



Transport Sector Assessment

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Vanuatu: Country Partnership Strategy (2010-2014)

Asian Development Bank

**VANUATU COUNTRY PARTNERSHIP STRATEGY 2010-2014
TRANSPORT SECTOR NOTE**

A. Background

1. Vanuatu's population of about 215,000 is spread across about 60 inhabited islands, though most people live on six main islands with major population centers in the capital of Port Vila on the island of Efate and Luganville on the island of Espiritu Santo in the north. About 75% of the population is rural, living in small dispersed villages. About 45 islands have total populations of less than 1,000 people. Income-generating opportunities are scarce in rural areas, where the economy is based on primary commodities, agriculture, and fishing. Improved accessibility within and between islands is essential for rural productivity and poverty reduction, but adequate transport infrastructure and services are lacking.

2. The main mode of travel in the country is by sea, via small craft in coastal areas and combined passenger and freight vessels for interisland movements. Outside of Port Vila and Luganville, shipping services call at about 36 small jetties or wharves and many more informal anchorages or beach landing sites.

3. The land transport network consists of about 1,800 km of roads, of which less than 100 km are sealed and less than 400 km have gravel surfaces. Most of the network is on the two main islands and around Port Vila and Luganville. Many islands have no roads at all.

4. Vanuatu depends on international air services for international trade and tourism, and good quality domestic services for tourism and service delivery. Recent liberalization of international access has led to a dramatic increase in services. There are two international airports and 26 domestic airfields, not all of which receive scheduled services.

B. Key Issues and Constraints

5. Meeting the government's development goals of sustained economic growth, increased employment and income-generating opportunities, and improved rural productivity depends on adequate transportation to facilitate access to markets and services. However, the cost of passenger and freight services via land and sea are high, due in part to badly maintained roads and wharves that in practice do not comprise an integrated network. Consequently, economic growth and public service delivery in rural areas is constrained by expensive, unreliable and limited transport infrastructure and services.

6. The lack of adequate transport infrastructure particularly inhibits women's opportunities for productive activities, since poor road networks and poor access to basic infrastructure services (e.g., clean water and sanitation facilities) create additional time burden on women's responsibilities for housework and childcare. The lack of affordable transport infrastructure also hinders women's and children's access to key social services such as education and health care, increasing the risk of reproductive health problems which can result in high maternal and child mortality.

1. Investment

7. There has been little new capital investment in recent years. The Ministry of Infrastructure and Public Utilities (MIPU) and the Public Works Department (PWS) have responsibility for the provision and maintenance of transport infrastructure. Although MIPU is allocated about 12% of the total 2008 government budget, inefficient conversion to actual operations and infrequent recourse to external funding has resulted in little progress in improving the country's poor physical infrastructure. Most capital investment on

infrastructure has been provided by development partners, while deferred maintenance has led to widespread deterioration.

2. Asset Management

8. Road and maritime infrastructure is inadequately maintained and typically in need of both rehabilitation and ongoing maintenance; however, budgetary resources are insufficient to address the backlog. Until 2007, funding for road maintenance has been less than \$2 million per year. Under a compact with the Millennium Challenge Corporation, annual funding for maintenance has now increased to \$5 million per year. Even at this level, the road maintenance budget is only about 25% of the estimated amount required for routine maintenance of the network, and there is little funding allocated to rehabilitation. Thus road conditions are deteriorating every year, reducing levels of service, increasing operations and maintenance costs, and creating a growing backlog and consequent financial liability.

3. Infrastructure Services

9. Land transport services are not well organized outside of the two main centers. Poor roads depress the volume of traffic, cause public service transport services to set high passenger fares and goods tariffs, and make journeys slow, unreliable and uncomfortable. High volumes of pedestrian traffic and recourse to motorized canoe transport indicate that there is much suppressed demand for road transport.

10. The provision of maritime transport services is in better shape. For most communities, services are relatively frequent and reliable, though about 10% of the population in more remote locations where populations are small, economic activity is low, and the cost of providing regular, reliable and safe services is high does not receive regular services and needs support. At many locations, vessels cannot berth and passengers and cargo are carried ashore in motorized canoes. This adds to the costs and detracts from the security of passengers and cargo.

4. Regulatory Environment

11. In the maritime sector, the legal framework and regulatory arrangements are largely outdated and incomplete. The deficiencies are compounded by the repeal of the Vanuatu Maritime Authority in late 2007 and a failure to replace it with a well-structured regulatory function elsewhere that would oversee vessel safety. Port and harbor activities also lack a proper safety regime. The most significant deficiency of the legal framework is the blurring of responsibility and accountability between economic and safety requirements and the potential for conflicts of interest. Economic regulation is very light-handed and does not hinder private sector provision of services. The government has created a new office of Maritime Affairs within MIPU, which will eventually take over regulation of both vessels and infrastructure, but will need assistance to gain the skills to ensure compliance.

5. Institutional Capacity

12. Throughout the public sector, systems for planning, managing and monitoring work programs are weak. At the national level, there is no overall strategy or action plan for infrastructure improvement. At the provincial level, planning, design and supervision of maintenance works is severely constrained.

13. The Ministry of Infrastructure and Public Utilities (MIPU) is responsible for the management of national infrastructure assets in the areas of land transport; maritime transport, and aviation. Within MIPU, the Public Works Department (PWD) is responsible for most of the road network and outer island air strips, while the Department of Ports and

Harbours (DPH) is responsible for wharves. Physical works are managed by PWD through the six Provincial Works Divisions. Exceptions are roads in except in Port Vila and Luganville which are managed by municipal governments and international airports which are managed by Airports Vanuatu Limited (a state-owned enterprise).

14. The maritime sector in particular requires wide-ranging reform as there are a number of constraints on domestic shipping arising from present policy, institutional, legislative and governance arrangements. The government presently receives no official policy advice concerning domestic shipping (or any other maritime or shipping matters). The office of Maritime Affairs and the Department of Ports and Harbours (DPH) need considerable assistance to plan and manage necessary reforms.

15. In the private sector, there is a notable lack of civil works contractors able to take on more than basic maintenance and construction work. However there are some medium scale contractors that do get involved in road maintenance works, and many small building contractors that may have the potential to grow and take on heavier civil works. There is also considerable interest in developing a community participation model for routine maintenance. Recent and ongoing projects have made attempts to build a private sector contracting industry, but these need sustained effort.

C. Government Policy and Strategy

16. The Government's development vision, priorities, and strategies are articulated in the Priorities and Action Agenda 2005 – 2016 (PAA). The PAA notes that "*reliable and competitively priced economic infrastructure and utilities are essential services needed to support national development . . . [but] . . . poor transport and communication services, their high costs, and poor maintenance of infrastructure assets, particularly (but not only) in the rural areas, have been identified as major constraints to development*".

17. Vanuatu does not have a national transport plan that prioritizes planning or expenditure of maintenance, rehabilitation or new investments. The PAA does state general policies as follows. Key policies in land transport are to (i) properly maintain the road network through more effective management and more funding; (ii) improve road administration by amending the Public Roads Act and the regulation of land transport services; and (iii) review the Infrastructure Master Plan, prioritize projects, and only construct new roads when economic benefits have been demonstrated. In maritime transport, the stated policies are to (i) maintain and upgrade existing infrastructure, (ii) improve management of the sector through improved consultation, (iii) improve operational efficiency in the ports and eliminate subsidies; and (iv) improve and maintain safety standards through regulatory measures and training.

18. To support these policies, the Government is considering proposals to establish a Land Transport Authority within the Ministry of Internal Affairs to regulate licensing and safety, and a Transport Planning Committee within the Ministry of Infrastructure and Public Utilities.

D. Activities by Other Development Partners

19. Several development partners are funding assistance to the transport sector. The bulk of external assistance is focused on land transport, with key elements of (i) improving sector performance and reforming planning and budgeting frameworks, (ii) strengthening asset management, (iii) providing opportunities for private sector participation, and developing capacity in MIPU and PWD

20. The United State's Millennium Challenge Corporation (MCC) is implementing the Vanuatu Transport Infrastructure Program through grant assistance of approximately \$65 million for rural infrastructure. Initially this was intended to include roads, wharves, and an airstrip as well as institutional support and capacity building, but implementation has been delayed and costs have been higher than anticipated, so the scope has been scaled back to land transport only. Australia and New Zealand will provide cofinancing to complete several key roads.

21. AusAID is implementing the Vanuatu Transport Sector Support Program (VTSSP) through grant assistance of approximately \$11.5 million for civil works, maintenance, and capacity development. The VTSSP will focus on strengthening and using private sector capacity to undertake works, using small and medium scale contracting and labour based appropriate technology methods, using government processes as much as is practicable. The VTSSP is proposed to be the first phase of a long term partnership (10-15 years) between the Governments of Vanuatu and Australia in the transport sector.

22. NZAID has been active in the maritime sector, most notably conducting an interisland shipping study with assistance from ADB in 2008. The study recommended institutional reforms, a shipping support scheme, and limited infrastructure investments. NZAID intends to provide a second phase of technical assistance to begin implementation of high-priority recommendations in 2009.

23. The only activity in the aviation subsector is provided by Agence Française de Développement (AFD), which is supporting an Outer Islands Airport Upgrading Project to upgrade two provincial airfields. The government has recently passed legislation to facilitate public-private partnerships for international aviation, but there are no short-term proposals in this area, nor any indications of significant work required to support domestic aviation.

24. The Japanese International Cooperation Agency (JICA) is funding an upgrade of the main international wharf, which will strengthen the existing facility and provide additional cargo handling capacity. This project affects only international shipping.

E. ADB's Strategy

25. ADB's country partnership strategy in Vanuatu aims at rapid, inclusive and private sector-led economic growth. Since poor transport and accessibility problems have been identified as binding constraints to the country's development, and several other development partners are heavily engaged in land transport, ADB's strategy will focus on domestic maritime transport.

26. ADB will prepare an interisland shipping support project that would be expected to improve the efficiency and effectiveness of services through provision of an integrated package of assistance comprising infrastructure investments in domestic wharves, a shipping support scheme for uneconomic routes using an output-based aid approach, and reforms to sector governance and regulation. The components will complement each other so that services to remote communities increase to self-sustaining levels. The ensuing project is estimated at about \$11 million and is targeted for approval at the end of 2009.

27. ADB is working closely with NZAID on its second phase of technical assistance for implementation of a shipping support pilot scheme and urgent reforms to safety regulation and oversight. These short-term measures will inform ADB's project design through careful monitoring and practical lessons. Given gender-related concerns in access to and use of transport infrastructure, ADB will ensure gender considerations into its project design through a participatory approach.

28. In the longer term, ADB's support should aim to complement the improvements in domestic shipping with investments and institutional reforms to international ports and cargo services. Vanuatu's international port is the most expensive and least productive in the Pacific region, but reforms are hindered by a 50-year monopoly granted to the current operator (a joint venture between a provincial business arm and the national government). These efforts should be complemented by longer-term institutional strengthening and capacity development in transport sector planning and regulation, in light of the country's status as a weakly-performing country, so that government systems are eventually robust enough to take on greater responsibility.

F. Expected Outputs and Performance Indicators

29. Improvement of interisland shipping is intended to increase access to opportunities for the 80% of the population residing in the outer islands. Doing so is expected to generate particular benefits for women and girls in accessing social services including health and education. Three outputs are proposed: (i) improved access to markets in target areas by 2014, as measured by increased frequency and reduction of passenger fares and cargo tariffs; (ii) increased compliance with safety regulations and decreased maritime accidents, as measured by the number of vessels passing mandatory safety surveys; and (iii) greater predictability and reliability of services to outer islands, as measured by frequency and on-schedule performance of those operators participating in the shipping support scheme.