



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

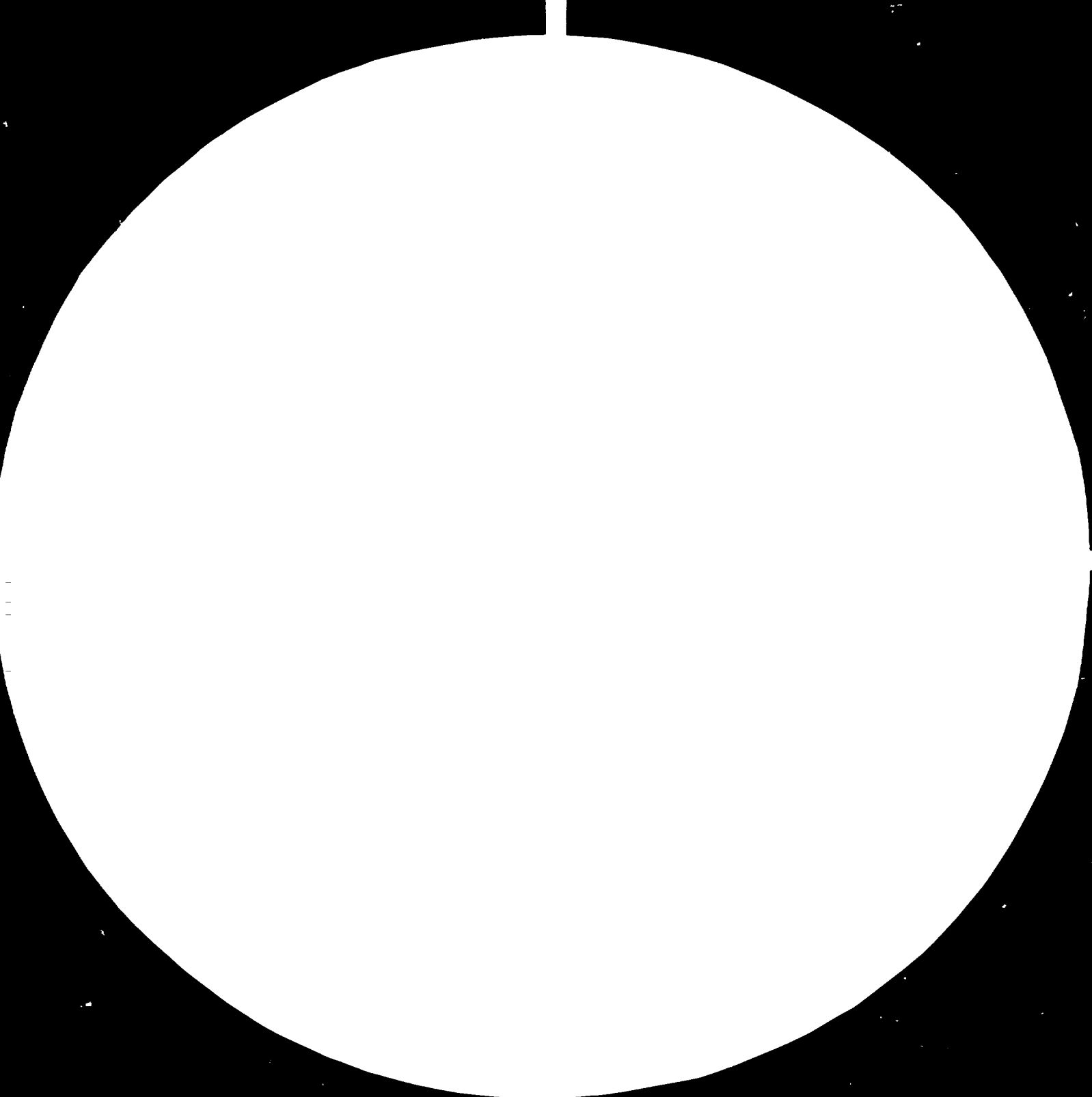
FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org





1.8 2.5



1.25

A resolution test chart for 1.25 cycles per millimeter. It consists of a central number '1.25' flanked by two sets of five horizontal lines and two sets of five vertical lines, all in black on a white background.

1.4

A resolution test chart for 1.4 cycles per millimeter. It consists of a central number '1.4' flanked by two sets of five horizontal lines and two sets of five vertical lines, all in black on a white background.

1.6

A resolution test chart for 1.6 cycles per millimeter. It consists of a central number '1.6' flanked by two sets of five horizontal lines and two sets of five vertical lines, all in black on a white background.

10986

Distr.
LIMITED

23 August 1981

ENGLISH

Vanuatu. Small and medium scale enterprises promotion and development
DP/VAN/79/001

Final Report

prepared by Mr. Rudolf Eder for the United Nations
Industrial Development Organization

This report has not been cleared with the United Nations Industrial
Development Organization (UNIDO) which does not therefore necessarily
share the views presented.

Acknowledgement

The expert wished to express his sincere gratitude for the kind support and co-operation extended to him by the Minister of Finance, M. Kalpokor Kalsakau and the officials of the Ministry and the Central Planning Office.

Furthermore the expert highly appreciated the good co-operation with the office of UNDP and in particular its Resident Representative, M. Arthur Holcomb.

<u>1. OBJECTIVES OF PROJECT</u>	<u>page</u>
1.1. <u>Objectives formulated in the project document</u>	4
1.1.1. Development objectives	4
1.1.2. Immediate objectives	4
1.2. <u>Objectives formulated after discussions with the Minister of Finance:</u>	5
1.2.1. Formulation of the industrial development policy	5
1.2.2. Organization and set up of an office for the development of Vanuatu enterprises	6
1.2.3. Specific development activities	6
<u>2. ACTIVITIES CARRIED OUT AND OUTPUTS PRODUCED</u>	6
2.1. Setting up and organization of the Office for the Development and Promotion of Vanuatu Enterprises	6
2.2. Assistance to the mother-of-pearl button factory	7
2.3. Travels to various islands	8
2.4. Economic survey and contribution to the development plan	9
2.5. Identification and follow-up of various projects	9
2.6. Advisory services to the Ministry of Finance	15
<u>3. ACHIEVEMENT OF IMMEDIATE OBJECTIVES</u>	16
3.1. Formulation of a development policy	16
3.2. Set up of the O.D.E.	16
3.3. Identification of potential entrepreneurs	17
3.4. Preparation of pre-feasibility studies	17
3.5. Assistance to the existing enterprises	18

	<u>page</u>
3.6. Assistance and training in commercial technics	18
3.7. Proposals for promoting loans	18
3.8. Training Programme	18

Appendix I:

The sector of manufacturing industries in 1980/81

Appendix II:

Development of Cement

Appendix III:

Consultancy services and further programme of
assistance

1. OBJECTIVES OF PROJECT

1.1. Objectives formulated in the project document

1.1.1. Development Objective

The project long-terms objectives are to promote and develop small and medium-scale enterprises over the whole archipelago of Vanuatu and to encourage the emergence of a new class of local entrepreneurs, in conformity with the present Government policy, as described in the transitional Development Plan (1978 - 1980).

The creation of new enterprises (both in the secondary and tertiary sectors) will lead to the increase of the number of jobs available, especially in the rural areas, and will help, by the distribution of monetary flows in those regions, in diminishing the existing disparities between the various regions and in slowing down the drift of islands inhabitants towards the main industrial and commercial urban centres of the country (Port Vila and Santo).

1.1.2. Immediate Objectives

The project's immediate objectives are as follows:

- to assist the Government of Vanuatu in the formulation and setting up of a development policy in favour of small-scale local enterprises and of a promotional programme specifically adapted to the specific economic and social conditions of the least developed areas;
- to assist the Government in the organization and in the setting up, (within the Industry Division of the Ministry of Finance), of an office responsible for the implementation of the programme of promotion of small and medium scale enterprises;
- to identify potential entrepreneurs and to select, in accordance with the development priorities established within the Development Plan, the type of small-scale enterprises to promote, taking into account the existing prospects of development and the possibilities of using local raw materials found in Vanuatu;

- to carry out, if necessary, prefeasibility studies with a view to identifying the industrial products which can be locally manufactured on a small-scale and giving a priority to industrial ventures using techniques adapted to conditions of Vanuatu;
- to help existing local entrepreneurs in the setting up and in the organization of their enterprises, by providing them with an extended assistance on the management side and in the production process of goods;
- assistance and training in commercial aspects (determination of selling prices, presentation of goods, training of salesmen, promotion and maintenance of the sales units); ad-hoc training programmes will be organized in order to ensure that the enterprises thus created will be competitive;
- to formulate proposals to make more flexible access to the banking system and facilitate the grant of loans not only for buildings and equipment, but also for the working capital;
- to formulate and set up a training programme, both for the project counterpart personnel and the Ni-Vanuatu entrepreneurs.

1.2. Objectives formulated after discussion with the Minister of Finance

Before starting this project there was no official or Governmental institution which dealt in particular with industrial development. This lack made it necessary to limit this project not to small-scale industry only but to cover within this project the whole scope of possibilities for an industrial development. The most important targets to be pursued were the following:

1.2.1. Formulation of the industrial development policy

The Government of Vanuatu requests assistance in the formulation of its industrial development policy. Two main steps are necessary: (1) analysis of the present situation, i.e. immediately after independence, and (2) elaboration of appropriate measures for the promotion of local enterprises.

This analysis and elaboration of measures should be completed and become the contribution to the new development plan for "Manufacturing industry".

1.2.2. Organization and set up of an office for industrial development

This office shall be attached to the Ministry of Finance and deal with all questions in connection with industrial development and promotion of enterprises.

1.2.3. Specific development activities

The activities of the project team shall concentrate on identifying project ideas, preparing feasibility studies and promoting the projects.

A particular case is to assist an already existing mother-of-pearl button factory to overcome its difficulties.

2. ACTIVITIES CARRIED OUT AND OUTPUTS PRODUCED

2.1. Setting up and Organization of the O.D.E. (Office for the development and promotion of Vanuatu Enterprises)

As set forth in the project document and in the discussion with the Minister of Finance at the start of the project the organization and setting up of an office responsible for the development and promotion of enterprises is one of the main targets of the project.

At the beginning main efforts were made to establish this office and it was scheduled to take up normal operations in December 1980. Due to the engagement in assisting an already existing factory, the lack of Government counterparts and for other reasons, the start of normal operations was delayed to January 1981.

The O.D.E. offers the following services:

- identify new investment opportunities
- assist in evaluating ideas of setting up new enterprises
- assist in preparing project documents to facilitate applications for bank loans
- elaborate feasibility studies for larger projects
- assist during the whole phase of implementing new projects (setting up new enterprises)

To improve the performance of existing enterprises the O.D.E. can organise training in various fields of management and assist in re-organizing their economic activities.

A leaflet describing the services offered was distributed to the Members of Parliament and the response to this new office is quite encouraging.

Since there are still no Government counterparts - only a secretary has been provided by the Government, starting in January 1981 - the office cannot meet all demands. The Government promised to provide the two counterparts as laid down in the project document after completion of a UNDP study on employment in the public sector (envisaged for July 1981).

2.2. Assistance to mother-of-pearl button factory

The mother-of-pearl factory was established in 1979 and UNIDO provided an expert for the training of local people in the button manufacturing. The company faced however various other problems too, particularly management problems, and therefore UNDP and the Government agreed that assistance should be given within our projects.

Trochus shells are one of the natural resources Vanuatu disposes of and which are exported in substantial quantities. The idea of processing the trochus shells locally and exporting the finished buttons is also supported by the Government. Since the company was confronted with great difficulties, the Government showed its interest in a continuation of operations and in maintaining the already trained labour force.

It was agreed that the project team shall assist the company in a three months assignment from October to December 1980.

The whole matter of mother-of-pearl button manufacture was studied thoroughly and a plan of action was elaborated.

A detailed proposition for investment (to replace only the most urgently needed machines) and the day-to-day expenditures was established for the three months of the assignment. With the approval of the Government the project financial requirements were presented to the Development Bank and a loan of 2 million VT was granted. Since the Development Bank had already granted financial assistance before the assignment of this project started, only 2 millions VT were available to cover the requirements from October to December 1981, though 3 millions VT would have been needed.

In order to promote the sales of the buttons a marketing plan was elaborated and various strategies were proposed to gain mainly the Australian and European market.

A lot of time was spent in handling the day-to-day management and in presenting the measures to the parties concerned. It was not easy (possible) to convince them that the proposed steps should be realized as quickly as possible.

Taking into account the already existing prerequisites (raw material locally available, trained labour force) all necessary elements for a feasibility study were collected. A proposal was elaborated and presented to the Government suggesting a development programme to transform the existing company into a viable undertaking and to make optimum use of the available raw material. The following steps were proposed:

- a) Raw material survey: to provide a sound basis for the industry and to give a correct idea of the amount of trochus shells available.
- b) Restructuring of the existing factory: during a transition period the O.D.E. offered its assistance to run, to re-structure and integrate the company step by step into a new button factory.
- c) Establishment of a new button factory: based on the studies a new factory should be built using as much as possible the already existing equipment, labour force, know how.

- d) Introduction of manufacturing of jewellery and other mother-of-pearl by-products: to make best use of the raw material the possibilities of manufacturing jewellery and other mother-of-pearl by-products should be studied.
- e) Extension of the button factory: extension of the factory to the optimum size based on the results of the raw material survey.

The assistance in the day-to-day operations was terminated as scheduled by the end of December 1980 but the preparation of various papers continued. The Development Bank decided to continue operations without restructuring the capital - the sole owner of the factory is still an expatriate although all his capital is used up and he is highly indebted -.

In order to facilitate a decision on the future of the company, the O.D.E. established a balance sheet and a profit and loss account for 1980. A final decision on the further development of the trochus industry in Vanuatu is still pending.

2.3. Travels to various islands

For the realization of the project objectives it was important to travel to the main islands to get an overall idea of the economic activities there. Unfortunately it was not possible to travel before December 1980 although the visits of the islands would have been of great advantage at the very beginning of the project. Due to tasks of higher priority, the travels had then to be limited to the district center.

(a) Northern District - Luganville:

In several discussions with the District Commissioner of the Northern District, Mr. Job Dalissa, the economic situation of his district was ventilated. The rebellion of Summer 1980 had seriously affected the economic life, in particular that of the town of Luganville; plantations were abandoned, enterprises out of operation. By the end of 1980 only a slight recovery of the economy could be noticed.

Several companies were visited, some of them were not operating at all, in some the employees were kept busy in doing repairs and cleaning.

The premises of the South Pacific Fishing Company were also visited. SPFC is a Japanese company running a cold store there. They have contracts with mostly Taiwanese fishing boats which are fishing all over the Pacific and these boats unload the already frozen fish at SPFC. SPFC reexports the frozen fish, mostly tuna, to Japan and U.S.A.

The IPHO (Institut de Recherches pour les Huiles et Oléagineux) manages a large experimental plantation near Luganville. After visiting the plantation a discussion was held with the manager of the institute and field officers on future development of copra production and possibilities of processing copra and coconut by-products locally.

With the District Commissioner of the Northern District I made a tour to the island of Aoba. One of the problems encountered in Aoba was that the owners of small stores would need some guidelines how to run their stores more successfully.

The same demand was also expressed by chiefs of the Banks Islands during a discussion held at the district administration center, determining a special need for the island of Mere Lava.

(b) Central District No. 2 Lakatoro :

In Central District No. 2 the only important economic activity providing income for the population is the growing of coconuts and cocoa. The District Commissioner for the Central District No. 2, Mr. Tom Bakeo, stated that there is some cattle breeding but there is no abattoir so it is not possible to make good use of the cattle.

In Atchin one local family has started some activities (running a store, baking bread, running a small cargo boat, producing cement blocks). These activities were closely observed and projects for further development were identified (sawmill, modernization of the bakery, larger cargo vessel, wood gas generator).

In a meeting with chiefs of the Lakatoro area some project ideas arose, like establishing a mechanical work shop, installing a slaughterhouse, running a boat for cargo and passengers.

(c) Southern District - Isangel:

The main island of the Southern District, Tanna, is quite densely populated and offers also some touristic attractions (Yasur volcano, wild horses of White Grass). Tanna also disposes of very fertile soils providing good prerequisites for the growing of fruits and vegetables.

The District Commissioner of the Southern District, Mr. Reuben Tamata and his assistant, Mr. Joe Joseph, made great efforts to give a comprehensive view of the economic activities of their district, in particular the main island of Tanna.

Several tours were organized and meetings were held in various villages. In one place some thirty chiefs and elders were assembled to discuss their main problems and ideas.

The project team itself chartered also a boat to go to Aniwa to discuss possibilities of developing an orange plantation and to arrange construction work of water tanks and to identify possibilities of processing the oranges on the spot.

In the course of the numerous meetings several projects could be identified. In order to get a better understanding of the basic needs and demands of the rural population efforts were made to gather information on their income, consumption habits, nutrition, but a lot more field work should be done in this respect.

Some project ideas:

- three fishing projects; assistance is required in purchasing a boat and equipment and then to run the venture properly.
- various agricultural projects: the main problem for starting these projects is marketing of products; processing of fruit and vegetables in Tanna has to be considered particularly taking into account a well installed warehouse with three cold-storage chambers which presently is not used.
- touristic projects: better use of the touristic attraction of the volcano is envisaged by the custom-owners of the volcano-area.

2.4. Economic survey and contribution to the development plan
(see appendix)

The availability of statistical data, especially on manufacturing industry, is still very limited. To be able to describe the present situation of the manufacturing industry an economic survey was carried out.

The project team elaborated a questionnaire and all companies of Port Vila belonging to the major division 3 of the International Standard Industrial Classification (ISIC) were interviewed and their establishments were visited. Although this was a rather tedious task the insight obtained by the survey makes up for the time spent on the gathering of information.

The information compiled serves as an important basis in identifying possible fields for promotion and in formulating development policy and strategies for industrialization of the country.

2.5. Identification and follow-up of various projects

It was the Government's wish not to limit the activities to small-scale enterprises and projects but to deal with the development of the whole industry. In this context first priority is to be given to the identification of development opportunities which are to the advantage of the economy of Vanuatu as a whole.

(a) Cement works

The most important project in this field is the investigation of establishing cement works.

Vanuatu's endowment of mineral resources is rather poor (the manganese deposit is nearly exhausted), but the island of Efate disposes of substantial quantities of clay, limestone and pozzolana providing an excellent basis for cement production.

Private investors made already some investigation for the establishment of cement works several years ago but the Condominium Government showed only little interest so the idea was not pursued any further. The private investors could now be interested again and they are prepared to cooperate with the Government.

A plan of action for further procedures was elaborated and presented to the Minister (appendix 2).

(b) Development of building industry

The installation of a local cement works would have great impact on the development of the building industry of the whole archipelago.

On many islands small local enterprises are at present engaged in fabricating concrete blocks. Due to the high price of cement their bricks are too expensive for the majority of the population. Providing cheap raw material for the building industry would be to the benefit of the whole country and contribute to a higher standard of living also for the rural population.

The development of the building industry would stimulate many other professions closely related to the sector. It would in particular create employments for trainees having left the Lycée Technique who come to Port Vila for training but often face problems in practising their profession.

(c) Manufacture of furniture

The creation of a local factory for the manufacture of simple and cheap furniture would also be stimulated by a development of the building industry. The country disposes of substantial quantities of wood, rattan and cane which provide a sound basis for this industry.

(d) Tannery and leather products

The hides and skins produced by the two large abattoirs of Port Vila and Santo are at present exported. Their output provides a basis for a small-scale tannery. In connexion with a tannery also the further processing of leather should be considered especially for providing cheap and lasting footwear for the low income population.

(e) Oil mill and coconut by-products

Copra is by far the most important export item of Vanuatu and total exports for 1981 are estimated at about 50,000 tons. Processing of copra locally and making use of all coconut by-products is one of the questions having first priority to be looked at. UNIDO assistance in this respect will be requested.

(f) Soap manufacture

Coconut oil and tallow as a waste product of the abattoirs provide raw materials for soap manufacture. There is already some soap manufacturing on a very small-scale basis but this industry would deserve further investigation.

(g) Processing of fruit and vegetables

Vanuatu being a very fertile country the processing of local fruit into fruit juices and vegetables into tinned food should be carefully examined.

(h) Animal feed

The different waste products of the abattoirs could be used as a basis for animal feed. This would be of great importance to the further development of the raising of cattle, pigs and poultry.

2.6. Advisory services to the Ministry of Finance

At present there is no economic adviser within the Ministry of Finance. Frequently the Minister or the Economic Affairs Department of the Ministry asked advice on various economic issues.

The most important matters in which C.D.E. is regularly consulted are the following:

(a) Granting of new business licences:

Applications for new business licences are forwarded to O.D.E. for an evaluation and comments on the impact of the specific project on the economy as a whole.

(b) Assistance in the follow up of projects which are under implementation or just before implementation:

The most important of these projects is the establishment of a brewery.

3. ACHIEVEMENT OF IMMEDIATE OBJECTIVES

3.1. Formulation of a development policy

The formulation and setting up of a development policy in favour of local enterprises and a promotional programme specifically adapted to the economic and social conditions of the least developed areas has to be considered as a rather medium-term objective. It is necessary to do field work to gather information on the economic and social conditions of the rural areas to enable the project team to elaborate an appropriate development strategy.

The survey on manufacturing industry can be considered as a first step for the formulation of a development policy in favour of local enterprises.

The whole issue of this objective is a very comprehensive matter and is of high priority for the Government. It is therefore suggested to use three manmonths of the consultancies offered in the project to concentrate on this objective and to make a proposal for the organization and set up of the industrial administration.

3.2. Set up of the O.D.E

The organization and the set up of an office for the development and promotion of Vanuatu enterprises (O.D.E.) has been realized. O.D.E. is attached to the Ministry of Finance which took over the part folio of the former Ministry of Trade, Industry and Tourism.

Due to the lack of Government counterparts it is not yet possible to meet all the tasks and to provide the full range of assistance outlined in the leaflet published at the opening of the office.

Nevertheless the office has already assisted a number of people in various fields, i.e. preparing applications for business licences and Development Bank loans, studying and evaluating project ideas, giving advice on organization and management issues, assisting in introducing proper cost accounting systems.

3.3 Identification of potential entrepreneurs

C.D.E. is in close contact with several Ni-Vanuatu entrepreneurs who intend to enlarge and extend their businesses. Their activities comprise the following:
sawmill, bakery, running of a cargo and passenger vessel, mechanical workshops, building contractors.

Efforts were made to identify new entrepreneurs by getting in contact with the students of the final class of the technical Lycée in Port Vila, but it will still take some more time to get positive results in this respect.

3.4 Preparation of pre-feasibility studies

Several projects have been studied and an economic evaluation has been prepared:

- several fishing ventures
- retreading of tyres
- manufacture of plastic bags
- establishment of a saw mill
- establishment of a tailor shop
- installation of a refrigeration workshop
- assembling of batteries

3.5. Assistance to existing enterprises

As already outlined in detail in Chapter 2.2. assistance was given to a local company manufacturing mother-of-pearl buttons. During the three month's assignment it could be proved that the company could work with a profit provided proper management and reliable machinery.

Advice on various management and organization issues was given to several entrepreneurs, mostly Ni-Vanuatu, who came to the office.

3.6. Assistance and training in commercial technics

Up to now only limited time could be spent to achieve this objective. It is intended to give special priority to this objective in the next two years.

Nevertheless, several discussions were held with experts of other UN-Organizations or similar institutions to cooperate in this respect and to co-ordinate training programmes.

3.7. Proposals for granting loans

The O.D.E. is frequently engaged in preparing comments on projects and economic evaluations. These comments serve as a basic information for the Development Bank to make decision on granting loans. The Development Bank itself at the moment is preparing guidelines for small loans for individual persons preferable from rural areas, to facilitate the application and guarantee procedures.

3.8. Training Programme

In order to establish a training programme for bookkeeping and accounting the system used by the cooperatives is carefully studied and it is intended to adapt this system to the specific needs of the various small enterprises seeking advice in bookkeeping and accounting. Due to engagements in other matters and the lack of counterparts up to now no training programmes could be executed.

Appendix I

The sector of manufacturing industries in 1980/81 :

1. Introduction :

Owing to the lack of industrial statistics for the past (pre-independence period), the analysis has to be based on an industrial survey made early 1981 by O.D.C. and limited to the results of this survey.

The figures reflect average achievements of the last six resp. 9 months converted into annual figures, three resp. six months being projections.

More than 90 % of the concerned enterprises have given all the necessary information, only few were reluctant to reply, some others unable.

The International, Standard Classification for Industries (ISIC) is used for the systematic presentation.

This will allow international comparisons and facilitate analytical work.

2. The contribution of the manufacturing industries to the economy :

The value added of all manufacturing industries amounts at present to 326,040.000 VT per year (1980/81), or 7,25 % of the national income of 4.500 million VT.

The sector employs 536 persons or about 6 % of the wage earners resp. 1,16 % of the economically active population (about 50.400).

Salaries and wages paid to the wage earners amount to 136,330.000 VT per year. The average income of this group is therefore about 232.730 VT per year or almost 20.000 VT per month. The following table 1 shows that manufacturing industry is already playing an important role in exports. While the share of the main agricultural produces (copra, cocoa and coffee) is higher than 70 %, manufacturing industries count for 13 % of total exports of local produced or preprocessed goods. (Reexports of fish and fuel are therefore not considered.)

3. The structure of the manufacturing industry (See table 2)

The structure is typical of the development stage. Food and beverages dominate with a share of 53 % of the total value added of manufacturing industry followed by wood and wood products (16 %), printing (9,8 %) and manufacture of fabricated metal products (6,9 %). In terms of employment and salaries the structure is quite similar.

A comparison of the shares in employment and salaries paid shows that printing (34), wood products (23) and manufacture of fabricated metal products (25) are paying the highest average salaries. Basic metal industries are not represented at all for evident reasons. Some of the two digits groups are composed of one or very few industries only and ~~many three digits groups are composed of one or very few industries only~~ and many three digits industries are missing.

TABLE 1: EXPORTS (REVISED) ¹⁾ 1980

	In million VT	%	Projection 1981
Copra	592	62,5	?
Industry (Food industry 100)	123	13,0	318
Cocoa	94	10,0	?
Manganese	8	0,8	?
Shells and others	131	13,7	?
	948	100	

1) Previous export statistics show exports of fish from Palekula which are only re-exports and have to be treated as transit.

TABLE 2: STRUCTURE OF MANUFACTURING INDUSTRY

ISIC - Classification Major Division 3 : Manufac- turing Two digit.	Employment		Salaries paid		Value added	
	Total	%	In 000 VT	%	In 000 VT	%
31 : Manufacture of food Beverages and Tobacco	249	42,5	56.300	41,3	173.000	53,1
32 : Textile, Wearing Apparel: and Leather Industries	37	6,3	7.500	5,5	13.140	4,0
33 : Manufacture of Wood and Wood Products, including: Furniture	96	16,4	24.500	18,5	52.000	16,0
34 : Manufacture of Paper and Paper products, including Printing and Publishing	50	8,5	18.600	13,6	32.000	9,8
35 : Manufacture of Chemicals: and chemical Petroleum Coal, Rubber and Plastic: Products	24	4,1	5.280	3,9	14.300	4,4
36 : Manufacture of Non-Meta- llic Mineral Products, except Products of Petroleum and Coal	60	10,2	7.100	5,2	14.100	4,3
37 : Basic Metal Industries	-	-	-	-	-	-
38 : Manufacture of Fabricated Metal Products, Machinery and Equipment	45	7,7	12.300	9,0	22.500	6,9
39 : Other Manufacturing Industries	25	4,3	4.800	3,5	5.060	1,5
TOTAL	586	100	136.380	100	326.040	100

4. Description of the manufacturing industries by ISIC sub-groups
2 to 4 digits as appropriate :

a) Manufacture of food, beverages and tobacco (ISIC : 31) :

3111 : SLAUGHTERING, PREPARING, PRESERVING, MEAT :

The main activities are : slaughtering, dressing and packing of cattle (including veal) and pigs. There are two abattoirs (Laganville and Vila), the first built only recently meeting international standards. Both are of small scale (60 resp. 30 heads per day). The larger one is at present working at 30 - 40 % of its capacity only. The reason for the underutilization of capacity is that there is not enough cattle available for slaughtering.

About 15 % of beef is prepared for direct export. Dressing, curing, smoking, salting, pickling, manufacturing of sausages, pies etc. is done by ten major -but small-scale- enterprises. The products are of high quality.

There are three canneries exporting more than 70 % of their production. Most of the enterprises are working at 30 - 40 % of their capacity.

The industry provides more than 150 permanent jobs. Salaries vary from 13.000 to over 50.000 VT per month. The activities are mainly concentrated in Vila and Santo. The contribution to the national product amounts to 120 Mio VT.

3112 : Dairy products :

The activities comprise : packing of fresh fluid milk for retail distribution, manufacture of fresh cream, yoghurt, natural cheese and ice cream.

The industry is located in Vila.

The demand is fluctuating, supply is rather unelastic and converging to the minimum demand owing to the typical problems of this industry.

Imports have a major market share. The industry absorbs 14 labourers earning about 3,500.000 VT/year. Total investment counts for about 15 Mio VT, consumption of energy amounts to 2 Mio VT and the contribution to GNP is 6,650.000 VT. Ice cream is mainly imported. The market share of locally produced ice cream, the raw material of which is also imported, is less than 30 - 40 %.

3113 : Canning and preserving of fruits and vegetables :

The main activities are : orange juice is prepared of imported frozen concentrates, chemicals and sugar and bottled in plastic bottles of different sizes. Grape fruit juice is prepared of imported frozen concentrates and 25 - 30 % of local fruit juice which is added in order to sweeten the bitter imported juice. The industry employs 12 labourers (including 3 females) and pays 1,800.000 VT of salaries per year.

Total investment amounts to about 12,500.000 VT. The value added is 2,500.000 VT per year.

The prices are rather high. The produce is mainly consumed by the high income earners and in hotels. About 20 % are exported.

3116 : Grain mill products :

Some coffee peeling is done on Tanna, but no information is available on quantities.

3117 : Bakery products :

The main activities are : Manufacture of different kinds of bread, cakes, pies and pastries. The industry employs about 65 labourers, receiving a salary of 11,000.000 VT/year. The value added is 34,800.000 VT/year. Port Vila disposes of modern bakeries, most of which are working at 50 to 70 % of their capacity. The products are of good quality and the distribution is well organized.

3121 : Manufacture of food products not elsewhere classified :

Main activities : Coffee roasting and manufacture of ice. No information on quantities is available.

3122 : Manufacture of prepared animal feeds :

The two abattoirs produce about 200 tonnes of meat meal. The value added is about 5,000.000 VT, the employment comprises 6 persons. Further development is necessary : quality, marketing.

313 : Beverage industries :

At present we find only activities in group 3131 : soft drinks and carbonated waters industries. The factories are located at Fort Vila. Their equipment is partly appropriate. The industry employ more than 20 persons paying a salary of about 3,000.000 VF/year. Investment comes to more than 120,000.000 VF. The contribution to the national products amounts to 5,000.000 VF, which is rather low.

b) Textile, Wearing Apparel and Leather Industries (3110 : 32) :

3212 : Manufacture of made-up textile goods except wearing apparel :

The main activities in this group established in Vanuatu are the making up from imported materials of curtains and sails.

There are three in companies which are engaged in these activities.

The manufacture of sheets, pillow cases, curtains, table cloths and similar products is done on a more or less, handicraft basis.

Approximately 20 people earn their living in this group, more than half of them being women.

The materials used are all imported and the value of these imports amounts to about 5,1 million VF. Investment in this group is rather modest, the equipment comprises mainly the special sewing machines for the materials used.

The contribution to the national products amounts to 2,2 million VF.

The present price level is very high and therefore the sales possibilities are restricted to a small number of high income earners.

The companies only work at 50 % to 70 % of their capacities but by decreasing the price level a high level for house furnishings could be met.

3214 : Manufacture of carpets and rugs :

Cats, rugs etc. are manufactured out of locally grown natural fibres. This activity is widely spread all over the archipelago and mostly to meet the local demand. Only a small proportion is sold but there are no figures available on the value of the sales.

In the manufacture of ...
 employ 3 people. There are ...
 The ...
 about 2 million VT per year.
 Investment ...
 accounts to 2,5 million VT per year.
 The contribution to ...
 VT per year.
 The companies work only at ...
 demand is highly fluctuating ...
 of their work consists in ...
 etc.

c) Manufacture of food and food products, including furniture
 (IHC : 33) :

331 : Manufacture of wood and wood products, except furniture

Products of the three groups : 3311, 3312 and 3313 are manufactured. The main activities are : Manufacture of lumber, plating, manufacture of wooden containers, of baskets and small ware of wood etc. and carvings. The sawmills are located at Vila, Lacroville and ... The wage labour force absorbed by this major group consists of more than 15 persons per ... 10,000.000 VT/year. The investment is more than 20,000.000 VT. Energy consumption amounts to 7,000.000 VT. The contribution to the VNF comes to more than 10,000.000 VT. The sawmills utilize their installed capacity at the rate of 30 - 50 % only. Up to now their production has been oriented towards the local market, and little timber has been exported. Both the demand of the building industry and of the furniture industry are very low at the moment, but could increase easily, especially in connection with the general development programme.

332 : Manufacture of furniture :

Various household and office furniture is manufactured locally in one main factory and more than 15 small enterprises. The main factory (mentioned) is located at Vila ... is well equipped. The industry employs more than 30 persons and pays salaries of 12,000.000 VT per year. The investment amounts to more than 15,000.000 VT. Energy for more than 700.000 VT is consumed per year. The value added comes to 30,000.000 VT. The installed capacity is utilised at the rate of 50 %. The low demand can be contributed to the high prices on one hand and the very low income on the other hand. There is a great development potential connected with the increase of standard of living.

d) Manufacture of paper and paper products, printing and publishing (ISIC : 34) :

341 : Manufacture of paper and paper products.

The contribution of this subsector to the national products may be neglected. It is limited to the manufacture of a few paper articles like unprinted cards and some stationery. It is included in 342 and amounts to less than 2 % of that item.

341 : Printing, publishing and allied industries :

The printing industry is well developed, printing news papers, books, commercial printings etc. Having good equipment and well trained personal (Ni-Vanuatu). The printing industry employs 41 persons (12 women), who are mainly Ni-Vanuatu.

Salaries vary from about 12.000 VT to 50.000 VT/month. Imports of raw materials, paper, chemicals etc. amount to 14 Mio VT per year.

The value added is 29,040.000 VT per year. This figure corresponds to a capacity utilisation of 50 % only.

e) Manufacture of Chemicals and Chemical, Petroleum, Coal Rubber and Plastic Products (ISIC : 35) :

There are four companies in Port Vila which belong to this group, but for one of these companies the chemical sector is only part of activities, producing detergents, liquid soap, washing powder and bleach.

There is one plant manufacturing plastic bottles of different sizes ; and other produces foam boards for the construction of houses using local wood and polyurethan foam. In one company oxygen and acetylene is produced. The companies belonging to this group dispose mostly of semi-automatic machinery and the investment involved amounts to 65 million VT. In total they employ 23 people, the salaries paid per year amount to 5,3 million VT. The raw materials which are processed are almost all imported and the value of the imports per year is approximately 29 million VT. The energy consumption per year is about 2,460.000 VT. For the plastic bottles there would be good chances for export, but due to the lack of regular shipping links to other Pacific island the possibilities can only be used to a very limited extent. The capacity utilisation is in all companies rather low, ranging from 30 to 50 %.

The contribution to the GNP for the entire group amounts to 14,3 million VT.

f) **Manufacture of Non-metallic Mineral Products except Products of Petroleum and Coal (ISIC : 36) :**

The only activity classified under this group which is actually carried out in Vanuatu is the fabrication of concrete products (classified in group 3699).

There are two companies in Port Vila which are manufacturing concrete blocks of different sizes. On the whole archipelago there can be found very small enterprises manufacturing concrete blocks. But the conditions and prerequisites for the running of these small enterprises are very unfavourable. The cement deliveries are irregular, the price of cement is extremely high and the manufacture of the concrete blocks does not always meet the real demand i. e. for a simple house without an upper floor very often much smaller bricks containing much less cement could be used.

In Vila there are approximately 15 people occupied in making concrete blocks. For the other islands no exact figures are available. It is estimated that at least 40 to 50 people on the whole archipelago are engaged in the manufacture of concrete blocks.

The contribution to the national product for the whole sector can be estimated that at around 14 million VT. The share of imported raw materials due to the high cement prices-amounts also to about 14 million VT.

The manufacture of building material certainly has many possibilities for future development by, providing this industry with cheap raw materials.

g) **Manufacture of fabricated metal products, machinery and equipments (ISIC : 33) :**

3313 : Manufacture of structural metal products :

The main activities are : Manufacture of structural components in steel and aluminium, tanks, metal doors, screens, window frames, sashes, sheet metal components of buildings and solar water heating panels. The number of wage earners varies between 30 and 45. Wages amount to 9,300.000 VT per year. Total investment counts for 110,000.000 VT, equipment to 70,000.000 VT. Imports of inputs total 53,600.000 VT. The contribution to the GNP comes to 16,500.000 VT.

The capacity utilisation fluctuates between 30 and 40 %.

3841 : Ship building and repairing :

There is one shipyard engaged in repair of mainly foreign fishing boats. An other workshons is making aluminium boats up to 20 m. Some five other boat builders make smaller boats of different materials occasionally. The industry employs from 10 - 20 labourers with salaries of about 3,000.000 VT per year. Inputs are mainly imported (worth more than 15,000.000 VT). The value added comes to 6,000.000 VT.

The capacity utilisations lies below 50 %.

h) Other manufacturing industries (ISIC : 39) :

The activities are limited to the manufacture of jewerelly and buttons of mother of pearl.

The industries employ 25 (- 30) labourers. Wages amount to 4,500.000 VT per year. The value added comes to 5,000.000 VT.

22nd May

O.D.E.

MINISTER OF FINANCE

DEVELOPMENT OF CEMENT - PROJECT

1. Importance of the Project

- a) In realizing the cement project a very high investment, (exceeding ~~30~~ to ~~50~~ million \$) will be necessary. This important investment will have great impact and considerable effect on the economy of Vanuatu.
- b) The realization of the project is of strategic importance because a cheap building material for the entire construction sector, including infrastructure (ports, wharfs, etc.) will be available all over the archipelago of Vanuatu. This means a strong multiplier effect of economic development on all islands. The local price of cement could be half to one fourth of the actual price.
- c) The high share of exports will necessitate regular and frequent communications with the neighbouring countries which will stimulate the whole sector of transports and communications in a very positive way. The development of the transport and communications sector will again incite an expansion of many other economic activities.
- d) The realization of the project has considerable income and employment effects. Depending on the conception of the factory 200 to 400 employments will be created.
- e) The high share of exports in the total production involves an important inflow of foreign exchange and that means a substantial balance of payments effect could be achieved.
- f) The stimulation of other economic activities through the realization of the cement - project will cause a general growth and prosperity effect. The direct and indirect effects and the high incomes of this industry will increase the level of the well being of the people of Vanuatu.

- g) The revenue of the Government as shareholder will be considerable in addition to the tax revenue from the cement work.

2. Development strategy

Being aware of the importance of this project there is a great governmental interest in it. But at the same time foreign private investors will show their interest in the development of the cement industry. For that reason it is necessary that the government encourages and uses private initiatives but plays at the same time an active role in the overall development. It is important for the government to dispose of any possible information and to take part at any decisions being taken in context of cement project. This requires an independent project study and preparation for decision making.

It is recommended to carry out such an independent study with the assistance of UNIDO / UNDP.

This does not exclude private studies which could be used for comparison and control.

3. Major development phases and time-table

- a) For the realization of the cement project the following phases are to be distinguished :

First Phase: Market Study

Since the prerequisites from the geological point of view seem to be guaranteed and Vanuatu disposes of best potential facilities for transport and there are no technical problems, the development of the project depends mainly on the results of the market study. Since the capacity will be around 200.000 tons per year the main markets can only be countries with a large number of population. The countries in question are Australia, Papua New Guinea and Singapore. It is envisaged to export to these countries 90 to 95% of total production.

It is the objective of the market study to analyse these markets and the world market. For this purpose Mr Eder will visit the above mentioned countries from June 17th to June 30th, 1981. He will then discuss the results of the journey with UNIDO - Headquarters in Vienna and complete the market study by the end of July. This study should be sufficient to make a decision on the further development of the project.

In case of a positive result it can be proceeded to the next phase.

Second Phase: Technical Part of Feasibility Study

A cement engineer should analyse all aspects of the technical feasibility of the cement works with particular regard to the following questions :

- to take samples in co-operation with the geological department in such quantities that are sufficient for a pilot test;
- to determine the technology based on the results of the test;
- to make a plan and lay out of the cement works;
- to establish a manning table and to organise and describe all technical requirements;
- to establish the investment costs, production costs etc.;
- to establish a time-table for the implementation of the project with details on implementation costs etc.

Third Phase: Financial Analysis and Evaluation of the Project

Based on the market study and the technical feasibility study with all cost elements, a final document is to be prepared to allow a definitive decision. - This final analysis shall compile all the economically important aspects of the cement factory and provide detailed information for the investment decision. It should be carried out by an industrial economist. It is desirable that the industrial economist and the cement engineer work together for at least one or two weeks to settle all the inter-disciplinary questions. It would perhaps be advisable to have a separate study on transport economics done.

All these problems can be solved through UNIDO when recruiting experts for the studies.

~~Confidential - This document is for internal use only.~~

Fourth Phase: Negotiations within the Government and with potential foreign investors and partners to prepare the Investment Decision.

Since this cement project represents a very complex matter, during the time of preparing the studies frequent discussions with interested private investors should take place. They could already be the basis for a future co-operation.

At the time of taking a decision at the latest, the questions of co-operation and the kind of partnership have to be settled.

Complicated and comprehensive contracts have to be agreed upon determining the kind of co-operation, the raising of capital, the financing.

Also in this phase UNIDO assistance can be offered.

Fifth Phase: Implementation of the Project

Part of the consultations and discussions will still continue in this phase, in particular the final agreement for the contract with the supplying company, the definitive management contract.

An institutional and personal settlement nevertheless seems to be advisable already at the time of the investment decision.

The main objective of this fifth phase is the establishment of the factory, the creation of the internal organization, the employment and formation of the labour force. A detailed description of the various tasks to be managed will be given in the economic feasibility study.

As a principle the Government should try to make the supplying company responsible for a satisfactory investment and set up.

In case no agreement on the management of the cement works could be worked out at this stage or if there are other difficulties, UNIDO can give OPAS assistance for this phase. ?

b) Time-table - see annexe

4. Co-operation with Bourgeois and party

Private investors can certainly contribute useful assistance in establishing and running the cement works. It is therefore recommended to make best use of their services for the sake of the economy of Vanuatu. But at the same time it is advisable to pursue the preparations of the project independently of the private investors to have an impartial basis for the decisions to be taken. A continuous discussion at the different stages of the project would certainly be productive.

If you agree with the proposed proceedings I request you to give your written consent by a letter to UNIDO Headquarters in Vienna so that I can prepare all the necessary measures after my return to Vienna. This might limit the time lags to a minimum.

CP/be

UNIDO Headquarters VIENNA
via
UNITED NATIONS DEVELOPMENT PROGRAMME
Private Mail Bag
S U V A
FIJI

Subject : Consultancy services and further programme of assistance

Dear Sirs,

After discussing the results of the economic survey on manufacturing industry and the insight obtained in various travels and based on the experience of Mr. Eder's one year activity as team leader of the UNIDO project N°. VAN/79/CO1 : "Small and medium scale enterprises promotion and development", the Government would like to specify the use of the consultancies, foreseen in this project, as follows (the projects are listed according to their priority) :

1. Cement works : six to eight man months as outlined in a memorandum prepared by O.D.E. (copy attached).
 2. Copra mill : two to three man months to have an independent study on all aspects of a local copra mill.
 3. Industrial planning : three man months to formulate an industrial development policy and strategy including a proposal on the set-up and organisation of the industrial administration and to complete the section on manufacturing industry for the development plan.
- It would be appreciated if Mr. Eder could be recruited for this consultancy taking into account his competence and special experience in our country.

4. Small-scale tannery and leather industry : two man months to investigate the possibilities based on the output of the local abattoirs and to elaborate the investment projects accordingly.
5. Animal feed : one man month to elaborate a project to transform the abattoir by - products into appropriate feed for chicken, pigs and cattle.

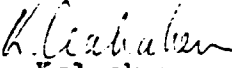
In a final discussion with Mr. Eder it was agreed upon that after his return to Vienna he will elaborate detailed job descriptions for the above consultants in accordance with UNIDO.

The above listed consultancies can be entirely financed out of the budget of the present UNIDO project N°. VAN/79/001.

The Government would be very grateful if the desired consultants could be provided as soon as possible to help this Government to overcome the problems of after-independence in the shortest possible time.

Thanking you for your cooperation and assistance, we remain,

Yours faithfully,


K. Kalsakau
Minister of Finance

