

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
2001 – 2003**

REPUBLIC OF VANUATU

December 2000

CURRENCY EQUIVALENTS

(As of 30 November 2000)

Currency Unit	--	Vatu (Vt)
Vt1.00	=	\$0.006891
\$1.00	=	Vt145.11

ABBREVIATIONS

ADB	-	Asian Development Bank
CRP	-	Comprehensive Reform Program
DBV	-	Development Bank of Vanuatu
EU	-	European Union
GDP	-	gross domestic product
PPTA	-	Project Preparatory Technical Assistance
PFTAC	-	Pacific Financial Technical Assistance Centre
RETA	-	regional technical assistance
TA	-	technical assistance
VAN	-	Vanuatu

NOTES

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

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for Republic of Vanuatu covering the three-year period 2001-2003. 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 2000, in close consultation with the Government of Vanuatu, and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000 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 more recent developments.

For further information, please visit the Asian Development Bank's website at: <http://www.adb.org> or contact any of the following:

1. The Regional Representative
South Pacific Regional Mission
P. O. Box 127
Port Vila, Vanuatu

Telephone (678) 2-3300
Fax (678) 2-3183
E-mail adbsprm@adb.org

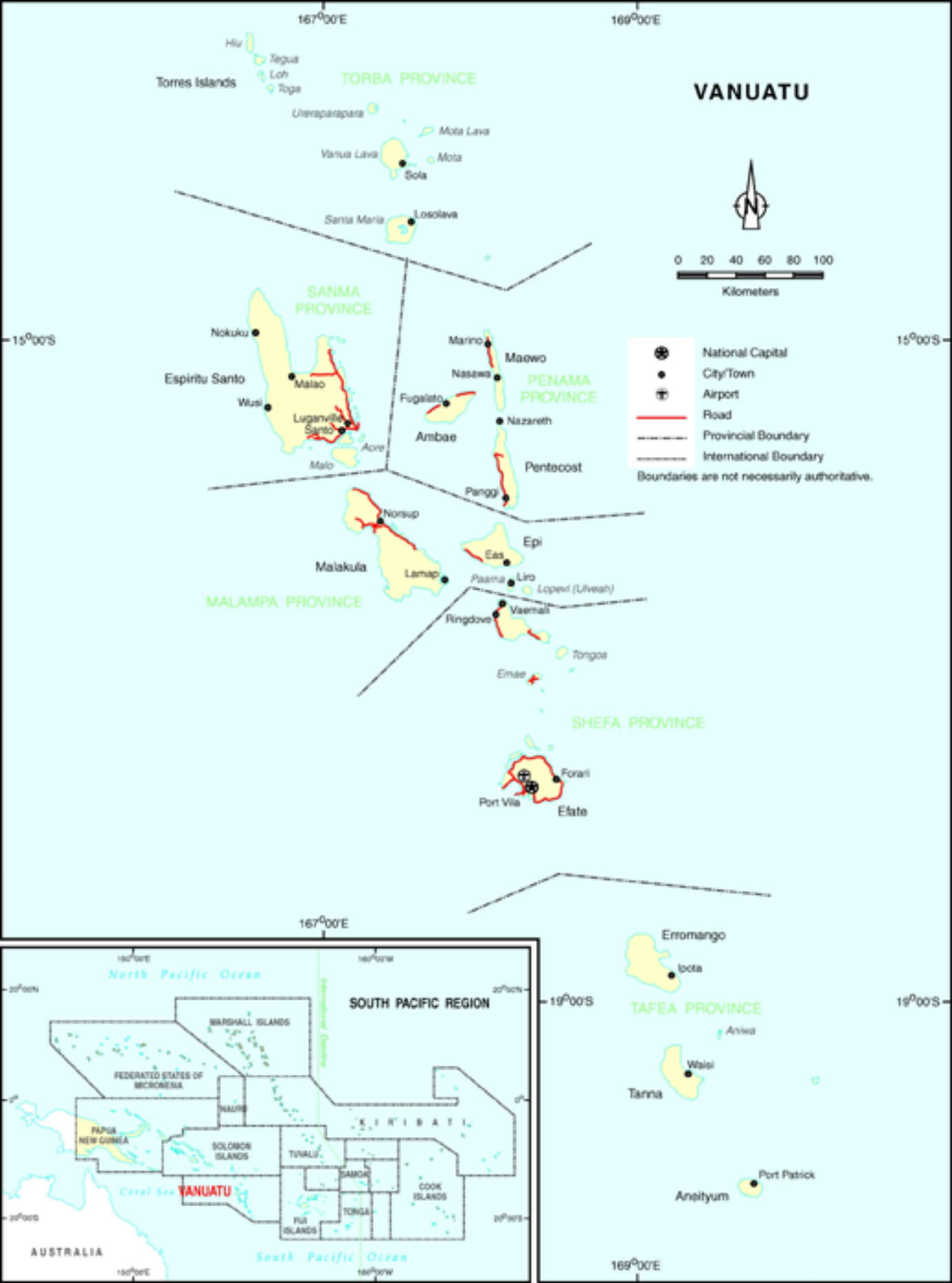
2. Manager, Area A
Pacific Operations Division
Office of Pacific Operations
Asian Development Bank
6 ADB Avenue
Mandaluyong City, Metro Manila

Mailing address:
P.O. Box 789
0980 Manila, Philippines

Telephone (632) 632-5897 or 632-5893 or 632-5894
Fax (632) 636-2648
E-mail adbpub@adb.org

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VANUATU

I. Country Performance Assessment

A. Economic Performance Assessment

1. The Republic of Vanuatu, with a population of almost 200,000, has considerable agriculture, tourism, and fisheries resources. However, without adequate economic management and political stability its overall economic performance over the past two decades has been mixed with some erratic fluctuations. Major structural weaknesses and volatile political developments have affected the country's economic performance. Vanuatu has a high cost structure, underdeveloped infrastructure, a small private sector with few ni-Vanuatu businesses, and a lack of education and skills necessary to participate fully in modern, efficient business activities. A Comprehensive Reform Program (CRP) was introduced in 1998 to improve the efficiency in public sector and economic management.

2. Between independence in 1980 and 1998, real gross domestic product (GDP) grew at an average annual rate of about 3 percent barely keeping pace with the population growth rate. The economy began to recover in 2000 with estimated growth of around 2.5 percent following a decline in growth by 2.9 percent in 1999. The tourism and construction sectors are leading the recovery. Poor weather conditions and damage to Air Vanuatu's aircraft adversely affected the agriculture and tourism sectors in 1999. Although tourism is growing the agriculture sector continued to experience weakness in 2000. Sustained marketing campaigns and the recent problems in Fiji and the Solomon Islands are benefiting Vanuatu's tourism industry. Major ongoing construction projects include the Efate ring road, the expansion of the main airports on Efate and Santo, rehabilitation from Cyclone Dani and the Urban Infrastructure Project. Detailed country performance indicators are provided in Appendix 1.

3. While no balance of payments pressure was evident, the official foreign reserves dropped during 2000 to a level of 4.5-5.0 months of imports from a level of around 6 months coverage in 1999. This caused a short-term disturbance in the exchange rate of Vatu in the first quarter of 2000, which however did not entail substantial depreciation. No significant policy-induced changes in the nominal effective exchange rate are anticipated.

4. The CPI inflation rate has picked up to 1.5 percent in the second quarter of 2000 from its low level of 0.5 percent in the first quarter, affected mainly by the high price for imported fuel and partly by the depreciation in the local currency. During the first half of 2000, the money supply (M2) increased by 0.7 percent from that of the end of 1999. At the end of the second quarter of 2000, the weighted-average lending and deposit rates stood at 12.7 percent and 3.1 percent, respectively, so the interest spread was as high as 9.6 percent. The sectoral distribution of the commercial banks' loans and advances showed that a majority was allocated to construction, personal, and housing sectors, whereas only a minimal level of 2-6 percent was allocated to key productive sectors such as agriculture, tourism, and transport. The lack of efficient financing to the key sectors is a major impediment to the economic growth.

5. The Government is facing a difficult fiscal situation caused by limited revenue sources. The 2000 budget provided for a balanced recurrent budget, an increase in development expenditure, and an overall deficit of 3 percent of GDP, to be financed by external concessional loans. The actual revenue estimate was 0.7 percent above the 1999 budget level, while the actual expenditure estimate was 7.5 percent below the 1999 budget level. Although the fiscal situation has been substantially stabilized, there remains substantial concern over the revenue

shortage. Without income taxation, the revenue base is very narrow and the annual revenue remains at only a quarter of GDP, which is very low by international standards. The Government is planning to increase specific duties for alcohol, tobacco, and fuel and selected business license fees, and to enforce better compliance with existing taxes.

6. Vigorous pursuance of the reform program aimed at providing a favorable environment to private sector investment will be the key to the economic success. A most pressing need in Vanuatu is to promote private sector investment and create new job opportunities. The overall environment for private sector investment should be further improved. High cost in financing, procuring equipment, and running business; lack of skilled labor force; difficulty in land acquisition; and weak policy coordination are major hindrances to private sector investment. Continued efforts should be made to address the monopoly or oligopoly in public utilities, banking, and commodity sectors. The Government needs to carry on the reform program in such a direction that governance, accountability, transparency in the public sector are further enhanced and the positive impacts from the reform are spread out to outerislands, mitigating the severe gap in the living standards between the urban and rural areas.

7. Substantial progress has been made with the rehabilitation of government-owned financial institutions, which have completed their right-sizing exercise. The National Bank of Vanuatu has been operating on a fully commercial basis with restored capital adequacy and an improved audit. The Asset Management Unit was fully operational to recover outstanding debt, but its activity has been staggering since its management suddenly resigned. A quick recovery of its management functions is imperative.

8. While substantial achievements have been made in both the economic and governance frameworks in Vanuatu, there still is a long way to go before those reforms are entrenched. Medium-term prospects for the economy will depend heavily on continued progress with the reform and the confidence of private sector investors. Due to the diversity of languages and cultures, the geographic and social distance between Port Vila and the outer islands, a lack of infrastructure, and the recent stagnation of the economy, the poverty situation in most of outer islands largely remains unaddressed. Skills and capacity constraints remain within the public service. Continued efforts are needed to disseminate the principles of the CRP to rural areas involving wider dialogue and a participation by the grass-root people; provide better infrastructure and financial services to the outer islands to help produce more cash crops and set up new businesses; establish national policy frameworks for the agriculture and fisheries sectors; update existing policy framework in other sectors; and support development of vocational skills.

B. Poverty Assessment

9. Cultural safety nets that have existed through a strong customary tradition of social relationships have served to ensure absolute poverty did not exist in most of 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 governance problems in recent years, remote communities have been experiencing 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 services¹. These inequities in service delivery are weakening rural systems and accelerating urbanization.

10. With GDP per capita of around \$1,100, poverty problem has not been regarded as being serious. Nevertheless, people in most outer islands live merely on subsistence level and the growing urban drifting is creating new urban poor groups. As the real GDP growth has failed to support the rapid population growth of over three percent during the last three years, the poverty situation has worsened. According to official statistics, Vanuatu, with Human Poverty Index of 46.4 in 1999, is ranked the third poorest country among the ADB member countries in the Pacific. The vast majority of Vanuatu people are in the subsistence or informal sector, and the search for employment, cash income, and education has resulted in a concentration of the population on the main islands of Efate and Santo. Moreover, as the income-earning is heavily centered on businesses owned by major investors, the level of income earned by ordinary local households remains very low, leaving the per capita GDP index as largely irrelevant to the whole population².

C Assessment of Socio-Environmental Performance

1. Gender Issues

11. Clear gender differences exist in Vanuatu, in terms of access to resources and entitlements. Current social, economic and political indicators highlight the disadvantaged position of women in all areas. Vanuatu has a high fertility rate, with each woman bearing an average of five to six children. Average birth rates are higher in rural areas, and a 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 of 10–11 hours per day³. 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.

12. In 1995, the Vanuatu Government ratified the Convention on the Elimination of all forms of Discrimination Against Women 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.

2. Human Development

13. 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 193,219 and the population growth rate is extremely high, at about 3 percent. About 80 percent of the total population live on the eight largest islands, in rural areas and mainly along the seacoast. There

¹ See United Nations and Vanuatu: *Sustainable Human Development in Vanuatu*, United Nations, Suva, 1996.

² The average cash income for a rural family is estimated to be only \$780 per annum.

³ Siwatibau, S. *Gender, Population and Development Sector Review for Vanuatu*, 1996.

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.

14. Vanuatu ranks third to last on the Human Development Index for Pacific Island nations (HDI = 0.425 in 1999). Majority of the population live a subsistence life style in remote rural areas. The nation has persistent problems of health, education, and population. The main factors contributing to increasing poverty in Vanuatu are geographic isolation, and cultural traditions, which have made progress difficult. As of 1997, the adult literacy rate was low at 33.5 percent; life expectancy was low at 63 years for male and 66 years for female; and infant mortality was high at 45 per 1,000 live births. Traditional diseases such as malaria continue to be of concern. 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. The high growth rate of population with over five percent per annum during the recent years in urban centers, resulted from urban drift, is causing serious youth unemployment and rapid deterioration in the urban safety and sanitation.

3. Environment

15. 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 countries⁴. 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.

D. Governance: Sound Development Management

16. The attainment of improved living standards through sustainable economic growth has been seriously constrained in Vanuatu by structural, institutional, and policy weaknesses. The Ombudsman has released a series of reports in recent years exposing ill-informed and ill-advised practices by various political leaders. 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.

17. The most pressing development needs in Vanuatu continue to be improving the governance environment while maintaining macroeconomic stability, and restoring investor confidence. There has already been a range of achievements under the CRP over the past two years, including:

- strong public participation in the reform process and a convergence of local ownership around the key theme of improved governance;

⁴ See Johannes, R. E. *Government-supported, Village-based Management of Marine Resources in Vanuatu*, 1998.

- reduction in the number of ministries from 13 to 9;⁵
- 10 percent downsizing of the public service;
- improvements in public servants' autonomy and efficiency;
- establishment of the core legislative framework for improved governance; and
- the beginning of the process of preparing a public investment program that includes aid-financed projects.

18. Continued efforts to raise public awareness and involve local communities and non-government organizations in on-going dialogue and decision-making will remain important for longer-term success of the reform process. At the same time, efforts should be made to tackle the serious skills and capacity constraints remaining 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 have assisted significantly to improve the transparency, accountability and operations of Government, but this will take time. In the interim, the Government's heavy reliance on external advisers is likely to continue. 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 taken 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.

E. Implementation Assessment

1. The Portfolio

19. ADB has approved nine Asian Development Fund (ADF) loan projects totaling \$51.25 million to Vanuatu since it achieved independence in 1980. Six of these loans have been closed and three are ongoing. Total cumulative disbursements as of end 1999 totaled \$35.11 million or 70.4 percent of the total available for withdrawal. ADB has also provided 40 technical assistance grants totaling \$10.7 million. Thirty-one of these have been closed and nine are ongoing. Nine of these were for project preparation, while the rest were advisory. The completed loan projects have been in the infrastructure, financial institution, agriculture, and multiproject sectors. The three major ongoing loans are the Urban Infrastructure Project, the Cyclone Rehabilitation Project, and the Comprehensive Reform Program.

2. Issues in Project Implementation

20. To date, project completion reports have been prepared for six loans to Vanuatu, of which three have been post-evaluated (Appendix 2, page 1). Lessons learned include the need to give priority (in infrastructure projects) to preparation of high-quality feasibility studies and detailed designs; (in financial institution projects) to institutional arrangements that enable the institutions to be capable of operating, maintaining, and funding the facilities constructed.

⁵ Recently, however, the responsibilities of some ministries are being split up, resulting in a total of 13 ministries again from 2001.

21. 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.

22. 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 ADB's loan and technical assistance operations in Vanuatu.

23. In addition to these reports, a special assessment of 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.

II. Country Operational Strategy

A. The COS

24. The strategic thrust of ADB's operations over the medium term will be to (i) maintain its support for the CRP, while (ii) shifting toward the development of the productive sectors, particularly agriculture and fisheries, and (iii) continuing to support the provision of infrastructure and social services. There is a strong crosscutting concern for addressing poverty, employment, and other social issues, particularly in the rural areas.

25. Within the above-described strategy it is ADB's intention to support the following subsidiary objectives:

- responsible and transparent government;
- Government capacity to deliver essential services efficiently and effectively;
- provision of policy frameworks for developing key sectors including agriculture and fisheries;
- a more open and competitive economy, which would thereby encourage private investment, increase employment, and improve standards of living;
- provision of basic infrastructure to outer islands and framework for sustainable operations and maintenance to protect the value of the infrastructure provided;
- enhancement of the access to financial services for the grass-root people for creating or supporting small businesses; and
- development of the vocational skills of both urban and rural people, particularly women and youth, for broadening their employment opportunities.

B. Progress in Implementation

26. Since February 1997, ADB has actively supported formulation of the Government's comprehensive reform program 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. 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 ADB's operations in Vanuatu has remained active support for implementation of the CRP.

27. The emphasis has been put on supporting national efforts to strengthen key institutions to ensure political stability, and to improve economic growth performance through policy and institutional reforms. Although the Government has made substantial progress already, the reform process is still very fragile. In implementing the CRP, the Government is confronting a range of policy, infrastructure, service delivery, and 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, ADB has emphasized sector policy development. ADB also has helped to address critical infrastructure bottlenecks, through assistance for urban and outer islands infrastructure development. In selecting individual interventions, the ADB program has taken the priority in 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. To ensure sustainability of the reform process, technical assistance support has focused on deepening the impact of various reforms, by encouraging the continued involvement of all stakeholders in consultation and decision-making.

C. Poverty Partnership Agreement

28. According to official statistics, Vanuatu is ranked the third poorest country among the twelve ADB member countries in Pacific and it has a low Human Development Index. The vast majority of Vanuatu people are in the subsistence or informal sector. There is a lack of employment opportunities, the population growth rate is high, and there is a lack of opportunities and services for women and children. ADB's focus on rural and agricultural development, skills development and women in development will help address poverty issues. Vanuatu is proposed to be one of the four countries to benefit from the Pacific Islands regional technical assistance (RETA) on poverty alleviation. Under the RETA, support is being provided for a poverty assessment of Vanuatu in 2000. A poverty partnership agreement between ADB and the Government would be considered following the TA study.

III. Sector Strategies

29. Institutional capacities and technical/professional expertise are seriously limited in Vanuatu and currently constitute a major constraint to the development of most sectors. ADB and other donors recognize that there is no short-term solution to Vanuatu's continuing dependence on external advisers. Substantial technical assistance is needed, both to meet the immediate and short-term needs for specialized skills and expertise and to address longer-term institutional strengthening and capacity-building requirements. The latter in particular is critical to the success of the whole reform effort.

A. Agriculture

30. Agriculture is the mainstay of Vanuatu's economy, accounting for 80 percent of its exports and 19 percent of GDP⁶. 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 sector is underdeveloped. A high 41 percent of the land is recognized as having conditions favorable 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 strengthened quarantine and inspection services. A technical assistance grant for an Agriculture and Fisheries Review has been provided during 2000 and further opportunities for a follow up TA to prepare sector strategies and for an ensuing loan project are being explored. Reform aimed at eliminating Government involvement in direct commercial activities is 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. Emphasis has been 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 addition, ADB is assisting in undertaking a shipping sector review, as part of the preparation for an outer islands infrastructure development project, to facilitate the transportation of agricultural produces.

B. Infrastructure

31. 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, ADB is preparing for a further infrastructure-related investment to commence in 2001/02, for the development of outer islands infrastructure. A project preparatory TA has been provided since December 1999. This project will focus on restructuring policies for sustained management of the transport infrastructure, as well as undertaking construction of priority rural roads, wharves, and airstrips in the outer islands. The project will complement the infrastructure master plan covering transportation, water, power, and telecommunications, which has been prepared by ADB staff consultants, and provide workable institutional and financial arrangements for effective operations and maintenance in the infrastructure sector.

C. Social Infrastructure and Environment

1. Health

32. 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 nationals⁷. Although measures are in place to address such

⁶ 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.

⁷ AusAID, *Pacific Program Profiles*, 1998-1999.

issues, basic service delivery is currently stagnating or, in some cases, even deteriorating. In 2000 ADB has provided a technical assistance (TA) program to strengthen the efficiency and effectiveness of selected frontline public services, including 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

33. 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. ADB has provided a TA program to strengthen the efficiency and effectiveness of selected frontline public services including education. The World Bank has funded the development of an Education Master Plan, which has been under Government consideration. In addition, ADB and New Zealand have funded a TA to study the supply and demand of informal skills and to identify methods of making skills training progress are market-oriented. It envisages contracting private and non-government service providers to deliver skills training and employment placement services for early school leavers. Opportunities for a loan project based upon the outcome of the TA are being explored. This project is considered important from the point of view of skill requirements in developing economy as well as from the point of view of arresting the growing urban drift.

3. Urban Development

34. Improvement of various urban infrastructure including roads, a bridge, a wharf, and a water supply system, is vigorously being made under the ADB's Urban Infrastructure Project. However, the recent rapidly growing urban drift and squatting is accumulating potentially serious social and economic adversity in urban development and tourism. To help address these issues, the Government has proposed an Urban Sanitation project, which will become the second phase Urban Infrastructure Project to address the growing problems in slum areas, urban sanitation, and public health.

4. Environment

35. As noted earlier, environment issues continue to be marginalized within the Government and there is a need for greater recognition of the importance of sound environment management in all sectors of the Government. 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 proposed to support capacity building in urban sanitation and environment.

D. Governance Dimensions of ADB Operations

36. Reforms undertaken during 1998, which included the passage of the Leadership Act, Public Services Act, and Government Act; reorganization of the Government into a more compact number of ministries; and initiation of performance-based personnel management, have substantially increased capacity and enhanced good governance. Despite the progress

made in improving the public service, there remain substantial shortcomings in the legal sector, in the linkages between politicians and civil servants, in Parliament and in the integration of traditional customs with modern institutions. Given the over-arching emphasis on economic and public sector reform in ADB's strategy in Vanuatu, one of the key themes of ADB's operational program is to support policy and institutional strengthening, and capacity building in selected agencies.

37. ADB will also continue its support for the performance enhancement of basic services such as health, education, etc. 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 ADB Operations

38. 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 equality and a deterioration in the position of women within the community⁸. 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 practical implementation. 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 (1999 to 2001). In addition, 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. ADB is implementing an ADTA for Capacity Building of Vanuatu National Council of Women in 2000.

F. Private Sector Operations

39. Since 1999, there have been two visits to Vanuatu by ADB's Private Sector Group (PSG) to investigate its investment opportunities. Several potential projects were initially identified and it is envisaged that one or two investments can be supported either directly or through the Kula Fund. The focus of ADB support will also be on assisting to institutionalize appropriate policy and regulatory frameworks aimed at encouraging private sector development. Investor confidence has dropped markedly in the past two years, in part due to impacts of the Asian economic crisis and natural disasters, but also importantly because of continuing inconsistencies in Government policy.

IV. Regional Cooperation

40. As for other Pacific countries, regional and sub-regional cooperation features strongly in Vanuatu's national development strategy. Vanuatu is a member of all the major regional agencies promoting development cooperation in Pacific. Vanuatu is also an active member of the Melanesian Spearhead Group, along with Papua New Guinea and Solomon Islands. ADB has also promoted sub-regional cooperation in the Pacific, primarily through RETA activities.

⁸ Buchan, D., Dwyer, M. and Wichman, V. *Vanuatu Comprehensive Reform Program: Monitoring and Management of the Social and Gender Impacts*, December 1997.

These have focused on trade, economic policy, and management issues through support for the Pacific Financial Technical Assistance Centre (PFTAC), and are discussed in more detail in the Pacific Regional Assistance Plan 2001–2003. Of particular interest to Vanuatu is the planned regional poverty assessment study. Sub-regional training seminars and workshops have also been initiated by ADB as part of its in-country technical assistance activities, particularly in the area of project implementation and public sector management.

V. Donor Activities and Aid Coordination

41. Since the CRP was launched, 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, 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

42. To date, cofinancing possibilities have been limited, as projects are relatively small. 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. ADB's Operational Program

A. The Proposed Program

43. The planned loan and technical assistance pipeline for the period 2001–2003 is summarized in Table 1. The detailed list of projects is in Appendix 4 and lending by poverty classification, crosscutting operation priorities and sectors in Appendix 5.

Table 1: Lending and Technical Assistance Program, 2000-2003**A. Public Sector Lending Program**

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program ^a	1	2.0	-	-	1	5.0	-	-	-	-
ADF	1	2.0	-	-	1	5.0	-	-	-	-
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline ^b	-	-	-	-	1	7.5	2	9.5	1	5.0
ADF	-	-	-	-	1	7.5	2	9.5	1	5.0
OCR	-	-	-	-	-	-	-	-	-	-

B. Technical Assistance Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	5	1,575.0	3	1,100.0	5	1,450.0	6	1,450.0	3	600.0
TA Pipeline ^b	-	-	-	-	-	-	-	-	-	-

^a The Program comprised the firm projects.

^b The Pipeline consists of the Program (firm projects) and standby projects. In 2002 and 2003, there is no distinction between firm and standby.

B. Strengthened Role of ADB's Regional Mission

47. In February 2000, there was a review of the current role and responsibilities of ADB's resident/regional missions (RMs) and a proposal of a policy framework to enable RMs to contribute more effectively to ADB's support for its developing member countries. The new policy aimed at achieving more client orientation and proximity to increase development impact. As part of such new policy, the country programming function for Vanuatu, which used to be with the headquarters, has been delegated to the South Pacific Regional Mission effective 2000. With this additional delegation, the regional mission now is responsible for the country programming, occasional project processing, and project portfolio administration in Vanuatu.

VIII. Economic and Sector Work Program

44. ADB published a comprehensive report on the economy of Vanuatu, under its Pacific Island Economic Report series for Vanuatu in early 1997. This study served as a useful input in the CRP formulation. A TA will be provided in 2003 or earlier for updating the country economic report. During March/April 1998, ADB undertook a staff consultant study on microfinance and rural enterprise development in Vanuatu. In 1999, a budget and expenditure review was undertaken to assist in informing both the Government and ADB on the links between the Government's budget planning and its development strategy. A series of studies in infrastructure, including transportation, water supply, and energy supply, were also provided by ADB staff consultants to assist in formulating the National Infrastructure Master Plan required under the CRP.

IX. Local Cost Financing

45. With Vanuatu's limited capacity for domestic resource mobilization, ADB will continue to provide finance for local costs on a case-by-case basis, where justifiable.

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 nationals¹. 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

¹ 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 community¹. 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

¹ 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 ^a	1	20.0	1	2.0	1	8.0	-	-	-	-
ADF	1	20.0	1	2.0	1	8.0	-	-	-	-
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline ^b	-	-	-	-	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 ^a	2	1,830.0	5	1,600.0	4	1,350.0	-	-	-	-
TA Pipeline ^b	-	-	-	-	-	-	5	1,100.0	1	500.0

^a The Program is comprised of the firm projects.

^b 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
ECONOMIC INDICATORS						
I. Income and Growth						
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
II. Saving and Investment (current market prices)						
1. Gross Domestic Investment	28.8	32.7	...	...	...	...
2. Gross National Saving	23.1	26.1	...	...	...	...
III. Money and Inflation						
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	...
IV. Government Finance (% of GDP)						
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
V. Balance of Payments						
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	...	...
VI. External Payments Indicators						
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	...	...
Memorandum Items:						
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
POPULATION INDICATORS			
Total Population ('000)	129.1	147.3	182.5
Annual Population Growth Rate (% change)	1.70	3.10	2.70
SOCIAL INDICATORS			
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
ENVIRONMENTAL INDICATORS			
Forestry			
Deforestation			
Total Area
Annual deforestation
Biodiversity			
Nationally protected area			
Area
Number
As % of land area
Biosphere reserves			
Area
Number
World Heritage sites (number)
Wetlands of international importance			
Area
Number
Land Use			
Cropland; permanent pasture
Air Pollution (Ambient concentrations)			
Particulates
SO ₂
Water Pollution (concentration of pollutants in water bodies)			
Biochemical Oxygen Demand (BOD)
Chemical Oxygen Demand (COD)
Global Environmental Problems			
CO ₂ 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 ^b	Net Loan Amount \$ million %		Rating (No.) ^a											
			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	-	-	-	-
Total	30.21	100.0	2	100.0	0	1	0	1	0	2	0	0	0	0

B. Disbursements ^c	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 (%) ^d	-	37.85	37.85
C. Net Transfer of Resources ^e (\$ 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.	%		
1. Postevaluation Rating (as of 31 December 1998)										
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	-	-	-	-	-	-	-	-		
Total	0	0.0	0	0.0	3	100.0	3	100.0		
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
Total	0	0.0	1	100.0	2	100.0	0	0.0	3	100.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

^b Excludes loans closed during the year.

^c Excludes loans closed during the year without disbursement.

^d 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.

^e 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 ^a	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 ^b	
		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
Total		0.00	30.21						10.89	10.60		

^a Sector:

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

^b 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
A. Multilateral Assistance				
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. Bilateral Assistance			-	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
Total	21.80	23.98	48.42	122.80
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 ^a		Responsible Division	Year of PPTA	PROJECT COST					
	Primary	Secondary			TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2000 FIRM LOANS										
Transport and Communications 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
					10.0	0.0	8.0	8.0	2.0	0.0
Total										
2000 STANDBY LOANS										
Finance 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
					7.0	0.0	5.0	5.0	2.0	0.0
Total										
2001 LOAN PIPELINE										
Agriculture and Natural Resources 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
Social Infrastructure 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
Total					7.0	0.0	7.0	7.0	0.0	0.0
2002 LOAN PIPELINE										
Others 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
					10.0	0.0	10.0	10.0	0.0	0.0
Total										

^a 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
2000 TECHNICAL ASSISTANCE PROGRAM					
Others					
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
	Subtotal		<u>1,350.0</u>		<u>1,350.0</u>
Total			<u>1,350.0</u>		<u>1,350.0</u>
2001 TECHNICAL ASSISTANCE PROGRAM					
Others					
1 . Frontline Performance Management System (Phase II)	POHQ	AD	150.0		150.0
2 . CRP Phase II	POHQ	PP	500.0		500.0
	Subtotal		<u>650.0</u>		<u>650.0</u>
Social Infrastructure					
1 . Institutional Framework for Urban Services Management	SPRM	AD	150.0		150.0
	Subtotal		<u>150.0</u>		<u>150.0</u>
Finance and Industry					
1 . Ni-Vanuatu Business Development	POHQ	AD	150.0		150.0
2 . Commercialization / Corporatization / Privatization	POHQ	AD	150.0		150.0
	Subtotal		<u>300.0</u>		<u>300.0</u>
Total			<u>1,100.0</u>		<u>1,100.0</u>
2002 TECHNICAL ASSISTANCE PROGRAM					
Social Infrastructure					
1 . Urban Sanitation Project	SPRM	PP	500.0		500.0
	Subtotal		<u>500.0</u>		<u>500.0</u>
Total			<u>500.0</u>		<u>500.0</u>

VANUATU
LENDING PROGRAM BY TYPE AND SECTOR, 2000-2002

Classification	2000 (Firm)		2001-2002	
	No.	% ^a	No.	% ^a
By Type				
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
Total	1	100.0	3	100.0
By Sector				
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
Total	1	100.0	3	100.0

^a rounded off.

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PROJECT PROFILE				
1. Project Name: Outer Islands Infrastructure Development Project			2. Sector/Subsector: Transport and Communication	
3. Dev. Objective: Primary: ECO Secondary: POV				
4. Rationale: 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.			5. Beneficiary Participation in Formulation: 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.	
6. Objectives and Scope: 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.				
7. Estimated Cost & Financing Plan (\$):				Remarks
Loan Project Cost (\$m) 10				
Financing (Source)	FC	LC	Total	
Bank	5.0	3.0	8.0	
Borrower	0.0	2.0	2.0	
Cofinancing	0.0	0.0	0.0	
Total	5.0	5.0	10.0	
8. Estimated Benefits and Beneficiary Groups: 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.				
9. Executing Agency: Ministry of Public Works and Infrastructure			10. Project Implementation Period: Start: January 2000 End: December 2004	
11. Environment Category: B			12. Processing Year: 2000	

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PROJECT PROFILE				
1. Project Name: Rural Financial Services			2. Sector/Subsector: Finance	
3. Dev. Objective: Primary: ECO Secondary: POV				
4. Rationale: In 1998 the Government of Vanuatu initiated its policy reform program supported by the Bank, through its Comprehensive Reform Program ¹ (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.			5. Beneficiary Participation in Formulation: 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.	
6. Objectives and Scope: 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.				
7. Estimated Cost & Financing Plan (\$):				Remarks
Loan Project Cost (\$m) 10				
Financing (Source)	FC	LC	Total	
Bank	3.0	2.0	5.0	
Borrower	0.0	2.0	2.0	
Cofinancing	0.0	0.0	0.0	
Total	3.0	4.0	7.0	
8. Estimated Benefits and Beneficiary Groups: 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.				
9. Executing Agency: Ministry of Finance and Economic Management/Ministry of Trade and Business Development			10. Project Implementation Period: Start: 2000 End: 2004	
11. Environment Category: C			12. Processing Year: 2000	

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