

# Finding the right regulatory fit for economic growth and private-sector development in Vanuatu

Vijaya Nagarajan

Vanuatu, like many emerging South Pacific nations, is focusing on facilitating economic growth by developing its private sector, which necessarily involves a clear enunciation of an overarching theoretical framework that can be coupled with pragmatic strategies. This paper adopts a multi-disciplinary perspective to examine the theoretical and practical dimensions involved. First, it develops a theoretical framework for governance aimed at private-sector development in emerging economies. Second, it considers the main areas of reform necessary to facilitate economic growth; in particular, canvassing strategies that are suited to the socio-political context of Vanuatu.

Vijaya Nagarajan is in the Division of Law at Macquarie University. This article was written after an AusAID-funded mission to Vanuatu to examine Women's participation in private-sector development in Vanuatu'.

Vanuatu, like many of its South Pacific neighbours, is a tranquil tropical paradise that is coming to terms with the need to enter the global economy and promote economic development. Facilitating economic growth in this country has been the focus of many aid programs and international development strategies. Currently, aid funds between 20 and 30 per cent of the government's budget. Total aid flow doubled from 2006 to 2007 and these increases are likely to continue, with all of the major donors—including Australia, New Zealand, the European Union, France, China and Japan—planning significant increases in aid funding (Cox et al. 2008).

This paper takes a bird's-eye view of the manner in which economic growth can be encouraged in Vanuatu. The discussion is divided into three main sections. The first section contains a theoretical discussion of the appropriate regulatory approaches to encouraging private-sector development in emerging markets such as Vanuatu. The second section examines the types of barriers to promoting economic growth that exist at the macro level in Vanuatu. It is these areas that pose challenges to private-sector development. The third section examines the main areas of reform that are necessary to facilitate economic growth and, in particular, canvasses specific strategies suited to the socioeconomic climate of Vanuatu.



## Regulatory approaches to encouraging private-sector development in emerging markets

As emerging nations seek to improve the economic wellbeing of their citizens, they are scrutinising the types of entrepreneurial activity being conducted, the main areas of trade engaged in and the ways in which such activities can be boosted and trade expanded. The focus as ever is on making the market work for the nation and its citizens. Governments are trying to identify their role in this process; and they are looking for ways to obtain assistance from international aid bodies as well as the business sector. It is clear that there is no single prescribed method; markets will work under diverse conditions. To work effectively, however, markets require some fundamental infrastructure, including institutions to enforce property rights and contracts as well as to manage the activities of competitors and the degree of competition.

There is a growing body of research that points to the following indicators as important for economic development (World Bank 2002)

- fair and honest political institutions
- independent legal institutions
- recognition of property rights
- strong state-based enforcement mechanisms
- private bodies involved in enforcement
- encouragement of competition and participation within the market
- facilitating financial institutions and the availability of finance
- clear norms that support market-based economies.

The literature is, however, inconclusive about the relative importance of the criteria and the manner in which they can be accommodated within the cultural, social and economic fabric of the country (Sullivan 2008).

Historically, the response in developing countries to such challenges has been to import the laws and regulations of industrialised, market-based economies. Indeed, this is exactly why Vanuatu is currently saddled with numerous British laws, such as an old company's law, which has little application today. Importing another state's laws is clearly not the correct solution. Careful attention has to be given to the myriad factors in designing laws that facilitate a market economy in a country such as Vanuatu. The experience of the introduction of company law in an emerging nation illustrates the importance of finding the correct regulatory fit.

The company laws of the United Kingdom, the United States, Australia or New Zealand, structured around common principles, are unlikely to provide the appropriate regulatory fit for emerging nations. Because emerging nations are unlikely to have the legal infrastructure to handle complex cases, the company laws that are adopted should be simple and clear—and be able to evolve as the economy evolves. Complex nuanced laws in industrialised countries, which rely significantly on the general legal principles that have to be interpreted by the regulator or the judiciary, might not be appropriate. The objective is to opt for bright-line rules that are formulated to further economic growth. Bright-line rules refer to clear laws and regulations, capable of easy interpretation and requiring little use of discretion by regulators or the judiciary in applying them. In the context of company law, this has been translated to mean that the main thrust should be to encourage



investment in joint stock companies and to ensure that the costs of running the company are maintained at a reasonable level (Avilov et al. 1999). Shareholder protection should be of only secondary importance. In industrialised countries, including Australia and the countries of the Organisation for Economic Cooperation and Development (OECD), the current focus is on ensuring the shareholder has adequate rights to monitor management. In emerging markets, such shareholder rights are likely to cause more instability than anything else. All attempts at designing regulation in emerging markets should proceed with care.

Designing regulation for the development of the private sector that will result in economic growth will be dependent on four levels of economic activity: micro, meso, macro and meta. The micro level comprises the firm and inter-firm networks. It can include the types of agreements that might be in place between firms, the height of barriers to market entry, or the exclusionary conduct that may be practised. This level of activity has the most direct impact on firms and will often decide whether there is the potential for entry into the market and whether there are networks for obtaining supplies and procuring markets.

The second level of economic activity is the meso level, which is concerned with specific policies and institutions. The third is the macro level, which is focused on generic economic conditions. The meso and macro levels will help determine the environment in which the firm operates and can affect the micro level of the operations. Prohibiting price fixing and exclusionary conduct can alter existing anti-competitive networks between firms. By encouraging competition in specific areas and removing barriers to entry, the micro level can be changed. The meta level looks at slow variables including the socio-cultural structures that exist in the country, the basic order of the

economy and the capacity of social actors to formulate strategies for growth. Factors such as customary laws, which restrict private ownership, or corrupt practices often benefiting clan members, impact on all activities and levels. Change at this level is much harder than at the other levels, and is likely to happen only as a consequence of economic growth (White and Chacaltana 2002). All these levels of economic activity will be important in finding the appropriate regulatory design for encouraging economic growth in Vanuatu.

### **Vanuatu: institutions and history shaping the regulatory responses**

Vanuatu is one of the newest post-colonial states, having gained independence in 1980. Like its Pacific neighbours, Vanuatu faces a barrier formed by a poorly skilled population. This usually means that the main types of production are handicrafts or niche industries such as kava production. Geographical remoteness from overseas markets means that transport costs incurred in accessing such markets are high, cutting into profit levels. Shortage of capital for investment also means that private-sector development is difficult to facilitate. Looking closely at the macro dimension of private-sector development will help identify the specific barriers in place in Vanuatu.

Figure 1 shows the different spheres of influence at the macro level. This is a modification of the schema developed in a study undertaken for the Swedish International Development Agency (Sinha et al. 2002). All these spheres influence the manner in which the private sector operates and markets function. Sound policies and accountable political systems can broaden the market base and encourage private-sector entrepreneurship. Policies and political systems can, however, also hinder such development. There are significant barriers to private-sector growth in Vanuatu,



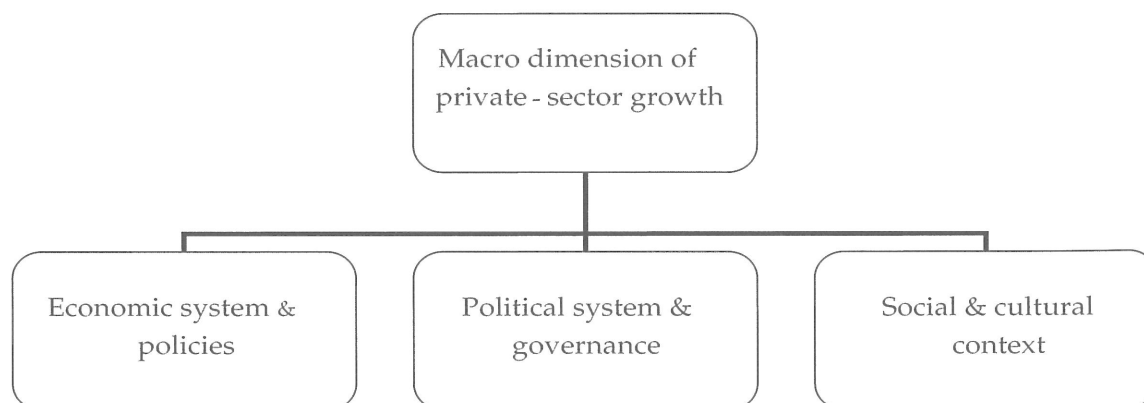
(Figure 1). The first sphere of influence that can provide incentives for entrepreneurial activity is the economic system. By providing a competitive market-place in which monopoly power is addressed and entry barriers are low, the private sector can be encouraged to flourish. In Vanuatu, however, there are many structures in place that deter, rather than encourage, private-sector development. There are difficulties encountered in starting or expanding businesses, including poor access to credit, dealing with inefficient and expensive public monopolies that control much of the infrastructure (particularly ports and telecommunications) and operating in an economy in which there is little emphasis on trade.

The second sphere of influence that is essential for private-sector development is a stable political system and an approach to governance that emphasises the creation of efficient markets, including an adherence to basic competition policies. This can be achieved by ensuring that, where possible, competition is promoted domestically, entrepreneurship is rewarded and market failure, where it occurs, is addressed. It also requires a set of laws that provides for markets

to function—for example, by allowing easy registration of companies, prohibition of cartels and efficient administrative and judicial systems. Although there is a clear recognition of these issues, change appears slow and there does not seem to be the political will to drive such changes. One of the main barriers in Vanuatu is that the government does not impose any revenue tax and the country is widely advertised as a tax haven. This has meant that all revenue is raised by the imposition of business charges and licence fees, which imposes onerous burdens on small business. The level of corruption and instability at the political level has also impacted directly on private-sector activity (AusAID 2008). Furthermore, current regulations do not allow for the registration of property interests or for easy exit from the market.

The third sphere of influence—the social and cultural sphere—refers to the community's attitude to entrepreneurship. In Vanuatu, there is a strong focus on customary norms and rights. These often act as a deterrent to private entrepreneurship. For example, land is not owned by the individual but rather by the community; wealth is shared among the community

Figure 1 Factors that influence private-sector development in Vanuatu







and the family's interests are often given preference over the interests of the individual. These factors can impact adversely on private-sector development (Ellis et al. forthcoming; Fingleton et al. 2008).

The *Vanuatu Constitution* recognises customary laws in different ways. One important provision is Article 45, which states that the courts can decide matters wherever possible in conformity with custom. This is supplemented by Section 3 of the *Island Courts Act*, which requires each court to have at least three justices knowledgeable in custom and that one of these must be a custom chief from the region covered by the court. Nearly 60 per cent of the population in Vanuatu still lives in rural areas and is governed by custom. The customary law as applied by the chiefs often gives priority to the family's interests rather than the individual's. Such laws neither recognise nor encourage individual entrepreneurial pursuits and, at times, can be at odds with the values inherent in the market economy.

Vanuatu's macro institutions do not focus on private-sector development. It is by addressing these three spheres of influence that macroeconomic reform can be generated and private-sector development promoted.

### **Main reforms needed to further private-sector development in Vanuatu**

It is generally recognised that while private and state bodies have an important role to play in regulating markets, it is the State that plays the major role in the initial stages of promoting economic development in developing countries (World Bank 1997; Braithwaite and Drahos 2000). Many reports have addressed what this might entail. The

*World Bank Development Report 1997* points to five fundamental tasks as being at the core of every government's mission: establishing a foundation of law; maintaining a non-distortionary policy environment, including macroeconomic stability; facilitating a market economy; investing in basic social services and infrastructure; protecting the vulnerable; and protecting the environment (World Bank 1997:4). In the context of Vanuatu, I have identified four main areas that are specifically relevant to private-sector development: establishing a foundation of law; macroeconomic stability; promoting equity; and fostering international coordination. I examine the first two in detail, as they constitute the first steps of the reform process. I touch briefly on the second two areas.

#### **Establishing a foundation of law**

The importance of recognising and safeguarding property rights over land is seen as an important prerequisite for economic growth (de Soto 2000; Besley 1995). This is a thorny issue in Vanuatu. In most economically developed nations, land is the most important type of property, and recognition of rights over land is central to all commercial transactions. Having a central state-backed registry, which identifies an individual's title to land, is essential in order to ensure recognition of rights of enjoyment, use and disposal of the land. There is currently no such system in Vanuatu.

Only indigenous citizens can own land permanently and customary law regulates all transfers of land by way of inheritance, sale or gift. There is no legislative recognition of these customary practices and accordingly little protection for any purchasers of land on such a basis (see, for example, Sections 47, 74 and 95 of *Vanuatu's Constitution*). This means that such rights cannot be exercised for many types



of economic activities, such as leasing the land for housing or agricultural purposes, or using the land as security for borrowing money to fund other activities, such as children's education or starting a business. Women, who often have customary rights to the land, are in this category and would benefit from a registration system that recognised customary rights over land.

Under formal law, land cannot be permanently alienated. Vanuatu has, however, adopted a leasehold system whereby leases for up to 75 years can be granted by the owners of customary land for a single upfront payment, with a minimal annual ground rent. Such leaseholds can be registered with the Land Registry. The effect of these long leases is unclear. Most businesses view such leases as equivalent to freehold title. Leasehold title can be sold on with the permission of the original owner or their heirs. More commercially minded individuals have been able to access the legal system to safeguard their interests by using a simple transaction. In a number of cases, the customary owner of the land (the clan chief) has leased the land to another trusted member of the family in order to have the protection of the registration system.

Less commercially minded customary owners run the risk of losing title to their land through unscrupulous practices, often as a result of their own clan members working with other business interests. Fraudulent and misleading practices leading to the leasing of land, with little consideration or appreciation of the consequences or effects of such agreements, are commonplace. Efforts to protect these customary owners' access to the formal system should be encouraged (Fingleton et al. 2008). Although the criticism can be made that this entails forcing a legal recognition system on and transplanting Western institutions that are culturally insensitive to ni-Vanuatu, accessing the formal system remains the

only pragmatic way of facilitating a fair outcome.

Doubts also exist about what is likely to happen to the land at the expiration of the lease. It is currently accepted that at this time the land will revert back to the customary owners, who will have to compensate the leaseholder for any improvements to the land. Where such improvements comprise resort or housing developments, it is doubtful that the customary owners will be able to raise the funds necessary for compensating the leaseholder. Clarification of this legal issue should be encouraged in order to provide certainty for all people associated with the land, whether they are owners, leasers, lessees or lenders. Such levels of uncertainty can act as a barrier to businesses using rights in land. The flip side is that it encourages unfair practices from which the customary owners could suffer adversely.

Rights over chattels are also important to facilitate commerce. Such rights have to be granted not only to the owner of the chattels but to all the parties that have an interest in the chattels. The legal system has to provide for the recognition of these rights, rules for determining priorities where there are conflicting rights and mechanisms for the enforcement of such rights. Laws in industrialised countries, such as the provision of registries of floating charges over chattels, might not be sufficient. A Personal Property Secured Transactions Law, based on the New Zealand model, has been proposed. It is an attempt to establish a system of recognition and prioritisation of rights and it will allow personal property to be used for commercial activities. It will reduce the role of informal money-lenders and increase opportunities to obtain capital for business ventures by using cattle, crops and vehicles as security.

Recognition of property rights must be coupled with an enforcement regime.



Although not all such enforcement regimes have to be provided by the State, it must still be the final port of call. Business groups might provide their own enforcement regimes. Mediation or alternative dispute-resolution mechanisms are examples of such private enforcement regimes. The role of relational contracts, whereby parties rely on norms of fair dealing and mutual trust, are commonplace in most industrialised economies (Speidel 2000; Clague et al. 1997). Indeed, they are likely to work well where parties have voluntarily developed strong relationships over a long time and where these norms are valued and upheld by a majority of the players in the industry. Private enforcement regimes alone, however, are unlikely to suffice in a regime in which customary law and norms have not developed ways of dealing with disputes of a commercial nature. In Vanuatu, as in many Pacific countries, such norms are still in their gestation stage and conflicts about the supply of raw materials or provision of distribution networks will present new problems. Accordingly, clear legal enforcement regimes are important to encourage investment, development and growth.

Litigation in Vanuatu is extremely slow and the process is cumbersome. Since the Supreme Court was burnt down in 2007, the court has occupied other buildings temporarily. Many of the court's records were, however, destroyed in the fire and the process of patching together past records has shaken confidence in the judicial system. The registration system in the Land Registry Department is extremely slow, cumbersome and unreliable. There have been a number of cases of multiple registrations of the same property and forged leases, casting doubt over the integrity of the registry.

### **Facilitating a market economy**

Across the industrialised world, there has been considerable debate about the role of governments in providing goods and services and, as a consequence, the appropriate design of regulation. It is generally accepted in most industrialised countries that the government's role as provider of goods and services might not be economically efficient and this should be left to the market. Neo-classical economists espouse that markets are best at delivering allocative and productive efficiency. Markets will work, however, only if they have rules that are clear, enforcement mechanisms that are reliable and trusted and organisations that promote market transactions. In the developing world, too, markets are becoming more important, state-owned businesses are being privatised and governments are discovering that new regulatory approaches are necessary to supervise the changed environment.

In Vanuatu, the role for government could be described as providing regulatory frameworks that encourage competitive markets and harness support from private interests and non-governmental organisations (NGOs). The role of private institutions will often be to supplement these government initiatives (World Bank 2002). In emerging economies such as Vanuatu, it could well be financial institutions that take the lead role in this space. There are three main ways in which Vanuatu can address these issues.

#### **The government should be actively seeking to create favourable conditions for the market to function**

- a. It is primarily legislation that determines entry into and exit from the market. In Vanuatu, the legislation dealing with market entry is overly cumbersome, raising many barriers to small business.



These include business licence fees, special licences for foreign investors, business name registration and an outdated British company law. Licence and registration fees and a value-added tax (VAT) provide the government with its main source of income. This is unlike most other jurisdictions, where a variety of taxes—including income, goods and services and company taxes—provide revenue. Vanuatu is a tax-free haven, which has meant that businesses of all sizes are hit by these cumbersome fees, charges and taxes, and small businesses are hit the hardest. Options allowing for the burden to be shifted from businesses to a wider cross-section of the economy have to be considered.

Vanuatu company legislation does deal with insolvencies; however, there is no bankruptcy legislation to deal with non-corporate business insolvencies. Currently, the old UK legislation of 1914 operates and is used as a guide. There is general confusion about where and how bankruptcy and insolvency regimes will apply and operate. Providing clear guidelines would be of assistance to business.

- b. Availability of finance is an important determinant of private-sector development, bringing benefits to all sectors of the community and, in the most successful cases, alleviating poverty (Sen 1999). Vanuatu is well placed in this regard and currently has four major banks (Westpac, ANZ, National Bank and Bred), an established micro-credit lender (Vanwods) and numerous black-market money-lenders (Fingleton et al. 2008).

It is not, however, the existence of financial institutions but the manner in which they operate that requires scrutiny. Currently, the laws do not allow for the registration of a variety of interests over land or chattels. There is no central body

to inquire about the credit risk of the borrower.

- c. Further, the enforcement mechanism, which is usually through the courts, is cumbersome and slow. Introduction of laws that recognise a variety of property rights (discussed above) and the establishment of formal or informal credit reporting agencies and greater efficiency in exercising enforcement would improve the market entry of firms. Arising from the above discussion, Table 1 suggests strategies to improve Vanuatu's economic climate.
- d. Special strategies aimed at encouraging access to finance for specific groups should be reflected in the regulatory design adopted by governments. In Vanuatu, there is scope for the government to reduce licence fees or waive them altogether in certain circumstances.

Currently, finance is provided to individuals. Group funding, like that undertaken by BancoSol in Bolivia and Grameen Bank in Bangladesh, allowing lending at lower interest rates and reduced risk, should be explored (Anderson and Nina 2008). The possibility of using electronic and mobile-phone banking is currently being considered in India and sub-Saharan Africa and this will be beneficial to geographically isolated communities.

Cooperatives could be used innovatively to encourage communities to borrow funds and to engage in the production of goods targeting the tourist and fair-trade markets. Currently, the Cooperatives Department encourages savings only. Attempts to expand the facilities in conjunction with existing banks would be beneficial. Individual and group loans to cooperative members would stimulate entrepreneurial activity.





### Finding ways of reducing market imperfections is essential for encouraging private-sector development

- e. The efficient functioning of ports, telecommunications and other infrastructure is essential for efficient market outcomes. Many emerging economies are plagued with monopoly control of industries, including manufacturing, telecommunications and transport (Bazeley and Mullan 2006). These industries usually have not faced competition and are inefficient; and they are often involved in corrupt practices. Markets can function effectively only when these services are delivered in a cost-effective and time-efficient manner. Infrastructure reform is often viewed as the most important prerequisite to effective market and private-sector development. Whereas the continuation of state provision of services and control of such industries has continued in some East Asian countries (for example, China and Korea), other countries (for example, Mexico and Zambia) have

opted to privatise such functions. The approach to be adopted clearly depends on the historical and cultural context and the dynamics of reform in each country. In Vanuatu, the government does not have a significant role in the provision of services and does not have a controlling share of any such sector. Currently, the development of many of the sectors, including telecommunications and roads, is being assessed and undertaken with the assistance of donor funding. There are three main areas that require attention: ports and wharfs, roads, and telecommunications.

Discussions with businesses in Vanuatu confirm that transport is a significant barrier for medium-sized businesses. Specifically, the port and wharf facilities at Port Villa are controlled by a monopoly consisting of one clan. These facilities are extremely slow and expensive. The 'Doing Business' indicators point out that it is more than double the cost to import or export goods to and from Vanuatu than for

Table 1 Creating favourable conditions by improving access to finance

| Areas requiring attention                            | Strategies for consideration by the government                                                                                                                                                                                          | Harnessing private bodies in reform                                                                                                                                                                                      |
|------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Encourage the availability of finance and investment | <p>Introduce legislation recognising personal chattels</p> <p>Improvements to the Land Registry Office to allow reliable and efficient registration processes</p> <p>Establish a secure and reliable registry for personal chattels</p> | <p>Obtain overseas aid for the establishment of a credit reference agency</p> <p>Encourage the formation of informal credit reference bodies through the banks and the micro-credit association that currently exist</p> |



comparable Pacific nations (World Bank 2008). Such inadequate infrastructure services pose immense hurdles to private-sector development.

Finding a workable solution to the inefficiencies is central to the development of trade. Although excessive regulation can inhibit market performance, the costs of regulation must be balanced against the costs of uncompetitive markets.

There is currently some work being done on ports by donor organisations. Ideally, skilful negotiation, which co-opts the customary leaseholders of the monopoly with the view to engaging in a partnership to introduce reforms in return for increased income and other incentives, should be explored. The overall objective should be to separate the role of management of the ports from the rights of the customary lease owners.

Donor bodies are also currently involved in a road-building project to give access to all parts of Port Villa. This will be a great benefit for business groups. Transport is extremely expensive. The only way in which agricultural producers can transport their goods to the wharfs is by truck, but hiring trucks can be prohibitive. It appears that this is because of the limited number of trucks available for such activity. Efforts to meet the needs in this market should be considered either via targeted loans to operators wishing to enter the market or via subsidy-type assistance to the agricultural producers in the interim stages. The possibility of having a cooperative owning a truck, which can be used by members in the cooperative, should also be considered.

The telecommunications sector is likely to go through a growth phase with the introduction of a new competitor to the market and other donor-funded

projects focused on telecommunications development. It will add value to the current piecemeal approach. Increased connectivity brings many advantages: it connects remote communities; assists in better governance by the public and private sectors; and enables increased trading activities. Further coordination to encourage decentralising of such activities to other rural centres can also be discussed by the key players.

- f. Information is the key to making markets work effectively. Individuals need information for risk management, survival and subsequently growth. Lack of information results in uninformed decisions and uncompetitive markets. Different types of businesses need different types of information.

Small businesses—such as women running food stalls in the markets—require financial literacy training to assist them to understand how to calculate income, the costs associated with running the business and the interest paid on their loans, and to assess the manner in which they are managing their finances. Such services have been provided on a piecemeal basis with varying results. More coordinated efforts followed by impact studies are required to ensure that such schemes bring the outcomes sought.

Medium-sized businesses usually require financial training. This was acknowledged by a number of sources, and the Chamber of Commerce and the banks were running a variety of such programs, including business development, budget forecasting and risk assessment. Much of this type of information is gleaned via networks, whether they are community based or business based. Such networks do exist in Vanuatu, although they are small and

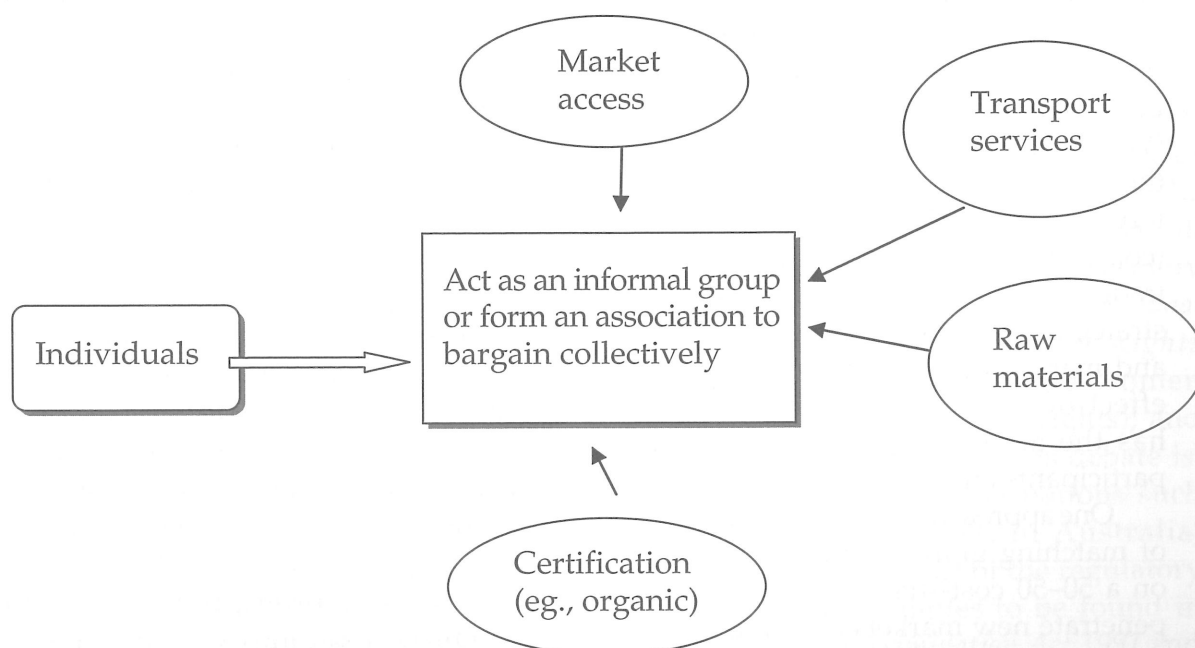


- very informal. Clearly, this is something that will develop in time as business grows and the private sector develops.
- g. Redressing the lack of bargaining power is necessary in specific situations to enable the market to function effectively. Small, poorly informed buyers of raw materials can be disadvantaged when dealing with large sellers. One way of correcting this disadvantage is to facilitate collective bargaining groups (see Figure 2 for using collective bargaining). Collective bargaining by small business was allowed in Australia in 2006 via amendments to the *Trade Practices Act 1974*.

Such a strategy has been adopted informally by food-stall operators, who have organised for one individual to purchase, on behalf of the group, all the goods they require. The food preparation takes place in a common

area. One such group interviewed used a *nakamal* (traditional meeting place) during daytime hours for this activity. This benefited many stall operators (many of whom were single, poor women with dependent children) and standard procedures made the whole production process more efficient. Encouraging such types of activities would benefit the people involved and the quality of goods produced. It could be particularly valuable for individuals working in the same activities (such as food vendors), groups that might be producing the same goods (such as handicrafts) and groups that might be using the same facilities (such as trucking services to transport kava to the ports).

Figure 2 Ways of using collective bargaining





**Proactive encouragement of the private sector can be addressed by implementing strategies to enhance market development**

- a. Product innovation to improve and increase the goods available for the tourist market should be considered carefully. One simple strategy aimed at small businesses is to import and discuss products from other tourist destinations (e.g. the Philippines or Indonesia) that are likely to be sold in the tourist market and to follow through with strategies to train people in the production of such goods. Whereas restaurants clearly are targeting the tourist market, this is not so apparent in the handicrafts market where there is an opportunity for increased economic activity and profits.
- b. Strategies for targeted groups are required in the early stages of market development to encourage private-sector development. Although, theoretically, governments can act as brokers of information and facilitators of mutual learning and collaboration, and thereby play a market-enhancing role in support of industrial development (World Bank 1997), this will depend on their institutional capacity. Specifically targeting industries such as agriculture (copra or avocados), the market for fair-trade and organic goods and developing strategies to encourage the production and marketing of goods will have the effect of nurturing an industry that has the ability to grow and benefit participants and communities.

One approach involves the provision of matching grants to firms, typically on a 50–50 cost-sharing basis, to help penetrate new markets or to introduce new standards and technologies (World Bank 1997). Although such programs are

easy to implement, as witnessed from their introduction in India, Jamaica and Zimbabwe, there has to be capacity and commitment by the firms considering such strategies. Currently, the export of fruit and vegetables to New Zealand supermarkets is being considered and should be watched carefully to gauge the areas that could be similarly developed.

- c. Product standards—whether voluntary or mandatory—are becoming increasingly important for trade; they remain the main obstacles to gaining market entry (Fingleton et al. 2008). Similarly, certification for organic goods is an obstacle to gaining entry to the rapidly growing organic markets in the industrialised world. Fulfilling quarantine requirements, gaining certification and complying with standards requires testing and auditing, all of which are expensive. It is more likely that the stimulus for engaging in such measures will follow once the private sector has reached a higher level of activity. International networks will be best placed to assist in gaining such accreditation.

The South African avocado industry provides an interesting example of this process at work. This industry developed steadily from the early 1970s to 2003, increasing its production sixfold. This increase was driven by demand from the United Kingdom and Western Europe. The increase in trade was followed by attempts to organise the industry, driven by the South African Avocado Growers Association. These initiatives included the development of technical support for growers, promotion of the product in local and export markets, the development of standards in order to meet the requirements of the country of





destination and accessing new markets (Donkin 2007).

- d. Decentralising economic concentration brings with it many social and economic benefits. In many emerging economies, the population is moving rapidly from rural areas to the cities, leaving governments to wrestle with the problems of pollution, crime and inadequate health services (World Bank forthcoming:7). In this area, governments have been reactive rather than proactive. It is being recognised, however, that rather than concentrating on preventing such movements of population, governments can augment the forces that pull individuals towards cities and towns, where they can get a high return on investments in human capital (World Bank forthcoming). Such activities can also be driven by NGOs or businesses themselves.

In Brazil, a program to transform the economy of the town of Sao Joao do Arauru was undertaken by associations of small producers. These producers made the town a centre for sawmills and the woodcutting industry (World Bank 1997).

Often the government can regulate to direct or encourage economic activity and can invest in transport services in the area or increased access to social services and the building of schools in the area, which will operate side by side with business initiatives.

Currently, all industrial activities in Vanuatu are centred in Port Vila and Santo. Decentralising government activity, with selective investment aimed at improving transport and creating new centres of economic activity, can assist in ameliorating the congestion of cities. One particular move could be the relocation of a major government department,

such as the Land Registry Office or the Department of Cooperatives, to one of the other islands. Such a move is likely to encourage a range of supportive commercial activity, business skills to be developed more readily and increased tourism.

This type of industry organisation is a 'bottom-up' process and will follow when industry has started and trade has increased. At times, such activities can be driven by acquirers of the produce, who might establish operations in Vanuatu to meet global needs. In such cases, the organisation of the industry might be a 'top-down' process, which will have the advantage of developing the industry quickly.

### Promoting equity

In most industrialised countries, the need to promote equity in all areas of the public and private spheres has been recognised for more than four decades. Indeed, the adoption of the international *Covenant on the Elimination of all Forms of Discrimination Against Women* (CEDAW) and the introduction of a variety of affirmative-active legislation and programs provide examples of this acknowledgement. Examples of these provisions include Article 1 of the *Universal Declaration of Human Rights* (all human beings are born equal in dignity and rights); Article 3 of the *International Covenant on Civil and Political Rights* (equal treatment for men and women for the enjoyment of human rights); and Article 26 of the CEDAW. This debate is, however, new to emerging nations such as Vanuatu. In contrast, in Australia, these provisions are part of the regulatory landscape with examples to be found in the *NSW Anti-Discrimination Act 1991* and the *Commonwealth Sex Discrimination Act 1984*.



Promoting equity is still sometimes viewed as a burden on business, as reflected in the current debate about the provision of compulsory maternity leave in Australia. In South Pacific countries that are still governed significantly by customary law, there can be a good deal of overt and subtle hostility to such initiatives. The cultural shift that is required will take time. The main point is that facilitating markets and promoting competition will result in bringing economic benefits to women and indeed to all.

### Fostering international coordination

Increased trade will stimulate international coordination, standardisation and networks for accessing markets. Such coordination will follow from private-sector development and increased trade. Forcing such coordination is unlikely to be successful; it is only by strategic partnerships between government and firms, and by encouraging private-sector development and trade, that such coordination will result.

The importance of international cooperation points to the many advantages of regional agreements on trade facilitation, labour markets and capital flows (World Bank forthcoming). Such cooperation between the countries of the South Pacific, specifically in relation to trade (standardisation of goods, access to markets), is a possibility. Further joint promotion of tourism could also yield rewards. This also points to the advantages of labour mobility, which has a positive impact on economic growth. New Zealand's foray into this area has been heralded a success and one that Australia has greeted enthusiastically. This type of activity is likely to provide short-term benefits by allowing for remittances and longer-term benefits by facilitating skills transfer to Vanuatu (Fingleton et al. 2008; Luthria 2008).

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