

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2000-2002)**

**VANUATU**

**December 1999**

## CURRENCY EQUIVALENTS

(as of 30 November 1999)

Currency Unit	—	Vatu (Vt)
Vt1.00	=	US\$0.008
US\$1.00	=	Vt129.55

## ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
AusAID	-	Australian Agency for International Development
CEDAW	-	Convention on the Elimination of All Forms of Discrimination Against Women
CRP	-	Comprehensive Reform Program
DBV	-	Development Bank of Vanuatu
GDP	-	Gross Domestic Product
OCR	-	Ordinary Capital Resources
ODA	-	Official Development Assistance
PFTAC	-	Pacific Financial Technical Assistance Centre
PIER	-	Pacific Islands Economic Report
POHQ	-	Pacific Operations Division
RETA	-	Regional Technical Assistance
SPRM	-	South Pacific Regional Mission
TA	-	Technical Assistance
VAN	-	Vanuatu
VCMB	-	Vanuatu Commodities Marketing Board
VNPF	-	Vanuatu National Provident Fund

## NOTES

- (i) In this Report, "\$" refers to US dollars.
- (ii) The fiscal year (FY) of the Government of the Republic of Vanuatu ends on 31 December.

## FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank for Vanuatu covering the three-year period 2000-2002. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 1999, in close consultation with the Government of Vanuatu, and other stakeholders. The CAP was discussed with the Board of Directors in October 1999 and has been revised by the ADB to incorporate recent developments. The assistance plan described in the CAP is only indicative and may be revised to reflect future developments.

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## VANUATU

### I. Country Performance Assessment

#### A. Economic Performance Assessment

1. Vanuatu's overall economic performance over the past two decades has been mixed. Between independence in 1980 and 1995, real gross domestic product (GDP) grew at an average annual rate of about 3 percent. This was accomplished within a generally stable macroeconomic environment. In recent years, however, Vanuatu's overall economic performance has deteriorated markedly. The rate of real GDP growth has declined each year since 1996<sup>1</sup>, failing to keep pace with the population growth rate of about 2.7 percent<sup>2</sup> per annum. Detailed country performance indicators are provided in Appendix 1.

2. The country's erratic economic performance has been due to major structural weaknesses and volatile political developments. Vanuatu has a high cost structure, underdeveloped infrastructure, a small private sector with few ni-Vanuatu businesses, and a dearth of people with the education and skills necessary to participate fully in modern, efficient business activities. Moreover, since 1995, serious governance problems emerged. Several coalition governments, rendered fragile due to shifting alliances and a series of motions of no confidence, resulted in a volatile political environment, which severely eroded business confidence. Most recently, on 25 November 1999 there was a further change of government.

3. Both domestic and international factors have contributed to the economic slowdown, with serious impacts on Vanuatu's two dominant sectors, agriculture and tourism. The Asian crisis had a negative impact on Vanuatu's traditional exports; and currency devaluations in Fiji, Solomon Islands and Papua New Guinea reduced Vanuatu's international competitiveness. Simultaneously, in early 1998, allegations by the ombudsman of political bias in the investment policies of the Vanuatu National Provident Fund (VNPF) resulted in serious civil disturbances in Port Vila, followed by a Government decision to authorize the unconditional refund of all VNPF contributions. Because the VNPF itself could provide less than half the required funds, the Government as guarantor had to make up the shortfall, leaving it with a projected overall budget deficit of 14 percent of GDP and posing a major challenge to both fiscal and monetary policy. Given the implications of the payouts for the balance of payments, and the currency devaluations in the region, it was not surprising that a run on the currency began. Capital outflow, reduced exports of goods and services and higher import spending combined to cause a drop in foreign exchange reserves from almost six months of import cover at the end of 1997 to 3.5 months at the beginning of April 1998. On 27 March, the Governor of the Reserve Bank, on the last day of his term of office, unilaterally announced a 20 percent devaluation, but this was reversed on the same day by the Minister of Finance. These events caused a substantial decline in tourism receipts during the first quarter of the year, destabilized the economy and severely eroded investor confidence.

4. The new coalition government that took office on 30 March 1998 sought immediately to restore credibility to macroeconomic policy and to revive investor confidence. It placed immediate fiscal, finance sector and monetary reform at the top of its agenda. It also recognized the need to address underlying governance problems, including weak decision-

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<sup>1</sup> Real GDP growth rate was 2.7 percent in 1996, 0.6 percent in 1997, and 0.2 percent in 1998.

<sup>2</sup> Ten year average, 1989 to 1998.

making in parliament and over-involvement of politicians in the management of Government agencies. A new Reserve Bank governor was appointed and the previous administration's reversal of the devaluation decision was endorsed. Monetary policy was tightened through the replacement of the 10 percent statutory reserve deposit requirement with a 16 percent prescribed asset ratio and a substantial rise in the Reserve Bank base lending rate. Foreign exchange controls were effectively imposed on capital transactions. While the devaluation reversal and the maintenance of capital controls initially intensified speculative pressure, the monetary tightening convinced the public of the Government's determination to defend the vatu. This, together with concessional external borrowing, facilitated a recovery in the foreign reserves position.

5. Implementation of the Comprehensive Reform Program (CRP) commenced in earnest in mid-1998 and, despite a further realignment within the coalition Government<sup>1</sup> in October 1998, the Government remained firmly committed to the reform process through to its removal from office on 25 November 1999. Prudent management of the economy in the latter part of 1998 saw at least a temporary restoration of macroeconomic stability. Although very high at Vt2.3 billion (8 percent of GDP), the 1998 deficit was significantly lower than had been estimated (more than Vt4 billion) following the VNPF crisis. About 56 percent of the financing requirement was funded by official aid flows, including the Asian Development Bank (ADB) CRP program loan<sup>2</sup>. The residual domestic financing requirement amounted to Vt1.0 billion (3.4 percent of GDP). The inflation rate increased to 3.9 percent in 1998 from 2.8 percent in 1997, mainly because of the impact of a 12.5 percent value-added tax introduced on 1 August 1998. Public debt reached Vt10.1 billion, or 34 percent of GDP at the end of the year.

6. Despite a 30 percent decline in beef exports, a 20 percent decline in copra exports, and a four percent rise in imports in 1998, the trade balance remained unchanged over the 1997 level. This reflected significant growth in kava exports and strong growth in timber export volumes which, in the face of declining prices, maintained timber export revenue at the 1997 level. The deficit on the current account fell slightly from Vt3 billion in 1997 to Vt2.4 billion in 1998, equivalent to about 8 percent of GDP. This fall resulted from an increase in tourism receipts in the second half of the year, which more than offset the first-quarter decline resulting from the January riots. The current account deficit was covered by capital account transactions, mainly the (imputed) reinvestment of investment earnings and long-term public borrowing. Foreign exchange reserves had strengthened by the end of 1998 to an equivalent of six months of imports, the highest level in many years.

7. Vanuatu's overall economic situation remains fragile. The fiscal position is weakening and could deteriorate rapidly if consistent policy decisions cannot be assured. In December 1998, for example, the Vanuatu Commodities Marketing Board (VCMB) made a decision not to re-issue kava export licences, all of which expired on 31 December 1998. As a result, the kava export industry, which had experienced rapid growth in late 1998 and had started bringing in foreign exchange receipts of about \$1 million per month, fell by two-thirds. Although subsequently redressed, this decision had serious consequences for the balance of payments situation, and did little for investor confidence and Vanuatu's reputation as a reliable trading partner. The issue is symptomatic of the need to redefine the regulatory and commercial functions of Government in Vanuatu.

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<sup>1</sup> The new coalition includes the ruling Vanua'aku Pati (VP), together with part of Union of Moderate Parties (UMP) and the John Frum Party.

<sup>2</sup> Loan 1624-VAN (SF) *Comprehensive Reform Program*, was approved on 16 July 1998, for \$20 million.

8. The Government's 1999 Budget Policy Statement, presented in October 1998, estimates there will be a 6.3 percent rise in domestic revenue, a 10.5 percent reduction in domestically financed expenditure, and a fall in the overall budget deficit to 5.4 percent of GDP. It is unlikely that a 6.3 percent rise in domestic revenue will be achieved in the context of a 2.0 percent fall in real GDP, however, the budget was likely to remain on track in aggregate terms because of a shortfall in development expenditure.

9. The most pressing development needs in Vanuatu continue to be to improve the governance environment, maintain macroeconomic stability, and restore investor confidence. In particular, there is an urgent need to revive foreign investment. There has already been a range of significant achievements under the CRP over the past twelve months, including:

- strong public participation in the reform process and a convergence of local ownership around the key theme of improved governance;
- reduction in the number of ministries from 13 to 9;
- 10 percent downsizing of the public service;
- improvements in public servants' autonomy and efficiency;
- establishment of the core legislative framework for improved governance;
- the beginning of the process of preparing a public investment program that includes aid-financed projects;
- introduction of a value-added tax;
- simplification and reduction of import duties and business license fees; and
- progress in financial sector reform through restructuring of the National Bank, closure of the Development Bank, amendment of the Vanuatu National Provident Fund Act, and establishment of the Asset Management Unit.

10. However, there are some problems and concerns. The rapid passage of a large volume of legislation in 1998 left little time for parliamentary scrutiny. The new Foreign Investment Act, for example, included schedules that were contrary to the letter and spirit of the CRP, discouraging foreign investors by reserving a wide range of areas for the indigenous population. These schedules have now been amended, and a revised bill was passed in the June 1999 sitting of Parliament. Weaknesses in law enforcement continue to impose high transaction costs on business and the community as a whole. Reform of the public sector is incomplete and will need to be consolidated. The severity of Vanuatu's human resource constraints and the heavy reliance on external technical assistance also raises questions about the durability of some of the reforms. Finally, there is the ongoing difficulty of maintaining political consensus. Policies to advance the resumption of growth and provide a consistent policy environment for key productive sectors such as agriculture, fisheries and tourism need to be put in place quickly, and public expectations will need to be managed carefully to avoid a popular backlash against the CRP.

## **B. Assessment of Socio-Environmental Performance**

### **1. Poverty and Human Development Issues**

11. Vanuatu is an archipelago of 83 mainly volcanic and mountainous islands, about 60 of which are inhabited. The country's total population in 1999 is estimated at 185,000 and the population growth rate is high, at about 2.7 percent. About 80 percent of the total population live on the eight largest islands, in rural areas and mainly along the seacoast. There are over

100 vernacular languages in use in Vanuatu, and the country has a dual language policy. Vanuatu is also very vulnerable to cyclones, volcanic activity and other natural disasters.

12. Cultural safety nets that have existed through a strong customary tradition of social relationships have served to ensure absolute poverty did not exist in this largely subsistence society. However, this situation is now changing. As people become increasingly dependent on the cash economy, traditional social networks are breaking down. Many families are having difficulty fulfilling customary expectations; others are opting out of the traditional system altogether. Geographic remoteness and isolation mean that smaller communities are finding it increasingly difficult to maintain any form of economic and social access to the wider society. As a result of their isolation, and of serious governance problems in Vanuatu in recent years, remote communities have also been experiencing a deterioration in both quality and quantity of government services. This is manifested in inadequate transport and communications infrastructure, declining health and education services, and inequitable distribution of government services and development benefits generally. For example, in 1996, just prior to the introduction of the CRP, almost three-quarters of the health budget was spent on urban rather than rural services, thus benefiting only 20 percent of the population, a pattern repeated for many government services<sup>1</sup>. These inequities in service delivery are gradually promoting new problems by weakening rural systems and accelerating urbanization.

13. Although Vanuatu is classified by the United Nations as having medium human development<sup>2</sup>, it has the third lowest ranking among PDMCs, and research indicates that the threat of increased poverty in Vanuatu is increasing, apparently reflecting the situation that existed in Papua New Guinea and Fiji some ten years ago<sup>3</sup>. Vanuatu's Human Poverty Index of 46.4 places it on a par with countries like Pakistan and Malawi. The main factors contributing to increasing poverty in Vanuatu are geographic isolation, vulnerability and governance issues. At a national level, per capita income is relatively high, at US\$1,290. At the same time, the average cash income for a rural family is estimated to be only US\$780 per annum. Education standards in Vanuatu are considered to be the poorest in the region. The adult literacy rate is low at 34 percent; life expectancy is low, at 66 years; and infant mortality is high, at 45 per 1,000 live births. Traditional diseases such as malaria continue to be of concern, while more recent 'lifestyle diseases' are also increasing in prevalence. Improvements in terms of access to clean water supplies and better sanitation in rural areas are still needed to address a number of health related problems.

## 2. Gender Issues

14. Clear gender differences exist in Vanuatu, in terms of access to resources and entitlements. Current social, economic and political indicators highlight female disadvantages in all areas. Vanuatu has a high fertility rate, with each woman bearing an average of five – six children. Average birth rates are higher in rural areas, and are linked to such issues as the spacing of children, low use of birth control and teenage pregnancy. Poor nutrition of both mothers and infants is a major health concern. Girls are less likely than boys to finish their schooling, or even to continue into secondary school. Women are more likely to be involved in unpaid tasks and work, on average, 16 to 17 hours a day, compared with men's average work

<sup>1</sup> See United Nations and Republic of Vanuatu: *Sustainable Human Development in Vanuatu*, United Nations, Suva, 1996.

<sup>2</sup> The United Nations Development Programme: *Pacific Human Development Report*, 1999 ranks Vanuatu as the 140<sup>th</sup> of 174 countries, with a Human Development Index value of 0.425.

<sup>3</sup> See O'Collins, M. *Isolation, Vulnerability, and Governance: Reflections on Poverty Assessments in Papua New Guinea, Fiji and Vanuatu*, Australian National University, 1998

of 10 – 11 hours per day<sup>1</sup>. Women are generally more successful in small businesses and are more reliable borrowers of bank funds. Nevertheless, women are rarely involved in formal decision-making, either through traditional or modern democratic structures.

15. In 1995, the Vanuatu Government ratified the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW) and included a National Plan of Action for Women in its Development Plan. Vanuatu's CRP includes a range of important and ambitious policy objectives aimed at improving social equity and sustainability. Because of existing inequalities, special emphasis has been given under the CRP to assessing, from the design stage, the distribution of positive and negative gender impacts of reform.

### **3. Environment**

16. Pressures on land and the marine environment in Vanuatu have only become visible in recent years, as communities move from subsistence to increasing reliance on cash incomes. Daily activities are resulting in reef depletion, soil erosion and contamination resulting from inadequate waste disposal. Environmental resources are now also being depleted by large-scale projects, in logging for instance. High population growth and urbanization are also beginning to take their toll on the environment. At a community level, awareness of the relationship between resource use pressure and declining stocks appears to be higher than in other Pacific countries<sup>2</sup>. At a national level, the Government does have a National Conservation Strategy, and various ministries have actively undertaken environment awareness and training programs in outer islands. Nevertheless, much work remains to be done, including through legislation, to 'mainstream' major environmental policies. In the first instance, greater priority needs to be given to strengthening the Environment Management Unit within Government.

#### **C. Governance: Sound Development Management**

17. The attainment of improved living standards through sustainable economic growth has been seriously constrained in Vanuatu by structural, institutional and policy weaknesses, as well as deeply embedded governance problems. The Ombudsman has released a series of reports in recent years exposing ill-informed and ill-advised practices by various political leaders. These have included scams involving Letters of Guarantee, issuance of passports, establishment of controversial offshore trusts for the ownership of public assets, and misuse of public funds. In addition, the progressive politicization of the public service, combined with serious skills and capacity constraints, has severely limited the overall management and performance effectiveness of the executive arms of Government for a number of years prior to introduction of the CRP.

18. From its inception in 1997, formulation of the CRP involved bipartisan political participation and an extensive consensus-building process throughout the community. There is widespread ownership for the CRP among all major groups in Vanuatu society, and it is now viewed as a benchmark against which the country at large assesses the Government's policies and actions. Both major political parties contested the March 1998 elections largely on CRP-related issues, and support for its implementation has broadened.

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<sup>1</sup> Siwatibau, S. *Gender, Population and Development Sector Review for Vanuatu*, 1996.

<sup>2</sup> See Johannes, R.E. *Government-supported, Village-based Management of Marine Resources in Vanuatu*, 1998.

19. Nevertheless, due to the diversity of languages and cultures, the geographic and social distance between Port Vila and the outer islands, widespread disillusionment over the abuses that have occurred and recent stagnation of the economy, Vanuatu's social cohesiveness remains fragile. Continued efforts to raise public awareness and involve local communities and non-government organizations in ongoing dialogue and decision-making will remain important for longer-term success of the reform process.

20. At the same time, serious skills and capacity constraints remain within the public service. Reforms undertaken during 1998, including passage of the Leadership Act, reorganization of the Government into a more compact number of ministries, downsizing of the public service and initiation of performance-based personnel management will assist significantly to improve the transparency, accountability and operations of Government, but this will take time. In the interim, the Country's heavy reliance on external advisers has continued. Likewise, and contrary to public expectations, the early stages of reform implementation are seeing stagnation, or even decline, in the quality of public service delivery in basic sectors. This is not entirely surprising, given that institutional adjustments take time and many senior staff under the restructuring are new and relatively inexperienced. Nevertheless, a strong commitment by Government to local capacity building throughout the reform process must remain of high priority. Even temporary deterioration in the quality of basic services can undermine the credibility of the CRP and the support it has consistently received from the public. Continuing Government effort to involve the community in dialogue and decision-making will also help to create a service orientation within public service departments and thereby assist to improve the quality of the services available, particularly in education and health.

#### **D. Implementation Assessment**

##### **1. The Portfolio**

21. The Asian Development Bank (ADB) has approved eight Asian Development Fund (ADF) loan projects totaling \$49.25 million to Vanuatu since it achieved independence in 1980. Six of these loans have been completed and two are still under implementation. The focus of the ADB's lending program has been on the finance, social infrastructure, transport, and communications sectors, and public sector reform. Total cumulative disbursements as of 30 March 1999 totaled \$29.7 million or 54.1 percent of the total available for withdrawal. The ADB has also provided 35 technical assistance grants amounting to \$8.6 million, two of which are ongoing. Eight of these were for project preparation, while the rest were advisory.

##### **2. Issues in Project Implementation**

22. To date, project completion reports have been prepared for three loans to Vanuatu, all of which have been post-evaluated (see Appendix 2).

23. The post-evaluation study of the loan for the Development Bank of Vanuatu (DBV) indicated that implementation was only partly successful because of frequent changes of senior staff, a major decrease in copra prices in 1986, a devastating cyclone in 1987, and political unrest in early 1988. The study emphasized that traditional social structures such as families, village committees, and savings unions should be used effectively in the loan recovery process. These lessons have been incorporated into the design of the more recent, ongoing project loan assisting the DBV, along with associated technical assistance for institution building.

24. The post-evaluation study of the loan for agriculture extension and training concluded that the project was only partly successful in achieving its original objectives to strengthen the link between agriculture station-based research and on-farm application. The project performance audit report for the Multi-project was completed in 1996, and the project was rated unsuccessful except for the education component. The lessons learned revolved around institutional capability, chronic staff shortages, socio-cultural mechanisms, and the need for a better coordination system. These lessons are now being taken into account in the design of the ADB's loan and technical assistance operations in Vanuatu.

25. In addition to these reports, a special assessment of the ADB's advisory technical assistance operations in Vanuatu was undertaken in 1996. Its main conclusion was the need to encourage or ensure Government ownership of technical assistance goals.

26. The two ongoing loans are the *Urban Infrastructure Project* and the *Comprehensive Reform Program*. The *Urban Infrastructure Project* is now almost twelve months behind schedule. This is of major concern given this project's potential to have substantial influence on economic activity, improving quality of life and mitigating against lagoon pollution and associated environmental and health hazards. The scope of the project includes rehabilitation of existing urban roads and port infrastructure and provision of better water supply, drainage and sewage systems. The main cause of delay has been late delivery of detailed designs by consultants, requiring more consistent follow-up. In addressing these problems, the Government and the ADB agreed that the most urgent rehabilitation works in and around Port Vila should be initiated through force account. This facility has been provided for in the project design for expenditures up to \$1 million. To further expedite progress, direct purchase may be used for acquisition of urgently needed equipment.

27. The CRP on the other hand has progressed smoothly. The Government met its targeted conditions for release of the incentive sub-tranche with minimum delays<sup>1</sup> and subsequent progress with the implementation of reforms has remained on track throughout 1999.

## **II. Country Operational Strategy**

28. Since February 1997, the ADB has actively supported formulation and implementation of the Government's Comprehensive Reform Program, including through close liaison and technical support to ensure careful sequencing and a phased approach to the reform process, while recognizing the need to sustain the momentum of reforms. The ADB has also taken the lead role in coordinating other external support. The CRP represents an ambitious reform agenda. It aims to strengthen institutions through improved governance and public sector reform, including restructuring of the civil service; and to carry out structural adjustments in the economy aimed at promoting private sector-led, sustainable economic growth. Ensuring effective implementation of the CRP will require sustained effort but promises high returns. Therefore the strategic thrust of the ADB's operations in Vanuatu remains active support for implementation of the CRP.

29. Within this broad framework, the ADB's key focus is on helping to achieve the following objectives:

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<sup>1</sup> The incentive sub-tranche of \$5 million under loan 1624-VAN(SF) was released on 26 February 1999.

- (i) responsible and transparent government;
- (ii) improved Government capacity to deliver essential services efficiently and effectively; and
- (iii) a more open and competitive economy that would encourage private investment, increase employment, and improve the standard of living.

30. The emphasis is on supporting national efforts to strengthen key institutions to ensure political stability, and to improve economic growth performance through policy and institutional reforms. Although substantial progress has been made already, the reform process is still very fragile. In implementing the CRP, the Government is confronting a range of policy, infrastructure and service issues related to opening up the economy and enhancing private sector investment. Recognizing the need to jump-start the economy, particularly through increased economic activity in the primary sectors, the ADB will emphasize sector policy development, together with possible loan assistance for rural financial services. The ADB will also help to address critical infrastructure bottlenecks, through assistance for infrastructure development in the outer islands, together with ongoing assistance for urban infrastructure. In selecting individual interventions, the ADB program will take into account the priority of activities that will achieve demonstrable, positive and sustainable impacts of reform at the grass-roots level, such as through improved basic service delivery and systems. With a view to ensuring sustainability of the reform process, technical assistance support will focus on deepening the impact of various reforms, including by encouraging the continued involvement of all stakeholders in consultation and decision-making. Lessons learned from the Inter-departmental Task Force review of ADB experience with reform programs in the Pacific will also be taken into account in future activities.

31. In previous years, the ADB has usually programmed a major loan every two years in Vanuatu. The 2000-2002 program includes loans for each year. However, these are small loans, thus maintaining the overall Government debt exposure at a manageable level. This approach is intended to enable the design of projects that are more responsive and more easily implemented, in the context of Vanuatu's capacity constraints.

### **III. Sector Strategies**

#### **A. Agriculture**

32. Agriculture is the mainstay of Vanuatu's economy, accounting for 80 percent of its exports and 19 percent of GDP<sup>1</sup>. A large proportion of marketed agriculture and livestock products are raised by smallholders on land allocated to them by villages, following traditional custom rights and privileges. Forestry is important, particularly on the larger islands. Fisheries is underdeveloped. A high 41 percent of the land is recognized as having conditions favourable to agricultural development, yet less than half this area is under any form of cultivation. Major constraints to development include traditional land and marine tenure systems, lack of technical skill capacity, cyclone frequency and the dispersed and isolated location of communities. The agriculture sector is a priority for development under the CRP, with reforms required to improve the living standards of small-holders through improved health and education services, availability of rural credit services, abolition of export taxes, reform of coastal shipping, and

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<sup>1</sup> Major crops include copra, cocoa, coffee, kava, vegetables such as yam, cassava and sweet potato, and fruits such as papaya. Cattle raising has also proven successful.

strengthened quarantine and inspection services. Reforms aimed at eliminating Government involvement in direct commercial activities are of particular importance. ADB support will focus on addressing the infrastructure bottlenecks that prevent productive sector development and providing strategic policy advice aimed at enhancing the productive sectors. Particular emphasis will be given to assessing options for the effective provision of rural financial services, including through microfinance, with a view to preparing a project for possible ADB funding in 2001. In addition, the ADB will assist in undertaking a shipping sector review, as part of the preparation for an outer islands infrastructure development project.

## **B. Infrastructure**

33. Infrastructure remains a key constraint to economic growth in Vanuatu and is critical to reducing income disparities and achieving more balanced growth. In addition to the ongoing Urban Infrastructure Project, and an Emergency loan approved in May 1999 for rehabilitation of infrastructure damage caused by Cyclone Dani, the ADB will now provide a further infrastructure-related investment commencing in 2000, for the development of outer islands infrastructure. This project will focus on restructuring policies and regulations for the shipping sector, as well as undertaking construction of priority rural roads, wharves and airstrips in the outer islands. The project will assist to develop an infrastructure master plan, and with related institutional arrangements for effective operations and maintenance in the infrastructure sector. Finally, preliminary analysis for an *Urban Sanitation Project* will be undertaken in 2001, through technical assistance to explore the Institutional Framework for the Management of Urban Services.

## **C. Social Infrastructure and Environment**

### **1. Health**

34. Vanuatu's health system suffers from a serious lack of qualified staff, especially midwives, doctors and specialists. Of the 17 medical positions within the hospital system for instance, only three are filled with nationals<sup>1</sup>. Although measures are in place to address such issues, basic service delivery is currently stagnating or, in some cases, even deteriorating. The ADB is giving priority through its technical assistance program to strengthening the efficiency and effectiveness of selected frontline public services, including in health. Other donors are also providing substantial support to improve the health sector over the medium term, including an institutional strengthening project being supported by Australia in the Ministry of Health.

### **2. Education**

35. Similar constraints to effective service delivery also exist in the education sector, with many secondary school teachers qualified only to teach at the primary level. The need to address education sector problems is recognized as being of very high priority if there is to be any sustainable solution to the skills and capacity limitations that currently exist throughout the public service. The World Bank has funded the development of an Education Master Plan, which is currently under Government consideration. In addition to providing technical assistance to improve the performance of rural education offices, the ADB has programmed a skills development project for 2001, which envisages contracting private and non-government service providers to deliver skills training and employment placement services for early school

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<sup>1</sup> AusAID, *Pacific Program Profiles*, 1998 - 1999.

leavers. This project is considered important from the point of view of skills requirements in a developing economy as well as from the point of view of arresting the rural – urban drift.

### **3. Environment**

36. As noted earlier, environment issues continue to be marginalized within the Vanuatu Government and there is a need for greater recognition of the importance of sound environment management in all sectors of Government. The ADB is assisting the Government to formulate an urban growth management strategy for Port Vila, including improvements in the legislative framework for urban planning and the environment. Technical assistance is being provided for the development of environmental and resource management legislation, physical planning legislation and regulation, water resource management legislation, and sanitation by-laws. Technical assistance is also programmed for 2000 to strengthen environmental management in Vanuatu.

#### **D. Governance Dimensions of Asian Development Bank Operations**

37. Given the over-arching emphasis on economic and public sector reform in the ADB's strategy in Vanuatu, one of the key themes of the ADB's operational program is to support policy and institutional strengthening, and capacity building in selected agencies. At present, there remain serious inconsistencies between commitment to a more open and competitive economy and the policy frameworks actually in place. Examples include complexities involved in administration of land leases and protectionist shipping sector policies and practices. There is also urgent need for further redefinition of the commercial functions of government and for further commercialization and corporatization of Government Business Units. The ADB's support for the CRP will continue to provide technical assistance in such key areas to assist in ensuring the policy environment in Vanuatu is conducive to private sector development. Policy dialogue will continue to stress the importance of finding satisfactory solutions to issues such as land leases.

38. At the same time, serious capacity constraints continue to pervade all levels of Government and a high level of dependence on external advisers remains. This situation precedes the CRP, but has been exacerbated in the short - medium term by the downsizing and restructuring that have taken place under the CRP. While reforms such as merit-based selection processes have now been introduced, the immediate effect has been to reduce even further the extent of professional, technical and managerial skills available in the public service. The Government, the ADB and other donors recognize that this is unavoidable in the short term. Nevertheless, it will be important to ensure that ADB support emphasizes capacity building and that the Government's strong commitment to building local capacity continues.

39. Finally, the ADB will initiate support for the performance enhancement of basic services such as health, education, agricultural extension, business services and infrastructure maintenance). This will complement, from a bottom-up point of view, the higher level corporate planning initiatives being put in place under the CRP.

#### **E. Gender Dimensions of Asian Development Bank Operations**

40. There is growing evidence that reform programs which have focused only on macroeconomic goals such as GDP growth and balance of payments can lead to higher levels

of income inequality and a deterioration in the position of women within the community<sup>1</sup>. Because of existing severe inequalities in Vanuatu, and in the interests of equity and sustainability, careful attention has been paid in both the design and implementation of the CRP to ensuring gender impacts are taken into account. The New Zealand Government provided technical advice on how social impact and gender aspects of the reform process might be identified, monitored and addressed as integral parts of the CRP process. While this advice has been incorporated into the CRP, there is community concern that gender issues are being marginalized in the practical implementation of the CRP. The ADB is providing specific support through a monitoring and impact assessment specialist to formulate a strategy for measurement and reporting of the broader impacts of the CRP process on vulnerable groups, including women, over a three-year period (1998 to 2001). In addition, the ADB is engaged in regular policy dialogue with the Government on the need for more explicit attention to ensuring integration of gender equity issues throughout the CRP.

#### **F. Private Sector Operations**

41. No private sector operations focusing specifically on Vanuatu are envisaged in the medium term. The focus of ADB support will be on assisting to institutionalize appropriate policy and regulatory frameworks aimed at encouraging private sector development. Investor confidence has dropped markedly in the past 12 - 18 months, in part due to impacts of the Asian economic crisis and natural disasters, but also importantly because of continuing inconsistencies in Government policy. In addition, the ADB will provide assistance to support the Government's efforts to corporatize or privatize services. This is currently programmed for 2001, but may need to be considered earlier, depending on the timing of Government reforms in this area. Potential opportunities for "public-private" partnerships will continue to be investigated also. At present, the ADB is assessing one such proposal, aimed at developing a geothermal power project in Vanuatu.

#### **IV. Regional Economic Cooperation**

42. As for other Pacific countries, regional and sub-regional cooperation feature strongly in Vanuatu's national development strategy. Vanuatu is a member of all the major regional agencies promoting development cooperation in the Pacific. Vanuatu is also an active member of the Melanesian Spearhead Group, along with Papua New Guinea and Solomon Islands. The ADB has also promoted subregional cooperation in the Pacific, primarily through regional technical assistance (RETA) activities. These have focused on trade, economic policy and management issues, including through support for the Pacific Financial Technical Assistance Centre (PFTAC). Of particular interest to Vanuatu is the planned regional financial sector study, which will examine issues relevant to Vanuatu especially in the wake of recent financial sector restructuring undertaken through the CRP. Sub-regional training seminars and workshops have also been initiated by the ADB as part of its in-country technical assistance activities, particularly in the area of financial and economic management.

#### **V. Donor Activities and Aid Coordination**

43. External aid accounts for about 35 percent of GDP and finances almost the entire annual development expenditure of the Government. Vanuatu receives about Vt3.5 billion in official development assistance (ODA) each year. Bilateral donors provide 73 percent of the ODA

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<sup>1</sup> Buchan, D., Dwyer, M. and Wichman, V. *Vanuatu Comprehensive Reform Program: Monitoring and Management of the Social and Gender Impacts*, December 1997.

while multilateral agencies provide the balance. The social infrastructure sector, notably education and health, accounts for almost 50 percent of total ODA. Australia is the largest bilateral donor, providing A\$11.8 million under its regular aid program in 1998/99, as well as specific support for policy and management reform. The Australian program is providing substantial support to CRP objectives, including through major institutional strengthening activities in finance and economic management, the Public Service Commission, the legal, and health sectors, as well as support for forestry and land use planning. Some 50 percent of Australian assistance is spent in the education sector. New Zealand is another key bilateral donor in Vanuatu, providing NZ\$4.95 million a year, mainly for human resource development. Other important donors active in Vanuatu include France, Japan, United Kingdom, People's Republic of China, European Union, and the ADB. Overall external assistance is shown in Appendix 3.

44. Since the CRP initiative was launched in February 1997, the ADB has played a proactive role in coordinating donor assistance for Vanuatu, within the framework of the CRP. In addition to convening regular in-country meetings of all Port Vila-based donor representatives, the ADB also convened the first Consultative Group meeting for Vanuatu in July 1997. This, combined with two National Summits, has proven an effective means of consolidating and enhancing the complementarity of effort of the various external funding agencies. All donors in Vanuatu are currently supporting the CRP through their own programs and strategies.

## VI. Cofinancing and Catalyzing External Resources

45. To date, cofinancing possibilities have been limited, as projects are relatively small. The ADB maintains regular dialogue with other donors on potential cofinancing opportunities, and there is close coordination of the many complementary donor activities in Vanuatu, in an effort to maximize impact.

## VII. Asian Development Bank's Operational Program

46. The planned loan and technical assistance pipeline for the period 2000-2002 is summarized in Table 1. The detailed list of projects is in Appendix 4 and lending by type and sector in Appendix 5. The project profile of the 2000 loan for outer islands infrastructure development is in Appendix 6.

**Table 1: Lending And Technical Assistance Program, 2000-2002**

### A. Public Sector Lending Program

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending program <sup>a</sup>	1	20.0	1	2.0	1	8.0	-	-	-	-
ADF	1	20.0	1	2.0	1	8.0	-	-	-	-
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline <sup>b</sup>	-	-	-	-	1	5.0	2	7.0	1	10.0
ADF	-	-	-	-	1	5.0	2	7.0	1	10.0
OCR	-	-	-	-	-	-	-	-	-	-

### B. Technical Assistance Program

	1998 (Actual)		1999		2000		2001		2002	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program <sup>a</sup>	2	1,830.0	5	1,600.0	4	1,350.0	-	-	-	-
TA Pipeline <sup>b</sup>	-	-	-	-	-	-	5	1,100.0	1	500.0

<sup>a</sup> The Program is comprised of the firm projects.

<sup>b</sup> The Pipeline consists of the Program (firm projects) and standby projects. In 2001 and 2002, there is no distinction between firm and standby.

## **VIII. Economic and Sector Work Program**

47. A comprehensive report on the economy of Vanuatu, under the ADB's Pacific Islands Economic Report (PIER) series was undertaken in the latter half of 1996. The published Report was released in early 1997 and served as a useful input in the deliberations of the various Task Teams set up to formulate the CRP. During March/April 1998, the ADB undertook a staff consultant study on microfinance and community-based rural enterprise development in Vanuatu. In 1999, a budget and expenditure review was undertaken for the first time. This is expected to assist in informing both the Government and the ADB on the links between the Government's budget planning and its development strategy, and the extent to which there is appropriate matching of development priorities and allocations. Vanuatu is also included in regional technical assistance reviewing the financial sector in Pacific countries.

## **IX. Local Cost Financing**

48. With Vanuatu's limited capacity for domestic resource mobilization, the ADB will continue to provide finance for local costs as justified.

**VANUATU**  
**COUNTRY PERFORMANCE INDICATORS**

Item	1994	1995	1996	1997	1998	1999
<b>ECONOMIC INDICATORS</b>						
<b>I. Income and Growth</b>						
1. GDP per Capita (US dollars, current)	1,300	1,410	1,462	1,435	1,290	...
2. Real GDP Growth (% , 1983 constant prices)	2.6	3.2	2.7	0.6	0.2	-2.0
Agriculture	2.2	6.4	4.6	4.8	6.9	0.6
Industry	7.3	6.4	2.4	1.1	-7.0	10.2
Services	1.7	3.0	2.1	1.0	-7.0	-5.5
<b>II. Saving and Investment (current market prices)</b>						
1. Gross Domestic Investment	28.8	32.7	...	...	...	...
2. Gross National Saving	23.1	26.1	...	...	...	...
<b>III. Money and Inflation</b>						
1. Consumer Prices (annual average)	2.3	2.2	0.9	2.8	3.9	...
2. Broad Money (M2)	2.9	13.3	10.1	-0.4	4.6	...
<b>IV. Government Finance (% of GDP)</b>						
1. Revenue	24.9	26.6	23.5	23.0	28.5	...
2. Expenditure	26.5	29.4	25.3	23.7	42.2	...
3. Overall Surplus/Deficit (-)	-1.6	-2.7	-1.8	-0.7	-13.6	-5.4
<b>V. Balance of Payments</b>						
1. Merchandise Trade Balance (% of GDP)	-23.1	-21.5	-20.3	-16.9	...	...
2. Current Account Balance (% of GNP)	-3.5	-2.1	-0.6	2.2	...	...
3. Export (\$) growth (annual percent change)	10.1	13.2	6.4	17.3	...	...
4. Import (\$) growth (annual percent change)	13.4	6.4	2.5	-3.6	...	...
<b>VI. External Payments Indicators</b>						
1. International Reserves (vatu) (end of period)	41.8	38.9	43.4	39.7	45.2	...
- months of imports	7.6	5.9	5.6	4.5	6.0	...
2. External Debt Service (% of exports of goods & :	1.6	1.5	1.4	1.5	...	...
3. External Debt (% of GDP)	21.7	20.3	18.6	18.5	...	...
<b>Memorandum Items:</b>						
GDP (current prices, Mn Vatu)	24,962	26,633	28,231	29,501	29,906	...
Exchange Rate (Vatu per US\$)	116.41	112.11	111.70	115.87	127.32	...

Source: ADB Pacific Developing Member Countries database; Vanuatu Statistics Office.

**VANUATU**  
**COUNTRY PERFORMANCE INDICATORS**

	1985	1990	1998
<b>POPULATION INDICATORS</b>			
Total Population ('000)	129.1	147.3	182.5
Annual Population Growth Rate (% change)	1.70	3.10	2.70
<b>SOCIAL INDICATORS</b>			
Total Fertility Rate (births per woman)	...	5.1 (1989)	5.0
Maternal Mortality Rate (per hundred thousand live births)	...	...	...
Infant Mortality Rate (below 1 year; per '000 live births)	...	55	45
Life Expectancy at Birth (years)	...	63 (1989)	66
Female	...	62 (1989)	67
Male	...	64 (1989)	64
Adult Literacy (%)	19	32 (1989)	34
Primary School Enrollment (% of school age population)	...	63 (1994)	72
Female	...	...	70
Secondary School Enrollment (% of school age population)	...	16 (1989)	22
Female	...	...	18
Child Malnutrition (% of under age 5)	...	...	23
Population Below Poverty Line (%)	...	...	...
Income Ratio of Highest 20% to Lowest 20%	...	...	...
Population with Access to Safe Water (%)	...	87	87
Population with Access to Sanitation (%)	...	91	91
Public Education Expenditure as % of GNP	6.3	5.0	4.7
Public Health Expenditure as % of GDP	3.5	2.5	N.A.
Human Development Index	...	0.533	0.425
Human Development Global Ranking	...	106	140
Human Poverty Index	...	...	46.4
<b>ENVIRONMENTAL INDICATORS</b>			
<b>Forestry</b>			
Deforestation			
Total Area	...	...	...
Annual deforestation	...	...	...
<b>Biodiversity</b>			
Nationally protected area			
Area	...	...	...
Number	...	...	...
As % of land area	...	...	...
Biosphere reserves			
Area	...	...	...
Number	...	...	...
World Heritage sites (number)	...	...	...
Wetlands of international importance			
Area	...	...	...
Number	...	...	...
<b>Land Use</b>			
Cropland; permanent pasture	...	...	...
<b>Air Pollution (Ambient concentrations)</b>			
Particulates	...	...	...
SO <sub>2</sub>	...	...	...
<b>Water Pollution (concentration of pollutants in water bodies)</b>			
Biochemical Oxygen Demand (BOD)	...	...	...
Chemical Oxygen Demand (COD)	...	...	...
<b>Global Environmental Problems</b>			
CO <sub>2</sub> emissions (total and per capita)	...	...	...

**VANUATU**  
**PORTFOLIO PERFORMANCE**

**Table 1 : Implementation, Disbursement Performance and Postevaluation Results**

**Public Sector Projects only**  
**(as of 31 December 1998)**

A. Project Portfolio <sup>b</sup>	Net Loan Amount \$ million    %		Rating (No.) <sup>a</sup>											
			Total No.    %		Implementation Progress				Development Objectives					
					HS	S	PS	U	HS	S	PS	U		
Agriculture and Natural Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance and Industry	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social Infrastructure	9.71	32.1	1	50.0	-	-	-	1	-	1	-	-	-	-
Others/Multisector	20.50	67.9	1	50.0	-	1	-	-	-	1	-	-	-	-
<b>Total</b>	<b>30.21</b>	<b>100.0</b>	<b>2</b>	<b>100.0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

B. Disbursements <sup>c</sup>	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	-	33.38	33.38
(2) Disbursed amount (\$ mn, cumulative, active loans only)	-	13.78	13.78
(3) Percentage disbursed [(2)/(1)] (%)	-	41.27	41.27
(4) Disbursements (\$mn, active loans only, latest year)	-	11.41	11.41
(5) Disbursement ratio (%) <sup>d</sup>	-	37.85	37.85
C. Net Transfer of Resources <sup>e</sup> (\$ million)	OCR	ADF	Total
Net transfer in 1995	-	0.80	0.80
Net transfer in 1996	-	0.15	0.15
Net transfer in 1997	-	0.01	0.01
Net transfer in 1998	-	11.00	11.00

D. Post-Evaluated Projects	1968 - 1977		1978 - 1987		1988 - 1998		1968 - 1998			
	No.	%	No.	%	No.	%	No.	%		
<b>1. Postevaluation Rating (as of 31 December 1998)</b>										
Rated Generally Successful (GS)	-	-	-	-	-	-	-	-		
Rated Partly Successful (PS)	-	-	-	-	1.0	33.3	1	33.3		
Rated Unsuccessful (US)	-	-	-	-	2.0	66.7	2	66.7		
No Rating	-	-	-	-	-	-	-	-		
<b>Total</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>3</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>		
2. Postevaluation Rating by Sector 1968-88 (as of 31 December 1998)	GS		PS		US		NR		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	-	-	1	100.0	-	-	-	-	1	33.3
Energy	-	-	-	-	-	-	-	-	-	-
Finance and Industry	-	-	-	-	1	50.0	-	-	1	33.3
Social Infrastructure	-	-	-	-	-	-	-	-	-	-
Transport and Communications	-	-	-	-	-	-	-	-	-	-
Others/Multisector	-	-	-	-	1	50.0	-	-	1	33.3
<b>Total</b>	<b>0</b>	<b>0.0</b>	<b>1</b>	<b>100.0</b>	<b>2</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>3</b>	<b>100.0</b>

<sup>a</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

<sup>b</sup> Excludes loans closed during the year.

<sup>c</sup> Excludes loans closed during the year without disbursement.

<sup>d</sup> Disbursement Ratio is defined as the ratio of the total disbursement in a given year over the net loan amount available at the beginning of the year plus the loan amounts of newly approved loans which have become effective. "Net loan amount at the beginning of the year" includes all effective loans at the beginning of the year. "Loan amounts of newly approved loans which have become effective" includes loans approved before and after the beginning of the year that have become effective after the beginning of the year.

<sup>e</sup> Includes private sector projects for countries with private sector operations.

Source : OPO (A), CTD (B & C), OEO (D)

**VANUATU**  
**PORTFOLIO PERFORMANCE**

**Table 2: Status of Project Implementation**  
**Public Sector Projects Only**  
**(As of 31 December 1998)**

Sector <sup>a</sup>	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating <sup>b</sup>	
		OCR (\$ million)	ADF			Original (mm/yy)	Revised (mm/yy)				Implement Progress	Development Objective
OTH	Loan No. 1624-VAN (SF) Comprehensive Reform Program		20.50	Jul-98	Aug-98	Dec-00	-	19	9.96	9.96	S	S
SOC	Loan No. 1080-VAN (SF) Urban Infrastructure		9.71	Jun-96	Jun-97	Dec-01	-	15	0.94	0.65	U	S
<b>Total</b>		<b>0.00</b>	<b>30.21</b>						<b>10.89</b>	<b>10.60</b>		

<sup>a</sup> Sector:

- AGR: Agriculture & Natural Resources
- ENE: Energy
- SOC: Social Infrastructure
- I&F: Industry and Finance
- T&C: Transport and Communications
- OTH: Multisector/Others

<sup>b</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

Note: Excludes loan(s) closed during the year.

**VANUATU**  
**OVERALL EXTERNAL ASSISTANCE**

External Source (\$ million)	Past 3-5 Years (Annual Average)		1998 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
<b>A. Multilateral Assistance</b>				
Bank	10.00	1.00	20.00	6.54
EU	-	2.00	11.72	-
UNDP & UN Agencies	-	0.25	-	10.21
Others	-	0.09	-	11.90
IDA/World Bank	4.50	0.16	4.26	-
Subtotal	14.50	3.50	35.98	28.65
<b>B. Bilateral Assistance</b>			-	79.96
Australia	-	6.50	-	0.01
Canada	-	0.25		0.08
China, People's Republic	7.30	0.22	12.44	0.03
France	-	3.70	-	9.37
Japan	-	6.45	Not available	-
New Zealand	-	2.80	-	2.90
UK	-	0.56	-	1.80
Subtotal	7.30	20.48	12.44	94.15
<b>Total</b>	<b>21.80</b>	<b>23.98</b>	<b>48.42</b>	<b>122.80</b>
Memo items:				
External Assistance as percentage of Regular Expenditure				
External Assistance as percentage of Development Expenditure				

Sources : Pacific Operations Division, December 1998; AID Unit, Ministry of Finance and Economic Development.

**VANUATU**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**  
(Amounts in \$ million)

Sector/Project Name	Strategic Dev't Objectives <sup>a</sup>		Responsible Division	Year of PPTA	PROJECT COST					
	Primary	Secondary			TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
<b>2000 FIRM LOANS</b>										
<b>Transport and Communications</b> 1. Outer Islands National Infra. Devt. Proj. <i>Subtotal</i>	ECO	POV	SPRM	1999	10.0	0.0	8.0	8.0	2.0	0.0
					10.0	0.0	8.0	8.0	2.0	0.0
					<b>10.0</b>	<b>0.0</b>	<b>8.0</b>	<b>8.0</b>	<b>2.0</b>	<b>0.0</b>
<b>Total</b>										
<b>2000 STANDBY LOANS</b>										
<b>Finance</b> 1. Rural Financial Services <i>Subtotal</i>	ECO	POV	POHQ	1999	7.0	0.0	5.0	5.0	2.0	0.0
					7.0	0.0	5.0	5.0	2.0	0.0
					<b>7.0</b>	<b>0.0</b>	<b>5.0</b>	<b>5.0</b>	<b>2.0</b>	<b>0.0</b>
<b>Total</b>										
<b>2001 LOAN PIPELINE</b>										
<b>Agriculture and Natural Resources</b> 1. Rural Financial Services <i>Subtotal</i>	ECO	POV	POHQ	1999	5.0	0.0	5.0	5.0	0.0	0.0
					5.0	0.0	5.0	5.0	0.0	0.0
<b>Social Infrastructure</b> 1. Skills Development Project <i>Subtotal</i>	HD		POHQ	2000	2.0	0.0	2.0	2.0	0.0	0.0
					2.0	0.0	2.0	2.0	0.0	0.0
<b>Total</b>					<b>7.0</b>	<b>0.0</b>	<b>7.0</b>	<b>7.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2002 LOAN PIPELINE</b>										
<b>Others</b> 1. Comprehensive Reform Program (C R P) Phase II <i>Subtotal</i>	ECO		POHQ	2001	10.0	0.0	10.0	10.0	0.0	0.0
					10.0	0.0	10.0	10.0	0.0	0.0
					<b>10.0</b>	<b>0.0</b>	<b>10.0</b>	<b>10.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>										

<sup>a</sup> ECO = Economic Growth; HD = Human Development; POV = Poverty Reduction; GAD = Gender and Development; and ENV = Environmental Protection.

**VANUATU**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Responsible Type		Amount (\$'000)		
	Division	of TA	Bank	Others	Total
<b>2000 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Others</b>					
1 . CRP Sustainability	POHQ	AD	650.0		650.0
2 . Productive Sector Project	POHQ	PP	400.0		400.0
3 . Skills Development Project	POHQ	PP	150.0		150.0
4 . Environmental Management	POHQ	AD	150.0		150.0
	<b>Subtotal</b>		<u>1,350.0</u>		<u>1,350.0</u>
<b>Total</b>			<u><b>1,350.0</b></u>		<u><b>1,350.0</b></u>
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Others</b>					
1 . Frontline Performance Management System (Phase II)	POHQ	AD	150.0		150.0
2 . CRP Phase II	POHQ	PP	500.0		500.0
	<b>Subtotal</b>		<u>650.0</u>		<u>650.0</u>
<b>Social Infrastructure</b>					
1 . Institutional Framework for Urban Services Management	SPRM	AD	150.0		150.0
	<b>Subtotal</b>		<u>150.0</u>		<u>150.0</u>
<b>Finance and Industry</b>					
1 . Ni-Vanuatu Business Development	POHQ	AD	150.0		150.0
2 . Commercialization / Corporatization / Privatization	POHQ	AD	150.0		150.0
	<b>Subtotal</b>		<u>300.0</u>		<u>300.0</u>
<b>Total</b>			<u><b>1,100.0</b></u>		<u><b>1,100.0</b></u>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Social Infrastructure</b>					
1 . Urban Sanitation Project	SPRM	PP	500.0		500.0
	<b>Subtotal</b>		<u>500.0</u>		<u>500.0</u>
<b>Total</b>			<u><b>500.0</b></u>		<u><b>500.0</b></u>

**VANUATU**  
**LENDING PROGRAM BY TYPE AND SECTOR, 2000-2002**

Classification	2000 (Firm)		2001-2002	
	No.	% <sup>a</sup>	No.	% <sup>a</sup>
<b>By Type</b>				
A. Economic Growth		0.0	1	33.3
B. Projects Directly Aimed at Social Concerns		0.0	1	33.3
C. Projects Directly Aimed at Environmental Concerns		0.0		0.0
D. Economic Growth-oriented Projects with Social and/or Environmental Concerns	1	100.0	1	33.3
<b>Total</b>	<b>1</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>
<b>By Sector</b>				
A. Agriculture and Natural Resources		0.0	1	33.3
B. Energy		0.0		0.0
C. Finance		0.0		0.0
D. Transport and Communications	1	100.0		0.0
E. Social Infrastructure		0.0	1	33.3
F. Others/Multisector		0.0	1	33.3
<b>Total</b>	<b>1</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>

<sup>a</sup> rounded off.

## VANUATU

<b>PROJECT PROFILE</b>				
<b>1. Project Name:</b> Outer Islands Infrastructure Development Project			<b>2. Sector/Subsector:</b>  Transport and Communication	
<b>3. Dev. Objective:</b> Primary: ECO      Secondary: POV				
<b>4. Rationale:</b>  Development of Vanuatu's Outer Islands is constrained by poor quality and high cost sea shipping services, and by a lack of infrastructure services including main roads, feeder roads, airstrips, wharves, navigation facilities, power and possibly water. Maintenance of roads, wharves and airstrips is poor, leading to high operating costs even where such services exist.  The project will help alleviate high priority infrastructure constraints, and address related policy and institutional issues including the need for improved O&M.			<b>5. Beneficiary Participation in Formulation:</b>  Village communities, non-governmental organizations, private sector representatives and other stakeholders will be consulted with and their comments and proposals will be incorporated in the project design.	
<b>6. Objectives and Scope:</b>  The Project will facilitate economic growth in the outer islands and equality between islands. It will support increased investment in the outer islands through helping improve inter-island shipping and various infrastructure services. It is anticipated that the Project will help provide urgently needed infrastructure, particularly main and feeder roads, airstrips, wharves and navigation facilities, in rapidly growing areas or in areas with potential for rapid growth, and carry out related policy and institutional reforms.  The Project will be prepared under a PPTA, which will investigate the growth prospects of the various island groups, identify infrastructure constraints and conduct necessary feasibility studies. In addition, it will recommend policies for improvement of the interisland shipping sector and contribute to an infrastructure master plan. The cost of the TA is estimated at \$883,000 equivalent, requiring Bank financing of \$750,000. It will provide inputs of 26.5 person-months, 20.5 international and 6 domestic.				
<b>7. Estimated Cost &amp; Financing Plan (\$):</b>				<b>Remarks</b>
Loan Project Cost (\$m) 10				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
Bank	5.0	3.0	8.0	
Borrower	0.0	2.0	2.0	
Cofinancing	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
<b>Total</b>	<b>5.0</b>	<b>5.0</b>	<b>10.0</b>	
<b>8. Estimated Benefits and Beneficiary Groups:</b>  Benefits will include higher economic development, more equitable economic development, improved infrastructure services and improved transportation. Beneficiaries will include low-income outer island villages, small and large businesses, and transportation companies.				
<b>9. Executing Agency:</b>  Ministry of Public Works and Infrastructure			<b>10. Project Implementation Period:</b>  Start:        January 2000 End:         December 2004	
<b>11. Environment Category:</b> B			<b>12. Processing Year:</b> 2000	

## VANUATU

<b>PROJECT PROFILE</b>				
<b>1. Project Name:</b> Rural Financial Services			<b>2. Sector/Subsector:</b>  Finance	
<b>3. Dev. Objective:</b> Primary: ECO      Secondary: POV				
<b>4. Rationale:</b>  In 1998 the Government of Vanuatu initiated its policy reform program supported by the Bank, through its Comprehensive Reform Program <sup>1</sup> (CRP) Loan and associated technical assistance. As a part of the CRP Development Bank of Vanuatu (DBV) has been merged with the National Bank of Vanuatu (NBV) due to the DBV's bad financial performance. The side effect of the merger has been reduction of the agriculture lending and worsening of access by rural population to financial services. None of the four commercial banks operating in Vanuatu have extensive coverage in rural areas. Given the fact that rural population represents 80 percent of total population, the issue of access to financial services is an important one. The sparse population density and dispersed nature of economic activities in the island economy of Vanuatu discourage an organic growth of rural financial services. At the same time, a liberalized financial sector regime, coupled with focused, Bank-supported initiatives to strengthen economic and public sector reforms through the ongoing CRP offers a unique opportunity to increase the outreach of the financial services in rural areas.			<b>5. Beneficiary Participation in Formulation:</b>  Rural communities, non-governmental organizations, commercial banks, private sector, and other stakeholders will be consulted with and their comments and proposals will be incorporated in the project design.	
<b>6. Objectives and Scope:</b>  The objective of the project is to facilitate provision of financial services to rural population of Vanuatu. The scope of the project includes: (i) credit guarantee scheme; (i) enhancement of participation of the National Bank of Vanuatu (NBV) in provision of rural financial services and lending to agriculture sector; (ii) developing a microfinance program with participation of the Vanuatu Credit Union League (VCUL) and possibly other non-government organizations (NGO)s; and (iii) development of business advisory services.				
<b>7. Estimated Cost &amp; Financing Plan (\$):</b>				<b>Remarks</b>
Loan Project Cost (\$m) 10				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
Bank	3.0	2.0	5.0	
Borrower	0.0	2.0	2.0	
Cofinancing	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
<b>Total</b>	<b>3.0</b>	<b>4.0</b>	<b>7.0</b>	
<b>8. Estimated Benefits and Beneficiary Groups:</b>  The benefits of the project will be in enhancing financial services provision, which will in turn lead to enhanced private sector led economic growth through facilitating linkages of rural communities to formal economy. Beneficiaries of the project will be mainly rural population of Vanuatu.				
<b>9. Executing Agency:</b>  Ministry of Finance and Economic Management/Ministry of Trade and Business Development			<b>10. Project Implementation Period:</b>  Start:        2000 End:         2004	
<b>11. Environment Category:</b> C			<b>12. Processing Year:</b> 2000	

<sup>1</sup> Loan No. 1624-VAN (SF): *Comprehensive Reform Program*, for \$20 million, approved on 16 July 1998.

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2000-2002)  
PIPELINE UPDATE**

**VANUATU**

**June 2000**

**VANUATU**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**  
 (Amounts in \$ million)

Sector/Project Name	Strategic Dev't Objectives <sup>a</sup>		Responsible Division	Year of PPTA	PROJECT COST						
	Primary	Secondary			TOTAL	Bank			Gov't	Cofinancing (Others)	
						OCR	ADF	Total			
<b>2000 FIRM LOANS</b>											
NONE IDENTIFIED											
<b>2001 LOAN PIPELINE</b>											
<b>Agriculture and Agro-Industry</b> 1. Rural Financial Services  <b>Subtotal</b>	ECO	POV	POHQ	1999	5.0	0.0	5.0	5.0	0.0	0.0	
					5.0	0.0	5.0	5.0	0.0	0.0	
	<b>Total</b>					<b>7.0</b>	<b>0.0</b>	<b>7.0</b>	<b>7.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2002 LOAN PIPELINE</b>											
<b>Social Infrastructure</b> 1. Skills Development Project  <b>Subtotal</b>	HD		POHQ	2000	2.0	0.0	2.0	2.0	0.0	0.0	
					2.0	0.0	2.0	2.0	0.0	0.0	
	<b>Total</b>					<b>9.0</b>	<b>0.0</b>	<b>7.0</b>	<b>7.0</b>	<b>2.0</b>	<b>0.0</b>
<b>Transport and Communications</b> 1. Outer Islands National Infra. Devt. Proj.  <b>Subtotal</b>	ECO	POV	SPRM	1999	7.0	0.0	5.0	5.0	2.0	0.0	
					7.0	0.0	5.0	5.0	2.0	0.0	
	<b>Total</b>					<b>9.0</b>	<b>0.0</b>	<b>7.0</b>	<b>7.0</b>	<b>2.0</b>	<b>0.0</b>

<sup>a</sup> ECO = Economic Growth; HD = Human Development; POV = Poverty Reduction; GAD = Gender and Development; and ENV = Environmental Protection.

**VANUATU**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002**

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
<b>2000 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Others</b>					
1 . Institutional Support for Central Agencies for CRP Phase III*	POHQ	AD	700.0	0.0	700.0
3 . Skills Development Project*	POHQ	PP	250.0	0.0	250.0
5 . Vanuatu National Council of Women*	SPRM	AD	150.0	0.0	150.0
	<b>Subtotal</b>		<u>1,100.0</u>	<u>0.0</u>	<u>1,100.0</u>
<b>Total</b>			<u><b>1,100.0</b></u>	<u><b>0.0</b></u>	<u><b>1,100.0</b></u>
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1 . Agriculture and Fisheries Development	POHQ	PP	400.0	0.0	400.0
	<b>Subtotal</b>		<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
<b>Others</b>					
1 . Frontline Performance Management System (Phase II)	POHQ	AD	150.0	0.0	150.0
2 . CRP Sustainability Phase II	SPRM	AD	400.0	0.0	400.0
3 . Capacity Building in Rural Financial Services	POHQ	AD	200.0	0.0	200.0
4 . Capacity Building of the Legal Sector	POHQ	AD	300.0	0.0	300.0
	<b>Subtotal</b>		<u>1,050.0</u>	<u>0.0</u>	<u>1,050.0</u>
<b>Total</b>			<u><b>1,450.0</b></u>	<u><b>0.0</b></u>	<u><b>1,450.0</b></u>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Finance and Industry</b>					
1 . Private Financial Sector Development	SPRM	PP	300.0	0.0	300.0
	<b>Subtotal</b>		<u>300.0</u>	<u>0.0</u>	<u>300.0</u>
<b>Social Infrastructure</b>					
1 . Urban Sanitation, Public Health and Environment Project	POHQ	PP	500.0	0.0	500.0
2 . Capacity Building in Infrastructure Management	SPRM	AD	150.0	0.0	150.0
	<b>Subtotal</b>		<u>650.0</u>	<u>0.0</u>	<u>650.0</u>
<b>Others</b>					
1 . CRP Sustainability Phase III	SPRM	AD	300.0	0.0	300.0
2 . Capacity Building in Skills Development	SPRM	AD	200.0	0.0	200.0
3 . Vanuatu National Council of Women Phase II	SPRM	AD	200.0	0.0	200.0
	<b>Subtotal</b>		<u>700.0</u>	<u>0.0</u>	<u>700.0</u>
<b>Total</b>			<u><b>1,650.0</b></u>	<u><b>0.0</b></u>	<u><b>1,650.0</b></u>

\*Approved