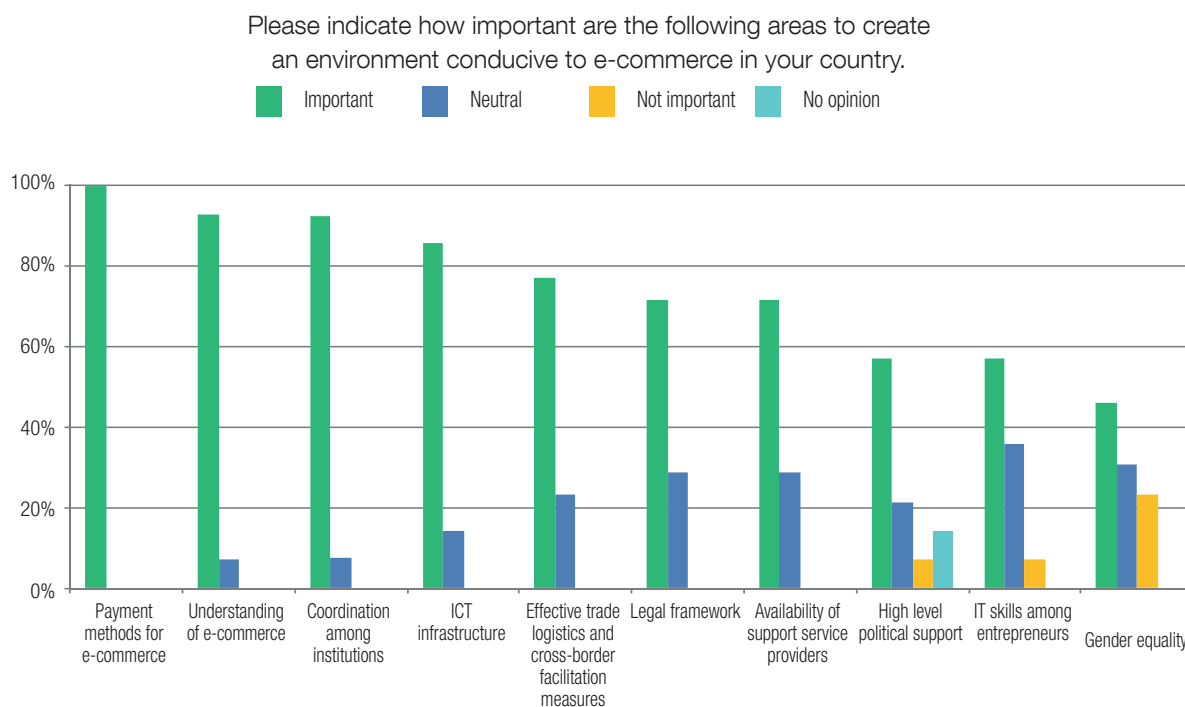
populations. There is consequently a lack of online payment facilities offered by financial service providers.

Similarly, access to financing for MSMEs is constrained by the small market size, high interest rates, lack of support to MSMEs and lack of collateral. In that context, mobile money services show promise. Realizing the full transformative potential of the mobile industry for financial inclusiveness will require increased collaboration between mobile operators, banks and merchants. Financial institution must continue to be responsive to the needs of the Ni-Vanuatu<sup>1</sup> businesses, especially start-ups.

The joint actions of development partners, investors and Government seen in PPP or T-VET are models to be enhanced to ensure that Vanuatu confirm its desire to become an important e-commerce marketplace in the South Pacific. Help is available, in particular through its traditional donors as well as from eTrade for all partners. A robust and action-oriented matrix has been developed in that context, reflecting the priorities expressed during the eTrade Readiness Assessment (Figure 1).

<sup>1</sup> Although the 2020 target is clearly mentioned in the NSEDP (2016-2020), recent Government reports (<https://rtm.org.la/nsepd/criteria-ldc-graduation/>) moved the target to 2025.

**Figure 1: Priority areas to create a conducive e-commerce ecosystem**



Source: UNCTAD



## METHODOLOGY

A four-step approach was used for the Rapid eTrade Readiness Assessment of Vanuatu, to ensure a

high level of participation and engagement of key stakeholders in the consultative process:

**Figure 2: Assessment methodology**



- ✓ Phase 1 | Stakeholder engagement and literature review, 1-28 January 2018. It included official communications between UNCTAD, the Vanuatu Ministry of Trade, Tourism, Commerce and Ni-Vanuatu Business and the Permanent Representative of the Pacific Islands Forum to the WTO in Geneva. Literature review and data analysis were made possible through access to up-to-date statistics provided by the International Telecommunication Union (ITU), The Universal Postal Union (UPU) and the World Bank, in addition to data compiled by UNCTAD on behalf of the eTrade for all initiative.
- ✓ Phase 2 | Online survey customization and dissemination, 15 February to 30 March 2018. Two customized surveys for the public and private sectors were distributed by the Trade Development Division, Ministry of Trade, Tourism, Commerce and Ni-Vanuatu Business facilities to more than 50 stakeholders in Vanuatu. A total of 32 completed surveys were used for this report (30 received online and 2 completed offline).
- ✓ Phase 3 | Focus-group discussions, semi-structured interviews and bilateral meetings during the consultants' mission to Port Vila, on 26-30 March 2018. Four focus-group meetings were

held in the Ministry of Trade, Tourism, Commerce and Ni-Vanuatu Business facilities. A briefing on early findings and suggestions took place on 29 March, 2018 with all the Ministry of Trade, Tourism, Commerce and Ni-Vanuatu Business Directors in attendance.

- ✓ Phase 4 | Report writing and finalization with UNCTAD, 2 April 2018 – 30 June 2018.

As with all other Rapid eTrade Readiness Assessments, the seven policy areas used in the eTrade for all initiative were used as entry points for this assessment. These are:

- ✓ E-commerce readiness assessment and strategy formulation
- ✓ ICT infrastructure and services
- ✓ Trade logistics and trade facilitation
- ✓ Payment solutions
- ✓ Legal and regulatory frameworks
- ✓ E-commerce skills development
- ✓ Access to financing

The information provided in this report is based on data collected from respondents to the survey for both the public and private sectors and the stakeholders' meetings during the in-country mission.



## SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

MAIN FINDING	MAIN RECOMMENDATION
 <b>e-Commerce Readiness Assessment and Strategies Formulation</b>	
<p>Key public policies on sustainable development, trade development and ICT development combined with strong economic foundations for a striving services and ICT led-economy are in place, but the economic opportunities are slow to materialize due to structural bottlenecks in financial regulations, knowledge and skills gaps, as well as the size and remoteness of the economy. Mobile services are increasingly seen as a driver of socio-economic development, particularly in the areas of financial inclusion, disaster preparedness and response, and for bridging the gender gap. Existing potential exist for e-commerce early adopters in tourism and agri-business sectors.</p>	<p>Move from intention to action by creating a structured public-private dialogue on the digital economy into a reality, involving main private sector institutions and leading regional e-commerce players must be pursued. This will create the foundation and provide momentum for the formulation of a national e-commerce strategy, emulating the ICT policy. Ensure e-commerce and digital innovation that stand out as export-compatible services with high potential in the Trade Policy Framework update.</p>
 <b>ICT Infrastructure and Services</b>	
<p>Combination of investments, liberalization and efficient regulators work have transformed the access and use of ICT in Vanuatu, with persistent differences among provinces due to the geographic challenges. Improvement in reliability, affordability and latency bode well for the future, although the need for discussion and an agreement on a second submarine cable is pressing.</p>	<p>Keep investing through Public-Private Partnerships on basic ICT infrastructure throughout the country, with a focus on government capacity and schools. Feasibility of a second submarine cable needs to be explored. Support upgrade and customization of services by mobile network operators taking advantage of the expansion of 4G coverage. All of the investments mentioned above lead to increased affordability for MSMEs.</p>
 <b>Trade Logistics and Trade Facilitation</b>	
<p>The absence of a physical addressing system combined with the challenging geography of the archipelago make deliveries and transport in general more costly than in other economies in the region. Domestic and cross-border e-commerce limited to two urban areas. Major improvements in customs clearance following upgrade to ASYCUDA World praised by shippers and brokers alike. Electronic single-window programme to be launched in 2018 promises faster clearance procedures, including in ports, throughout the country.</p>	<p>Recent trade facilitation gains should be emulated by other administrations and lead to implementation of key TFA and paperless cross-border trade measures. Efficiency at the wharf for good clearance must be increased to be on par with neighboring countries. Assistance from UPU based on other Pacific nations' experience should help enhance Vanuatu Post Limited (VPL) capacity to cope with future surge in small parcels to better identified locations. Study the possibility to use Australia and NZ eFulfillment centers to store and deliver orders directly from Australia/NZ.</p>
 <b>Payment Solutions</b>	
<p>The small size of the market, low financial inclusion and reluctance to move from a traditional reliance on cash have delayed development of electronic payments and the adoption of mobile payments by both banks and merchants. The legal and technical reforms launched by the Reserve Bank of Vanuatu in 2017 (national payment system law, national payment system including an Automated Transfer Systems, a Central Securities Depository systems required for Real Time Gross Settlement and an Automated Clearing House) will incentivize banks and mobile network operators to offer competitive electronic payment solutions.</p>	<p>Speed-up approval of national payment system law and adoption of national payment system. Accelerate outreach and advocacy to merchants and communities on the benefits of moving to cashless solutions. Continue cooperation with FATF and APG to ensure Vanuatu moved to the "white list" in a foreseeable future, ensuring online payments can be made in foreign currency into Vanuatu-held accounts. Disincentive use of cash and cheques by promoting tax/charge rebate for use of electronic payment solutions.</p>



MAIN FINDING	MAIN RECOMMENDATION
<div style="display: flex; justify-content: space-between; align-items: center;">  <div style="text-align: center;"> <p data-bbox="352 365 711 394"><b>Legal and Regulatory Framework</b></p> </div> </div>	
<p>The 2000 Electronic Transactions Act (amended in 2010 only to adjust some constitutional terminology) and the 2000 E-Business Act (amended in 2007) aimed to provide a robust and sustainable environment for the development and growth of electronic business that is associated with Vanuatu and to regulate such electronic business. They are now slightly outdated. In addition, Vanuatu does not have specific regulation and compliance requirements pertaining to cybersecurity and online consumer protection, a growing concern for consumers and businesses.</p>	<p>Use the momentum created by compliance with the Asia/Pacific Group on Money Laundering (APG) and Financial Action Task Force on Money Laundering (FATF) recommendations to provide a robust e-commerce ecosystem in line with regional and international best practices. As the payment regulations are steadily improved, the business community needs better consumer protection, data protection regulations in place to confirm investments, in particular from Australia and New Zealand. Review and update the Electronic Transactions Act in line with regional trends with a view to further enabling cross-border exchanges.</p>
<div style="display: flex; justify-content: space-between; align-items: center;">  <div style="text-align: center;"> <p data-bbox="352 761 703 790"><b>e-Commerce Skills Development</b></p> </div> </div>	
<p>ICT and e-commerce vendors are available and ready to propose e-commerce solutions to merchants and traders, but knowledge and understanding of how e-commerce transforms business are not there. Government-led efforts—in particular from the OGCI and TRR—backed by development partners enable more schools and higher education bodies to be ICT-ready, attempting to bridge perceived skill gaps. The private sector, led by the Vanuatu Chamber of Commerce and Industry and the Vanuatu Tourism Office have initiated work on business incubators, but the necessary know-how and incentives are not in place yet for the sector to flourish.</p>	<p>Improve tertiary education curriculum to include soft skills—content management, web and app development, e-commerce skills—rather than IT infrastructure skills. Accelerate Government-private sector partnerships for MSMEs skills development, based on success stories like Vanuatu Skill Partnership. Emulate best practices from the region, through VCCI and Young Entrepreneurship Council Vanuatu, to ensure that Vanuatu remains visible as an ICT investment destination, bringing the much-needed skills on-shore.</p>
<div style="display: flex; justify-content: space-between; align-items: center;">  <div style="text-align: center;"> <p data-bbox="352 1189 571 1218"><b>Access to Financing</b></p> </div> </div>	
<p>The Vanuatu National Financial Inclusion Strategy (NFIS 2018 – 2023) has become an important policy and development agenda, as demand-side surveys revealed the huge financing gaps, both for business starting and development. Faced with commercial banks lack of interested and the lack of specific financing instruments, MSMEs are often left with no other solutions than to use personal and friends' savings, borrow small amounts from MFIs and credit unions. High interest rates and demands for substantial collaterals act as barriers to financing. No specific product developed for ICT-equipped firms.</p>	<p>Financial institutions must continue to be responsive to the needs of the Ni-Vanuatu businesses as they move towards digitalization. Private sector should lead the efforts to attract more investments, venture capital and equity in promising businesses, while equipping MSMEs with a proper status and the basic business tools to be able to attract investors and present bankable proposals, using the success stories found in the Vanuatu tourism and agribusiness sectors. Assess nature of financing needs for e-commerce ventures (working or investment capital).</p>



# FINDINGS UNDER THE SEVEN eTRADE FOR ALL POLICY AREAS

## 1. E-COMMERCE READINESS ASSESSMENTS AND STRATEGY FORMULATION

The e-commerce readiness assessment requested by the Government of Vanuatu is a testimony of the growing interest by the public and private sectors alike for inserting the country into the digital economy. The assessment follows years of investment in Government capacity (OGCIO, TRR) to better use ICT for sustainable development in a geographically complex country. While this progress and subsequent plan strategies are steps in the right direction to ensure that ICT and digital innovation become core to national development plans, the impact on e-commerce development will take time to materialize, as there is currently no e-commerce vision, strategy or policy developed to support the overarching “Vanuatu 2030” plan. The assessment is a stepping stone towards formulating a strategy for e-commerce development in Vanuatu. A strategy could complement very well the liberalization gains, the success in implementing the Government-led ICT Policy and make e-commerce a new avenue for economic growth (TPF 2018). This could eventually improve the attractiveness of Vanuatu for regional investors and enhance initiatives by local business federations.

Vanuatu was ranked 141 (up from 144 in 2016) out of 175 economies in the 2017 International Telecommunication Union (ITU) ICT Development Index<sup>2</sup> (Table I). Data for Vanuatu are not available in the UNCTAD E-Commerce B2C Index nor in the World Economic Forum (WEF) Networked Readiness Index.

**Table I: IT Development Ranking in Selected Countries in the Pacific Region**

Country	ITU IDI Ranking
Singapore	18
Fiji	107
Tonga	110
Timor Leste	122
Samoa	127
Vanuatu	141
Kiribati	154
Solomon Islands	157

Source: ITU (IDI 2017 report)

Despite this low position, Vanuatu has made steady progress in harnessing the benefits derived from adoption of ICT and e-commerce over the past few years, in particular since the introduction of competition in the telecommunications market in 2008, the establishment of TRR in 2009 and the arrival of the submarine cable “Interchange Cable Network 1 (ICN1)” in 2014.

The growing interest within Government institutions to take advantage of ICT and the digital revolution has been translated into several national policies and strategies over the past three years. The Government is gearing up to be able to facilitate the development of an ICT-enabled ecosystem. The complex challenges faced by Vanuatu to realize its ICT development objectives are similar in nature to those faced by other developing Pacific Islands Nations.

### 1.1. National policies related to ICT, e-government, e-commerce

National policies launched by the Government in the past few years put ICT infrastructure enhancement and moves towards a digital economy as core development objectives.

The Government has formulated three ICT-related policies to ensure, once implemented, that the country can fully take advantage of the benefits of the digital revolution, both for its own functioning as well as for the wellbeing of its citizens and the development of its economy.

<sup>2</sup> The ICT Development Index (IDI), which has been published annually since 2009 by the International Telecommunications Union (ITU), is a composite index that combines 11 indicators into one benchmark measure. It is used to monitor and compare developments in information and communication technology (ICT) between countries and over time.



**The People's Plan as the National Sustainable Development Plan for the period 2016 to 2030, also known as Vanuatu 2030** builds on the progress made and lessons learned under the Priorities and Action Agenda, which guided the national development efforts between 2006 and 2015. Vanuatu 2030 charts the country's vision and overarching policy framework for achieving a stable, sustainable and prosperous Vanuatu and in doing so sets out the national priorities and context for the implementation of the Sustainable Development Goals. The plan is divided into three pillars: society, environment and economy. Each pillar is sub-divided into goals and policy objectives. The economy pillar provides an enabling framework for a digital economy to evolve, with the following policy objectives to reach:

- ECO 2.9 Increase use of and access to ICTs, including on-line government services
- ECO 4.1 Create an improved business environment with a stable regulatory framework that promotes competition, protects consumers,

attracts investment, and reduces the costs of doing business

- ECO 4.9 Strengthen dialogue between government and the private sector, and enact a robust governance framework for effective partnerships

**The National ICT Policy** (Box 1) expresses a commitment to maximize the contribution, efficiency and effectiveness of information and communication technologies (ICTs) in achieving the National Vision of "A Just, Educated, Healthy and Wealthy Vanuatu". The national ICT policy serves as a tool for an effective coordination of efforts of various stakeholders. Through the policy the Government sees ICT as opening new previously non-existent business opportunities (such as ICT services, business process outsourcing and content-related businesses). Remarkably though, e-commerce was not mentioned in the ICT policy, pointing to possible areas for improvements for future ICT policy updates, on the basis of the recommendations found in this report.

### Box 1: The National ICT Policy Priority Areas

- **Access to ICTs in Education:** Providing educational institutions with access to ICT infrastructure and related services and equipment adequate to support the educational process, providing students with access to ICT devices, as well as providing appropriate ICT-based educational content.
- **Access to ICT Infrastructure and Devices:** Enhancing general access to, as well as availability and affordability of, reliable ICT infrastructure related services and devices, with an emphasis on demand side measures, enhancing overall resiliency of the national infrastructure, and lowering costs of services and devices as they are delivered to end-users.
- **E-Government:** Enhancing effective and cost-efficient use of ICT in Government operations, in particular in terms of internal administration; and promoting ICT-enabled interaction between the Government and other stakeholders, including citizens.
- **Integration of ICTs into Sectoral Policies:** Recognizing an enabling and transforming potential of ICTs for every sector and policy area, in particular such key areas as education, health, productive sectors, transport, trade and attraction of foreign investment, gender equality, social equity, democratic participation.
- **Building Trust:** Recognizing that alongside numerous benefits, ICTs also bring various dangers, including an exposure to harmful information; new avenues for criminal, including fraudulent, activities; new threats for protection of confidential information and important infrastructure, as well as new risks of disruption of social and economic life.
- **Locally Relevant Content:** Increasing availability of locally relevant sustainably supported content, especially by making global content accessible in local languages.
- **Capacity-Building:** Enhancing skills necessary to utilize and develop ICTs, especially in the public service.
- **Platform for Multi-Stakeholder and Multi-Sector Coordination and Collaboration:** Recognizing that any pre-established policy cannot foresee every initiative that could benefit the development of the ICT sector, neither any one central agency can envisage and direct all of them; and therefore setting up a platform for expertise, knowledge and skills to be shared among various stakeholders and sectors, thereby enabling a substantially self-organizing (although enabled and coordinated) ICT development process.

Source: OGCI/O, 2016



The implementation of the national ICT policy is the responsibility of the Prime Minister, as the Minister responsible for ICT and Telecommunications. He is supported in this task by the multi-stakeholder National ICT Development Committee<sup>3</sup>, which has the primary responsibility for the further development and implementation of this Policy. Overarching support is provided by the Office of the Government Chief Information Officer (OGCIO<sup>4</sup>) and the string the Telecommunications and Radiocommunications Regulator (TRR). Ministries, Government Departments, Constitutional and Statutory Entities are responsible for the implementation of this Policy in their respective areas.

### e-Government Action Plan

Starting in 2011, the Government has deployed the **Government Broadband Network (GBN)**, connecting all the provinces. The Ministry of Health is also implementing a separate programme to connect hospitals and major health centres. Some Government agencies, notably the Vanuatu Meteorology and Geohazards Department, provide current and highly useful on-line information to residents. The Government has launched the **Integrated Government (iGov)** initiative and adopted the **E-Government Strategic Roadmap** to drive further utilization of ICTs in public administration. These recent achievements established a solid foundation for Vanuatu to achieve a significant progress from the relatively low current levels of e-government development. It also shows that the Government can indeed promote inter-ministerial coordination when the need is warranted, boding well for a national e-commerce vision. At the present time, there is no Government-led coordination mechanism on the digital economy or e-commerce.

<sup>3</sup> *The multi-stakeholder National ICT Development Committee has been established and is chaired by the Prime Minister who has the primary responsibility for the further development and coordinated implementation of the national ICT policy.*

<sup>4</sup> *OGCIO's mission is threefold: (1) to encourage the spread of ICTs (information and communications technologies) in society to efficiently and effectively achieve an educated, healthy and wealthy Vanuatu; (2) to lead the iGov Initiative, (the Integrated Government Initiative), which uses world-class e-government solutions and ICTs to bring better service delivery methods to all ministries and agencies, and ultimately to Vanuatu's residents and businesses; and (3) to encourage the right to information (RTI) in Vanuatu.*

However, development of e-Government is constrained by a number of specific challenges, including:

- Operational challenges with current non-electronic processes (moving processes to electronic or automated mechanisms require that the existing paper-based processes are efficient);
- Wide-ranging levels of readiness, including capacity and preparedness, of various Ministries and Government Departments, hence the need for a coordinated approach to e-government;
- Financial constraints, in particular in relation to recurrent operational expenditures;
- Many competing Government priorities; and
- Difficulties in recruiting and retaining qualified ICT staff.

ICT also play an increasingly important role in a democratic participation and dialogue. The first ever nationwide Leaders' Face-to-Face discussion, which connected the Prime Minister and the Leader of the Opposition with communities in all provinces via video-conference links, was held in 2012. Traditional media have progressively adopted the Internet, which is used to access daily newspapers and local radio, as well as distributing news via SMS. Online-only media, such as the Vanuatu Daily Digest and the Pacific Politics Blog of the Pacific Institute of Public Policy, are emerging and becoming an increasingly important sources of information. An increasing number of Facebook groups enhance the social and economic conversation. The largest of such groups (Yumi Toktok Stret) has more than 10,000 members.

In March 2018, the Government established the Vanuatu National Institute of Digital Currency Research, with the objective, among others, to build up a safer and more stable economic system, using technology such as blockchain. The Government believes that as an island country, Vanuatu is very vulnerable to natural disasters and blockchain applications could help them to establish a more secure IT infrastructure. The assumption is, moreover, that blockchain will make Vanuatu more connected to the international communities, cooperating with other countries to develop blockchain applications and bringing creativity and motivation to all industries. In the same month, Vanuatu Honorable Deputy Prime Minister





Joe Natuman announced that the Government had initiated an “e-Nation” plan. The e-Nation would be loosely based on the Estonia e-Residency programme, which proposed to help global citizens to apply for a digital ID through the Estonian Government to start and run a global business in a trusted EU environment. In Vanuatu, the e-nation plan would include digital currency issuance, digital insurance, digital visa, digital citizenship, digital governance, digital embassy and digital corporation and so on.

### 1.2. Current e-commerce marketplace activity

The limited available information suggests that Vanuatu currently has minimal participation in e-trade, limited to tourism services, in particular for visiting cruise ship passengers and for the export of some traditional agricultural products (essential oils, coconut-derived products, coffee), products that don’t need refrigeration and are small – thus more suitable for e-commerce transactions.

<sup>5</sup> Source: alexa.com

Vanuatu, as most other Pacific Island Nations has not seen the kind of e-trade growth that has taken place in South East Asia. For example, of the top twenty websites by traffic in Vanuatu, none are e-commerce websites. The list is dominated by search engines, social media, entertainment, and newspapers, news and discussion boards<sup>5</sup>.

Two sectors appear to be benefiting the most from e-commerce, in line with Vanuatu’s main exports: tourism and processed agricultural products. The following companies have set up online shops, selling products online and delivering primarily in the Asia-Pacific region.

In addition to the firms mentioned in Table II, the Vanuatu Tourism Office (VTO) has pioneered a number of e-commerce initiatives, prompting members to invest in online portals and shops to attract overseas visitors, especially from the numerous cruise-ships visiting Vanuatu.

**Table II: Main e-commerce vendors and websites in Vanuatu**

Online shops URL	Description
<a href="https://www.thesummitvanuatu.com/">https://www.thesummitvanuatu.com/</a>	The Summit Vanuatu business was primarily established to create and market Fair-Trade, Eco-Friendly Skincare Products that are Sandalwood-Based & 100 per cent Natural. It is the longest standing Vanuatu-based worldwide delivery business with the largest online range of products.
<a href="https://www.atmosphere-vanuatu.com/">https://www.atmosphere-vanuatu.com/</a>	Atmosphere is an indigenous Ni-Vanuatu travel agent and tour operator company, specialized in packages for cruise-ship passengers berthing in Vanuatu. The company has also created a dedicated site for e-commerce sales ( <a href="https://www.hotvanuatu.deals/">https://www.hotvanuatu.deals/</a> ).
<a href="http://www.tannafarms.com.vu/">http://www.tannafarms.com.vu/</a>	Vanuatu’s leading Coconut Oil producer and exporter. It makes other products using this oil including peanuts, peanut butter, coconut soap, coconut lip balm and gift baskets.
<a href="http://www.onwheelsrental.com/rentals/">http://www.onwheelsrental.com/rentals/</a>	Bikes and Quad rentals for tourists, with possibilities to book online (targeting short-term tourists).
<a href="http://www.samsanimalwelfare.com/">http://www.samsanimalwelfare.com/</a>	Sam’s Animal Welfare Association is a charity created in Vanuatu, including support to a mobile vet clinic, bringing vital veterinary treatment to isolated communities. The website allows for donations through e-banking solutions.
<a href="https://www.tannacoffee.com/">https://www.tannacoffee.com/</a>	The Tanna Coffee Development Company (TCDC) was first established in 1982, to assist in the development of the newly independent South Pacific nation of Vanuatu. It was one of the first company to create a dedicated e-commerce platform with embedded payment solutions in Vanuatu.



For instance, visitors planning a holiday to Tanna, the most populous island in Tafea Province, have easier access to travel information as well as the option to book directly online via the Tanna Travel Centre's newly developed website <http://www.tanna.travel/>. The Travel Centre supports local tourism operators to engage with international visitors through social media, travel agents and online booking websites. It will also help smaller operators to access to online marketing. The Tanna Travel Centre was set up through a collaboration between the VTO, the Department of Tourism and the Australian Government-supported, Vanuatu Skills Partnership (TVET).

In interviews for this assessment and in focus-group discussions with e-commerce vendors, most participants indicated that being able to accept payments online is the major bottleneck preventing more vendors to create on-line shops. Most online shops above were able to set up online payments as they hold bank accounts overseas. Some, however, were unable to do so after the paymentexpress.com credit card processing facility offered in the past by Westpac stopped being offered in Vanuatu<sup>6</sup>.

### 1.3. National policies related to trade

**E-commerce is not yet considered an avenue for foreign trade expansion or diversification, but the forthcoming update of the Trade Policy Framework constitutes a good opportunity to accelerate economic diversification beyond tourism and construction.**

The limited size of Vanuatu's domestic market implies that development opportunities ultimately depend on its ability to penetrate foreign markets. The Vanuatu Government has already in place a significant number of trade-related policies, but none directly support e-commerce for development.

Over the last decade, Vanuatu's economic growth has been based on two sectors: services and construction. Services contribute around 69 per cent to the GDP and provide decent employment opportunities to the increasing urban population – between 30 per cent and 40 per cent of the local population are employed in the services sector. During the past decade, the increasing deficit in merchandise trade was offset by

the growing surplus of the services account - 80 per cent of which was due to exports of tourism services. Vanuatu trade in goods continues to be focused on primary products.

Since 2012 the Vanuatu's Trade Policy Framework 2012 (TPF 2012) has been the main national document on trade matters.

The TPF 2012 contained thirty-one high-level recommendations. However, the role of ICT and e-commerce for trade development is not covered in the TPF 2012, although the TPF supported the Government objective to achieve the broadband Internet access to 85 per cent of the population by 2015.

Several chapters of the on-going TPF 2018 formulation might include ICT and e-commerce related aspects, which, in turn, could feature among the priorities in future Aid-for-Trade commitments of Vanuatu's development partners. Chapters on Backbone services and related infrastructure, the regulatory environment for trade, education and skills and other commercial services (e.g., ICT) could highlight the potential impact of ICT and e-commerce for trade development.

<sup>6</sup> Westpac's operations in Vanuatu have been owned and operated by Bank South Pacific since July 1, 2016



**1.4. National coordination (e-commerce task force, inter-ministerial, Public-Private Dialogue)**

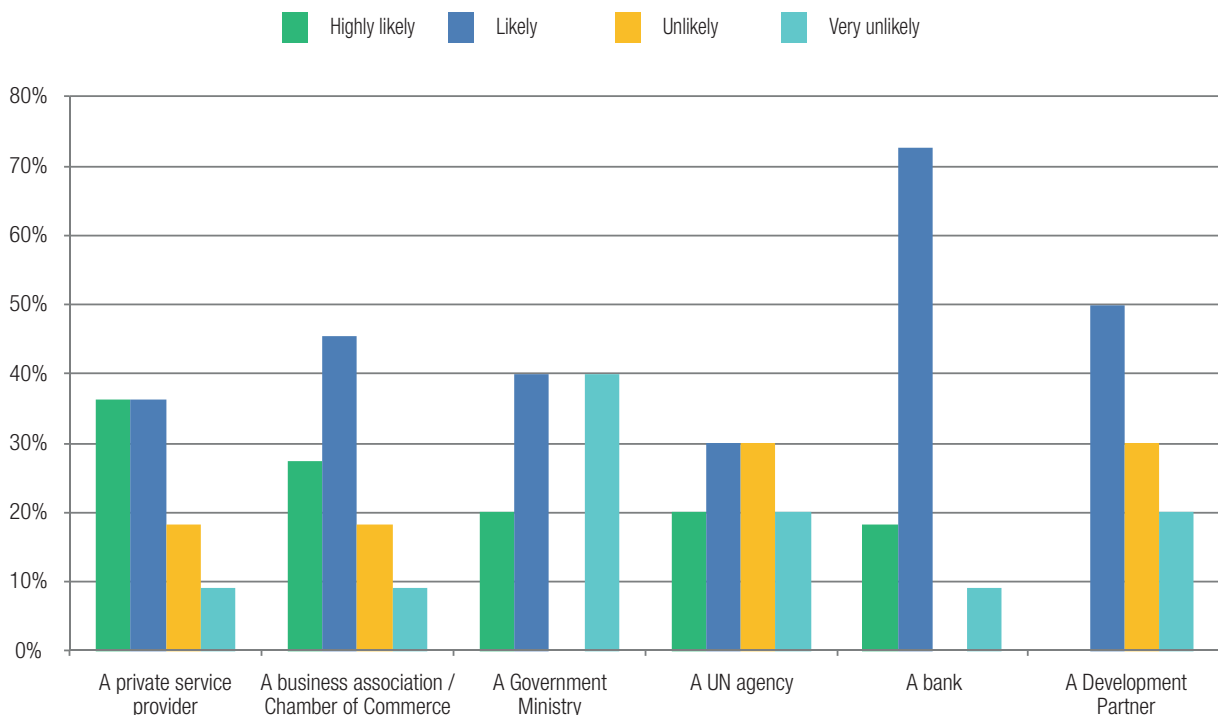
Industry-focused discussions on adoption of ICT and constraints to e-commerce have not been elevated at the national level and have remained limited to tourism and payments. VCCI has provided support to MSMEs through partnership with regional partners.

There is currently no public-private sector dialogue on e-commerce and the digital economy at the national level. Several business groups mentioned industry-focused discussions are happening, in particular for the banking, finance industry and the tourism sector

on the other hand, but this has not been elevated or included in public-private dialogue mechanisms. Most respondents to the survey carried out in preparation for this assessment expected the Government to take the lead in facilitating policy and strategy formulation, on e-commerce, a necessary step towards dialogue. Any national digital / e-commerce strategy should be aligned with the existing relevant national strategies. The focus-group discussions held in the context of this eTrade readiness assessments were for most private sector participants the first time they could interact among themselves and with the public sector (TRR, Customs, MTTCINVB) on e-commerce related topics. As shown in Figure 3, however, their preferred and most reliable source of information is from the private sector when it comes to getting assistance on e-commerce matters.

**Figure 3: Priority partners for technical assistance**

In case you need technical assistance to start developing e-commerce solutions, how likely are you to turn to (private sector respondents only)



Source: UNCTAD



Table III : List of key business associations/groups active in e-commerce fields and their activities

Institution	Activity / task force
<b>Vanuatu Chamber of Commerce and Industry</b>	VCCI is the advocate, representative and supporter of the business community in Vanuatu. Established in 1995 VCCI represent over 1,300 members of the business community. All businesses that hold a valid business license in Vanuatu are automatically granted membership to the VCCI through payment of annual fees to the Government.
<b>Vanuatu Women in Sustainable Development Association</b>	The organization aims to give women a platform to express their business issues and offers networking opportunities. It runs a training program for business owners and their employees to make best usage of their business skills.
<b>Vanuatu Women and Girls in ICT</b>	This is the Vanuatu Chapter of the Girls in ICT initiative of the International Telecommunication Union (ITU), a global effort to raise awareness of empowering and encouraging girls and young women to consider studies and careers in Information and Communication Technologies (ICTs).
<b>Bankers' Association</b>	No information available.
<b>Vanuatu Customs Brokers and Forwarders Association (VCBFA).</b>	The VCBFA promotes the role of customs brokers and freight forwarders, through it representation of customs brokers' interests. It provides advocacy, awareness raising to support the development of broker education and training.
<b>Finance Centre Association of Vanuatu</b>	The Centre facilitates the formation of international and local companies, the formation of trusts and foundations, and provides full international banking and insurance services. They provide access to international investments and share trading in international markets.
<b>Vanuatu Hotels and Resorts Association</b>	The Association provides a bridge between members and the tourism sector, industry partners and government agencies. It is the channel for government departments/agencies and the Vanuatu Tourism Office to disseminate information to accommodation providers and represents members in discussions.
<b>Vanuatu Island Bungalow and Tour Operators Association</b>	VIBTA is an organization of locally owned and run tour operators and accommodation providers in Vanuatu. VIBTA's mandate reaches beyond the two urban centres of Luganville and Port Vila and gives the travellers a window into the more remote islands.

Source: several, compiled by the author

### 1.5. Access to relevant statistics

**The Vanuatu National Statistics Office (VNSO) has been gathering statistical data on ICT indicators. Starting 2019, the VNSO should be able to produce e-commerce statistics as the sector grows, in collaboration with TRR and OGCI.**

The Vanuatu National Statistics Office (VNSO) is the country's official statistical agency. VNSO regularly collects and disseminates statistics on merchandise trade and on services trade, but does not disaggregate data for e-commerce (domestic or cross-border). However, the recently signed MoU between TRR and VNSO to share data and ensure e-commerce statistics are published officially and shared with ITU is a step in the right direction.



## 2. ICT INFRASTRUCTURE AND SERVICES

The development and operation of ICT and supportive infrastructures are made more challenging by Vanuatu's vulnerability to tropical cyclones and severe storms, as well as earthquakes, tsunamis and volcanic activity due to the country's geography and proximity to the Pacific "Ring of Fire". The telecommunications and ICT sub-sector has changed dramatically following the landing of the first submarine cable, the opening of services to competition, and the introduction of a regulation authority, the Telecommunications and Radiocommunications Regulator (TRR). There are now seven companies providing broadband Internet, of which Digicel and TVL also provide mobile telephone services. This has led to benefits for the consumers and businesses. However, accessibility and affordability differ widely between urban areas and remote islands, which dent efforts to provide an inclusive and sustainable economic growth to all islanders.

ICT connectivity in Vanuatu is delivered through a combination of mobile, satellite, undersea cables and fixed networks. The geographic and physical limitations of fixed networks and the relative expense of satellite services means mobile has the best opportunity to drive connectivity and Internet access. However, mobile operators, regulators and other industry stakeholders have started to recognize the scope for partnerships and the ongoing role for complementary alternative technologies (particularly satellite) in addressing connectivity challenges.

Mobile Internet access is both much lower than the averages for the broader Asia Pacific region and for the developing world as a whole. A number of difficulties exist in extending mobile Internet access in Vanuatu, with issues around affordability and expanding network coverage to remote and often inaccessible rural areas particular challenges given high levels of poverty and low population densities.

In terms of infrastructure deployment, primary challenges are presented by geography and topography. Long distances to points-of-presence of submarine-fibre-based international connectivity means that, even if Vanuatu is connected to international communications networks via a submarine cable, costs of such connectivity restrict the extent to which such connections could translate into lower prices for end users. While the arrival of the first submarine cable in 2014 increased affordability and speed of access to Internet, after four years, it is clear that discussions and cost/benefit study on the opportunity of investing in a second submarine cable or other options, as discussed below on section 1.3, are much needed for e-commerce and ICT to thrive in Vanuatu.

**Table IV: Most up-to-date statistics on ICT available at VNSO, TRR and mirror sites**

CATEGORIES	VALUES
Total Population (,000)	279,2
Internet users (,000)	82.8
Active social media users (,000)	69
Mobile connections (,000)	251,8
Active mobile social users (,000)	63
Internet users as a % of the total population	30%



Total number of active mobile Internet users	75,570
Mobile Internet users as a % of the total population	27%
Total number of mobile connections	251,800
Mobile connections as a % of the total population	90%
Percentage of mobile connections that are prepaid	95%
Percentage of mobile connections that are postpaid	5%
Percentage of mobile connections that are broadband (3G and 4G)	38%
<i>Share of web traffic by device</i>	
Laptops and desktops	35%
Mobile phones	55%
Tablet devices	10%
Total number of monthly active Facebook users	69,000
Total number of monthly active Instagram users	4,700

Source: ITU, WeAreSocial, InternetWorldStats

## 2.1. **Broadband / Mobile / smartphone penetration**

**In recent years, Vanuatu's ICT sector has witnessed a major transformation. The market liberalization observed in a many Pacific Islands Nations has expanded availability of ICT, especially mobile communications, to virtually everyone in Vanuatu. These significant developments have caused mobile penetration to increase to 80 per cent in 2016, from 12 per cent in 2007. Competition in telecommunications markets has led to reduced prices, improved services and stimulation of innovation and investment in mobile data services.**

Since the introduction of competition in 2008 and the establishment of TRR in 2009, the ICT sector has experienced healthy growth, with significant increases in access, subscriber growth, and market revenue. This growth has been predominantly driven by the large increase in use of mobile technologies by people and businesses alike (see Box 2); with mobile phones becoming the primary mode of communication across the country, bringing deep social changes. This development has been stimulated by reduced access and usage costs, and greater mobile coverage created by competitive pressures, as well as the ongoing

reduction in handset and equipment costs driven by improvements in technology. These significant developments have caused mobile penetration to increase to 80 per cent in 2016, from 12 per cent in 2007.

The introduction of the ICN1 submarine cable in January 2014 stimulated a substantial increase in access and usage of the Internet with the increased availability of higher-speed Internet services on both fixed and mobile networks, and larger data download plans. International bandwidth has grown by over 650 per cent from January 2014 to December 2016, confirming this trend. The number of fixed Internet subscribers, particularly fixed wireless subscribers, increased significantly with the introduction of the cable and are now almost 10 per cent higher in 2016 than they were 2014.



Vanuatu has developed a Universal Access Policy (UAP) which aims to make the following ICT services available to 98 per cent of the population by 2018: The required level of access to telecommunications services are:

- voice communication;
- narrowband data services, including text messaging;
- broadband with a download speed of at least 21Mb/s and an upload speed of at least 12Mb/s.

The UAP fund is subsidised primarily by AusAID, but in September 2015 the TRR signed Undertaking Agreements in regards to the UAP with Telecom Vanuatu, Telsat Broadband and Digicel Vanuatu. Through the UAP, the government subsidised the extension of networks to areas where the two current mobile providers did not intend to provide service on a commercial basis. Despite the cost to the government, the policy has been a success, with a significant increase in connectivity in Vanuatu's outer islands. Telecom operators are ready to roll out more services to outer islands, but the commercial interest being limited, the deployment of new services have been slow to materialize outside urban centres.

While fixed broadband penetration remains low in Vanuatu (1.63 per 100 inhabitants in 2017), it did

grow steadily, although from a very low base, between 2013 and 2016 when operators began investing more in fibre optic cables and the ICN1 submarine cable landed. This resulted in an increase in capacity and subsequent reduction in broadband pricing. Similarly, two milestones reached in 2016 with the launch of LTE services by one of the leading players, Digicel, and the introduction of a rural satellite broadband service by Kacific led to an improvement in quality and reliability of services. Still, fixed broadband Internet use remains anecdotal.

Mobile broadband infrastructure expanded and improved with pricing drops in mobile Internet subscriptions. Mobile and fixed broadband penetration in Vanuatu now sits at a rate of around 50 per cent. Mobile phones have become the primary mode of communication across the country, bringing deep social changes. As of 2018, more than 98 per cent of the population should be covered by a mobile network. However, in rural areas mobile phone use is sometimes limited by electricity shortages, having to rely on solar cells, batteries and diesel generators.

There are two mobile network operators: Digicel and TVL. Digicel launched 4G in 2016 and TVL in 2017. While both operators have launched 4G/LTE outside the capital city to reach tourist areas, neither provider has much coverage outside the main islands.

**Table V: Main mobile and fixed Internet service providers**

COMPANY NAME	REMARKS / SERVICES
<b>Digicel Vanuatu Limited</b>	Digicel is a complete communications provider offering mobile services, enterprise solutions and cloud computing. It specialized in developing country markets (33 markets over Caribbean, Central America and Asia Pacific).
<b>Telecom Vanuatu (TVL)</b>	Telecom Vanuatu Limited was created in 1978 and provides landline, GSM, Internet and 4G+ (Mobile Internet). TVL is a major operator in Vanuatu's economy and the largest corporate contributor to Vanuatu's national economy. TVL runs the landline network on Vanuatu including in 58 of the 65 inhabited islands.
<b>Telsat Broadband Limited Vanuatu</b>	Provides Carrier-Grade Wireless coverage to Port Vila and surrounds via their own independent network. Telsat also supplies and maintains VSAT systems for the other remote parts of Vanuatu.
<b>Wantok Network Limited</b>	Wantok launched the first LTE network in Vanuatu in 2014. It provides wireless 4G Internet in Port Vila and surrounding areas.
<b>Kacific Broadband Satellite company</b>	Providing broadband Internet across the archipelago and plans to send own Vanuatu satellite by 2019.

Source: TRR, operators and providers websites



## Box 2: Application of technology among MSMEs

According to the MSME Survey 2016 for Vanuatu, the role of technology and innovation in business is critical because it helps them expand in a more rapid and efficient manner. In the survey, respondents were asked whether they had introduced technology in forms such as a computer, Internet/email, mobile phone, new machinery and other forms of technology over the past 12 months.

Usage of mobile phones is widespread amongst businesses in Vanuatu: 60 per cent of total respondents reported having introduced or having access to a mobile phone. By contrast, less than 5 per cent of the total respondents reported introducing technologies such as computers, Internet/email.

The increasing use of mobile phones indicates the need to design and enhance financial services through mobile platforms. The telecommunications network is relatively accessible in all provinces, which allows businesses to access Internet instantly and to be able to place orders or market products. Respondents also revealed that business continuously upgrade mobile phone technology every two to three years.

The use of mobile phones is widespread, across locations, business sizes and economic sectors. More than 68 per cent of businesses in rural areas use mobile phones, with 33 per cent in the urban centres. Businesses also introduced a combination of technology over the last twelve-month period. The findings revealed that 47 per cent of businesses in urban areas introduced a combination of technology.

By business type, 68 per cent of informal businesses have introduced mobile phones, while 48 per cent of formal MSMEs have]. Mobile phones have been widely introduced by businesses in the service sector specifically.

*Source: MSME Survey 2016, Reserve Bank of Vanuatu*

Part of the improvements in ICT infrastructure is due to the support provided by Vanuatu's development partners: the Australian Government through the Governance for Growth Program since 2007 has funded numerous actions: this includes the support to liberalize the telecommunication market in 2008; seed funding for the Universal Access Fund, the various long-term technical assistance through the Ministry of Finance and Economic Management; and setting up the OGCI through the Prime Minister's Office totalling over 1.6 Billion Vatu, all as grant funding. Other support was provided by international and regional organizations, including the World Bank, the International Telecommunication Union (ITU), Asia-Pacific Telecommunity (APT), the Export-Import Bank of China (China Exim Bank), Secretariat of the Pacific Community (SPC), Asia-Pacific Network Information Centre (APNIC), United States Peace Corps, Japan International Cooperation Agency (JICA) and Technical Centre for Agricultural and Rural Cooperation (CTA).

### 2.2. **Reliability, affordability, latency, speed, coverage**

**Fast and reliable Internet is available in urban areas, whereas some remote provinces can only experience a few hours of power supply daily. Speed has gone up and prices have gone down, but relying on one single submarine cable will eventually jeopardize the progress. The rapid expansion and coverage of mobile Internet**

### **contrast with the slow development of fixed broadband Internet.**

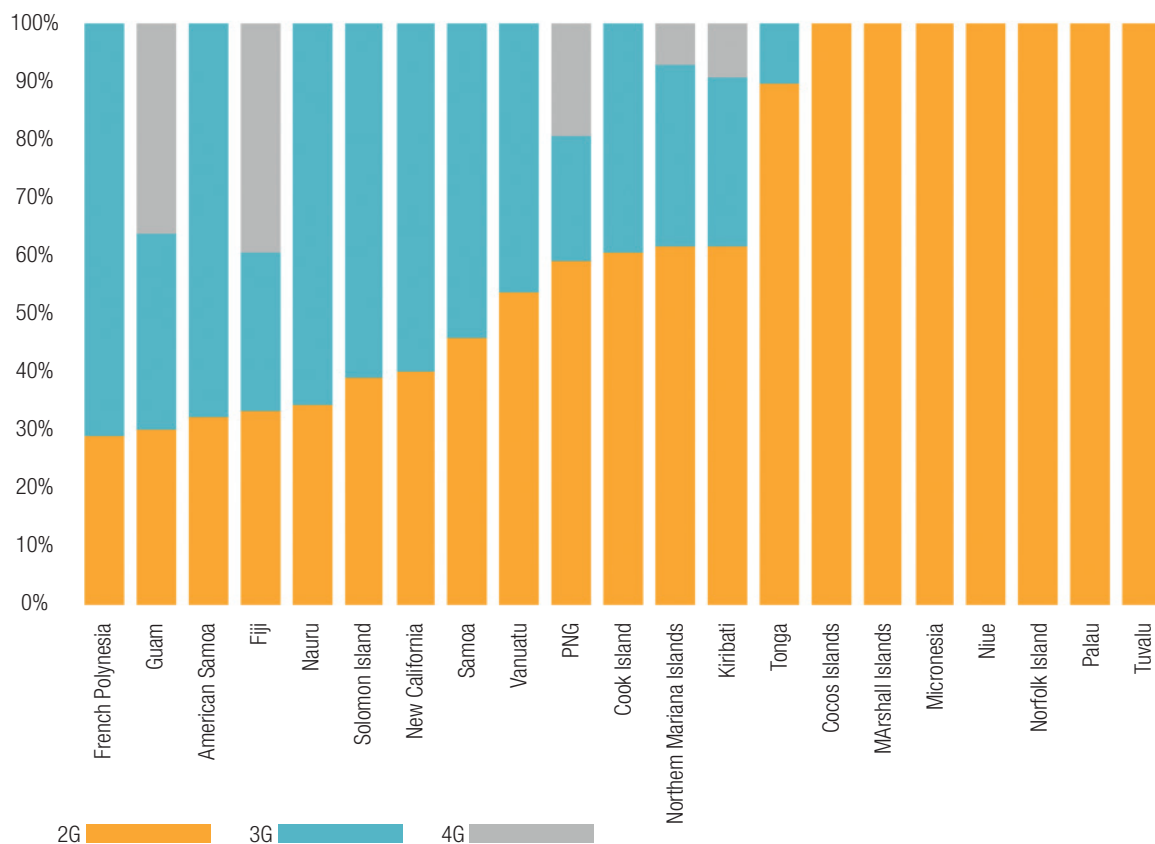
Access to the Internet in lower-income as well as remote communities was expanded by various Government and private initiatives, including the Government Voice Over IP (VOIP) network, the Rensarie Telecenter, a Wan Smolbag computer classroom, as well as commercial or community-run public Internet access points available in Malakula, North Pentecost islands and other localities.

Competition in telecommunications market has been most vigorous and effective in recent years in reducing prices, improving services and stimulating innovation and investment in the area of mobile data services. Such improvements have included the evolution from 2G technologies to those that support data services such as GPRS/EDGE, then later 3G, and 3G+, with 4G being recently introduced in 2016; each of which supported ever greater data speeds. Projections by GSMA for the region (see Figure 4) indicate that Vanuatu should have 50 per cent 3G coverage by 2020, placing the country in a better situation than neighbouring island nations.





Figure 4: comparative 2G/3G/4G coverage in Pacific Islands Nations



Source: *The Mobile Economy, Pacific Islands, GSMA, 2015*

Better access to broadband Internet has been made possible thanks to the investments in the ICN1 submarine cable. In 2018, all retail service providers are connected to the submarine cable. Most of these providers currently purchase capacity, on a lease basis, from wholesaler Fidelity Communications Corp. Since the launching of the submarine cable weighted average lease pricing in the market has been US\$340 / Mbps / month. A number of recent developments has resulted in current average market lease pricing of around US\$260/Mbps/month. Thanks to the good office of the TRR, Indefeasible Right of Use (IRU) capacity is available, for 15 years, from Interchange, with current filed pricing of \$US5.4 million for Synchronous Transport Module-1 (STM)-1 (155 Mbps), \$US9.3 million for STM-4 (622 Mbps) and \$US27.9 million for STM-16 (2488 Mbps).

According to information provided by TRR in 2017, 98 per cent mobile coverage for the population around Vanuatu have been achieved, with mobile penetration reaching 80 per cent in 2017, from 58 per cent in 2013 and around 12 per cent in 2007. Mobile data subscriptions are estimated to have grown by 1,100 per cent during the

period 2014 – 2016, while advertised mobile data pricing has dropped considerably with daily bundle 1/50th of the price per unit (VT/MB) it was in 2012.

Table VI : Phone subscribers, data volume and revenue evolution

Indicators	2014	2015	2016
Fixed Internet subscriptions	4,228	4,248	4,486
Mobile subscriptions	159,148	180,424	218,603
Mobile data subscriptions (Est.)	5,000	35,000	60,000
Fixed-line telephone subscriptions	5,382	4,632	4,555
Total Mobile Data Downloads (MB)	16,251,427	85,435,487	272,693,622
Market gross revenues (Billions VT)	3.89	3.95	4.48

Source: TRR



Multiple SIM ownership continues to be common in Vanuatu, with many customers subscribing to both mobile networks in order to take advantage of discounts and special offers. Mobile broadband Internet growth is expected to remain strong in Vanuatu in the coming years, in comparison to some other Pacific islands where adoption is already high.

Vanuatu Internet connections are reasonably priced for both mobile and fixed, however not yet at the level of other mature economies participating in e-commerce. According to interviews conducted as part of this assessment, prices have continued going down in the past years while quality and reliability of connections have increased, although disparately between the urban areas (Efate and Santo islands) and the other areas.

The advertised costs of prepaid mobile data bundles now typically cost one vatu (VT) per megabyte (MB) or less; as much as 50 times less than five years ago. The increased affordability of mobile data, due to significant reductions in data and handset costs, and increased network coverage, have also encouraged the uptake by consumers of over-the-top (OTT) services such as Facebook, Messenger and WhatsApp. The use of social media and OTT services has led to a significant decline in the use of SMS messaging. Similarly, as seen in the Tables VII and VIII below, “Free Facebook” incentives have started to appear recently in both providers’ offers.

**Table VII: Digicel's data bundles (VUV1 = US\$0.0091, US\$1=VUV110)**

Price	Data Volume	Validity
VUV25	100MB	1 hour
VUV50	50MB	24 hours
VUV150	100MB + free Facebook	24 hours
VUV200	200MB	7 days
VUV500	500MB	14 days
VUV700	500MB + free Facebook	7 days
VUV1,000	1GB	30 days
VUV3,500	3GB + free Facebook	30 days
VUV4,500	4.5GB	30 days
VUV6,500	7GB	30 days
VUV200 (night pass)	2GB	1 day from 11am to 7pm

Source: Digicel website

**Table VIII: TVL's data bundles**

Price	Data Volume	Night Data	Validity
VUV50	100MB	50MB	1 day
VUV100	200MB	100MB	1 day
VUV200	400MB	200MB	7 days
VUV300	800MB	400MB	7 days
VUV400	1.2GB	600MB	7 days
VUV1,000	1.5GB	750MB	30 days
VUV1,500	2.5GB	1.25GB	30 days
VUV2,000	3.5GB	1.75GB	30 days

Source: TVL website

### 2.3. Major infrastructure projects (submarine cable, fibre optic, and others.)

Despite the landing of the undersea cable, the availability of good connectivity country-wise has only slowly improved over the last decade, compared to the ever-increasing needs for data of individuals and businesses. Reliable and stable access continues to be the main issue. The expensive maintenance of the cable, cable disruption and the cost of distributing its connectivity to most islanders further inland or to outer islands, last mile issue remains a challenge. The need for an investment in a second undersea cable has been heavily discussed over the past months.

Undersea cable only provides affordable, quality bandwidth within a few kilometres of capital cities; Because of the lack of economies of scale and the small markets in rural areas, residents living beyond this coverage are often able to access expensive and slow data packages. Fixed-broadband prices have continued keeping connectivity beyond the reach of many residents.

The result is a limited amount of bandwidth supplied to end users as demand is restrained by high prices. Local service providers are often given little choice but to overload thin pipes of connectivity with large numbers of users, leading to slow access. End-users are often unable to consume services or content that are increasingly geared towards better connected countries. The bottom line is that few islanders could access bandwidth-hungry contents and eventually benefit from advances in online health, education, social, e-government and emergency communications services if the infrastructure upgrade needs are not addressed.



There is a broad consensus in Vanuatu business community that Vanuatu needs a second submarine fibre optic cable. Yet, several issues –costs<sup>7</sup>, impact on price, reliability- have delayed the construction of the second submarine cable. Interchange had plans for two more fibre optic cables coming to Vanuatu named ICN2 and ICN3 that would be connected through Sydney and Fiji to the United States or through Fiji to Guam to the United States. At the time of writing this report, no update was available on the developments of ICN2 and ICN3. For some stakeholders interviewed for this assessment, one of the key issues is that the existing telecom companies are pressuring the government to lower the price of Internet access for operators (lease price). Lowering the Internet access price is considered a worthy goal if the benefits are passed on to the consumer, but at the same time, it would mean a lower income to the Internet operators. This in turn would translate into a reduced ability to raise the necessary funds to set up a second cable. An alternative to consider for a second cable would be to have so-called “branch units” attached to new cables being laid in the Pacific.

<sup>7</sup> *The Single Submarine Cable provided by Interchange Cable Limited connects Vanuatu to Fiji. This milestone cable project links Vanuatu directly into the high capacity Southern Cross cable between Sydney and USA. The ICN1 was financed through a combination of local investment and commercial bank financing, for a total cost of around \$US 32 million. Operations commenced in March 2014.*

For others, lower prices now mean a lower chance of obtaining a vital second cable. As Vanuatu is a small country, the cost of cable is the same whether it will serve a big or small population. A sparsely populated country population will always have to pay more per user than a country with a larger population. An alternative solution, although more expensive, is to use satellite connections, as proposed by Kacific. Kacific, a next-generation broadband satellite operator working through local partners, is considering placing its satellites to deliver fast Internet bandwidth, empowering public services, businesses and consumers in urban areas, rural villages and remote communities in territories with highly dispersed pockets of population. Kacific is currently operating a wholesale service to customers within the coverage area, which began in Vanuatu in June 2016. In December 2013, Kacific announced its intention to launch its first satellite, Kacific-1, which is planned to launch in 2019. Kacific plans to offer direct Internet access, via wholesale channels, to government agencies, institutions, businesses, community groups and households within the satellite’s total footprint area from 2019. The experience of other Pacific Islands Nations with costs associated with the satellite connections solution, as well as reliability aspects, calls for attention of the Government to assess the benefits of such alternative.

### 3. TRADE LOGISTICS AND TRADE FACILITATION

Transport and logistics are made complex in Vanuatu by the geography of the archipelago. The lack of physical addressing systems nationally limits the possibility of logistics providers. The Vanuatu Post Limited (VPL) provides letter, mail and parcel services to 60 locations throughout the country, but more could be done to increase ICT skills of VPL, in line with the World Summit on the Information Society (WSIS) Geneva plan of action and the Tunis Agenda for the Information Society call on governments to invest in ICT skills development and access to ICT for national Posts. The main airport services are deemed efficient for cargo while the newly built port facilities in Port Vila still need improvements in handling import and export goods. Although Vanuatu has been adopting some trade facilitation measures, more needs to be done to improve trade processes and develop the capacity of the government and private sector. The improvement in customs clearance procedures and the migration towards online payment have been praised by the business community. More needs to be done however, in particular in integrating public organizations with each other and with banks so as to facilitate online payment of trade logistics and trade facilitation related services.

The high costs of cross-border trade, including e-commerce cross-border trade, the lack of a proper physical addressing system and the limited logistics

options for international shipping are significant bottlenecks for efficient trade logistics. These are amplified by the remoteness and geography of the



country. Trade, especially international trade, is limited to a few islands that have suffered for a long time from under investment in dedicated transport infrastructure. This has however improved over the past decades thanks to public investment in infrastructure, development partner support, and the increasing integration of Vanuatu with the Pacific region and beyond.

While Vanuatu ranks relatively well compared to other Pacific Island Countries (PICs) on the World Bank Group (WBG)'s Ease of Doing Business<sup>8</sup> (83rd position in the 2017), Vanuatu scored low on the "Trading Across Borders" (TAB) indicator where the country is only ranked 145th in 2017, lagging most other PICs. The TAB indicator assesses the time, cost, and administrative complexity of regulatory processes required to import and export in each country. In the Distance to Frontier classification<sup>9</sup>, Vanuatu's performance has very slowly improved across the years, moving from a value of 53.05 in

2015 to a value of 56.27 in 2017. Notwithstanding the improved trade facilitation indicators and the overall reduction of transport costs, significant connectivity gaps remain in place, with trade costs still being prohibitive in Vanuatu.

Strengthening the logistics and transport infrastructure services is imperative for both domestic and cross-border e-commerce. The same applies to adopting a universal address and postcode systems since a national address system is important for facilitating e-commerce. Adopting efficient trade facilitation measures that prevent the forming of critical bottlenecks that may arise in cross-border e-commerce related to physical goods, such as complex clearance procedures and documentation is as critical. Finally, efforts should be undertaken to improve collaboration between producers – consolidating shipments to obtain better freight rates.

**3.1. Mode of delivery, last mile delivery**

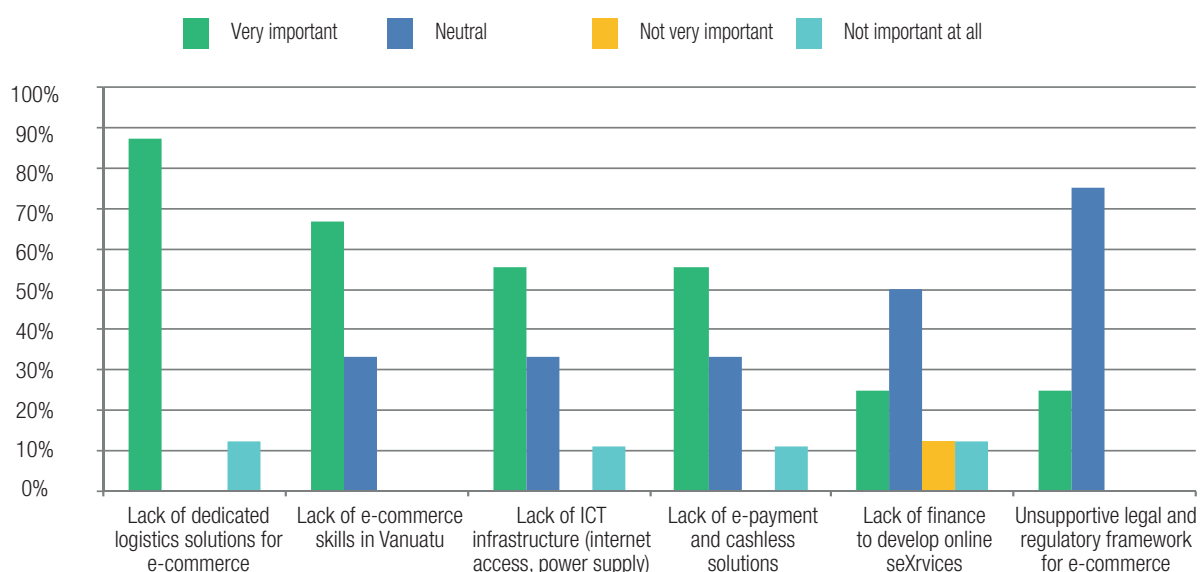
Vanuatu's small logistics market, limited essentially to three main islands with urban centres (Efate, Santo and Tanna), is further hampered by high logistics costs and lack of a physical addressing system, in spite of a surge in public and donors' spending in transport infrastructure recently.

<sup>8</sup> <http://www.doingbusiness.org/rankings>

<sup>9</sup> DTF illustrates the distance of an economy to the "frontier", which represents the best performance observed on each Doing Business topic across all economies and years included since 2005. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier.

**Figure 5: Factors that prevented investment by private firms in e-commerce solutions**

How important have been the following factors in your decision not to invest yes in e-commerce solutions? (in percentage, based on 18 responses)



Source: UNCTAD



The Vanuatu transport sector comprises roads, maritime (ports, jetties and inter-island shipping) and aviation (international and domestic airfields). There are 25 rural jetties, three international airports and 25 outer island airstrips. Of the 65 inhabited islands in the archipelago, only around 20 have functional airfields and established roads. There are two main ports in Vanuatu, one located at Port Vila, through which roughly one third of Vanuatu's exports and nearly all of their imports pass, and the Port of Santo at Luganville, on Espiritu Santo Island. Many islands are only accessible by boat, and the road network of major islands is not complete, is lacking in infrastructure, or simply does not exist. Within the GoV, the transport sector is the responsibility of the Ministry of Infrastructure and Utilities (MIPU). The great majority of traded goods are transported by sea. Sea freight is also the process facing the greatest challenges in terms of time and costs of trading across borders.

The challenges encountered with the clearance of air freight are relatively limited compared to sea freight, as shown by the difference in clearance time between the two processes – six days versus one day, according to the Department of Customs and Inland Revenue (DCIR).

Deliveries of goods ordered online on domestic platforms are limited to urban areas, mostly Efate and Santo. It is challenging to reach other provinces and islands since in most cases, there are no regular connections, either by ships or planes, and the costs associated to these modes of transport limit the interest of ordering goods online. As mentioned by several interviewees, with over 80 separate islands and limited cargo and passenger services, the co-ordination of inter-island shipping requires an intimate knowledge of the various options available to move cargo from one port to another. In recent years, steps have been taken to improve inter-island shipping services to islands such as Tanna, Santo and the more remote islands of Epi, Ambrym, Malekula, Gaua, Banks, Torres and Ambae. The same goes for supporting infrastructure such as wharves, storage and maintenance facilities. However, most of the outer island ports still have very limited shipping infrastructure. This can often mean that cargo is discharged onto a beach, rather than a wharf, and often even a beach is too tricky, meaning that cargo has to be discharged, first onto a small lighter vessel, and then onto a shore. Packaging, package size, weight and identification are all crucial elements to be considered when sending cargo to the outer islands.

**Table IX: Main trade logistics bottlenecks**

Transport infrastructure and offer	Physical addressing	Costs
<ul style="list-style-type: none"> <li>Private carrier services are reserved only for Efate, Santo and Tanna</li> <li>Port Vila's wharf is currently one of the major issues, average wharf clearance provided to the clients is 10 days, although it may take 3-5 days for wharf clearance</li> <li>There is no proper port outside Port Vila, Efate and Luganville, in Santo; Lenakel wharf in Tanna is in a poor state of operation</li> <li>Very difficult to deliver goods to rural areas of Vanuatu for private operators</li> </ul>	<ul style="list-style-type: none"> <li>Proposal has been given to Government to address the postal addressing system however nothing done so far.</li> <li>Most of the delivery in Vanuatu with lack of proper physical addressing are done to the mail box hosted by Vanuatu Post</li> <li>Lack of project and development partner support (unlike Tonga and Solomon working with UPU)</li> <li>Vanuatu Posts Limited (VPL) have little capacity to deliver services to rural areas of Vanuatu</li> </ul>	<ul style="list-style-type: none"> <li>Costs of export and import continues to be up to 50% higher than competitors (Fiji)</li> <li>Island and rural goods delivery via flights are too costly and do not make money for VPL</li> <li>Port concession monopolies give the authorities comfort to raise their prices above normal pricing. Vanuatu (Port Vila) is the most expensive port in the South Pacific, with the exception of New Caledonia, Wallis and Futuna.</li> </ul>

A number of major infrastructure projects are currently ongoing, including the construction of commercial wharves in Port Vila (national and international), rehabilitation and expansion of the main multi-purpose wharf in Espiritu Santo, rehabilitation and construction of jetties in outer islands, rehabilitation and expansion

of the Port Vila international airport, upgrade of national airports in outer islands, and urban development projects in Port Vila to upgrade roads, sanitation, and to regenerate its waterfront. A national list of priority infrastructure for Vanuatu is included in the Vanuatu Infrastructure Strategic Investment Plan (VISIP), which



was approved in 2015 by the Council of Ministers. The VISIP 2015 represents the primary reference for the government when considering infrastructure priorities, both for its own investments and for those funded by development partners. Donor partners and international agencies are also supporting infrastructural development in Vanuatu, in particular Australia, New Zealand, Japan, China, ADB, and the World Bank (see Table X below).

On matters of trade facilitation, the World Bank Group extends support to Vanuatu, in the form of targeted technical assistance to reduce the time and cost of importing and exporting under the Trade Facilitation

Support Program (TFSP). Specifically, in Vanuatu the focus for technical assistance is on: (1) support to establish the National Trade Facilitation Steering Committee and their program of work (through the Secretariat), (2) support for the proposed Single Window project by preparing the Vanuatu Electronic Single Window System Blueprint, (3) support to Biosecurity Vanuatu for legal and procedural reforms in preparation for a single window environment, (4) support for coordinated border risk management in preparation for a single window environment and (5) monitoring and measuring the change in time and reduction in procedural steps.

**Table X: Current Donor Funded Infrastructure Projects**

Donor	Project Name	Value (million)	Loan/ Grant	GoV Funds (million)	Project Implementation Support		Separate Technical Assistance (million)
					Period	(million)	
ADB/DFAT	Port Vila Urban Development Project (PVUDP)	US\$25.61	DFAT Grant	US\$3.1	2012 -2017	US\$4.7*	US\$1.5*
		US\$5.39	DFAT CFA				
		US\$5M	ADB Loan				
ADB	Cyclone Pam Road Reconstruction Project (Efate)	US\$9.81	ADB Grant	US\$2.21	2016-2018	US\$2.71	None
		US\$3.80	ADB Loan				
		US\$2.68	GEF Grant				
China Exim Bank	Vanuatu Road Rehabilitation Project (Malekula and Tanna)	US\$53M RMB350M	Loan 2% Interest		2014-2016		
	Vanuatu Port Luganville Main Wharf Rehabilitation and Extension	US \$60M RMB541.9M	Loan 2% Interest		2014 -2016		
JICA	Port Vila Lapetasi International Multi-Purpose Wharf Phases I & II	US\$90 / JPY 9543M	ODA Loan		2014- 2017		
NZ Aid	Port Vila Seafront	NZ\$20M					
ADB/NZ Aid	Inter-Island Shipping	US\$29.3	ADB Loan	US\$5.07	2011-2017	US\$3.67M	None
		US\$17.25	NZ Aid Grant				
World Bank	Vanuatu Aviation Investment Project (VAIP)	US\$59.50 (SDR42.3M)	IDA Credit	Nil	2014-2019	US\$2.48M	US\$2.67M
		US\$0.3M	PRIF Grant				
		US\$25M (SDR17.65M)	IDA Grant				
	Vanuatu Infrastructure Reconstruction and Improvement Project (VIRIP)	US\$25M (SDR17.65M)	IDA Credit		2016-2022	US\$4.0	US\$0.5M

Source: Vanuatu Transport Sector Support Program (VTSSP) - DFAT and Aid-for-Trade Coordination Unit, Prime Minister's Office, Government of Vanuatu



### 3.2. Trade Facilitation Performance

**Sustained efforts to improve trade facilitation, through the standardization and simplification of trade procedures and documentation (automation and modernization of customs procedures, progress towards single windows) has already borne fruit such as improved revenue collection and reduced trade costs. More can be done in terms of paperless cross-border trade and bringing the modernization path to other agencies.**

The Government has made great efforts to improve trade facilitation performance in the past few years, led by the improvements in customs clearance procedures including automation, a qualitative public-private sector dialogue on trade and transport and an enhanced collaboration with bilateral and multilateral organizations active in the trade facilitation field.

A broad consensus emerged among private sector participants on the quantitative and qualitative improvements of the Customs Clearance process and DCIR capacities enhancements. Improvements were attributed to a combination of international cooperation (launch of ASYCUDA in 2009 and migration to ASYCUDA World in 2017) and the outreach and advocacy efforts of the DCIR. Similarly, new legislation brought about new reforms within customs administration, e.g., online forms were made available, which ensure smooth transition by users, brokers roles are stated clearly in the new legislation, etc. This was highlighted by members of the Vanuatu Customs Brokers and Forwarders Association (VCBFA). VCBFA and DCIR signed an MoU in 2013 that helped improve the communication with, and training of, customs brokers and their clients. This dialogue is the cornerstone of building an efficient private sector which can be an effective partner in border security and facilitation of legitimate trade. The VCBFA supports in turn trade facilitation initiatives and works in close collaboration with DCIR, as the Department continues to implement reforms and capacity-building initiatives. Freight forwarders attending the FGD hope that a similar collaboration could be worked out with other Government services, like Vanuatu Terminal Services, Quarantine, Biosecurity and Immigration.

Yet, Vanuatu's goods clearance process is still subject to a number of challenges that increase time and cost of trade across borders and, consequently, reduce the

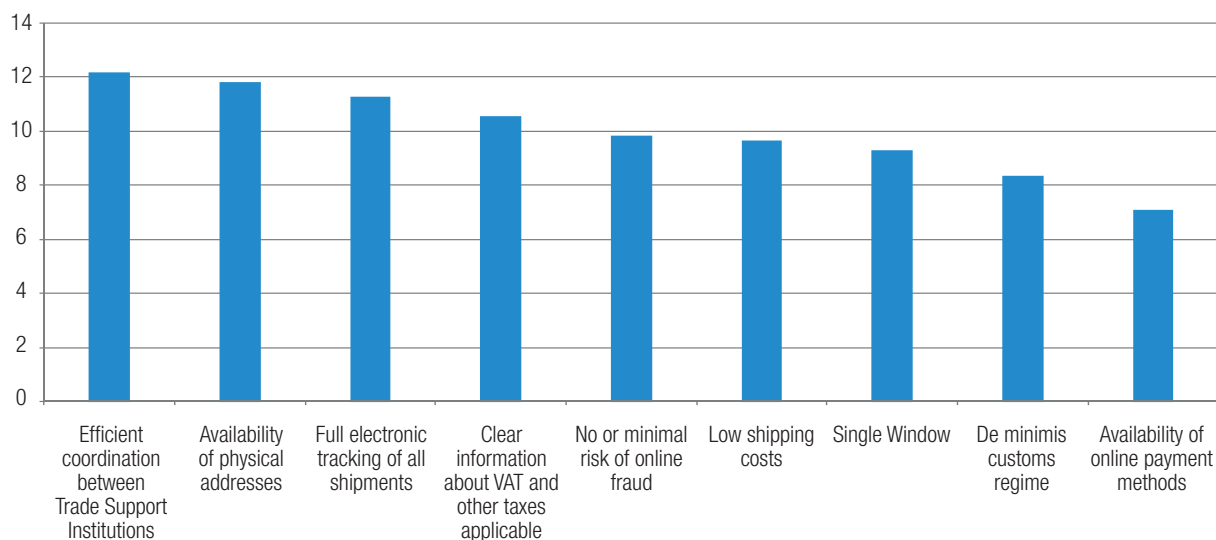
country's competitiveness. Key challenges mentioned during the FGD and interviews are:

- The current lack of integration between government agencies involved in the clearance process and the use of paper trail processing makes it difficult for traders to get a holistic view of the status of their submission: as of today, payments related to the clearance process (permits, exemptions, duties, taxes, fees, etc.) are made to different agencies and at different locations. This led as well to duplications of documentary submission to government agencies.
- Currently, the option of electronic bank transfers is not available for payments to DCIR or other agencies involved in the clearance process. Customers need to physically go to separate points of payment at different government agencies;
- The manual processes of the agencies undertaking import and export permitting, licensing and approval (including duty exemptions) activities locks information into files, folders and within collated spreadsheets and Word documents. It is neither easy to retrieve nor easy to share and collate across the border agencies.
- Brokers' major complaint with Customs Department is the right to appeal when a complaint is lodged with the Customs Department. The Customs Brokers association requested Department of Customs to establish a "tribunal" consisting mainly of former retired Customs Officials and former State Law Lawyers to become members of the tribunal so decisions can be made faster and independently. This was requested, even though Vanuatu notified that the procedure to appeal under category A of the TFA implementation plan, meaning the right to appeal, should already be in place.



**Figure 6: Most important trade facilitation areas for e-commerce development**

Please rank the following areas according to their relative importance for creating an environment that is conducive to e-commerce (based on 22 private sector respondents responses)



Source: UNCTAD

**Table XI: Vanuatu trade facilitation performance indicators, 2017**

Indicator	Vanuatu	East Asia and the Pacific	OECD High Income
<b>Border compliance</b>			
Time to export (hours)	38	55.9	12.7
Cost to export (US\$)	709	387.5	149.9
Time to import (hours)	126	70.5	8.7
Cost to import (US\$)	681	431	111.6
<b>Documentary compliance</b>			
Time to export (hours)	72	68.2	2.4
Cost to export (US\$)	190	112.1	35.4
Time to import (hours)	48	65.6	3.5
Cost to import (US\$)	183	111.4	25.6

Source: *Doing Business in Vanuatu 2018 Report* ("Trading Across Borders" Category)

According to the Joint United Nations Regional Commissions Trade Facilitation and Paperless Trade Implementation Survey 2017<sup>10</sup> prepared by UN/ESCAP, Vanuatu increased its overall implementation of trade facilitation measures from 41 per cent in 2015 to 46.2 per cent in 2017. Its level of implementation is lower than the level of Asia-Pacific (50.4 per cent) but higher than the level of Pacific Islands Developing

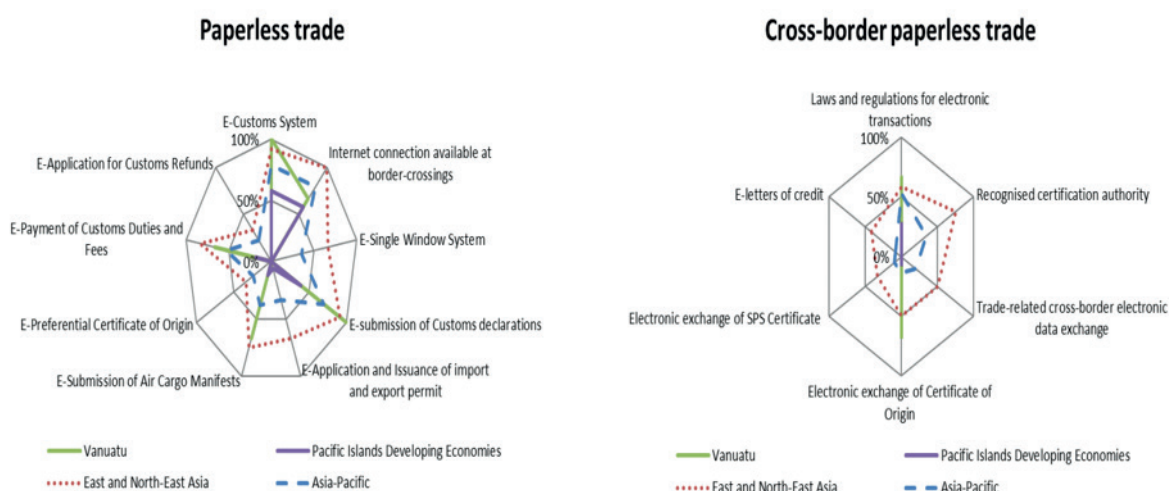
Economies (28.2 per cent). Among the five core groups of trade facilitation measures, the most implemented in Vanuatu are "Formalities" measures (66.67 per cent). The least implemented are "Cross-border paperless trade" measures (22.22 per cent). For "Paperless trade", Vanuatu's implementation is lower than the regional average, but higher than the sub-regional average. E-Single window, E-Application and Issuance of import and export permit, E-Preferential Certificate of Origin and E-Application for Customs refunds are not yet implemented.

<sup>10</sup> <http://www.unescap.org/resources/trade-facilitation-and-paperless-trade-implementation-asia-and-pacific-regional-report>





Figure 7: Vanuatu's Paperless and cross-border paperless trade performance



Source: Joint United Nations Regional Commissions Trade Facilitation and Paperless Trade Implementation Survey 2017

Further reforms in progress including the ratifications of relevant legislation through Parliament are forthcoming, such as for the WTO TFA. The TFA ratification<sup>11</sup> will ensure Vanuatu meets international standards and give confidence to foreign investors willing to invest in Vanuatu. In addition to the WTO TFA, Vanuatu may focus trade facilitation efforts in particular on full implementation of “Paperless trade” measures, as well as on moving towards “Cross-border paperless trade”, in particular through active participation in the new regional UN treaty on cross-border paperless trade facilitation.

Improving the “Ease of Doing Business” represents an important objective for Vanuatu if the country is to compensate for structural weaknesses such as small size and geographical distance from the main world markets. Whilst Vanuatu scores relatively well in the World Bank Group’s “Ease of Doing Business” ranking, its lengthy and costly procedures reflected in the “Trading Across Borders” indicators represent a hindrance to the country’s ability to improve its competitive position and economic performance. Length and cost of trading across borders are mainly

dependent on the nature of the sea and air freight clearance process.

To address the above challenges, a project on the establishment of an Electronic Single Window System (ESWS, see Box 3) in Vanuatu is to be launched in 2018. The project is divided in two phases, with a first phase having been mainly funded by the Vanuatu Government and a second phase proposed to be mainly funded by the EIF. The project should last four years, from 2018 to 2022.

<sup>11</sup> During the first 2018 meeting of the Trade Facilitation Steering Committee (TFSC), no decision on the ratification process was taken. Notification of WTO TFA category A (12 measures), B (11 measures) and C (10 measures) in January 2018 has been sent to WTO members. Vanuatu still needs more time to implement and complete all categories.



### **Box 3: The Electronic Single Window System Project (Jointly funded by the EIF, Australia and the World Bank), with support for implementation through UNCTAD**

This project will support the establishment of an Electronic Single Window System (ESWS) in Vanuatu. The project will run from 2018 to 2022. The establishment of an ESWS will reduce time and costs of trading across borders by:

- enabling traders to submit all information related to the clearance process electronically, only once, at a single entry-point and as a single submission;
- discontinuing the practice of manual submissions;
- allowing for real-time tracking of the clearance process and of its different stages;
- allowing for all payments related to the clearance process to be made at a single entry-point; and
- providing the option of electronic bank transfers.

The following changes and corresponding results expected from the ESWS environment are:

#### *No more manual submissions*

Manual submissions will be discontinued, and all written information related to the clearance process will circulate electronically.

#### *Real time tracking for government accountability and efficiency*

The electronic interface between traders and the government will make it possible to track the status of a submission, and of its components, in real time. This will allow traders as well as system managers to identify and address bottlenecks in the system, which will in turn promote accountability of the different government agencies and stimulate efficiencies.

#### *A single-entry point for payments*

A single agency will be identified for all payments, to be made prior to the release of goods for import or export purposes.

#### *The option of electronic bank transfers*

Flexibility will be provided for traders to make electronic bank transfers via the Internet banking platforms of Vanuatu's commercial banks.

#### *Better information for Government decision-making*

Structured trade data will be captured at the time the activity is initiated by the trader and collated and stored by the system for easy retrieval and analysis by authorized government officials.

*Source: MTTCINVB, DCIR*

Phase 1 of the project, which commenced in January 2016 and was completed in the second quarter of 2018, consisted mainly in upgrading the customs automation system from ASYCUDA++ to ASYCUDA World (AW), which included redesign of the customs clearance process, deployment of AW modules, and partial integration with third party systems.

Phase 2 (funded by EIF) commenced in July 2018 and will last for two years. It will see the development of an AW-based ESWS and support for priority agencies to develop the back-office automation that will enable seamless connection.



## 4. PAYMENT SOLUTIONS

Digital financial services in Vanuatu are implemented in several ways. The most widely used method is bank-led branchless banking model. Under this model, banks leverage telecommunications services and agents to enlarge their customer base and increase their market share. A model like this not only provides the benefit of advancing nationwide financial inclusion, but also reduces transaction costs for businesses and their suppliers in rural and remote areas. Payment solutions through mobile phones are not widespread in Vanuatu, due to the small market size and cultural habits. Banks and Mobile Network Operators (MNO) are reluctant to try other payment solutions due to the lack of response and success in the first attempts to introduce mobile money. Improvements in the national payment systems to be introduced in 2018 might change their and the consumers' attitude towards electronic payment solutions.

### 4.1. Banking penetration

Financial transactions in Vanuatu are mainly in cash or cheques, making introduction of mobile payment solutions a high priority for expanding economic development beyond the traditional sectors.

Financial services in Vanuatu are highly concentrated in the two urban areas of Port Vila and Luganville, and are dominated by four commercial banks offering retail banking services to local and international clients: ANZ, Bank of South Pacific (BSP), BRED Bank and the National Bank of Vanuatu (NBV). The number of commercial bank branches and ATM per 100'000 adults is in line with other economies in the region (see Table XII).

Of these four banks, only the National Bank of Vanuatu (NBV) is providing services on any scale to low income clients, in line with its mandate and constituents' interests. The NBV is wholly owned by the Government; from a humble beginning in the early 1990s, it has grown to be the bank most widely represented in the Vanuatu archipelago, with 25 branches in total located in every island where there is a substantial population. Because of the lack of an interbank payment system, banks are not easily connected one to another, and have relied on bilateral agreements between banks to facilitate interbank payments.

The majority of the Vanuatu population, individuals and firms alike, rely heavily on cash and, to a lesser degree, on cheques. This has limited the adoption of and interest in digital financial solutions. However, the new investors in Vanuatu, mostly from Australia and New Zealand, are demanding modern forms of

doing business and required commensurate payment solutions.

Table XII: Access and use of financial services in Vanuatu

	2013	2014	2015
Automated Teller Machines (ATMs) per 100,000 adults	35.84	34.83	39.89
Branches of commercial banks per 100,000 adults	22.01	22.61	21.44

Source: IMF Financial Access Survey, 2017

The Reserve Bank of Vanuatu has followed with interest the need to promote financial inclusion in coordination with the Government and other stakeholders. In 2016, the Bank undertook two major surveys on both individuals (Demand-Side Survey or DSS and Micro, Small & Medium Enterprise Survey) to gather evidence-based information on the need to further enhance the agenda of financial inclusion in Vanuatu. Financial inclusion should be viewed as the linchpin through which small island countries like Vanuatu can advance their economic development.



Table XIII: Vanuatu Financial Services Infrastructure

<b>BANKS</b>	4 commercial banks	2 bank agent networks	33 branches	71 ATMs	640 EFTPOS
<b>OTHER FORMAL PROVIDERS</b>	4 insurers	430 credit unions	1 microfinance institution	1 licensed credit provider	3 money transfer operators
<b>MOBILE NETWORKS</b>	2 mobile network operators	1 mobile money product			

Source: Vanuatu Financial Inclusion Country Profile 2017, Pacific Financial Inclusion Programme

The MSME survey was undertaken to develop ways forward in regard to the role that the RVB plays in MSME development agenda, particularly the use of means payment by MSME businesses and paves the way for an appropriate intervention in this important area.

The survey's main conclusion regarding payment solutions was that having payment flows made digital would help cut down travel time and transaction costs, as shown in Table XIII:

- The Financial Services Demand Side Survey (DSS) for Vanuatu showed for instance that the median adult in Malampa, one of the many inhabited islands, must travel up to an hour to reach a bank branch. The trip alone cost \$US5.50, which is the highest figure across the island.
- Another key issue was that people from Vanuatu are either dealing with cash or cheque, which come with costs and security issues.
- The way banks operate, in addition to issues of access to energy, mean that customers have to endure long queues in banks when bringing cash and cashing the cheques. So, when a

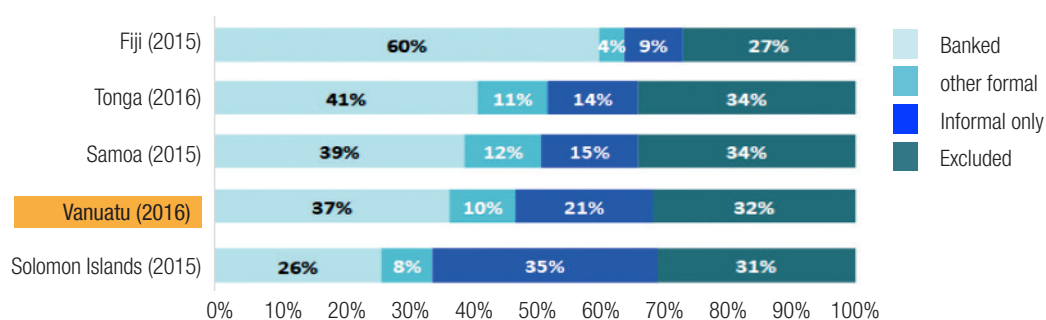
customer who lives far away has to make a payment, they have to return to the counters several times to get the transaction done.

In all examples, the use of digital channels would not only reduce the costs of transactions, but also improve security and more importantly will save on travel time. Increasing awareness of financial access points and lowering transaction costs to these points through the expansion of mobile or bank agents might increase formal account ownership in remote locations.

The DSS has shown that 32 per cent of Ni-Vanuatu adults are unbanked and excluded from financial services (Figure 8). This is higher than the 27 per cent in Fiji and 31 per cent in Solomon Islands.

According to the DSS, 37 per cent of adults in Vanuatu have a commercial bank account, as Figure 8 shows, while another 10 per cent access financial services from other formal providers such as credit unions, MFIs, insurance, mobile money, or finance companies. However, 32 per cent of adults appear to be excluded from both formal and informal financial services.

Figure 8: Banking penetration (in per cent)



Source: Financial Services Demand Side Survey, Reserve Bank of Vanuatu, 2016



Table XIV: Access to Banks indicators (selected)

## ACCESS INDICATORS

% of adults with a mobile phone subscription		67.1%
Average cost of traveling to the nearest access point (public transit fee or gas costs)	Bank branch	VT1156.4 / US\$10.84
	ATM	VT1149.1 / US\$10.77
	Bank agent	VT888.8 / US\$8.33
Average cost of traveling to the nearest access point in minutes	Bank branch	86.6
	ATM	181.3
	Bank agent	39.2
Average time waiting to be served when opening a deposit account (in hrs.)		18.3
Percentage of adults reporting that they do not have all identification documents required to open a basic account		14.7%

Source: Vanuatu financial services – Demand-Side Survey, 2016

Table XV: Benchmarking the Vanuatu Financial Inclusion Indicators vs. other Pacific Islands

Operations	Lower middle income countries (2014)	Fiji (2014)	Tonga (2014)	Vanuatu (2016)
0 deposit in a typical month (% with account)	57.2%	7.5%	14.8%	29.4%
0 deposit/withdrawal in a typical month (% with account)	34.6%	13.7%	8.3%	20.8%
0 withdrawal in a typical month (% with account)	57.8%	12.8%	18.7%	31.6%
1-2 deposits in a typical month (% with account)	32.4%	63.9%	60.4%	52.5%
1-2 withdrawals in a typical month (% with account)	27.5%	56.3%	54.8%	44.5%
3+ deposits in a typical month (% with account)	8.8%	27.3%	16.8%	7.2%
3+ withdrawals in a typical month (% with account)	12.5%	29.9%	19.5%	11.8%
ATM is the main mode of withdrawal (% with account)	42.4%	80.7%	47.3%	43.83%
Account at a formal institution (bank or credit union)	41.8%	60.2%	40.8%	39.3%
Bank teller is the main mode of withdrawal (% with account)	45.8%	10.6%	49.5%	52.3%
Credit cards (total population)	3.7%	3%	1.9%	0.7%
Debit cards (total population)	21.2%	47.2%	20.5%	18.7%
Mobile phone used to pay bills (total population)	1.89%	0.0%	0.0%	0.0%
Mobile phone used to receive money (total population)	3.57%	2.3%	8.7%	0.7%
Mobile phone used to send money (total population)	2.27%	1.4%	2.3%	1.0%
Saved any money in the past year	45.6%	71.2%	62.9%	58.7%
Saved at a financial institution in the past year (bank, credit union of MFI)	14.8%	37.9%	18.2%	26.8%
Saved using a savings club in the past year	12.4%	9.0%	22.7%	9.2%
Loan in the past year (from any source)	47.4%	32.0%	37.4%	46.4%
Loan from a financial institution in the past year	7.5%	6.9%	13.6%	9.2%
Loan from an employer in the past year	4.88%	1%	2.6%	4.4%
Loan from family or friends in the past year	33.1%	8%	5.2%	7.2%
Loan through store credit in the past year	8.18%	10.4%	22.7%	32.2%
Personally paid for health insurance (all respondents)	5.15%	1.2%	13.4%	5.4%

Source: Vanuatu financial services – Demand-Side Survey, 2016



#### 4.2. Financial regulation (financial service providers, payment service providers, cashless, e-payment gateways)

Dialogue and international commitments have finally yielded results as the RBV prepares to introduce a National Payment System Law, an Automated Interbank Payment and Settlement System and an Electronic Switch in 2018. The intention of the RBV is to establish a sound platform on which further innovative payment systems can be developed by an increasingly broad range of payment service providers.

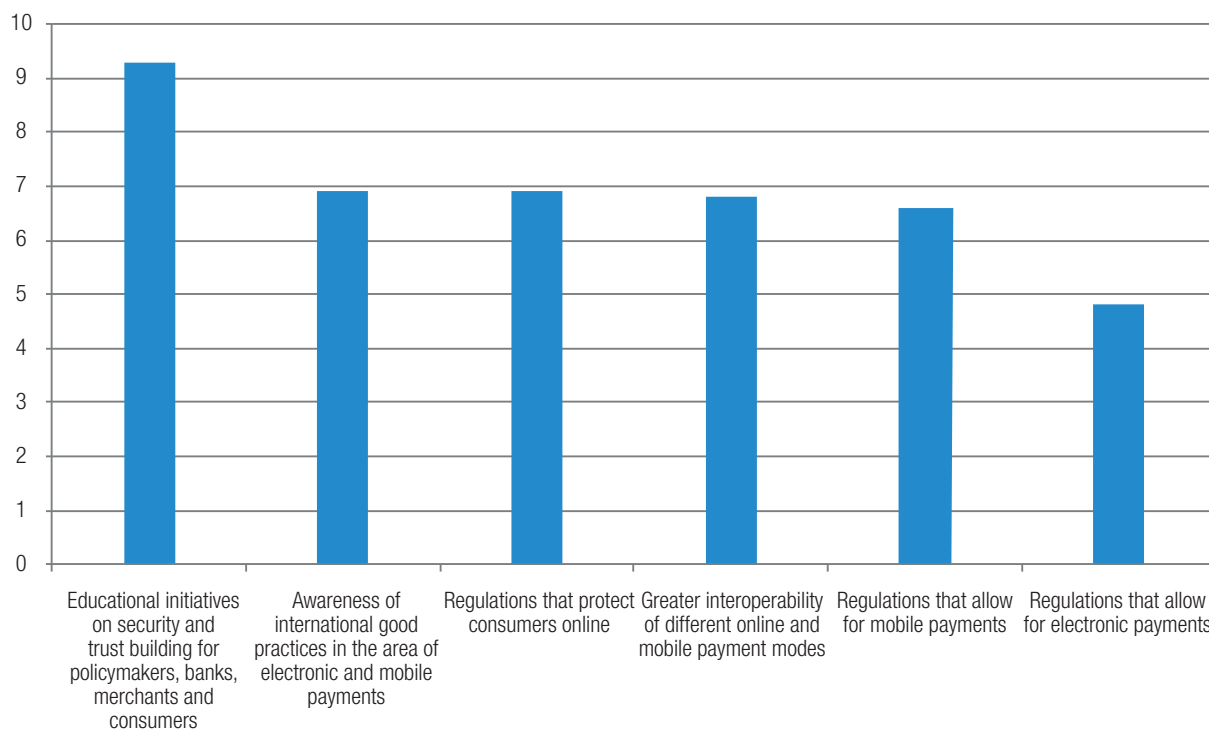
Promoting financial inclusion is a key policy objective of the central banks of all Pacific economies, including Vanuatu. This objective has led the central banks of these Pacific island nations to shift focus from implementing compliance-based regulatory frameworks to developing a broadly enabling environment that supports the use of DFS for financial inclusion. However, questions remain about the extent to which to regulate DFS. While DFS typically

represents a very small percentage of the banking system's total assets, it potentially serves a larger percentage of the population, and especially those who are not familiar with formal financial services. Regulators, therefore, need to articulate a clear policy position on DFS regulation. With resources already stretched in some jurisdictions, the regulatory frameworks, and the necessary supervisory resources that should accompany any new regulations, should be consistent with regulatory capacity.

Over the last few years, Digital Financial Services (DFS) in some of the Pacific Island Nations have experienced remarkable investment and growth and are well placed to increase their trajectory and product diversification to meet client needs. A similar trend has been observed, although to a lesser extent, in Vanuatu. There are a number of ways to ensure that DFS continues to improve financial inclusion in Vanuatu. These include building consumer trust; improving access by strengthening agent networks; promoting enabling regulatory environments to support DFS; and encouraging clear cross-regulatory coordination.

**Figure 9: Payment regulations priority areas**

Please rank the following areas according to their relative importance to create an environment that is conducive to e-commerce (22 private sector respondents)



Source: UNCTAD



The RBV's vision for a greater financial inclusion for the unbanked and under-privileged make it more crucial to have a payments system that can cater to the needs of the unbanked in remote places through new modes of payments such as use of mobile wallets and other e-payment gateways.

The various platforms of payment system continue to evolve over the years with the increase in economic development and activities in Vanuatu. As part of its mandate, RBV took the decision to review the current payment system(s) and develop legislation to ensure a sound, efficient and safe payment system. The new legislation will provide for the regulation and oversight of the payment system.

First, the National Payment System (NPS) Law is currently in draft form and targeted to be passed in Q3 2018. Passing of this law is a major legal reform. It will provide oversight to the clearing and settlement of interbank payment system in Vanuatu; the RBV is working in consultation with the commercial banks on this. The law will give oversight of the payment system in Vanuatu to the RBV. Since December 1980, the Reserve Bank has relied on Section 30 of the Reserve Bank Act Cap. 125 to facilitate clearing and settlement of the inter-bank payment system in Vanuatu. Developments in technology, the payment system itself, payment instruments and recent issues in Anti-Money Laundering/Counter Terrorist Financing and De-risking required that the payment system must be able to meet these challenges. At the same time, there is yet no separate legislation in Vanuatu that specifically legislates for a national payment system.

Second, the introduction of the payment system law will run parallel with a payment system infrastructure component involving an Automated Transfer Systems and a Central Securities Depository system required for Real Time Gross Settlement (RTGS) and an Automated Clearing House (ACH) that meets the conditions of small economies as in Vanuatu and meets best practice, safety, efficiency and integrity standards. This is important given that an inter-bank payment system forms the core part of any financial system. The project aims to build a modern interbank payment and securities settlement systems in Vanuatu that will also enhance the agenda of financial inclusion.

A payment system involves the processing, clearing and settlement of cheques for effecting payment among participants of a financial system. Put simply,

this is an arrangement that supports the transfer of monetary value among RBV, commercial banks, Government, businesses, customers and other organizations. The Reserve Bank, by Section 30 of the Reserve Bank Act (Cap.125) and in conjunction with commercial banks, currently oversees a payment system involving an inter-bank cash and cheques clearance that is manually based. According to interviews conducted for this assessment, the current process is slow, and businesses must wait several days before funds are received for their goods and services. Clearing of any payments e.g., cheque, is manual, and takes up to 3-5 days.

The payment system landscape in Vanuatu has changed over time with new participants. The intention of the RBV is to establish a sound platform on which further innovative payment systems can be developed by an increasingly broad range of payment service providers and in which a variety of payment instruments can be handled in a single system. The new payment system should provide a catalyst for e-commerce, as it includes provisions for electronic retail payment solutions, clearing of interbank cheque in the same day or immediate or close to immediate, with all forms of payments under interbank arrangements that can be settled in real or instant time.

The Reserve Bank is also working closely with the commercial banks and the World Bank to introduce an electronic switch system among the banks in Vanuatu that will allow interoperability among the ATMs and EFTPOS machines in Vanuatu. It will mean that bank customers can use their payment cards such as debit cards or credit cards in the ATM or EFTPOS machine of any bank in Vanuatu. This electronic switch system can be accommodated within the new automated payment system.

#### **4.3. Main mobile, cashless payment solutions available**

**Mobile payment solutions, e-wallet and cashless not readily available in Vanuatu, due to market size, cultural habits and the lack of trust in online transactions, whereas bank and mobile network operators have started to work together to increase awareness among merchants and consumers.**

Cash is the main means of payment used by businesses in Vanuatu.



Most MSMEs in Vanuatu are cash-based. Eighty-seven per cent of total businesses surveyed used cash for transactions, 10 per cent used cheques, two per cent used other modes of payment and only 0.2 per cent used electronic mode of payments such as ATM cards, Visa and Mastercard cards.

According to the MSME survey referenced above, some 95 per cent of businesses in the rural areas make payments using cash, compared to 60 per cent in urban centres. Businesses in the urban centres reported a higher percentage use of cheques and other modes of payments. By business size and industry level, 95 per cent and 76 per cent of informal and formal MSMEs used cash, respectively. By economic sector, 88 per cent of businesses in the services sector indicated using cash, compared to 84 per cent in both the agriculture and industry sectors.

Interviews and responses all point to the lack of electronic payment solutions as the most important bottleneck to e-commerce development in Vanuatu. While all major foreign investors with major resorts in Vanuatu and Air Vanuatu offer e-commerce solutions, they maintain their online payment accounts in Australia and overseas, not in Vanuatu. The FGD on payment solutions, in which the four main commercial banks in Vanuatu participated, confirmed the gaps between the banks and their business clients. At present, banks are cautious to launch any electronic payment solutions in the absence of enabling regulations, which put a key constraint to mobile telephony operators to provide their own solutions.

Private sector respondents cited four main reasons for the lack of payment solutions and, consequently, the slow development of e-commerce in Vanuatu in the online survey and on-site focus-group discussions.

**Table XVI: Main reasons given for the lack of payment solutions in Vanuatu**

Factors	Description
Cultural/Customs	<ul style="list-style-type: none"> <li>Only 23% of population have bank accounts</li> <li>People living in rural areas especially from Santo and Malekula islands still keep a lot of cash and walk around unbanked</li> <li>Majority of rural National Bank branches are powered by solar with very limited or no communications at all</li> </ul>
Legal and Regulatory	<ul style="list-style-type: none"> <li>Costs involved with hiring lawyers to conduct due diligence to clear Vanuatu with relevant financial task forces prior to setting up online payment transactions</li> <li>Need advocacy at a global level for Vanuatu payment clearance facilities, considering FATF restrictions</li> <li>Multiple charges occur for international transactions, which is too costly</li> <li>No recognition of Vanuatu's constant efforts to improve its financial system under APG and FATF recommendations, compared to the large scale of terrorist financing elsewhere</li> <li>Financial Intelligence Unit (FIU) needs to work harder to get Vanuatu off the grey list</li> <li>Local banks do not allow online payment</li> <li>Interoperability between payment cards needs to be in place</li> <li>Inter-banking settlement is an issue, and requires real time settlements</li> </ul>
Trust and awareness	<ul style="list-style-type: none"> <li>There is lack of confidence in electronic banking by the population and lack of demand for digital financial services as a consequence</li> <li>Few merchants are equipped for ATM/EFTPOS, do not accept credit cards or charge 3.5 per cent minimum</li> <li>Remittances are an important source of income for most Ni-Vanuatus: If remittances can be facilitated through electronic payments, there would be more benefit to the general population and quick win</li> </ul>
Lack of interest by banks	<ul style="list-style-type: none"> <li>All bank payment settlements are currently done manually</li> <li>Couple of e-Commerce platforms built but cannot access payment online</li> <li>No merchant facilities exist for Alibaba, Amazon, Google Play store, Apple iTunes store</li> <li>PayPal accounts cannot be registered in Vanuatu</li> <li>Many compliance requirements must be fulfilled prior to setting up an e-commerce account with commercial banks</li> <li>RBV costs are too high to go digital, and RBV cannot afford multi-switching platform for all banks</li> <li>Fees and bank charges are still unclear to general consumers in Vanuatu</li> <li>Too expensive to set up and use VISA and Master cards in Vanuatu</li> <li>Payment systems cost a lot of money and Vanuatu is a very small market</li> <li>Electronic payments too expensive for a small portion of customer base</li> </ul>





The main commercial banks have started to develop online payment services, but constraints, in particular but not exclusively stemming from Vanuatu's position on the Grey List of the AML/CTF, have dented the development of payment solutions. BRED Bank for instance proposed a credit card processing facility and required that sites using the facility be PCI<sup>12</sup> certified. BRED also partnered with PayDollar<sup>13</sup>. The e-commerce service is an integrated payment transaction-processing service that allows businesses of size to securely accept credit card and debit payments anytime through different payment channels, at an affordable price in just days. With a single account a merchant can accept payment from ranges of credit and debit card in various channels. A rapid overview of Vanuatu's commercial banks indicates that this is the only currently available option that remits funds collected from the credit card into a Vanuatu-based bank account. Other options included the paymentexpress.com facility that was offered by Westpac to some customers in Vanuatu, but that can disappear any day, since Westpac has left Vanuatu.

Digital financial services can also be led by mobile network operators. Under this model, the operator acts as the business owner, contracting with one or more banks to provide services such as float holding and regulatory engagement and compliance. Unlike in the bank-led model, the operator does not provide financial services as a way of acquiring new customers. Instead, the services are seen as a new, distinct income-earning product that can be cross-sold to existing mobile network customers. Operators are able to use their existing agent networks as cash-in/cash-out points for mobile money services.

The availability of DFS is not as widespread in Vanuatu as in other Pacific island countries. The main provider of DFS in Vanuatu is Digicel, which introduced its Mani e-wallet product in 2011. Digicel<sup>14</sup> has also partnered with several banks to offer basic services, such as

ANZGoMoney (for ANZ Bank customers), BSP Mobile Banking (for BSP customers) and Westpac Mobile Banking (for Westpac customers). Those solutions allow customers to send money to family and friends, pay their bills, purchase airtime top-up vouchers and view their account balances and history using their mobile phones. Customers are able to complete their cash deposits and withdrawals at a network of merchants, without the need to go to a branch. All products are available in English, Bislama (local language) and French.

Although Internet access on mobile phones is widespread, Internet banking is not (see Table XVI). Only eight per cent of the total businesses interviewed used Internet banking, while 92 per cent reported they have not used Internet banking. This does not bode well for digital payments through mobile phones, when the service does arrive. Typically, consumer comfort with mobile banking is a precursor to adopting more value-added services like payments. The findings also revealed that Internet banking is uncommon in both rural and urban areas. Even though a high proportion of businesses indicated Internet banking was not applicable to their business, lack of understanding of the products it often cited as the main reasons for not using Internet banking. 38 per cent of the respondents indicated that the Internet banking is not applicable to their business, 32 per cent indicated a lack of understanding, 12 per cent do not have Internet connections, nine per cent indicated a lack of trust in the Internet and nine per cent stated other reasons.

<sup>12</sup> *The Payment Card Industry Data Security Standard (PCI DSS) applies to companies of any size that accept credit card payments. If a company intends to accept card payment, and store, process and transmit cardholder data, it needs to host its data securely with a PCI compliant hosting provider.*

<sup>13</sup> *The platform <http://www.samsanimalwelfare.com/> mentioned in the Strategy section of this report uses BRED payment facility for receiving donations through credit cards.*

<sup>14</sup> *<https://www.digicelgroup.com/pg/en/mobile/plans-services/services/mobile-banking.html>*



**Table XVII: Use of mobile money in Vanuatu**

<b>Have you heard about sending and receiving money using your phone? (990 respondents)</b>	
Yes	10.2%
No	41.9%
Don't know	47.8%
<b>In the last 12 months, have you used a mobile banking account (17 respondents)</b>	
Yes, to send and receive	15.7%
Yes, to receive only	22.1%
Yes, to send only	41.7%
Transferring	10.4%
Checking balance	10.2%
<b>When was the last time you sent money using mobile banking (even using someone else's account)?</b>	
In the past 30 days	60.7%
2-3 months ago	12.9%
Don't know / refuse	26.4%

Source: Demand Side Survey, RBV, 2016

The Vanuatu Government is considering moving payments for some of its public services processes to digital forms. In an effort to lead digitization and improve financial inclusion, the Reserve Bank of Vanuatu (RBV) has partnered with the Pacific Financial Inclusion Program (PFIP) to review the various Government-related payment flows that could be made digital through Government-to-Person (G2P) payments. G2P are the digitization of government payments to citizens such as social transfers as well as wage and pension payments. G2P payments has the potential to become a vehicle for extending financial inclusion and improving the welfare of poor people in Vanuatu. By shifting to digital channels for its payments such as social, salary, procurement payments, taxation and licensing, the Vanuatu Government could reduce

costs, increase efficiency and transparency and broaden familiarity with digital payments by its citizens. G2P flows build in part on the progress made by the industry and the regulators to grow the branchless banking industry, considering that that 32 per cent of Ni-Vanuatu adults are completely excluded from financial services while only 37 per cent of Ni-Vanuatu adults have a bank account. G2P can help reach a large part of the unbanked population by encouraging the use of formal financial services. Recipients will also benefit from quick payments, reduced traveling time and costs. It could also create an enabling environment for the private sector to further its person-to-person payments (P2P).



## 5. LEGAL AND REGULATORY FRAMEWORK

Vanuatu made advances in the early 2000s in establishing a supporting legal and regulatory framework for e-business and e-transaction. In past years, the legal and regulatory framework advances have focused mainly on financial transparency, in line with international recommendations, boding well for an electronic payments infrastructure. Outside these two areas, several pieces of legislation are either missing or have become obsolete, prompting renewed calls from the private sector to focus on increasing trust and confidence in doing business online, through providing regulations on cybersecurity, data privacy and consumer protection.

Numerous legal and regulatory challenges were mentioned in focus-group discussions, preventing further development of Internet-based activities:

### Regarding ICT Infrastructure

- Frequent changes in Government and management of other individual shareholders/representatives in submarine cable company may have reduced the clarity of the operating environment
- No specific regulatory tool to guide both the operations and the monitoring of the operations of this ICT infrastructure
- Limited knowledge capacity or understanding on the important aspects (technical, commercial, legal, economical) of operating ICT infrastructure & business operations
- Limited cooperative (public-private partnerships) efforts and approaches by key stakeholders

### Regarding services:

- Market structure at the wholesale level (only one provider)
- Financing arrangements made to recover the ICT-related investment
- Retail service providers appear to have so far been reluctant to make large or long-term commitments to invest in ICT
- No incentive such as lower Value Added Tax (VAT) for digital payments done online
- No Consumer Protection and Competition bills
- Lack of awareness of the Electronic Transactions Act

- Lack of skills and knowledge of police force for online crime and investigation; awareness required for online law enforcement officers, especially on how to carry out investigations
- Lack of education of citizens on how to learn to back-up their personal data online
- More emphasis needed on the protection of consumers: regulate in safer manner cybercrime, including cyberbullying.

### 5.1. *Status of four key laws as per UNCTAD Cyberlaw tracker*

The long-established E-transaction Act and E-business Act have provided a conducive legal framework for the initial uptake of ICT activities in Vanuatu. As ICT has reached almost all sectors of the economy there is a need to develop an equally robust legal and regulatory regime for data protection, online consumer protection and cybersecurity.

In details:

- There is currently no e-commerce law (neither in place or in draft)
- The Electronic Transactions Act No. 24 of 2000<sup>15</sup> (as amended by the Statute Law (Miscellaneous) Provisions Act No. 2 of 2010 to adjust constitutional terminology only) governs electronic transactions and related matters, including legal recognition of and requirements for electronic records, formation and validity

<sup>15</sup> This legislation is based on UNCITRAL Model Law on E-Commerce of 1996 (see [http://www.uncitral.org/uncitral/en/uncitral\\_texts/electronic\\_commerce/1996Model\\_status.html](http://www.uncitral.org/uncitral/en/uncitral_texts/electronic_commerce/1996Model_status.html))



of electronic contracts as well as other communication of electronic records, electronic signatures, encryption and data protection as well as obligations and liability of intermediaries and e-commerce service providers

- E-Business Act No. 25 of 2000 (as amended by the E-Business (Amendment) Act No. 17 of 2007) aims to “provide a robust and sustainable environment for the development and growth of electronic business in, or that is associated with, Vanuatu and to regulate such electronic business” (section 2 (1) of the E-Business Act)
- Vanuatu does not have specific regulation and compliance requirement pertaining to cybersecurity
- There is no National Consumer Protection legislation. However, the Telecommunications and Radiocommunications (Consumer Protection) Regulations Order n°157 of 2015 details provisions for consumer protection in the telecommunication sector
- There is no legislation on data protection
- There is no legislation on the cross-border use of electronic communications

The Electronic Transactions Act is aimed at enabling electronic transactions. This is primarily due to the emerging trends in the use of ICT in the conduct of business dealings arising from the status of Vanuatu as an offshore centre. The law deals with the legal requirements for electronic records; communication of electronic records; electronic signatures; encryption and data protection; and intermediaries and e-commerce service providers. It is based on the UNCITRAL Model Law on Electronic Commerce<sup>16</sup>, in line with all other electronic transactions laws in the Pacific and many such laws in East and South-East Asia. In that regard, it should be noted that several countries in the region have updated their legislation to incorporate recent UNCITRAL legislative texts, including the UNCITRAL Model Law on Electronic Transferable Records, and to become a party to the United Nations Convention on the Use of Electronic Communications in International Contracts. Given the geographic challenges faced by Vanuatu, following this trend could yield significant benefits by clarifying the legal status of cross-border electronic commerce, paperless trade and payments.

<sup>16</sup> See [http://www.uncitral.org/uncitral/en/uncitral\\_texts/electronic\\_commerce/1996Model\\_status.html](http://www.uncitral.org/uncitral/en/uncitral_texts/electronic_commerce/1996Model_status.html)

The E-Business Act is aimed at complementing, in a general sense, the conduct of electronic business transactions. However, the scope of the law is limited to electronic businesses carried out by international companies. It is not of general assistance to all types of online contracts or transactions. The Act establishes an Internet Free Trade Zone where businesses can conduct legitimate trading activities over the Internet and take advantage of Vanuatu’s low tax structure. The Act allows foreign people or companies to set up a Vanuatu-based website and conduct business from that website without setting up an International Corporation with directors, shareholders, and a registered office. Instead, the Act creates an Internet Free Trade Zone with virtual office spaces called cybersuites<sup>17</sup>. The cybersuites come with a range of services, including design and maintenance of the websites, and handling financial transactions on behalf of the people who rent the cybersuites, who are called cybersuite Proprietors.

There is some progress now that the National ICT Policy has been enacted. The current initiatives are limited to private sector needs, which in any case have also been confined to the banking, Internet gambling and tourism sectors of the economy. At least for now, there is growing public sector support for ensuring that technological know-how emerges to complement the laws in this area. The extent to which Vanuatu has recognized the need to pass e-commerce related laws and is preparing to be integrated in the digital revolution, even if progressively, indicates that the country is looking forward to developing the necessary integrated national legal infrastructure for e-commerce.

While Vanuatu does not have specific regulation and compliance requirement pertaining to cybersecurity yet<sup>18</sup>, the Cybersecurity Policy outlines the Government’s commitment to ensure citizens of Vanuatu, tourists, businesses and government enjoy the full benefits of a safe, secure and resilient cyber space enabling them to get access to knowledge and share information while understanding and addressing the risks, to reduce the benefits to criminals.

<sup>17</sup> See <https://www.lowtax.net/information/vanuatu/vanuatu-e-commerce-legislation.html>

<sup>18</sup> At the time of the mission, officials concerned with TRR confirmed that the cybercrime legislation would go to the next session of Parliament



## 5.2. Other related laws, acts, regulations

In the past few years, the Government has passed a number of ICT and finance-related acts and regulations in line with international commitments, and in order to keep up with ICT development in the most advanced countries in the Pacific region (Fiji, Tonga, Papua New Guinea). This was made possible thanks to the excellent work of the TRR and RBV.

A new Telecommunications Law in 2009 established an independent Telecommunications and Radiocommunications Regulator (TRR) in Vanuatu. This was considered a further step towards opening up the telecommunications sector, which was dominated by Telecom Vanuatu Limited until 2008. TRR's mission is to establish a workable regulatory framework and environment that is fair, transparent and importantly promotes sustainable investment in the country. TRR's approach is to collaborate with all key stakeholders to ensure open, non-discriminatory access to submarine cable capacity on fair, reasonable and cost-based terms.

Thanks to the outstanding work of the TRR, Vanuatu has a rather elaborate telecommunications legal framework in place. This framework includes several laws governing the telecommunications sector, specifically:

- Broadcasting and Television Act [CAP 214], which governs radio and television broadcasting activities
- Telecommunications and Radiocommunications Regulation Act No. 30 of 2009
- Telecommunications Act [CAP 206]
- Wireless Telegraph (Ships) Act [CAP 5]

The Government is also doing its part to develop policies and establishing regulatory frameworks that ensure that Vanuatu will continue to embark on technologies as a driving force to achieve the national vision. The National ICT Policy described in Section 1 of this report expresses a firm commitment of the Government to maximize the contribution, efficiency and effectiveness of information and communication technologies and empowering and benefiting every citizen and resident of Vanuatu. In addition, the Universal Access Policy expresses the Government's commitment to ensure that ICTs and telecommunications services reach areas that are unserved or underserved. The policy mandates that operators cover 98 per cent of Vanuatu's population by 1 January 2018. Last but not least, as shown in Box 4, Vanuatu's compliance with APG/FATF recommendations on money laundering has brought much more transparency in a once-opaque financial system.

### Box 4: Vanuatu's compliance with the Financial Action Task Force on Money Laundering (FATF) recommendations

Vanuatu committed to the global fight against money laundering and terrorist financing by becoming a founding member of the Asia Pacific Group on Money Laundering (in short, the APG) in 1997.

The Asia/Pacific Group on Money Laundering (APG) is an autonomous and collaborative international organization founded in 1997, consisting of 41 members and a number of international and regional observers (e.g., IMF, World Bank, OECD, ADB and the Egmont Group of Financial Intelligence Units). APG members and observers are committed to the effective implementation and enforcement of internationally accepted standards against money laundering and the financing of terrorism, in particular the Forty Recommendations of the Financial Action Task Force on Money Laundering (FATF). The FATF is an international policy-making body that sets international anti-money laundering standards and counter-terrorist financing measures.

As a committed member, Vanuatu was subject to a peer-group onsite visit in 2005 and 2015. After each visit, Vanuatu was noted to have some strategic deficiencies in its commitment and was required to rectify its AML&CTF legal framework and effectively implement the recommendations.

Following the above, Vanuatu and the Joint Group (FATF Sub-Group mandated to monitor Vanuatu's implementation) have agreed on an Action Plan ('FATF Action Plan') to improve Vanuatu compliance with the FATF Recommendations. A total of 30 pieces of bills were approved by Parliament in June and November 2017 and were brought into effect and force.

Given the 10 years of insignificant progress, Vanuatu was referred to the FATF in October 2015 and was formally placed on the FATF Grey Listing in February 2016.

Source: APG and FATF websites



In 2000, the GoV also enacted the Interactive Gaming Act (Cap 261) with the hope to boost fiscal revenues out of this global activity. The act was amended in 2003, to offer a more competitive licensing regime for online sportsbooks and betting exchanges. The amendments gave effect to the introduction of a new licensing fee structure for firms, restricting the scope of their operations to Event Wagering - Fixed odds,

and/or P2P (Betting Exchange). The Government of Vanuatu is determined that Internet gaming, if managed responsibly and appropriately, may be offered from within Vanuatu with significant advantage to operators, players and the people of Vanuatu represented by the government.

## 6. E-COMMERCE SKILLS DEVELOPMENT

**Relevant knowledge and skills gaps constitute one of the main bottlenecks for a rapid uptake of e-commerce in Vanuatu. As e-commerce platforms are still at a nascent stage, e-commerce awareness, related skills, and knowledge are very limited among businesses and consumers. ICT-related topics have only been recently included in university curricula and in private sector business associations initiatives, some funded by the TRR-managed UAP. Business incubators and accelerators found in other Pacific nations are not yet present in Vanuatu, thereby limiting the possibility for MSMEs to get training about the benefits of e-commerce and digital innovation.**

As detailed in the ICT infrastructure section, the ICT industry has experienced extraordinary growth in Vanuatu for over a decade thanks in part to a series of bold initiatives, including the liberalization of the ICT sector, the creation of a government department in charge of the ICT agenda, and national investment in key ICT infrastructures. As a result of these initiatives, the number of subscribers to ICT services, as well as the sector's GDP, experienced a dramatic growth. This also resulted in a surge of ICT investment in education, although not on par with needs. The focus has been on equipping primary and secondary schools with basic ICT equipment as a priority, before designing and developing ICT-related education and contents.

### 6.1. Skill gaps identification

**While social media applications and online media have become popular in Vanuatu, ICT skills are still network and infrastructure-heavy and not in line with services industry needs.**

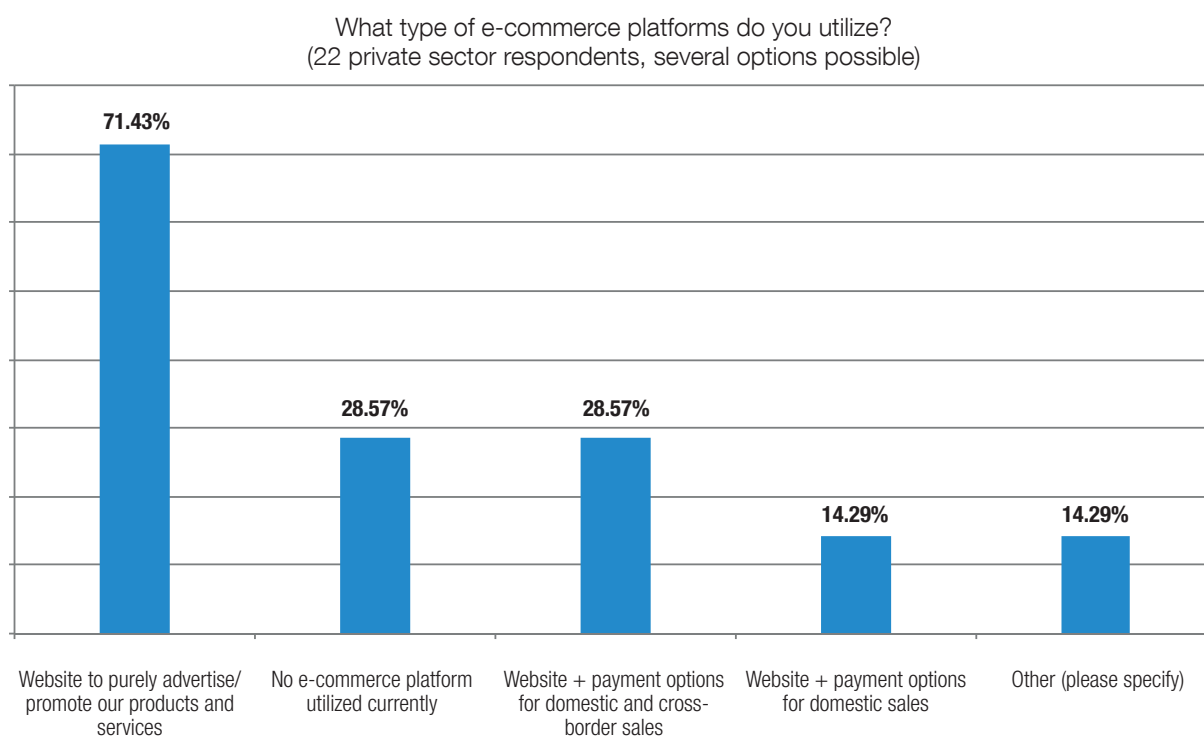
There is broad consensus that the untapped potential in Vanuatu is very important. Reasons for a slow or limited use of ICT for e-commerce, for both the development of online platforms and mobile app on one hand and the adoption by merchants and consumers on the other hand, are well known, as observed during focus-group discussions on e-commerce skill development.

A major cultural shift is required, that should be rooted in education of consumers, training of different communities. Whereas there is willingness and readiness in the growing younger population of Vanuatu, business mindset change is what is needed amongst the general population. This is true for use of ICT in general and even more so for financial awareness, including moving away from cash to online payment and electronic payment systems.

Development of digital skills is constrained by the lack of basic literacy and skills. In encouraging the development of ICT curriculum, content and applications, and e-commerce online platforms, a vicious circle caused by a low-level of consumption, content (applications) available in local language and infrastructure availability will need to be broken.

Vanuatu has a number of information technology companies, ICT and e-commerce vendors, and a small but thriving expat business communities from neighbouring countries. They play an important role in supporting the use of ICTs in the public and private sectors. Use of ICT tools by the local population has been enhanced by Bislama-adapted ICT tools, including a dictionary and a spelling tool, produced by community/non-governmental initiatives. Yet, the use of Internet platforms by merchants, as show in Figure 10, has been limited to product promotion and advertisement, with no interaction offered.



**Figure 10: Use of platforms by vendors and merchants**

Source: UNCTAD

The Government also pays significant attention to ICT-related awareness and education of the public and specific stakeholders. It has steadily increased its investment in both hard and soft infrastructure, using a mixture of tools, such as public investment, development of T-VET, dialogue with private sector, with communities and with development partners. TRR for instance, using funding generated through the Universal Access Programme (UAP) provides grants for small start-ups targeting mainly ICT projects, and supports Women and Girls in ICT projects (see Box 5).

The private sector has led several sector initiatives to increase adoption of e-commerce by members of business associations. The Vanuatu Tourism Office

(VTO) with Vanuatu Chambers of Commerce (VCCI) have taken the lead in that endeavor. After VTO launched its new improved web site, a lot of traffic was generated to the benefits of VTO members led to the introduction of an online booking and payment platform for the website as a pilot project. This initiative has already been presented to the VTO Board for further discussion and decision on expansion (see Box 6).

Similarly, the Vanuatu Young Entrepreneurs Business Council supported by VCCI has developed several initiatives for its members, with a long-term view of developing a business incubator program for ICT-savvy Vanuatu young entrepreneurs.



### Box 5 : Women and Girls in ICT Experiences and Development in Vanuatu - 2018

The Vanuatu Women and Girls in ICT, registered and recognized as Vanuatu Women Konekt (VWYK) is a charitable organization established to promote uptake of ICT for women and girls in Vanuatu. The association was established to bridge this gap and promote ICT for women and girls.

The association has the goal to connect women and girls through ICT for their empowerment and to prevent poverty and eliminate disparity in Vanuatu. The mission is to provide ICT platforms for women and girls to enhance their social, economic and financial development and to provide ICT trainings to improve their skills and knowledge and finally to provide awareness on the potential threats and harm that ICT could infringe in their lives, their families and or the community at large.

The “Women and Girls in ICT-Vanuatu” group has initiated a project to build an e-commerce website for the market vendors piloting with the Community Market house, of Port Vila the capital city of Vanuatu. Phases 1 and 2 of this project are sponsored by the TRR of Vanuatu. The initiative is purposely visualized to utilize ICT to leverage the sales and revenues of market vendors whereby their information will be reachable and available locally and on the global market for purchase.

This project is initiated to pilot online selling and buying of handicrafts and vegetables by the Ni-Vanuatu Women/Mothers that sell in many parts of Vanuatu, including Port Vila and Luganville towns. The project has three phases; Phase 1 - consultation and website development, Phase 2 - launching and systems database portal, and Phase 3 – venturing online selling and payments. Phase 2, the launching of the website (<http://www.shopvanuatu.vu>, <https://web.facebook.com/shopvanuatu/>), took place during the International Girls in ICT Day on Thursday 26 April 2018. Phase 3 will aim to further strengthen the areas for improvement that will cover training, logistics and online payment solutions towards its sustainability.

*Source: interview with Ms. Doreen Leona-Lango by UNCTAD*

#### 6.2. **Availability of tertiary education/curriculum, professional training**

**The weak linkages of ICT and e-commerce services with other sectors of the economy are connected to, and to some extent caused by, the lack of education and training readily available in Vanuatu.**

The first survey of ICT usage in the Vanuatu schools prepared in 2013 by the Office of the Government Chief Information Officer (OGCIO) in the Prime Minister’s Office, the Ministry of Education (MoE), and the Telecommunications and Radiocommunications Regulator (TRR) provided insight into the usage of ICTs in the Vanuatu primary and secondary schools. The key finding of the survey was that over 94 per cent

of respondents stated that ICTs was given low or very low priority in the schools, with the leading obstacles to ICT development being lack of electrical power, and lack of trained ICT teachers and support personnel. As a result, only about five per cent of students in the schools have access to ICTs and only four per cent of students were computer literate. Only about six per cent of schools nationwide had access to the Internet. ICT usage in the schools was largely confined to Port Vila and Luganville and their nearby surroundings.

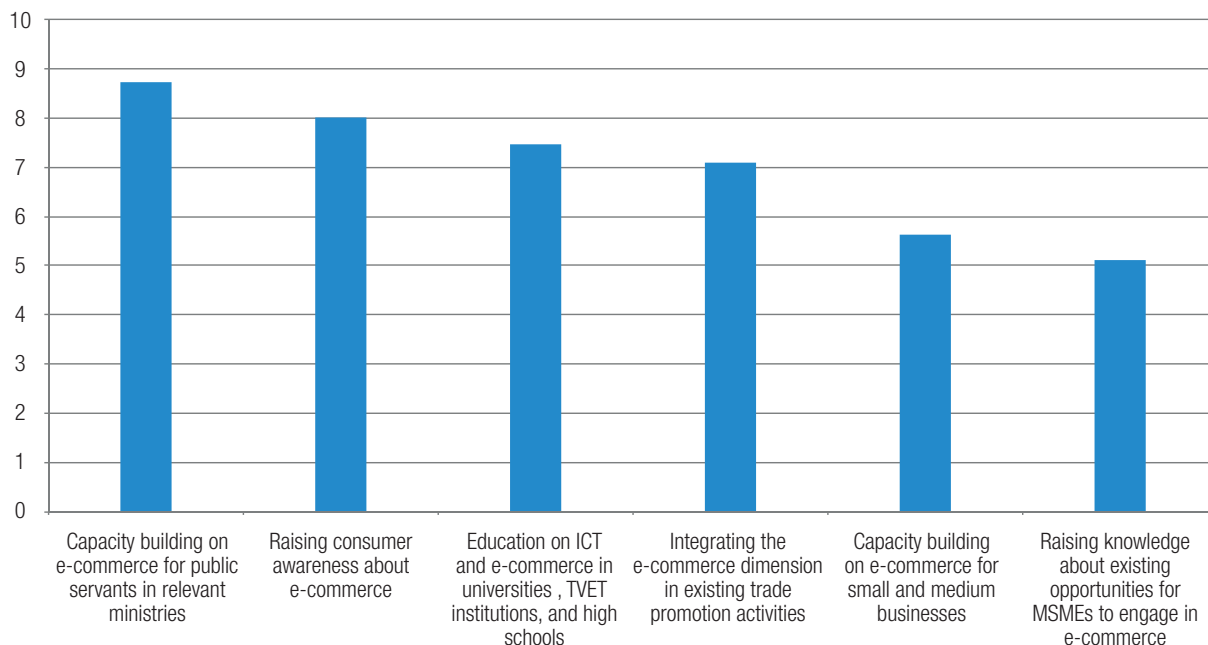
The results and conclusions of the survey prompted additional investments in ICT education at primary, secondary and tertiary education levels, although the availability of curriculum is still not on par with needs or not affordable to many.





**Figure 11: Capacity-building priority areas**

Please rank the following areas according to their relative importance to create an environment that is conducive to e-commerce (22 private sector respondents)



Source: UNCTAD

Some recent initiatives have enabled a larger number of entrepreneurs to become more knowledgeable about the potential of ICT for development in general and of e-commerce platforms in particular:

- Under the Vanuatu's Universal Access Program (UAP), a Community of Practice (<http://community.nuzusys.com/mod/forum/view.php?id=1>) supported the educational components of over 60 professors and zone curriculum advisers, using a free training platform. The website serves both as the learning management system for the training, and the hub for community support. Curriculum includes such topics as "Open educational content and resources provided on the gateway servers", "Android Tablets: educational apps, content and maintenance" and "ICT resources for distance learning".
- TRR has also embarked on two pilot programs:
  - Tablets for Students (TFS), will make 7-inch Android tablets available to students in seven schools located throughout Vanuatu.
  - The Computer Lab/Internet Community Centre programme is designed to assist

with the installation of computer labs in 15 schools across the country.

- The Vanuatu Institute of Technology (VIT), the largest TVET provider in Vanuatu, offers courses on computing and a range of ICT-related short courses which are components of the other fields of study. The VIT has a large main campus in Port Vila and two smaller provincial training centres in Sanma and Tafea provinces.

### 6.3. Business incubators and business accelerator

While business incubator and impact investment funds are already active in Vanuatu, their support goes primarily to the agricultural and tourism sectors, most of the time through programmes funded by the Australian or the New Zealand Governments. The tech start-up community is yet to be developed, a process that could be facilitated through the number of regional initiatives supported by development partners in the region.



### Box 6: E-commerce skills development vital for sustainable tourism in rural Vanuatu.

In 2012, after working with the Department of Tourism (DoT) for two years to deliver tourism-related skills development activities to local businesses, the Vanuatu Skills Partnership identified a gap in ICT skills, infrastructure and network connection, blocking local tourism operators from engaging in online marketing and communications with international tourists and travel agents.

As a result of this, and in collaboration with the Vanuatu Government, an initial pilot in was developed to support market access for these operators through the establishment of a provincial online bookings and reservations platform. This 'Travel Centre' was set up as a member-based organization, which enabled - for the first time ever - rural tourism businesses to utilize online bookings services, secure transactions and payments, and regularly promotion via social media and website. The Vanuatu Skills Partnership concurrently supported the operators through a series of customized e-commerce trainings in these areas to maximize this business growth opportunity. Local tourism business clients with access to online and international marketing via the provincial Travel Centres increased from 39 per cent in 2014 to 66 per cent in 2017 through the opening of the third provincial Travel Centre.

After a significant reduction in tourist numbers in Vanuatu in 2015-16, the Vanuatu Skills Partnership and core Vanuatu Government partners expanded the delivery of e-commerce skills development for outer island tourism operators. Businesses were supported through a range of training and coaching activities aimed at increasing competency in online communications, including smart phone understanding, basic marketing and email access for business managers and owners, and using Facebook for Business pages.

A total of 70 participants from local tourism businesses, 35 per cent who were women, attended these activities and have since begun using email and Facebook Messenger to contact their local Travel Centre, DoT officers and tourists directly. Continued follow up and coaching is planned in 2018.

*The Vanuatu Skills Partnership is funded through the support of the Australian Government.*

*Source: Vanuatu Skills Partnership*

Three separate entrepreneurship-focused initiatives are worth mentioning here, since, although limited in scope and outreach, they represent steps in the right direction for accelerating the adoption of e-commerce in Vanuatu.

- The Business Incubator Program that the VCCI coordinated and implemented with the financial assistance from the New Zealand Aid has been progressing. The aim of the program is to assist business owners and operators in improving their businesses, through training and mentoring. Applications are disseminated through different community channels to access business people nationwide. VANWODS management at their headquarters in Port Vila provide dissemination to their members who may apply and become potential clients of the program.
- The training and advocacy provided by the Young Entrepreneurs Council Vanuatu (YECV). The purpose of YECV is to develop into a national advocacy and technical council under the national private sector/employers' organization, that builds an evidence base to creatively engage with policymakers, via the national platform, to effect positive change aimed at incentivizing and prompting business and employment aspirations of current and future young entrepreneurs. The registration of the council came with the assistance of the Pacific Youth Council and International Labour Organization (ILO), both offices in Suva, and the Young Entrepreneurs Council Fiji.
- The United Nations Development Programme (UNDP), in collaboration with the Ministry of Youth and Sports Development, the Vanuatu Youth Council and the Vanuatu Young Entrepreneurs Council launched the 'Youth Co:Lab', a Regional Youth Programme for Leadership, Innovation and Entrepreneurship (RYPLIE) initiative. This program was designed in response to the ongoing challenges faced by young people in the Pacific region. It aims to accelerate the implementation of the Sustainable Development Goals (SDGs) by promoting youth-led entrepreneurship and social innovation at the national level. The Youth Co:Lab focuses on engaging and inspiring young people and giving them the knowledge and networking opportunities to develop and maintain their business initiatives, thus ensuring their own long-term financial stability and, consequently, that of Vanuatu.



## 7. ACCESS TO FINANCING

The Government recognizes that the agenda of financial inclusion must form an important component of an inclusive and sustainable development in Vanuatu, as shown in the recently launched Vanuatu National Financial Inclusion Strategy (NFIS 2018 – 2023). Unsurprisingly the percentage of adults with basic access to basic financial services is limited, mainly due to challenging geography, poor infrastructure and the high costs associated with delivering services to sparse populations. Similarly, access to financing for MSMEs is constrained by the small market size, high interest rate, lack of support for MSMEs and lack of collateral. As business accelerators and venture capitalist have not yet put Vanuatu on their investment radars, the development potential for e-commerce is severely constrained.

### 7.1. Financing by banks and MFIs

Limited interest and support from commercial banks and MFIs—from both the public and private sectors—for the risk prone ICT, e-commerce sectors, due as well to the small market size.

#### Financial inclusion

Financial inclusion is now widely accepted as an effective strategy for equitable economic growth, through which low income earners can be economically empowered and can improve their standard of living. Financial inclusion has become an important policy and development agenda for many developing countries including Vanuatu. The Vanuatu National Financial Inclusion Strategy (NFIS 2018 – 2023) launched in March 2018 presents the medium-term road map to drive financial inclusion across the country. This five-year strategic plan is linked to Pillar 3 of the Vanuatu Government's National Sustainable Development Plan 2016-2030. Pillar 3 seeks to ensure a stable economy through sustainable and equitable growth and has nine main objectives, the latter two being "ECO. 1.8 - Ensure financial sector stability and make financial services affordable and accessible for all through pursuing financial inclusion strategies. ECO 1.9 Promote financial literacy and consumer empowerment."

The choice of strategic goals in Vanuatu National Financial Inclusion Strategy (NFIS 2018 – 2023) clearly confirms the impact that e-commerce and e-government is having in Vanuatu, as indicated below for strategic goal 2 "Promote and foster inclusive products, services and channels".

In 2016, PFIP and the Reserve Bank of Vanuatu co-published a large-scale "Financial Services Demand-

Side Survey", building a comprehensive picture of the country's financially underserved segments, including women. The most important results are presented below. The conclusions of the survey were also used as the main evidence base in developing the country's second national financial inclusion strategic plan (NFIS 2018-2023).

#### Interest rates are viewed as the most limiting factor in obtaining external financing for businesses

Although businesses were confident to talk to financial institutions about financing needs, they cited interest rates as the key obstacle in obtaining external financing. The highest percentage (27 per cent) reported high interest rates as the most limiting factor, followed by 17 per cent that did not know, 16 per cent that saw no obstacle, 13 per cent that reported insufficient collateral. Twenty-nine per cent of informal MSMEs stated interest rates as the most limiting factor, followed by 19 per cent indicating they were not applicable to their businesses. Seventeen per cent indicated no obstacle, 16 per cent cited insufficient collateral and 13 per cent indicated financial institution process as an obstacle.



Table XVIII: NFIS 2018-2023 Strategic Goal 2 (selected key result areas)

Key Result Areas	Action Plan	Lead Institution(s)	Timeframe
2. Encourage a suite of financial services, including digital financial services that suit the needs of the excluded population.	Research and pilot new services and approached, including digital financial services.	FIT, RBV, FSPs, MNOs, PFIP	Ongoing
3. Implement interoperability of electronic payment platforms between formal financial service providers such as banks and further between financial service providers and mobile network operators.	Implement Payment Systems Act	RBV, MFEM	Q2, 2018
	Introduce ATM interoperability for banks	RBV, Commercial Banks, MNOs	Q3, 2018
	Introduce EFTPOS interoperability for banks	RBV, Commercial Banks, MNOs	Q4, 2018
	Undertake mobile money pilot	FSPs, MNOs,	Q2, 2020
	Introduce MNO interoperability for users	RBV, MNO	Q4, 2022
4. Promote electronic payment channels in Government transactions, including state-owned enterprises.	Map government payment and receipt flows.	FIT, RBV, MFEM, MNOs	Q2, 2018
	Undertake pilot to digitize G2P/P2G Payments within a Government ministry/department with potential to rollout to wider Government.	FIT, MFEM, RBV, MNOs, FSPs	Q4, 2019
5. Encourage digital payment channels among medium to large private sector employers and associations for business-to-business transactions.	Working Group to initiate discussions with industry bodies or large private sector employers	FIT, RBV, VCCI, MNOs, FSPs	Q3, 2018
	Conduct B2B study and support selected field trials		Q1, 2019
	Promote digital/electronic payment options via Vanuatu Chamber of Commerce & Industry		Q1, 2019
7. Test and roll-out institutional innovations including technology, agent networks and shared platforms that can improve both outreach and access whilst reducing costs and addressing agent liquidity and other agent-related administrative issues.	Standards to be established for measurement of and operating rules for agent liquidity.	FIT, RBV, FSPs, MNOs PFIP	Q3, 2018
8. Test digital solutions for informal financial service providers, including electronic book-keeping and financial literacy applications.	Introduce digital book-keeping via a pilot for an informal service provider with the opportunity to scale up.	RBV, VFSC, OGCIO, PFIP, MTTCINVB, MNOs	Q1, 2022
	Source and promote app using a smart phone.		
	Introduce technology for the training and financial literacy of customers.		

Source: Reserve Bank of Vanuatu



The following factors were also cited as limiting businesses from obtaining external funding:

- Lack of a proper status for MSMEs, taking into consideration their fragile nature
- Lack of infrastructure, inefficient government service delivery, small market size and lack of support services for business are key problems faced by the MSME businesses sector. Furthermore, business insurance cover is scarce outside the urban centres in Vanuatu, making them vulnerable and less resilient to natural disasters
- High project financing requirements from banks, such as project proposals and feasibility studies, which required costly engagement of engineers or appropriate technicians to carry out the required task given the lack of expertise among businesses
- The dependence of income (sales) among business owners in the informal sector such as handicraft vendors on cruise-ship visits, and the lack of regular income among recognised seasonal employer (RSE)
- Lack of awareness of business loan products among business
- The preference for forms of financing other than debt financing

In a separate study on MSMEs in 2016, RVB surveyed the MSMEs on access to finance for business start-ups and MSMEs<sup>19</sup>. The results, the most up-to-date in Vanuatu, are summarized below. For the purpose of the survey, in Vanuatu, a micro enterprise refers to a

business that has an annual turnover of less than Vt4 million (US\$36,000) with 1 to 5 employees, a small enterprise has an annual turnover of less than Vt50 millions (US\$454,000) with 6 to 20 employees and a medium-sized enterprises has an annual turnover of less than Vt200 millions (approximately US\$1.8Million) with 20 to 50 employees and a large enterprise has over 50 employees with an annual turnover of over Vt200 millions ((approximately US\$1.8Million). With the exception of micro enterprises, all other business categories are registered with the Vanuatu Government Value Added Tax (VAT) office. Survey results show that approximately 78 per cent of the total MSME businesses in Vanuatu are located in rural and 22 per cent in urban areas. Of these, almost 90 per cent are informal MSMEs and slight more than 10 per cent are formal MSMEs.

The survey found that only 15 per cent of businesses (informal and formal MSMEs) in Vanuatu applied for finance through commercial banks. A large proportion of formal MSMEs tend to access to finance from commercial banks while informal MSMEs tend to use other financial institutions (such as Credit Corporation Vanuatu Limited (CCVL), Vanuatu Agriculture Development Bank (VADB), VANWODS, Apma Financial Investment Centre Cooperative (AFIC).

Using the results of the survey, the RBV, in the NFIS 2018-2023, dedicated one strategic goal to MSME financing, as described in box 7.

<sup>19</sup> According to the survey, in 2016 in Vanuatu, 60 per cent of MSMEs are owned by males followed by 20 per cent female, 12 per cent are in the youth category and eight per cent in the 'other' category



Table XIX: Main access to financing constraints for MSMEs

Categories	Results
<b>Access to credit for business start-up</b>	<ul style="list-style-type: none"> <li>Seventy-seven per cent of MSMEs in Vanuatu used informal savings for business start-up, followed by 10 per cent borrowed from commercial banks, eight per cent used other sources not specified in the survey, while two per cent used informal credit and loan from other financial institutions respectively.</li> <li>Twenty-six per cent of formal MSMEs had applied for a loan from a commercial bank and got everything. Only nine per cent of informal MSMEs applied for a loan and got everything. Thirteen per cent of informal MSMEs applied for loans from other financial institutions and got everything. Eight per cent of formal MSMEs applied for loans from the other financial institutions and got everything.</li> <li>The main source of business financing for businesses in Vanuatu is internal funds; 72 per cent of businesses used internal funds for business operations compared to 15 per cent that used commercial bank loans and six per cent bank overdrafts.</li> </ul>
<b>Access to credit for business financing</b>	Sixteen per cent of MSME applied for loans from commercial banks during the past twelve months. Forty-two per cent did not apply for other reasons and 42 per cent were excluded. Similarly, only two per cent of MSMEs applied for loans from other financial institutions, 32 per cent did not apply for other reasons and 66 per cent were excluded.
<b>Application for and use of credit</b>	<ul style="list-style-type: none"> <li>Of those MSMEs who applied for loans, only 15 per cent received partial or total loans requested from commercial banks, five per cent of business who had applied for credit were rejected while 81 per cent were excluded. With regards to other financial institutions, only two per cent of MSMEs that applied for loans from other financial received part or everything, one per cent were rejected and 98 per cent were excluded.</li> <li>Fifty-three per cent of the MSMEs used the loans for working capital, 30 per cent for purchasing land, buildings or equipment and vehicles, six per cent, for buying another business, seven per cent for restructuring and process development, less than one per cent on research &amp; development and promotion, respectively and two per cent spent on other items.</li> </ul>
<b>Usage of credit for business financing</b>	Seventy-two per cent of businesses in Vanuatu used internal funds for financing their business, 21 per cent used commercial bank loans and overdrafts, three per cent used trade credit and one per cent borrowed from other financial institutions.
<b>Payment Instruments</b>	Eighty-seven per cent of total businesses surveyed used cash for transactions, 10 per cent used cheques, two per cent used other modes of payment, and only 0.2 per cent used electronic mode of payments such as ATM card, Visa card and MasterCard.
<b>Internet banking</b>	According to the MSME survey, eight per cent of the MSMEs in Vanuatu use Internet banking for business transaction while 92 per cent did not use Internet banking.

Source: Reserve Bank of Vanuatu

### Box 7 : NFIS 2018-2023 / Strategic Goal 3 - Micro, Small and Medium Enterprise Financing

**5.3.1** Introduce policies and a regulatory environment to support access to finance for MSMEs, with a specific target of 30 per cent of women.

**5.3.2** Coordinate and harmonize Government's work through a variety of line Ministries to mainstream financial inclusion products and programmes targeted at MSME, rural entrepreneurs and women-owned institutions.

**5.3.3** Ensure there is effective collaboration between Government and the private sector in regard to improving access and usage of financial services for MSMEs.

**5.3.4** Promote the development of an accessible suite of quality, affordable and easily accessible financial services, including insurance for MSMEs and value chains in the agriculture, fisheries and tourism sectors.

**5.3.6** Encourage widely available financial literacy programmes targeted at building entrepreneurial and financial management skills, including women entrepreneurs.

Source: Reserve Bank of Vanuatu



### **7.2. By business incubators, business accelerators, venture capitalists**

**Vanuatu is not yet on the radar of most venture capitalists and angel investors because the e-commerce and start-up ecosystems are not mature enough for funding.**

At the regional level, Pacific Trade and Investment (PTI) is a prime source of information and support. PTI, an agency of the Pacific Islands Forum Secretariat (PIFS), is the largest and only Trade Promotion Organisation (TPO) representing 16 Pacific island countries across the region, including Vanuatu. PTI works directly with the private sector to develop, grow and promote business in the region. Their main mission is to introduce exporters to buyers, investees to investors and connect tourism operators with travellers, focusing on trade facilitation, investment facilitation, creative arts promotion and tourism promotion.

### **7.3. Financing by development partners**

**Faced with the impossibility of raising funds through the banking sector or angel investors, specific segments of MSMEs may gain access to funding through development partners programmes, be they grants or loans.**

The Pacific Financial Inclusion Programme (PFIP) is a Pacific-wide programme that has helped 1.5 million low-income Pacific Islanders gain access to financial services and financial education. It achieves these results by funding innovation with financial services and delivery channels, supporting policy and

regulatory initiatives, and empowering consumers. PFIP operates from the UNDP Pacific Office in Suva, Fiji and has offices in Papua New Guinea, Samoa and Solomon Islands. It is jointly administered by the UN Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP) and receives funding from the Australian Government, the European Union and the New Zealand Government.

Australia has helped the Vanuatu Government to remove constraints to economic growth, improve service delivery through reforms, and improve public financial management through targeted technical support. This is done under the Governance for Growth Program (GfG), which pursues emerging opportunities for strategic, catalytic investment for economic reform. Australia's work with the National Bank of Vanuatu on rural and mobile banking has supported increased access to financial services, with 3,000 new bank accounts opened in 2016 and 6,040 new bank accounts opened in the 2017 (of these, 45 per cent are owned by women). The GfG programme has targeted gender equality outcomes in specific investments. For example, GfG's mobile banking program was designed with a gender focus and has achieved impressive results, with 23,727 people (42 per cent women) receiving financial literacy training from 2011 to 2016.



---

## CONCLUSION

Vanuatu's e-commerce ecosystem is still incomplete: yet, the combination of Government willingness and efforts, public investments in ICT infrastructure (with a goal of 98 per cent of the population covered by a mobile signal by 2018) and trade facilitation on top of a favourable regulatory regime in recent years have created solid foundations for the country to benefit from the digital revolution other economies in the region have started to enjoy.

Putting the country's financial system in line with the FATF and APG recommendations have created the thrust for e-commerce uptake in Vanuatu. The solid plans for financial inclusion, MSMEs, trade and ICT development that have been developed in recent years confirm the Government's commitments to explore new alleys of development, building on the tourism industry's achievement, moving further into a services economy. The efforts to facilitate trade procedures at the border have also been praised by the private sector as steps in the right direction.

E-commerce adoption by businesses, especially MSMEs, in Vanuatu will require confidence and trust

in electronic payment solutions, which are not yet widespread. Similarly, in order to invest in ICT solutions towards moving to online solutions later, banks and MFIs must work hand in hand with the government and leading business associations to ensure that financing gaps are bridged. This could also motivate business incubators and venture capital from Australia, New Zealand and other Pacific Islands nations to put Vanuatu e-commerce on their investment map.

Finally, a massive awareness-raising and training effort will be needed in coming months and years to increase knowledge and confidence in e-commerce. This should not only target businesses through representative associations, but also make use of communities so that cultural-ingrained beliefs can be overcome to facilitate economic growth inclusiveness, including for youth and women-owned businesses. Development partners' actions through selected interventions has proven beneficial in many areas and should be continued, in close cooperation with the Government and private sector.





## THE WAY FORWARD: ACTION MATRIX

E-COMMERCE READINESS ASSESSMENT AND STRATEGY FORMULATION			
Indicative action	Expected outputs	Priority Level	Potential support by:
Develop a national strategy and policy for e-commerce development as part of the current efforts to take advantage of the ICT sector growth and needs.	A vision for a digital Vanuatu is adhered to by all segments of population in favour of an uptake of e-domestic and cross-border e-commerce.	High	OGCIO, MTTCINVB, MFEM, RBV, GfG, NTDC, UNCTAD, WB
Facilitate a sustained multi-stakeholder dialogue regarding national ICT and e-commerce issues by developing a single sector coordination mechanism on e-commerce and digital innovation (preceded by a capacity assessment exercise aimed at defining individual agencies' mandates on e-commerce).	Individual agencies contribute to the formulation and, later, implementation of the country's e-commerce strategy by ensuring that their contributions/mandate on e-commerce do not overlap with other agencies.	Medium	OGCIO, MTTCINVB, RBV, NTDC, VCCI
Identify a "champion" agency in the GoV to lead the Government' e-commerce agenda, in partnership with leading business associations.	Emulating the example of TRR with the ICT Policy and CIR with Single Windows, e-commerce is championed by one lead agency reaching out to both public and private sector entities.	Medium	MTTCINVB, CIR, RBV, MFEM, NTDC, VCCI
Develop a private sector e-commerce focus group comprised of current and potential vendors as a platform for discussing the community's challenges and common issues.	Current ICT service providers, e-commerce vendors form a focus group tasked to provide quality inputs for policymaking and development projects.	Medium	MTTCINVB, NTDC, VCCI
Enhance the capacity of business associations and of the VCCI to play a lead role in the business community to promote e-commerce adoption.	VCCI is empowered to promote adoption of e-commerce through targeted awareness and advocacy campaigns, in and out of Vanuatu.	Medium	MTTCINVB, VCCI
Include e-commerce as a potential driver of economic and export diversification in future trade policy frameworks and ICT policy updates.	Role of ICT and e-commerce for trade development is mainstreamed in relevant national development strategies.	Low	MTTCINVB, NTDC, OGCIO, CIR, MFEM, VCCI, EIF, WB

ICT INFRASTRUCTURE AND SERVICES			
Indicative action	Expected outputs	Priority Level	Potential support by:
Broaden and accelerate discussions about public investments for improving and securing the country's access to broadband Internet (second subsea cable and/or satellite connections).	The decision to establish a PPP to invest in a second submarine cable to increase affordability and reliability of Internet access in Vanuatu is taken.	Medium	OGCIO, MFEM, VCCI, ADB
Encourage the development of the digital economy by improving automation of Government services to the public (G2P), especially those that are trade related: business registration, import/export licensing, taxation and government procurement. Information on automated public services should be disseminated once they have been testing in close loops.	Each ministry has moved a set of G2P process from offline (paper-based, manual) to an online, automated process, emulating the good practices of Customs and Inland Revenue (CIR), taking advantage of the new electronic single window project.	Medium	OGCIO, MTTCINVB, MFEM, VCCI
Ensure higher segments of population outside urban areas have access to fast, reliable mobile broadband (3G and then 4G).	Stable mobile broadband connection is available for all populated areas in Vanuatu.	Medium	OGCIO, MFEM



TRADE LOGISTICS AND TRADE FACILITATION			
Indicative action	Expected outputs	Priority Level	Potential support by:
Prioritize the implementation of the Electronic Single Window project.	Accelerated automation of procedures and faster clearance time for Vanuatu foreign trade.	High	CIR, OGCIO, MTTTCINVB, NTDC, VCCI, EIF, UNCTAD
Develop and implement an open national physical address system to homes, institutions and businesses to facilitate trade and logistical support for a modern postal system.	The increased and improved “findability” of addresses in Vanuatu lead to a surge in domestic e-commerce beyond Port Vila and Luganville.	High	VPL, UPU
Create a “Right to Appeal” for when customs brokers and freight forwarders lodge a complaint with Customs Department (proposal for a “tribunal” consisting mainly of former retired Customs Officials and former State Law Lawyers to ensure fast and independent decisions).	Better valuation of goods as a result of increased coordination and communication between CIR and Customs brokers.	Medium	CIR, VCCI, Brokers & Freight Forwarders Associations
Accelerate readiness of Vanuatu officials on cross-border paperless trade through the country's participation in the UNESCAP Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific.	Relevant agencies have obtained support to accelerate implementation of WTO TFA and use of e-Government platforms, and to conduct legal and technical readiness assessment for cross-border paperless trade.	Medium	CIR, MTTTCINVB, NTDC, Brokers & Freight Forwarders Associations, UNCTAD, UNESCAP
Finalize decision on ratifying the WTO Trade Facilitation Agreement as well as the associated notifications.	Parliament to ratify Vanuatu's participation in the WTO TFA, leading to a faster improvement of Vanuatu's Trade Facilitation performance.	Medium	CIR, MTTTCINVB, NTDC, Brokers & Freight Forwarders Associations, UNCTAD, UNESCAP
Establish an e-fulfillment capability in a large international market (such as Australia) that can be used to handle on-bound orders.	Lower costs of shipping for Vanuatu products bought online	Medium	VCCI, Brokers & Freight Forwarders Associations, UNCTAD, ITC
Strengthen the operational capability of Vanuatu Post Limited (VPL) to support e-commerce and ensure operational efficiency of the postal network to facilitate e-commerce inclusion across the whole country, in line with the WSIS Geneva plan of action and Tunis Agenda calls on governments to invest in ICT skills development and access to ICT for national Posts.	VPL has the capacity to deliver small parcels and mail with more efficiency and reliability, emulating the positive experience of Fiji and Solomon Islands (with UPU).	Low	VPL, NTDC, UPU



PAYMENT SOLUTIONS			
Indicative action	Expected outputs	Priority Level	Potential support by:
Adopt the National Payment Systems Law.	Increased interoperability between all commercial banks.	High	RBV, MFEM
Increase confidence of merchants to accept electronic payments, through dedicated awareness raising programmes, moving from a cost approach to an investment approach, with a special focus on MSMEs.	The adoption of EFTPOS and volume of transactions increases in particular for B2C.	Medium	RBV, OGCIO, MTTICINVB, GfG
Encourage digital payment channels among medium to large private sector employers and associations for business-to-business transactions. Promote electronic payment channels in Government transactions, including state-owned enterprises.	Increased number of electronic transactions trigger increased adoption of mobile payment and electronic payment solutions by the business communities (pull-effect).	Medium	RBV, OGCIO, MTTICINVB, CIR, VCCI, GfG
The RBV to collaborate with financial institutions and telecommunication providers to design savings and credit products that can be accessed on mobile phones, given their prevalent use among businesses.	Increased adoption of mobile phones for payments and savings, thanks to the development of customized product for different communities.	Medium	RBV, OGCIO, MFEM, Bankers' Association
Commercial banks need to actively promote Internet banking among their corporate customers through a combination of incentives and disincentives. Incentives can be lower fees or no fees. Disincentives may entail increased fees for direct branch banking or use of cheques or cash.	People and businesses are incentivized to put their money in the banking system, enhancing a new culture of savings in commercial banks.	Medium	RBV, VCCI, Bankers' Association
Promoting enabling regulatory environments by encouraging cross-regulatory cooperation on payment, Implement Payment Systems Act, introduce ATM interoperability for banks, introduce EFTPOS interoperability for banks, introduce MNO interoperability for users.	Interoperability of electronic payment platforms between formal financial service providers such as banks and further between financial service providers and mobile network operators.	Medium	RBV, OGCIO, MFEM, VCCI, Bankers' Association
Organize "Compliance and ePayment preparation" training sessions to SMEs to teach vendors how to access other international payment solutions such as 2checkout.com  Also, the emphasis of getting Vanuatu into the whitelist and working with FATCA makes it even more important to	Increased international compliance requirements of entrepreneurs especially on how to effectively apply and obtain international merchant accounts.	Medium	VCCI, Bankers' Association, ITC
In collaboration with banks, launch a countrywide awareness building campaign (starting with the urban areas) to make customers more aware of the utility, risks, rewards of using cards, mobile money, as well as online banking options.	Increased awareness of population on the benefits and dangers of using mobile money lead to increase in trust and confidence in products provided by banks and MNOs.	Low	RBV, IFC, commercial banks, VCCI, Bankers' Association, GfG



LEGAL AND REGULATORY FRAMEWORK			
Indicative action	Expected outputs	Priority Level	Potential support by:
Carry out a regulatory gap analysis on e-commerce in order to assess needs to update and/or upgrade e-commerce related laws (e-transactions, consumer protection as priorities) to include most recent e-commerce developments on electronic transactions, data protection and cybercrime.	Prioritize acts and regulations (formulation or update) needed for enhancing the e-commerce ecosystem (possibly focusing on consumer protection).	High	SLO, MTTTCINVB, IFC (World Bank Group), UNCITRAL, UNCTAD
Update e-commerce related laws to fill gaps in the form of missing and out-of-date legislation – including but not limited to: the e-Transaction Law, consumer protection law, data protection law, and cybersecurity law.	Acts and regulations are updated to be in line with today's online business practices.	Medium	SLO, MTTTCINVB, UNCITRAL, UNCTAD, DCIR
Modernize Vanuatu Financial Services Commission (VFSC) online business registration system currently hosted in New Zealand.	Better information and access to information on financial investment business and trust and company service providers, through an improved Registrar of Companies, Charitable Organizations, Credit Unions, Trade Unions, Personal Property Securities.	Medium	RBV, MFEM, IFC (World Bank Group), ADB, Bankers' Association
Develop consumer protection regulations on specific aspects of e-commerce (return policies for damaged goods, for example).	Ensure that regulations and consumer rights are easily accessible by citizens and protect their online purchases.	Low	MTTTCINVB, NTDC, OGCIO

E-COMMERCE SKILLS DEVELOPMENT			
Indicative action	Expected outputs	Priority Level	Potential support by:
Incorporate basic digital skills (Internet safety and privacy awareness) into the national curriculum beginning in primary school.	Better preparation of future citizens, consumers and users about the benefits and pitfalls of the digital economy, better inclusion in professional life.	High	MOET
Set up a central coordination agency for skill development, information dissemination and financial products for MSMEs in Vanuatu.	Coordinate the various organizations involved in MSME development to minimize duplication of tasks by these institutions, for example on training, advisory services data collection. Easy and affordable access and effective use by those enterprises.	Medium	MTTTCINVB, MFEM, MOET, ITC
Launch a nationwide communications campaign using radio/TV for awareness, in English, French and Bislama, showing the ease with which people can buy and sell goods and services online, coupled with commercial and development strategy to support Vanuatu manufacturing firms to sell products online.	Information on e-commerce and mobile commerce reaches underserved communities in all provinces, fostering a national "e-commerce identity".	Medium	MOET, Mainstreaming Media (press, audio, TV)
Provide training to mainstream audio, printed and online media on e-commerce, digital economy.	Media are reporting on e-commerce and digital economy with more precision and quality, becoming agents of change.	Medium	MOET, MTTTCINVB
Expand the scope of existing incubators to include e-commerce, as well as assisting existing incubators, accelerators and entrepreneurship labs to further develop capabilities.	Increase awareness of the role of incubators, business accelerators and venture capitalists among MSMEs.	Medium	MOET, VCCI, ITC



E-COMMERCE SKILLS DEVELOPMENT			
Indicative action	Expected outputs	Priority Level	Potential support by:
Conduct a detailed skills assessment at the firm level and determine the degree to which knowledge and capabilities are present along the e-commerce value chain : from development of firm level strategies to managing international sales	Government- and donor-supported programmes are targeted to those individuals needing to enhance their skills, making them more employable by ICT-enabled firms and organizations.	Medium	OGCIO, MTTCINVB, VCCI, ITC
Perform an assessment of the availability of local e-commerce support services, platforms and solutions. Evaluate their suitability to the needs of local producers and advise local firms on different solutions	Entrepreneurs are able to select and use existing platforms or cheap/open source web design platforms that can be tailored to their needs	Medium	VCCI, IITC
Incorporate ICT and e-commerce elements in Technical Vocational Education and Training (TVET) institutes.	Enhanced T-VET institutions curriculum providing ICT skills in demand by businesses.	Low	MOET, VCCI, YEC, ITU

ACCESS TO FINANCING			
Indicative action	Expected outputs	Priority Level	Potential support by:
Vanuatu adopts a national MSME definition to provide legal certainty and to fully understand the characteristics and challenges faced by MSMEs such as through a specific Act of Parliament.	The adoption of a national MSME definition helps provide clarity of direction and policy development and the mechanisms for channeling support and programs exclusively for MSMEs.	High	MTTCINVB, NTDC, VCCI
Develop a central business registry with the Ministry of Industry, Tourism, Trade, Commerce, Industry, and Ni-Vanuatu business. The registry should be updated on a regular basis.	The assessment and the monitoring of MSMEs-related development initiatives is improved and actions to support their development are better targeted.	Medium	MTTCINVB, NTDC, VCCI
Encourage a suite of financial services, including digital financial services, that suit the needs of the excluded population.	Reduced the share of the population and MSMEs currently excluded from banking system, with a view to move them eventually to the formal sector.	Medium	RBV, IFC, ADB, PFIP, UNCDF
Test digital solutions for informal financial service providers, including electronic bookkeeping and financial literacy applications.	Introduce digital bookkeeping via a pilot for an informal service provider with the opportunity to scale up. Introduce technology for the training and financial literacy of customers.	Low	RBV, IIFC, ADB, PFIP, UNCDF





# Annex I: Vanuatu Country Profile on etradeforall.org



COUNTRY PROFILE: VANUATU

Contact: [info@etradeforall.org](mailto:info@etradeforall.org)

**GENERAL INFORMATION - 2016**

<b>Population</b> 0.3 Millions	<b>GDP</b> 838 Millions current US\$	<b>Merchandise trade</b> 472 Millions current US\$
<b>Internet users</b> 0.1 Millions	<b>GDP growth</b> 4.0 %	<b>Land area</b> 12 190 km2

Source: UNCTAD and ITU (complete URL addresses in the General Notes)

**E-COMMERCE ASSESSMENT - 2017**

<b>Rank in UNCTAD B2C E-commerce Index</b> -/144	<b>Rank in ITU ICT Development Index</b> 141/176	<b>Rank in WEF Networked Readiness Index</b> -/139
---	---	---

Source: UNCTAD, ITU and WEF (complete URL address in the General Notes) Note: 1 = Best

**ICT INFRASTRUCTURE AND SERVICES - 2016**

Internet users, 24.0

Active mobile broadband subscriptions, 22.2

Fixed broadband subscriptions, 1.7

**Fixed broadband Internet tariffs, PPP \$/month**

Highest tariff: 874.4  
 Lowest tariff: 5.1  
 Median: 34.1  
 VANUATU: 51.0

Source: ITU (complete URL address in the General Notes)

**PAYMENTS - 2014**

Debit card used in the past year	VANUATU, #N/A	SOUTHERN, EASTERN AND SOUTH-EASTERN ASIA & OCEANIA, 13.4	WORLD, 22.0
Credit card used in the past year	VANUATU, #N/A	SOUTHERN, EASTERN AND SOUTH-EASTERN ASIA & OCEANIA, 7.7	WORLD, 13.6
Used an account to make a transaction through a mobile phone	VANUATU, #N/A	SOUTHERN, EASTERN AND SOUTH-EASTERN ASIA & OCEANIA, 7.4	WORLD, 8.5

Per 100 inhabitants

Source: World Bank (complete URL address in the General Notes)

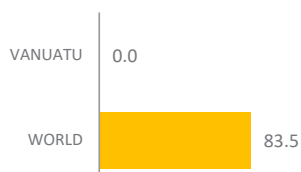


## COUNTRY PROFILE: VANUATU

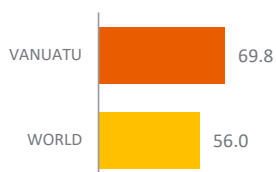


## TRADE LOGISTICS - 2016

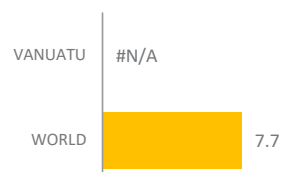
## Percent of population having mail delivered at home



## Postal reliability index (0 to 100, 100 = Best)



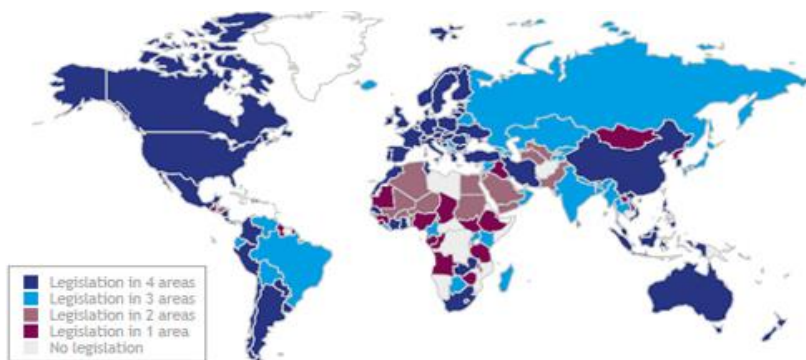
## Days to clear direct exports through customs



Source: UPU and World Bank (complete URL addresses in the General Notes)



## LEGAL AND REGULATORY FRAMEWORKS - 2017



## VANUATU

Electronic Transactions:	Legislation
Consumer Protection:	#N/A
Privacy and data protection:	No legislation
Cybercrime:	No legislation

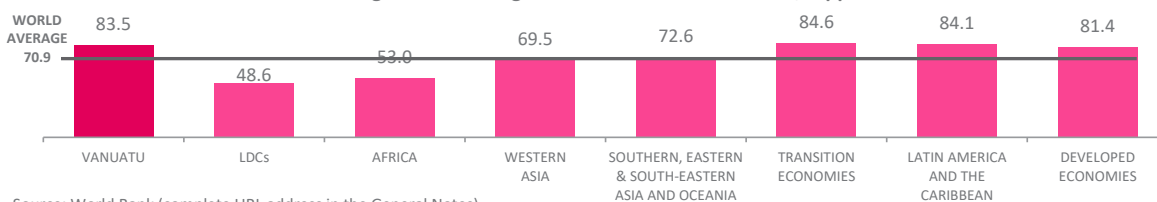
Source: UNCTAD

For more information see: [http://unctad.org/en/Pages/DTL/STI\\_and\\_ICTs/ICT4D-Legislation/eCom-Global-Legislation.aspx](http://unctad.org/en/Pages/DTL/STI_and_ICTs/ICT4D-Legislation/eCom-Global-Legislation.aspx)



## SKILLS DEVELOPMENT - 2013-17

## Percentage of firms using e-mail to interact with clients/suppliers

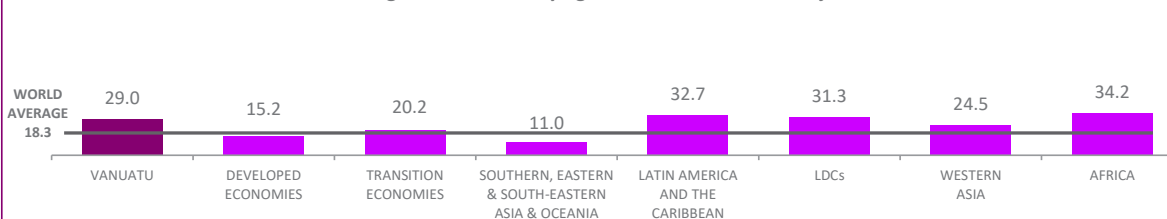


Source: World Bank (complete URL address in the General Notes)



## FINANCING FOR eCOMMERCE - 2014-15

## Percentage of firms identifying access to finance as a major constraint



Source: World Bank (complete URL address in the General Notes)





## Annex II: Bibliography and websites used

### Bibliography

- Digital Financial Services in the Pacific, Experiences and Regulatory Issues, Asian Development Bank (ADB), 2016
- Financial Services Demand Side Survey, Pacific Financial Inclusion Programme (PFIP), 2017
- Mutual Evaluation of Vanuatu, Asia-Pacific Group on Money Laundering (APG), 2017
- National Information and Communication Technology Policy, Government of Vanuatu, 2013
- Telecommunications Sector Report 2017, Telecommunications & Radiocommunications Regulator (TRR), 2017
- The Mobile Economy, Pacific Islands, GSMA, 2015
- Trade Facilitation and Paperless Trade Implementation Survey, UN-ESCAP, 2017
- Trade Policy Framework 2012, Government of Vanuatu, 2012
- Trade Policy Framework 2018 Update (concept note), Government of Vanuatu, 2017
- Universal Access Policy, Government of Vanuatu, 2013
- Vanuatu Financial Inclusion Country Profile, Pacific Financial Inclusion Programme (PFIP), 2017
- Vanuatu National Financial Inclusion Strategy 2018 – 2023, Reserve Bank of Vanuatu, 2017
- Vanuatu National Sustainable Development Plan 2016-2030 (“Vanuatu 2030, “The People’s Plan), Planning and Aid Coordination Unit, Government of Vanuatu
- Vanuatu Micro, Small & Medium Enterprises (MSMEs) Survey, Reserve Bank of Vanuatu, 2016

### Websites

- Reserve Bank of Vanuatu : <http://www.rvb.gov.vu/>
- Telecommunications & Radiocommunications Regulator : <http://www.trr.vu/>
- UNCTAD B2C Index : [http://unctad.org/en/PublicationsLibrary/tn\\_unctad\\_ict4d09\\_en.pdf](http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d09_en.pdf)
- UNCTAD Cyberlaw Tracker : [http://unctad.org/en/Pages/DTL/STI\\_and\\_ICTs/ICT4D-Legislation/eCom-Global-Legislation.aspx](http://unctad.org/en/Pages/DTL/STI_and_ICTs/ICT4D-Legislation/eCom-Global-Legislation.aspx)
- UNESCAP Paperless Trade in Asia Pacific : <http://www.unescap.org/resources/trade-facilitation-and-paperless-trade-implementation-asia-and-pacific-regional-report>
- Vanuatu National Statistics Office : <https://vnso.gov.vu/>
- Vanuatu Post Limited : <http://www.vanuatupost.vu/>
- World Bank Financial Inclusion Database : <http://www.worldbank.org/en/programs/globalindex>

### Leading Vanuatu e-commerce vendors and platforms websites

- <https://www.atmosphere-vanuatu.com/>
- <https://www.hotvanuatu.deals/>
- <http://www.tannafarms.com.vu/>
- <http://www.onwheelsrental.com/rentals/>
- <http://www.samsanimalwelfare.com/>
- <https://www.vanuatu.travel/en/>
- <http://www.tannaislandcoffee.com/>
- <https://www.thesummitvanuatu.com/>
- <https://www.polinet.website/services/e-commerce/>
- <https://buynsellvanuatu.com/>
- <https://www.natural-organic-living.com/>



