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Micro-, Small and Medium Enterprise (MSME) Policy and Strategy for Vanuatu

Volume Two

MSME Policy

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List of Acronyms

ADB	Asian Development Bank
BDS	Business Development Services
CDC	Curriculum Development Council
COMSEC	Commonwealth Secretariat
DCNVB	Department of Cooperatives and Ni-Vanuatu Business
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service (International Finance Corp.- World Bank)
ILO	International Labour Organization
MDG	Millennium Development Goals
NBV	National Bank of Vanuatu
NVSBDF	Ni-Vanuatu Small Business Development Fund
PAA	Priorities and Action Agenda for Vanuatu, 2006-2015
PIPP	Pacific Institute of Public Policy
REDI	Rural Economic Development Initiative Project
SBDA	Small Business Development Agency
SBDF	Small Business Development Fund
TNC	Trans-National Corporation
TVET	Technical and Vocational Education and Training
VADB	Vanuatu Agricultural Development Bank
VCCI	Vanuatu Chamber of Commerce and Industry
VNTC	Vanuatu National Training Council
VRTDCA	Vanuatu Rural development and Training Centres Association
VIPA	Vanuatu Investment Promotion Authority
VIT	Vanuatu Institute of Technology
VNTC	Vanuatu National Training Council
WB	World Bank

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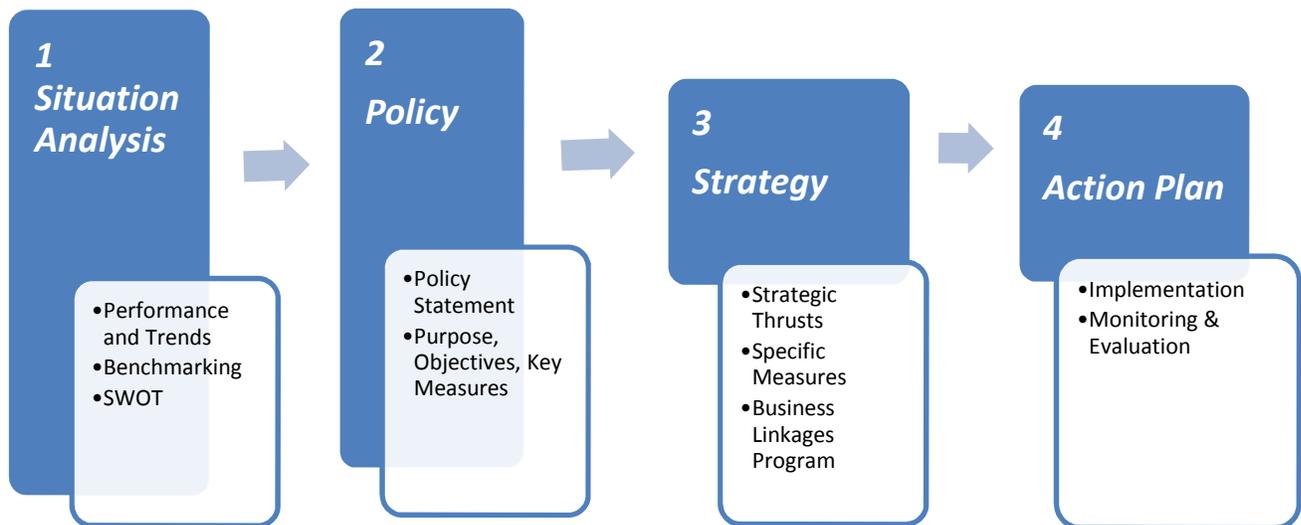
Report Structure

We see the project as an integrated, seamless flow from the Current situation through analysis, Policy and Strategy development, action planning and training. This report is organized into the following major sections:

- Situation Analysis
- MSME Policy Statement
- MSME Strategy, Business Linkages Program and Action Plan

These phases are connected to the Purposes and Objectives of the project and are illustrated below:

Figure 1- MSME Policy and Strategy Flowchart



For convenience and ease of reference, the Report is presented in three volumes. Volume One includes the Situation Analysis; Volume Two contains the MSME Policy, including framework and specific recommended policy actions; Volume Three covers the MSME Strategy, Business Linkages Program and Action Plan.

In tandem with this Report, a training program was designed and training sessions were conducted. These sessions covered the Policy & Strategy and Action Plan, and also the provision of BDS in Vanuatu. These are discussed in Volume Three, Part V of this report.

Part II- MSME Policy

The Vanuatu Government Policy for raising the welfare of the people of Vanuatu is set out in the document 'Priorities and Action Agenda for Vanuatu 2006 – 2015'.

The PAA establishes a national vision for an educated, healthy and wealthy Vanuatu :

By 2015 Vanuatu will have achieved a significant increase in real per capita incomes, along with steady growth in levels of employment. Within the region, Vanuatu will be among the leading countries in achieving the Millennium Development Goals in education, health, environmental management, and other key social indicators. Public sector reforms will have raised standards of governance, levels of productivity in the civil service, and will have resulted in higher standards of services and managerial accountability. Through continuing structural reform, Vanuatu will have established an effective enabling environment to sustain the significant private sector growth, which it aims to achieve in output and employment.

This Vision contemplates a significant increase in per capita income and employment growth through private sector growth, together with substantial achievements in relation of the MDGs.

Key to the achievement of this national vision is to support key priority areas which include:

- private sector development and employment creation
- macroeconomic stability and equitable growth
- good governance and public sector reform
- primary sector development (natural resources and the environment)
- provision of better basic services, especially in rural areas
- education and human resource development
- economic infrastructure and support services

The first of these, private sector development and employment creation, represents the core element in the context for this Policy and Strategy.

The MSME Policy includes an overall statement of the Policy of the Government of Vanuatu toward MSMEs, its purpose and major objectives. Also included is a summary of specific policy directions to be established in key areas; these are then elaborated in the MSME Strategy and Action Plans in Parts III and IV of this report.

The Policy Statement was discussed and revised by a significant number of participants representing a cross-section or stakeholder groups at the final consultation workshop held in Port Vila in February. It reflects the consensus of opinion there, and is therefore a genuine “Made in Vanuatu” statement of the Policy direction.

Statement of Policy

It is the Policy of the Government of Vanuatu to recognize, promote and develop sustainable micro-, small and medium sized enterprises (MSMEs). This will provide meaningful employment, skills transfer and wealth creation, and diverse opportunities on a coordinated basis that will encourage and support all of our people to become successful entrepreneurs, thereby contributing to Vanuatu’s economic and social future.

Mindful of the nation’s limited resources, it is our intention to develop and deliver programs and initiatives for this purpose. We will include public resources (staff support and funding) and resources leveraged through partnerships with private sector and international support networks.

Purpose of the Policy

The Purpose of this Policy is to stimulate sustainable expansion in the private sector by increasing the number of viable micro, small and medium scale enterprises, and by creating a climate conducive for the entrepreneurial spirit and culture to grow and flourish in all communities throughout Vanuatu.

Objectives of the Policy

The Objectives of this Policy are:

- ✓ **Employment creation**
- ✓ **Income generation**
- ✓ **Skills development**
- ✓ **Economic diversification**
- ✓ **Demonstrated recognition of the sector and its importance to national economy**
- ✓ **Promotion of a culture of entrepreneurship throughout Vanuatu**
- ✓ **Removing attitudinal, structural impediments to growing wealth via MSMEs**
- ✓ **Attraction of greater business investment in the rural economy, and businesses operated by women , youth and the disabled**
- ✓ **Effective programming and incentives to support growth**
- ✓ **Greater integration of government functions and processes**
- ✓ **Encouragement of transition to the formal sector—by removing barriers and frustrations**
- ✓ **Making the public sector more businesslike in operation and business-friendly in its service, demonstrating greater responsiveness to the needs of small businesses**

Definition of the MSME Sector

It is important to define the MSME sector in Vanuatu in order to determine targeting and eligibility for planned programs. International practice indicates that the MSME sector may be defined by a variety of methods, including employment level, revenue (sales/ turnover), assets, legal structure or other means. The International Labour Organization suggests in its Resolution 189 that countries should define small and medium enterprises according to national conditions and practices.

For Vanuatu, the proposed method for determining MSME status is a combination of employment level and annual revenue. A business that qualifies as a MSME by using either of these two measures would be deemed to be a MSME for purposes of targeting legislative and programming measures.

This methodology is recommended because it will be relatively simple to administer compared to using assets or other measures. In addition, the thresholds shown in **Figure 26** below are chosen to reflect the reality of the Vanuatu economy. For micro-sized businesses, the upper sales-turnover threshold has been chosen to match recent changes in the size of business to which business license fees apply.

Ownership structure is shown as an indicator of the likely situation only, not as a prescriptive method for assessing eligibility.

Figure 26 - Typology of Enterprises by Size – Vanuatu

INDICATORS	LARGE	MEDIUM	SMALL	MICRO
No. of employees	Over 50	20 to 50	6 to 20	1 to 5
Annual sales/turnover(Vatu)	Over 200 million	Less than 200 million	Less than 50 million	Less than 4 million
Ownership Structure	From 100% foreign to 100% local	Minimum 50% local	Minimum 75% local	100% locally owned

Beneficiaries of the Policy

Beneficiaries of the Policy will include:

- existing small businesses—whether registered, unregistered or incorporated
- start-up enterprises
- individual entrepreneurs

Their legal status will typically be:

- informal, unregistered
- registered business names
- sole proprietorships
- partnerships
- joint stock companies
- registered co-operatives
- foundations, associations, government agencies and other intermediary organisations supporting and serving small businesses.

Specific Areas for Policy Measures

The Government of Vanuatu intends to take effective measures to recognize, support, and build a prosperous and growing MSME sector in all regions and provinces of the country. This will be done with due recognition of the fiscal and economic constraints under which government and its agencies function, and recognizing the needs and demands of citizens in other stakeholder groups and communities for appropriate support.

An overview of major policy measures the Government intends to establish in support of the new MSME Policy direction include those stated below. These summaries will necessarily include additional measures as conditions require and stakeholders identify. More detailed discussions of ways and means of implementing key initiatives among them are discussed in Volume Three, Part III- MSME Strategy. There, stakeholders from Vanuatu discussed and developed the recommended scheme of priorities and areas for most urgent action from the longer list of suggested actions presented here. Their advice was invaluable in ensuring that the recommendations are relevant to Vanuatu's reality.

Legal and Regulatory Framework

Vanuatu must undertake a systematic review of its legislative, regulatory and administrative processes and structures to ensure that their capacity for aiding the development of the MSME sector in the country is maximized.

The legal and regulatory framework needs to be made more enabling and less restrictive. To accomplish this goal, a Small Business Development Act will be introduced, in keeping with the Policy, to be passed into law by the end of 2011. The definition and classification of small businesses, the designation of approved small businesses, and procedures for accessing fiscal and other incentives will be included in this legislation. The legislation will make it clear that the Policy is in force and that the focus on MSME development is a key priority of the Government. This will include establishing a network of departments and agencies focused on MSME development in all parts of the country, with a new SBDA as its fulcrum.

Specific actions to be carried out as part of this plan include:

- Review and modernization of the legal-legislative framework, including introducing Small Business legislation
 - Include the definition and classification of small businesses, the designation of approved small businesses, and criteria and procedures for accessing fiscal and other incentives
- Establish a registry of Vanuatu small businesses
 - Mandate VCCI to maintain it, once VCCI is in a position to perform this role
 - Initially, it could be operated by provincial governments
- Establish the SBDA, with substantial MSME participation in oversight and governance
 - Provide SBDA with responsibility to administer the SBDF, to establish a scheme of incentives, to determine eligibility criteria and processes, and enforcement methods
 - Note: the SBDA may be included as part of a new or revised departmental structure within DCNVB
- Adjust the mandate, role and functions of DCNVB to better respond to MSME needs and demands
- Adjust VIPA's mandate and revise its legislation as necessary to encourage FDI partnerships with MSMEs
- Encourage VIPA to play a more active role in promoting investment, rather than merely administering investment applications
- Review and revise or further adjust VAT rates, business licenses and other fees to reduce burden and other impacts on MSMEs
- Reduce the cost of incorporation
- Establish a public procurement policy to reserve, over time, an established portion of government procurement of goods and services for qualified, eligible, registered MSMEs
- Simplify, consolidate government forms and procedures to reduce burden and cost for MSMEs, reduce administrative effort by public servants
 - Continue and expand the World Bank-sponsored "Doing Business" project now underway
- Make it clear that the Policy is in force and that the focus on MSME development is a key priority of the Government
 - Conduct ongoing awareness-promotional initiatives to launch and sustain support for the MSME Policy and Strategy

The consultative approach utilized in the design of this Policy should be repeated with the above legislative reviews, including the holding of ongoing public awareness sessions on the above new legislation. At the same time, once new programs and initiatives are put in place stringent enforcement of eligibility requirements adherence to rules and criteria established should be implemented. The intention is to implement an approach with attractive incentives for MSMEs to help them build skills, learn business management techniques, save costs and meet customer requirements, while expecting them to demonstrate their own commitment to improvement by joining the formal sector and economic mainstream.

We also intend that the multiplicity of forms, records and processes required for various registrations by business (especially by MSMEs) be streamlined and reduced aggressively. There are forms required for VAT registration, business name registration, incorporation, business licenses, customs, export permits, utilities, and

more. Complying with these requires separate fees and trips to a variety of government offices, where in fact many of the forms require the same core information about the registrant.

It is often the case that applicants requiring licenses or permits must obtain them in a particular sequence, so that having waited in one queue (sometimes for hours) they find that they must first go to another office to obtain another required document.

For MSMEs especially this is a serious waste of valuable time—when a micro or small MSME is lined up at government offices to complete forms and pay fees, business is not being done and productivity is lost. This is a burden that appears to have little corresponding value. It also gives a very unfavourable impression of the efficiency of government operations.

We intend that these forms and processes be evaluated, combined, reduced and integrated with the goal of having a single form (or very few) to be filled out and filed. If filed with any one government agency, the form or its key information could then be distributed to other bodies. This would require at first instance a thorough evaluation of all forms and processes. Distribution to other agencies can be done in hard copy or soft. Software applications are available to assist in streamlining this without major investment. This should become an explicit goal and a specific project. A taskforce chaired by DCNVB should be established to begin work on this immediately. It should include membership from the Doing Business project.

With regard to legal fees, we propose that incorporation processes be made less formal so that complex legal documents, notarization and affidavits are not required. Reduction of fees from VT30,000 to VT5,000 for incorporation, plus efforts to downscale the attendant legal fees charged to struggling entrepreneurs will play a significant role in improving the enabling climate and inducing more MSMEs to become formalized. Annual fees to renew corporate status should be eliminated for micro and small enterprises.

We intend that a centralized registry of all business in Vanuatu, including MSMEs that are not now part of the formal sector, be established. Over time, and once sufficient capacity is established, the VCCI could be mandated to operate this registry as a business line of the association. Until that time, provincial governments could carry out this function in line with the decentralization amendments of 2007.

Another area which will assist MSMEs to become more integrated into the mainstream of the Vanuatu economy concerns reorienting public sector procurement programs. Our goal is to deliberately create opportunities for MSMEs to participate in public tenders.

Legislation should make it mandatory for the government itself and for government-owned companies to reserve a portion (perhaps as much as 25 %) of their tenders for small businesses. This would be applied over time, being applied at first instance to tenders under VT200,000 in value, rising to higher thresholds as experience is gained. Micro-sized businesses should be specifically included in this program where feasible, and technical assistance should be specifically targeted to support their efforts to become sufficiently capable to meet government requirements.

Developing Trade and Regional Integration

The development of the MSME Policy and Strategy provides an excellent opportunity for Vanuatu to review and update its trade-related strategic planning to incorporate a focus on MSMEs.

Strengthening participation by MSMEs in Vanuatu's trade activities will serve the national interest in a variety of ways. Awareness, knowledge and skills will need to be increased. Opportunities to export and partner with foreign firms in key markets will add to the knowledge base as well as increase business volume. Development at the national level will be enhanced. Capacity in target segments such as youth and women entrepreneurs will also need to be strengthened. Adopting global competitive standards will help to raise productivity and improve the standard of living for citizens.

Areas for emphasis in government action should include:

- trade awareness
- trade readiness training (including market analysis; product differentiation, presentation and packaging requirements)
- standards training
- management skill development
- marketing strategy
- trade agreements
- marketing support and programming (including inbound and outbound missions and fairs)

MSMEs, with government in support, should aggressively pursue larger export and domestic markets and marketing performance for Vanuatu's goods and services. Initiatives should include training and readiness programmes, operational performance improvement and marketing support. There is a significant opportunity for strategic expansion in domestic consumption of local produce, locally processed foods and related agri-businesses. An exciting value chain approach and project should be designed and developed as a demonstration of government-driven enterprise development especially for the rural economy, supplying the tourism sector in particular.

To achieve the goals set out in the Policy, the government will act to:

- Expand Vanuatu's participation in regional and other trade agreements, to open access to new markets for Vanuatu producers
- Establish a web portal and market analysis-opportunity service to alert MSMEs to export opportunities within the South Pacific region and beyond

- Establish a Vanuatu Standards Bureau to acquire, disseminate information about international standards and requirements for quality, and to train MSMEs in skills and techniques necessary to meet them
- Support efforts by the Pacific Islands Forum Secretariat to regionalise trade facilitation.

Physical Infrastructure (Rural/ Urban)

It is recognized that the physical infrastructure of Vanuatu is not adequate to facilitate and promote business among islands, within the South Pacific region or further abroad. This impacts all businesses in the country, including MSMEs. MSMEs feel this weakness acutely, especially those in outlying islands and rural areas, where shipping service schedules, availability and cost are all areas of concern identified in the consultation process. Addressing these shortcomings is challenging—improvements are costly, and take considerable time to introduce and complete, and demand volumes are modest, making it difficult to justify large investments. We recognize that addressing these issues is not within the specific mandate or scope of a policy for MSMEs, but it is important to note that weaknesses in these areas do affect MSME performance and growth potential. Therefore, it should be the intention of the government to:

- Improve, where feasible, transportation services among all provinces, to facilitate efficient supply of materials and components and delivery of finished product to domestic and foreign markets. This will include a review of shipping facilities and schedules, condition and availability of related infrastructure, opportunities to encourage addition of capacity and service.

Business Development Services (Rural/ Urban)

One of the recurring themes in the stakeholder consultations and in interviews with individual MSMEs and other entrepreneurs in Vanuatu concerns the inadequacy of the system of BDS support mechanisms and organizations.

Vanuatu does now have a range of BDS services in place and available to MSMEs, in areas such as financial literacy, business management, information technology, product development, and marketing, among many others. However, chronic issues exist concerning many aspects of these services. Among these are: knowledge of the full array of services available; complementarity of programs from different providers; cost; availability in outlying islands and rural areas; delivery modes; gaps in availability of programs in all relevant areas; certification programs; language of curriculum; ties or connections between BDS and financial support, and other areas.

Some stakeholders feel that there are not enough BDS programs available to small businesses. Most agree that there is poor coordination, planning and collaboration among BDS providers, and that standards are in some cases inadequate (with out of date materials, language barriers etc), while in others they are designed more for larger, more established, internationalized companies and are not targeted appropriately for MSMEs and start-up businesses.

While recognizing the competitive environment in which private sector providers operate, the government appreciates the importance to MSMEs individually and to the effectiveness of these services overall, of developing a more systematic suite of services offerings, known to all interested businesses and readily accessible. Consideration should be given to strengthening current facilities, programs and initiatives for MSMEs so that improved access to modern research and laboratory facilities and the internet, and skills in their use can become features of the sector.

As a first step, a comprehensive inventory of BDS in Vanuatu should be completed, and maintained up to date thereafter. VNTC would be an important participant in this process. From this inventory, a needs and gap analysis should be conducted.

It should be the policy the government to:

- Complete a comprehensive inventory of BDS providers and services
- Maintain this inventory on a continuing, current basis
- Develop a needs analysis and gap analysis of BDS for MSMEs
- Facilitate collaboration among BDS providers to support MSME priority needs, based on the inventory and analyses above
- Establish or encourage new BDS where necessary
- Create government-supported BDS service centres for MSMEs in rural areas to facilitate delivery of service to rural MSMEs and those in outlying islands
 - On-site offices
 - Extension services
 - Access to outside services (via web)
- Establish a business incubator program in Vanuatu (as part of business linkages program), building on the success of the Youth Challenge program.
- Facilitate creation of business networks for MSMEs in Vanuatu (as part of business linkages program)
- Encourage and promote linkages between delivery of Micro-Finance support and provision of BDS by appropriate providers

Entrepreneurship Development/Education and Capacity Building

BDS services in the field of education and training are particularly important for longer term MSME sector performance improvement. Both private and public sector training institutions compose the overall system that will produce the next generations of entrepreneurs in Vanuatu. Success in creating a vibrant, educated, knowledgeable private sector must begin in the school system, making acquisition of business skills an explicit goal. The process must continue through higher levels of education and in post-educational and workplace-based training.

To create conditions that will support development of a more qualified workforce for the future, the government will:

- Ensure collaboration, involvement of private sector (including MSMEs) in curriculum development processes of CDC (education statement and syllabus development)
- Give high priority to development and delivery of training programs for new entrepreneurs and other MSMEs in key areas identified:
 - Financial literacy
 - Business management
 - Customer service
 - Accounting
 - Export readiness
 - Market analysis
 - Product development
 - Human resource management
 - Credit and banking
 - Technology management (IT-Internet)

Value Addition to Raw Materials

Greater value added can be achieved through product quality improvement. Quality improvement is normally made through introduction of grading and standards, which encourage farmers to improve returns by meeting grade levels. We will support measures to enable MSMEs in Vanuatu to learn about and comply with these requirements. A Bureau of Standards will be established to provide product testing capability in order to facilitate exports to overseas markets, and to provide outreach and training for our producers.

Business networks, cooperatives, buying groups and incubators can all assist in identifying areas and opportunities for value addition, and shall be supported.

In the absence of a rural small-scale food processing sector, rural value-added is likely to remain low. However, small-scale processing at the household and microenterprise level based on available technology may hold potential and will be investigated. Food processing offers a good prospect for increasing value added and rural incomes.

Knowledge Networks and Innovation

Business networks, clusters and other groupings of entrepreneurs will be encouraged and supported, in order to increase leverage and improve exchange of knowledge and skills in a small country with limited means or access to specialized skills. Supporting formation of clusters and establishment of specific groups of MSMEs in incubators are relatively inexpensive initiatives with significant potential to establish and showcase MSME potential.

Vanuatu will also examine the potential for establishing a business incubator program to cultivate and support new and emerging MSMEs with significant potential. This initiative is discussed in detail in the Business Linkages section of this report.

Within the context of financial feasibility, the government of Vanuatu will therefore:

- Establish a business incubator program and service in Vanuatu, as well as maintaining support for Youth Challenge
- Facilitate, and encourage establishment of business networks and clusters in Vanuatu in key sectors (food processing and food service, construction, business services)
- Establish a learning network including key educational institutions, CDC, Standards Bureau, BDS and training providers to connect MSMEs to sources of expertise needed to operate at levels of performance required by international customers.

MSME Linkages with TNCs for FDI (Rural/ Urban)

Both in clusters and individually, MSMEs in Vanuatu need to increase linkages with TNCs investing in the country, to become suppliers and business partners. A program for establishing such linkages and utilizing them to enhance capacity and competitiveness is included in Part IV of this report. Government has an important role in facilitating and promoting this process.

To this end, the government's policy will be to:

- Create and maintain a database of investor requirements of suppliers
- Revise VIPA's mandate to include explicit encouragement and promotion of MSME participation and involvement in FDI projects, as suppliers of goods and services
- Develop an inventory of MSME suppliers ready and able to partner with investors (individually and in consortia)
- Utilize the range of support mechanisms and institutions, including training programs and other BDS available or to be established, in order to strengthen MSME capacity so that they qualify as suppliers and partners of international firms.
- Encourage development of business networks for these purposes.

Details of the proposed program are included in Part IV.

Production Equipment and Technology

The government will take appropriate measures to assist and support MSMEs to use buying groups to gain volume, reduce cost to import, service production inputs (materials, equipment, supplies).

Marketing

Vanuatu is a participant in a range of trade arrangements. It has been recognized that it is essential for the country to take advantage of them more fully. Strengthening participation by MSMEs in Vanuatu's trade activities will serve the national interest in a variety of ways. Awareness, knowledge and skills will be increased. Opportunities to export and partner with foreign firms in key markets will add to the knowledge base as well as increase business volume. Development at the national level will be enhanced. Capacity in target segments such as youth and women entrepreneurs will be strengthened. Adopting global competitive standards will help to raise productivity and improve the standard of living.

Government should lead by example in becoming more capable and proactive in marketing. A sustained national awareness campaign to promote the benefits of small businesses, the Policy, Strategy, the Act and the various renewed services to be provided will assist in shifting the mindset towards a more positive image of MSMEs.

Product differentiation based on origin is increasingly used worldwide as a way of achieving price premiums. This is derived from significant quality characteristics through being produced and/or processed in a particular area, usually as a result of a unique combination of topography, climate and soils. Tanna coffee is one such product in Vanuatu that may have potential for growth based on this kind of branding.

To support greater participation in world markets by our MSMEs, the government will:

- Develop and launch a program of trade missions (inbound and outbound) and trade fairs to showcase MSME and Vanuatu capabilities
 - With regional emphasis, further abroad over time and opportunistically
- Establish stronger, web-based, market intelligence-analysis services, provided online and via government MSME support field offices
- Collaborate with new Bureau of Standards in identifying customer requirements, facilitating development of needed capabilities domestically.

Access to Finance (Rural/ Urban)

Credit, its availability, terms of access, and cost, are all of concern to MSMEs. NBV's MSME-focused lending program is an important initiative to assist small businesses in this area. More can be done to support this initiative, and to work to meet MSME needs more fully.

The government will:

- Highlight and promote NBV's MSME credit program and activities

- Encourage establishment of other micro-credit bodies such as VANWODS and the Vanuatu Agricultural Development Bank
- Encourage establishment of credit unions where demand and potential exist (support through training programs, support infrastructure)
- Examine ways to expand, liberalize forms and types of acceptable collateral
- Encourage and promote linkages between MFIs and BDS providers, so that MSMEs are better positioned to use effectively the credit they receive
 - This linkage will be encouraged through the work of the SBDA

Institutional Framework

The government of Vanuatu will review and adjust its institutional structure to better focus on meeting the needs of the MSME sector.

We will:

- Establish SBDA as a new agency of government specifically mandated to lead in supporting MSME development and to coordinate government and private sector actions toward that objective
 - This may be accomplished by converting all or a portion of the DCNVB into the new agency
- Determine the optimal relationship between DCNVB and SBDA, and government as a whole
 - Select a structure based on maximum effectiveness in delivering services of quality and value to MSME's at lowest cost, simplest administration and greatest stakeholder involvement

Alternative structures for implementation of new institutional arrangements and other aspects of the legislative and regulatory system are detailed in Part III. These will be reviewed and the most effective solution will be adopted, in consultation with affected stakeholders.

SBDA itself should not take on the role or function of a BDS provider for existing services already available. Where gaps are identified in the array of BDS available, SBDA will work with its public and private sector partners to encourage development of appropriate tools and services to meet these needs. SBDA will provide a field extension service, continually working with MSMEs to identify support needed, assist in finding suitable providers, evaluating and supporting implementation in a mentoring capacity, evaluating service effectiveness, and proposing improvements in content, delivery, coordination and promotion, as well as follow-up.

If high performance, quality of products and services are critical, certification to recognized standards should be encouraged for firms of sufficient scale, to match required promotional efforts. For smaller organizations, less formal approaches will be more suitable. In either event, establishing a domestic Bureau of Standards will demonstrate commitment, and at the same time provide the inspection, testing and certification facilities needed to make Vanuatu products saleable in international markets. It is important to note that survey respondents in rural areas made compliance with international standards their highest area of concern and

priority for action. Since most of Vanuatu's population is rural, most MSMEs are farmers and agriculture is a key sector for improving national export performance, this should be a top priority for government action.

The training component of this work should not be under-estimated. Taking a serious domestic approach to inspection and certification is an important, visible step in demonstrating commitment to quality. If exports are to grow, certification against recognized standards should match marketing and promotional efforts. This is a critical step toward closing the gap between Vanuatu's current, weak export performance and its potential as a quality supplier in the region and beyond. Our rural MSMEs in particular recognize the importance of meeting customer requirements in order to expand their business volumes.

Toward this end, the government will:

- Create, fund and staff the Vanuatu Standards Bureau
 - Ensure that the Bureau has effective testing capability and also appropriate outreach and training programs to support Vanuatu exporters
- Revise, expand mandate of VIPA
 - Include MSME partnership facilitation
 - Expand investment promotion role
- Ensure active collaboration of DCNVB and SBDA with other departments and agencies of government having an interest in MSME development (VIPA, Education, Tourism, Trade, Agriculture, Finance), the VNB, educational institutions and BDS providers, the new Standards Bureau, the VCCI and other associations, as well as civil society groups, to bring the greatest degree of knowledge, insight and participation to bear on all initiatives to strengthen the MSME sector in Vanuatu:
 - increase collaborative problem-solving approaches
 - streamline decision processes, so that the public service acts more business-like
 - apply more "do it once; do it right" disciplines so that best practices become the norm
 - inculcate and maintain Customer Service Excellence
- Continue and expand the current "Doing Business" project

Cross Cutting Issues

The government will:

- Ensure that policies and initiatives of the government of Vanuatu related to MSME development fully integrate measures to support environmental sustainability, gender equality and involvement of youth
- Ensure that governmental decisions affecting MSME policy and development are transparent, objective and non-discriminatory

Policy Monitoring and Evaluation

Implementation of the Policy and Strategy must be rigorous, transparent and persistent. To achieve these goals, the government will:

- Establish a system of review of progress of implementation of the Policy, Strategy and all major related programs and initiatives, with key results identified, performance measurement criteria established, responsibilities assigned, and corrective action and revision methods developed.
- Launch the system publicly, include stakeholders in oversight and operate it transparently

Measures and strategies for doing this are discussed in Volume Three, Part V of this report.

Focus on Strengthening the Rural and Outlying Island Economies

The consultations and survey data indicate that outlying island MSMEs share many of the same concerns as their large island counterparts, but, unsurprisingly, also have a greater focus on high transport costs and weak infrastructure and services provision.

Expanding transport services will require major investment that would be costly and is outside the scope of the MSME Policy. However, many of the key issues and priorities for action identified by stakeholders require action—by government, by support organizations such as associations, BDS providers and others—that are less costly, more feasible and likely to meet with a favourable reception by the community. Some will be labour-intensive, involving bringing services to the rural MSMEs in their localities. This is an effort that will reap dividends in MSME-client growth, and in increased appreciation of the customer service orientation of the government.

The new “culture of enterprise, innovation and productivity” will not materialise without concrete measures to strengthen the rural economy in Vanuatu and without special programs for the outlying island communities. They have a special role in the future tourism and agricultural development of Vanuatu.

For tourism, the focus on less commercialised, more relaxing vacation experiences available in Vanuatu is appropriate. The opportunity may exist to further differentiate the tourism experience by building on potential niches in eco- and agri-tourism.

In agriculture, Vanuatu faces issues such as stagnant or declining market demand for traditional staple products where lower cost, higher volume producers in other parts of the world are able to compete more aggressively on price. There needs to be a stronger focus on diversification toward specialised products with higher value-added. An emphasis on “food” rather than just “crops” will entail more local processing. Specialisation based on indigenous finished food products will enable Vanuatu’s farm and fishing communities to build their reputation and their profits.

Rural MSMEs responding to the survey were particularly concerned about difficulties in meeting international standards. This is clearly an important area for action, since most MSMEs are in rural areas, most of those are farmers, and agriculture is a key sector for improving Vanuatu’s export performance.

Deliberate transformation measures should include:

- Increased skills training and certification activity through continuing education focusing on upgrading the rural workforce for opportunities in the priority sectors
- Improved business infrastructure provided by the public sector: (e.g. association offices and chapters revitalized, SBDA offices established, BDS providers working in collaboration)
- Encouraging development of rural business clusters, in agriculture, tourism and other areas
- Encouragement, promotion and support for the sale of local agricultural products to hotels, restaurants and caterers in Vanuatu
- Special incentives provided to enterprises locating in the rural areas and providing employment and business linkages to existing and new enterprises operating in the rural communities: (e.g. loan incentive programs linked to completion of training levels, participation in cooperatives, adoption and sharing of best practices)
- Stimulating greater investments in ICT, food-based manufacturing, tourism and other export-oriented industries locating in rural industrial centres
- Deepening the linkages between HACCP compliant agri-food production, tourism and residential consumption, imports replacement and exports growth
- Using proven benchmarking and company strengthening interventions, targeting certain rural-based medium and small-scale enterprises with good potential for expansion
- Ongoing human resource and capacity development support – with gender equity considerations - provided to viable rural enterprises
- Ensuring that a significant portion (e.g. 50%) of SBDA-sponsored training and TA beneficiaries are rural and off-island enterprises. This could be accomplished by using a sliding scale over time, or by size of firm assisted

Conditions and Requirements for the MSME Policy

For this Policy to gain public confidence, especially among the beneficiaries and the stakeholders who shaped its design, the following conditions must pre-exist:

- Government at the highest level acknowledges the economic importance and potential of MSMEs as a distinct economic sub-sector in need of overdue public sector supportive interventions.
- Government has become the catalyst for achieving the above policy goal, purpose and priorities.
- The established private sector, as the principal beneficiary of economic growth, has agreed to play a more dynamic partnership role in transforming the business landscape.
- Political will to reduce and eliminate unnecessary regulatory, procedural, protocol and other bureaucratic barriers retarding routine business transactions has been demonstrated.
- Political commitment to restructure or strengthen related public sector ministries and agencies was proposed by numerous stakeholders to facilitate improved decision-making, enhance efficiencies and promote faster responses to requests from MSMEs.
- Political will to establish, reposition or reactivate a dynamic, centralized agency dedicated to championing the aspirations and servicing the needs of the Private Sector and MSMEs with special attention to small businesses is demonstrated.
- Restraint or reduction in taxation and fees affecting MSMEs and their owners has been accepted as beneficial to the economy by several stakeholders in the consultative processes.
- An “innovate or perish” mindset being promoted, resulting from increased commitment by both the Government and the private sector to invest more in identifying new markets and satisfying current and anticipated export quality and quantity demands.
- The Minister of Cooperatives and Ni-Vanuatu Business has committed to champion the passage and implementation of both the Policy, Strategy and related programming, with full support from competent officials.

The Government of Vanuatu, convinced of the positive economic attributes of small businesses, will therefore not only entrench this focus in its future economic planning but will introduce specific measures to ensure that the modernization of this undocumented segment of the economy receives priority attention in a sustained manner.

Priorities for Action

The recommended actions described here provide a full range or menu of initiatives to address Vanuatu’s need and desire for improved MSME performance. Part IV of this report indicates the strategic areas and the key measures which stakeholders have identified as top priorities for action toward implementation of the Policy.

Expected Results / Measures of Success

This Policy is premised on the collective confidence exhibited by all stakeholders that entrepreneurs can bring dynamics, flexibility and balance to an economy. The Government of Vanuatu, through the DCNVB, is committed to the conscious implementation of its goals, purpose, priorities and strategic deliverables in collaboration with all partners, in order to improve the enabling climate for large and smaller businesses.

The new Policy direction seeks to deliberately:

- concentrate Government energies into the creation of greater opportunities for private enterprise
- transform the attitudes, productivity levels, business focus, orientation and day-to-day behaviour of the public service to support, facilitate and promote business—local and overseas, existing and new
- assist and encourage more existing informal entrepreneurs to become formally registered and connected
- help more existing local businesses to grow, expand and to graduate from sole trader status to become incorporated as joint stock or public companies
- encourage more entrepreneurs and registered businesses to increase their sales, profits and reserves

In the medium term, qualitative and quantitative results will include:

- Lower transaction costs of doing business realised from reduced bureaucratic procedures and red tape
- Faster turnaround time experienced for company registration and concessions
- Greater availability of market-related information
- Greater access to sources of credit
- More small entrepreneurs trained and empowered
- More small enterprises strengthened, upgraded, diversified and expanded
- More local businesses registered and companies incorporated
- More jobs created and saved

Key performance indicators are set out in the Monitoring and Evaluation section in Part V of this report.

Appendices

Volume One

- 1 MSME Stakeholder Survey Questionnaire
- 2 MSME Stakeholder Survey Data
- 3 Regional Comments (Survey and Field Consultations)

Volume Three

- 4 Ideas for Change for Vanuatu's Business Associations
- 5 Subject Areas for Business Management Training
- 6 Subject Areas for Technical Assistance to Entrepreneurs
- 7 Policy Practices to Scrutinize re. Linkages
- 8 Presentations at Final Consultation Workshop
- 9 Implementation Timetable – form
- 10 Presentation at Training Session—Policy and Strategy Implementation
- 11 Presentation at Training Session—BDS
- 12 Monitoring and Evaluation Summary—form