

# **ASIAN DEVELOPMENT BANK**

## **COUNTRY STRATEGY AND PROGRAM UPDATE (2002-2004)**

**VANUATU**

**July 2001**

## CURRENCY EQUIVALENTS

(as of 30 June 2001)

Currency Unit	—	Vatu (Vt)
Vt1.00	=	\$0.0068
US\$1.00	=	Vt184.79

## ABBREVIATIONS

ADB	-	Asian Development Bank
CGM	-	Consultative group meeting
CRP	-	Comprehensive Reform Program
CSP	-	Country Strategy and Program
GDP	-	gross domestic product
NGO	-	Nongovernment organizations
OECD	-	Organisation of Economic Co-operation and Development
OFC	-	Offshore financial center
REDI	-	Rural Economic Development Initiative
SLO	-	State Law Office
TA	-	technical assistance

## NOTE

- (i) The fiscal year (FY) of the Government and its agencies ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends. For example, FY2001 begins on 1 January 2001 and ends on 31 December 2001.
- (ii) In this report, "\$" refers to US dollars.

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## I. DEVELOPMENT SITUATION

### A. Recent Political and Social Developments

3. The coalition Government<sup>1</sup> gives priority to development of agriculture and infrastructure, the rule of law, independence of the civil service, a level playing field for business, and financial discipline.

4. The ongoing reform has substantially raised society's awareness of social development needs, and expectations of better social welfare. However, the quality of social services remains extremely poor in the outer islands, where 80 percent of the population lives. Of the economically active population, only 25 percent work for pay or profit, 67 percent are subsistence farmers, and the rest have no work. In 1989–1999, the urban population grew by as much as 4.2 percent annually, while the rural population grew by 2.6 percent. Only about 30 percent rural boys and girls age 16 and below attended school, compared with 58 percent of those in urban areas. Only 7 percent of rural households have electric lighting compared with 61 percent of urban households.

### B. Economic Assessment and Outlook

5. The economy recovered slightly in 2000 with estimated growth of 2.8 percent, which was, however, considerably lower than the projected 4 percent. Substantial growth in tourism and construction was offset by a fall in copra production and higher oil import prices.

6. The overall budget deficit in 2000 stood at about 8 percent of gross domestic product (GDP), while the recurrent budget deficit kept within 2 percent of GDP. The higher-than-expected deficit reflected the rollover of major development projects that were not completed but were budgeted in 1999. Revenues were below target, leading to tight controls on recurrent expenditure. Due to a narrow revenue base without income taxes, total annual revenue remained at around 26 percent of GDP, severely constraining spending. A revenue initiative was proposed in 2000 but Parliament turned it down, straining the 2001 budget even more.<sup>2</sup> The overall budget deficit is targeted at no more than 2 percent of GDP over the next 2–3 years with annual surpluses in the recurrent budget and with financing of the overall deficit through external concessional funding. However, 2001 revenues were overoptimistically budgeted based on the aborted revenue initiatives and the newly introduced, but unrealistic, Internet gaming. The Government relies heavily on overdraft facilities of the Reserve Bank. If the revenue base is not broadened and tax laws are not enforced, the fiscal situation will continue to deteriorate, undermining economic stability.

7. The most important monetary initiative in 2000 was the reintroduction of foreign exchange guidelines on 23 February, when foreign reserves fell to less than five months of import cover.

8. The economy was expected to grow modestly at 3 percent in 2001 and 2002, aided mainly by the recovery of agriculture and the continuous success of tourism. However, policies must be reformed if the country is to achieve the forecast growth rate. Private sector investment in mainstay sectors remains low. The current account was expected to record a modest deficit in 2001 followed by a small surplus in 2002. However, the first half of 2001 saw fewer tourists

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<sup>1</sup> The coalition comprises the Vanua'aku Party (VP) and the Union of Moderate Parties (UMP).

<sup>2</sup> A revenue advisor is being supported by New Zealand.

and low copra prices, and cyclones disrupted the local food supply, resulting in higher food prices and food imports (Appendix 1).

### **C. Implications for the Country Strategy and Program**

9. A country strategy and program (CSP) needs to be developed to support reform efforts. The TA program is needed to continuously support the reform process until it becomes sustainable and improves economic and fiscal management. The lending program will be adjusted according to the Government's priorities, which are broadly in line with the ADB strategy of reducing poverty and social and economic disparities.

## **II. COUNTRY STRATEGY**

### **A. Strategic Focus and Objectives**

10. The National Summit of 2000 endorsed the third phase of the CRP, to be implemented in 2001–2003, which has the following reform targets: (i) entrench and broaden governance reform; (ii) extend public sector reform to encompass the Parliament, judiciary, and legal sector; (iii) promote economic growth; (iv) implement social reform to ensure that the CRP benefits are shared and the reform is sustained; and (v) improve economic and social conditions at the village level. The Government's policy initiatives have three objectives: (i) stable government, (ii) private sector development, and (iii) social equity and sustainability. Relevant measures include (i) balancing the recurrent budget; (ii) implementing the next phase of the CRP, which emphasizes outer island development; and (iii) establishing reform impact-monitoring systems.

11. While Vanuatu has good growth prospects based on abundant natural resources, it also suffers from (i) weak economic management and governance, (ii) inferior social services and lack of access to basic social services such as health and education, (iii) low social development indicators, (iv) increasing unemployment caused by rapid population and slow economic growth, and (v) poor implementation of private sector investment. ADB's strategy for Vanuatu thus focuses on (i) reforms in economic policy, public sector management, governance, and public services; (ii) poverty reduction; and (iii) private sector development. Specific objectives of the ADB's strategy are to (i) build local capacities for sound economic and financial management and good governance, (ii) increase employment and income, and (iii) redress disparities in living standards and access to social services.

### **B. Sector Strategies**

#### **1. Public Sector**

12. The CRP focuses on public sector reforms, including improvements in governance, economic and social conditions, public expenditure management, and the use of external assistance. In 2000, however, the Government lacked commitment to reform, which caused overall institutional capacity to remain weak despite the ongoing Institutional Strengthening Project<sup>3</sup> and Public Service Reform Project.<sup>4</sup> In particular, Parliament's ability to review bills and policies remains extremely weak. The legal sector has severe capacity problems. Governance

<sup>3</sup> The project, focused on the Ministry of Finance and Economic Management, was funded by the Australian Agency for International Development (AusAID) and commenced in February 1999. A second phase for three years is underway.

<sup>4</sup> The project, focused on the Public Service Commission, was funded by AusAID and commenced in August 1999. A second phase is planned for the next 2–3 years.

is weak. Sectoral policy-making and policy coordination need substantial improvement, which means that the reform program must be integrated into the budget process and macroeconomic framework. ADB will thus help deepen the CRP process, strengthen the capacity of Parliament and the legal sector, and improve economic management and service delivery over the next 2–3 years.

## 2. Agriculture Sector

13. Agriculture is the economy's mainstay, accounting for 80 percent of exports and 19 percent of GDP.<sup>5</sup> A large proportion of marketed agricultural and livestock products is raised by smallholders on land allocated to them by villages, following traditional customary rights and privileges. Forestry is important, particularly on the larger islands. The fisheries sector is underdeveloped. Forty-one percent of the land is arable, yet less than half of arable land is cultivated. Major constraints to development include (i) traditional land and marine tenure systems, (ii) ministries' severe lack of institutional capacity, (iii) lack of technical skills, (iv) frequent cyclones, and (v) dispersal and isolation of communities. Uncertain Government policies, poor public enterprise management, and unclear land ownership have limited investment in commercial activities. The CRP seeks to improve the agriculture sector by raising the living standards of smallholders by providing them with better health and education services, rural credit services, improved coastal shipping, and more efficient quarantine and inspection services.<sup>6</sup> ADB support will address infrastructure bottlenecks that prevent productive sector development.<sup>7</sup> ADB reviewed the agriculture and fisheries sector in 2000,<sup>8</sup> and has programmed a follow-up policy study for 2001 under the TA to strengthen development policies,<sup>9</sup> and another such study for 2002 on the TA to build capacity for agriculture sector development.

## 3. Financial Sector

14. Substantial progress has been made in rehabilitating Government-owned financial institutions, which have completed their right-sizing exercise. The National Bank of Vanuatu is now operating on a fully commercial basis with restored capital adequacy and an improved audit. The Asset Management Unit is fully operational to recover outstanding debt, and its activity has picked up in 2001 under new management. The Offshore Financial Center (OFC) has been warned by the Organisation of Economic Co-operation and Development (OECD) about alleged involvement in money laundering and harmful tax effects. A banking sector task force was thus formed and new OFC legislation is being prepared with ADB TA projects for the State Law Office (SLO). The commercial banking sector serves only a narrow market, mainly large urban businesses. The sector's interest margins remain the worst among the Pacific island countries. Interest rate spreads between average lending and deposit rates widened from an average of 8.3 percent in 1996 to 10.4 percent in the third quarter of 2000, for an average of 9.7 percent in the first three quarters of 2000. Certain lending practices greatly widen the effective spread. For example, borrowers must borrow twice as much as they need and put half their loan on deposit. Competition in the banking sector is thus weak, and the Government should use the National Bank, as it is mandated to do, to broaden banking services to outside urban areas, with lower interest rates.

<sup>5</sup> In 1999, agriculture, including fisheries and forestry, accounted for 23 percent of GDP.

<sup>6</sup> The Producers Organization Project is supported by the European Union and France.

<sup>7</sup> Outer islands infrastructure development project, for \$6 million, programmed in 2002.

<sup>8</sup> Vanuatu Agriculture and Fisheries Sector Review 2000, the Asian Development Bank, April 2001.

<sup>9</sup> TA No. 3666-VAN: *Strengthening Development Policies*, for \$200,000, approved on 6 June 2001.

15. A microfinance scheme was announced in March 2001 to use grant funds from the People's Republic of China, and to have Government departments act as lending agencies. However, Government departments do not have the skills, capacity, or efficiency required for the task. The Development Bank failed massively, and more failure would undermine confidence in future schemes. The Government should use existing commercial banks for its rural banking schemes. The National Bank has the mandate and capacity to engage in rural banking. In 2000, ADB provided the Government a project preparatory TA to formulate a rural banking and business advisory service project.<sup>10</sup> As requested by the Government, ADB will assess ways of providing rural financial services under the TA and consider funding a rural financial services project in 2003.

#### 4. Infrastructure Sector

16. Transport infrastructure is inadequate. The Government gives priority to improving infrastructure in the outer islands as well as in urban areas. The Government is also committed to providing institutional and funding arrangements to sustain maintenance of existing and new assets. The national infrastructure master plan was prepared in 2000. In addition to the ongoing Urban Infrastructure Project,<sup>11</sup> the Government is preparing an outer islands infrastructure development project for consideration in 2002. This project will focus on building priority rural roads, wharves, and airstrips in the outer islands, and providing institutional and financial arrangements for effective operations and maintenance of infrastructure.

#### 5. Social Infrastructure

17. Health. Vanuatu's health system lacks qualified staff, especially midwives, doctors, and specialists. Despite measures to address this lack, basic service delivery, especially to rural communities, is stagnating or deteriorating. Local community-funding requirements are considerable, including salaries of aid-post staff. ADB provided a TA to strengthen the efficiency of distribution of medical supplies to outer islands.<sup>12</sup> An ADB TA is proposed for 2003 to formulate an urban public health and environment project. Other funders provide substantial support to improve the health sector over the medium term, including an Australia-funded institutional strengthening project in the Ministry of Health.

18. Education. Similar constraints exist in the education sector, where service provision has barely kept pace with population growth. Many outer island primary schools are small and isolated, making them expensive to operate and service. Many have poor infrastructure and transportation, limited opportunities to generate revenue, and difficulty recruiting staff. The quality of teachers is poor. About 15 rural training centers run by churches and nongovernment organizations (NGOs) offer life skills to rural school leavers, but cater to only about 10 percent of them each year. The private sector is the major provider of vocational skills training. Education has a very high priority in the CRP. In 2000, ADB provided a TA program to selected frontline public services more efficient and effective.<sup>13</sup> The World Bank funded the development of the Education Master Plan and proposed a pilot program to the Government, which included a preschool program using the vernacular language, and a two-year extension to the regular program. Based on an ADB TA to study options for formal and informal vocational skills

<sup>10</sup> TA No. 3206-VAN: *Rural Financial Services Project*, for \$250,000, approved on 16 June 1999.

<sup>11</sup> Loan No. 1448-VAN: *Urban Infrastructure Project*, for \$10 million, approved on 27 June 1996.

<sup>12</sup> TA No. 3210-VAN: *Performance Enhancement of Selected Frontline Services*, for \$300,000, approved on 22 June 1999.

<sup>13</sup> TA No. 3210-VAN: *Performance Enhancement of Selected Frontline Services*, for \$300,000, approved on 22 June 1999.

development, the Ministry of Education proposed a technical vocational education and training project for possible ADB funding (Appendix 2).

### **III. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM**

#### **A. Poverty Reduction**

##### **1. General Assessment**

19. Vanuatu is the third-poorest country among the ADB member countries in the Pacific as GDP growth has failed to support rapid population growth. The vast majority of people are in the subsistence or informal sector, and their search for employment, cash income, and education has concentrated them on the main islands of Efate and Santo. As people become increasingly dependent on the cash economy, traditional social networks break down.

20. Remote and isolated, smaller communities have difficulty accessing Government services. Improved access to transportation, communications, health services, and education will help reduce poverty in the outer islands.

##### **2. Pro-poor Growth and Interventions**

21. The Government is developing the outer islands by decentralizing its power. The Decentralization Review Committee was formed in 2000 to review and recommend directions for decentralization. The committee compiled its final report by June 2001. The committee recommends amending the municipalities and decentralization acts, and clarifying the role and responsibilities of the Government, and provincial and area councils, particularly in delivery of transport, agriculture, education, and health services. Road maintenance, agriculture extension services, and aid-posts are particularly important to rural island communities. The Rural Economic Development Initiative started in 1999 in Tafea Province and is spreading across the other five provinces to identify sectors and potential projects to promote economic growth. This is the first such movement initiated by the provinces involving the provincial councils, community representatives, the private sector, and NGOs. The Government's planned outer islands infrastructure development project aims to reduce poverty and urban-rural disparities by upgrading roads, wharves and storage, and airstrips in the major outer islands. Still, sustainability of poverty reduction remains a problem due to weak public finance and service delivery.

22. ADB has proposed that Vanuatu be covered by the regional TA to help selected Pacific developing member countries to prepare national poverty reduction strategies. A poverty partnership agreement between ADB and the Government is expected to be concluded by 2002. Most of the ongoing or proposed ADB assistance focuses on providing roads, wharves, and airstrips to the outer islands and helping people acquire technical vocational skills. Basic health and education are being assisted by various bilateral and multilateral funders. An urban sanitation and environment project for slum areas will be explored by the Government and ADB.

## **B. Thematic Priorities**

### **1. Economic Growth**

23. In the latter half of 2001, the economic report written under the TA for Strengthening Development Strategies<sup>14</sup> will help the Government and its development partners identify economic growth opportunities. The report will propose a policy and institutional framework for each sector to support sustained economic growth. The programmed outer islands infrastructure development project will facilitate the flow of agricultural products to domestic and international markets, stimulating the economic growth in the outer islands.

### **2. Human Development**

24. Vanuatu remains one of the poorest nations in the Pacific in terms of human development. In particular, vocational education and training is extremely poor. To develop vocational skills in the formal and informal sectors, a loan project for technical, vocational education, and training project is programmed for 2004.

### **3. Gender and Development**

25. Clear gender differences exist in Vanuatu, in terms of access to resources and entitlements. Social, economic, and political indicators highlight female disadvantages in all areas. Rural women are especially disadvantaged and women's groups demand to participate more actively in various activities. The CRP supports gender equity. ADB, in addition to its regular policy dialogue with the stakeholders, provided a TA for the capacity building of the National Council of Women in 2000.<sup>15</sup>

### **4. Good Governance**

26. Governance remains weak despite the substantial progress under the CRP. While the capacity of central agencies and line ministries has been enhanced, leadership and management problems, severe human resource shortages in many agencies, and financial limitations make service delivery difficult. Parliament lags far behind other core institutions in good governance. Parliament should be strengthened by improving the functions and procedures of its sector standing committees, the standing orders governing legislative procedures for review and discussion of bills, and functions of clerks. An ADB TA is programmed in 2001 for this purpose.<sup>16</sup> Institutions responsible for maintaining law and order, resolving disputes, prosecuting and defending the accused, and preventing corruption in the Government must also be strengthened. ADB supports capacity building of SLO through three TAs.<sup>17</sup>

27. Policy coordination among core planning agencies could be improved. Developmental policies require sufficient reviews by and consultations with concerned stakeholders before being formulated. The Development Committee of Officials' policy consultation role and

<sup>14</sup> TA No. 3666-VAN: *Strengthening Development Policies*, for \$200,000, approved on 6 June 2001.

<sup>15</sup> TA No. 3427-VAN: *Capacity Building of Vanuatu National Council of Women*, for \$150,000 approved on 13 April 2000.

<sup>16</sup> TA for capacity building of the parliament, for \$200,000, programmed in 2001.

<sup>17</sup> TA No. 3197-VAN: *Strengthening the State Law Office*, for \$150,000, approved on 20 May 1999; TA No. 3366-VAN: *Law Reform and Capacity Building*, for \$300,000, approved on 23 December 1999; and TA No. 3613-VAN (JSF): *Capacity Building of the Legal Sector*, for \$330,000, approved on 21 December 2000.

decision-making authority should be strengthened. Macroeconomic management and growth policies and a mechanism should be developed to coordinate growth policies, sectoral strategies, corporate plans, and budgets. ADB assistance will focus on enhancing governance and policy coordination.

28. Involving communities in the reform process will engender their support and ownership. The National Task Force and National Summit meetings held in 1998 and 2000 were excellent opportunities for communities to participate in reviewing and assessing the progress of the CRP during phases 1 and 2, and in setting new strategic directions for reforms under phase 3. Civil-society organizations, and women's groups in particular, hope to be more involved in the CRP's strategies and action plans. NGOs also emphasize the need for a stronger focus on social development for equitable distribution of the benefits of economic growth. All civil-society groups express a strong desire for community monitoring of the CRP's social impacts and involvement in policy formulation. The Government has thus (i) organized annual national summits to focus on major development issues, (ii) supported regular National Task Force meetings to review CRP progress, (iii) reviewed membership of the National Task Force and National Summit to ensure adequate civil-society representation, (iv) organized sectoral task forces and working groups to discuss major reform policies, (v) organized regular provincial summits to discuss community participation in improving service delivery to rural areas, and (vi) improved dissemination of CRP information. A business forum on investment policies is also planned in 2001 to improve consultation between the Government and the private sector. Information dissemination through normal Government channels to the community level should be continued.

## **5. Private Sector Development**

29. The private sector should be the main engine for growth. However, private investment did not pick up as anticipated when the CRP commenced due to slow progress of the reform, weak governance, and lack of transparency in certain private investment deals with the Government. Foreign investment remains extremely low despite the efforts of the Foreign Investment Board, which introduced "one-stop" licensing. It is difficult and costly to start a business. The land tenure regime, lack of skilled labor, and lack of security of property discourage investment, job creation, and economic growth. The monopoly and/or oligopoly in utilities, banking sector, and commodity distribution must be dismantled.

30. An integrated policy to promote private investment is needed. In August 2001, a business forum will be organized by New Zealand Overseas Development Agency (NZODA) and assisted by ADB to build a consensus on promoting the private sector. The Ministry of Trade and Business Development plans to strengthen its business advisory and microcredit functions. The proposed TA to improve service delivery<sup>18</sup> will help improve the investment process and identify administrative barriers to promoting private investment. ADB is considering a TA to provide a policy framework to develop the private sector.

## **6. Environmental Protection**

31. Pressures on land and the marine environment have become visible only in recent years, as communities move from the subsistence to cash economies, which results in reef depletion, soil erosion, and contamination due to inadequate waste disposal. Environmental resources are being depleted by large-scale projects such as logging. High population growth

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<sup>18</sup> Ta for performance improvements to service delivery units, for \$250,000, programmed in 2001.

and urbanization are beginning to take their toll on the environment. New environment legislation is being finalized with ADB assistance. Continuing urban migration has given rise to slum communities without adequate water, sewerage, and waste management systems. Deterioration of major urban areas will be difficult to reverse and will harm the tourism industry. The Government is considering an urban sanitation, public health, and environment project around 2005.

## 7. Regional Cooperation and Donor Coordination

32. Vanuatu cooperates with other Forum Secretariat member nations in economic management and trade and investment. Recently Vanuatu cooperated with other Pacific offshore financial center countries through the Commonwealth and Forum Secretariats to defend itself from the OECD's Initiative on Harmful Tax Competition and the Financial Action Task Force's List of Non-Cooperative Countries.

33. Since the CRP was launched, ADB has played a pivotal role in coordinating assistance for Vanuatu. In addition to convening regular in-country meetings of all funder representatives based in Port Vila, ADB also convened the first Consultative Group Meeting (CGM) for Vanuatu in July 1997. All funders in Vanuatu support the CRP through their own programs and strategies. Another Consultative Group Meeting<sup>19</sup> may be held in late 2001 or early 2002.

## IV. PORTFOLIO MANAGEMENT ISSUES

### A. Portfolio Performance

34. Loan projects for the CRP (\$20 million) and the Cyclone Dani Rehabilitation (\$2 million) projects were implemented in 2000. The Urban Infrastructure Project (\$10 million) is proceeding smoothly, with two major components (road sealing, Port Vila Wharf rehabilitation) completed and four underway. The whole project is expected to be completed by August 2001. The final tranche of the CRP loan for \$5 million was released in mid-December 2000. A summary of the loan and TA portfolio performance indicators is in Appendix 3.

35. Out of the 13 existing TAs, 8 are active and 5 are completed and will be closed financially. ADB's portfolio of ongoing TAs are as follows:

- (i) TA 3613: *Capacity Building of the Legal Sector*, for \$330,000. This is the third ADB TA to SLO. The TA's objective is to help the Government with legal capacity building and law reform under the CRP by training SLO officials and providing legal advice to the Government. The TA will also set up a law information center that will provide awareness programs and free copies of laws to the public.
- (ii) TA 3366: *Law Reform and Capacity Building*, for \$300,000. This is the second TA to SLO. The TA is almost completed and has tangible impacts.
- (iii) TA 2984: *Institutional Support to Central Agencies for CRP*, phase 1 for \$630,000: The TA components comprise (i) national policy coordination and monitoring, (ii) good governance and public sector reform, (iii) economic and financial management reform, and (iv) development of leadership skills.

<sup>19</sup> The first and last CGM was held in Noumea in July 1997, organized by ADB, in which CRP direction and strategies were discussed.

- (iv) TA 3449: *CRP Sustainability*, for \$700,000. The TA supports five strategic objectives: (i) entrenching and deepening CRP reforms; (ii) strengthening leadership, policy design, and management skills of senior line agencies staff; (iii) monitoring CRP's benefits; (iv) improving the environment to attract private sector activities; and (v) strengthening the National Provident Fund's management information systems.
- (v) TA-3198: *CRP Information Dissemination and Reform*, for \$150,000. The TA's objective is to help the Government develop a strategic approach to the planning of information dissemination campaigns on the CRP's progress and achievements. The TA also supports the refining of national accounts by the Statistics Office.
- (vi) TA 3206: *Rural Financial Services*, for \$250,000. The TA's objective is to assess various options and help the Government prepare an investment project to provide improved access to financial services and business and skills training.
- (vii) TA 3224: *Outer Islands Infrastructure Development*, for \$750,000. The TA is to help the Government formulate the proposed outer islands infrastructure development project. The final phase of the TA is underway for engineering designs of selected subprojects.
- (viii) TA 2596-VAN: *Urban Growth Management Strategy for Port Vila*, for \$600,000. The last inputs are underway to help finalize a draft Environment Act.

## **B. Counterpart Funding**

36. The Government's provision of counterpart funds for loan and TA projects is sometimes affected by tight expenditure control caused by a limited revenue base. The Government's capacity to provide required funds must be strengthened, particularly for infrastructure projects. CRP tranche funds must also be used properly.

## **C. Monitoring and Evaluation**

37. A social database has been established within the Statistics Office to tabulate all social indices on education, health, urbanization, etc. for use by planners. This initiative pioneered under the CRP is proving useful. NGOs are being helped to collect data and monitor the CRP's impacts. A TA was provided to the Vanuatu National Council of Women, for example, to monitor the impact of CRP on women's activities in the outer islands. Women were informed of the CRP's genesis and framework, and linkages to overall national planning. The presence of South Pacific Regional Mission in Vanuatu helps ADB closely monitor the projects such as the CRP, Urban Infrastructure Project, Cyclone Rehabilitation Project, and various TAs.

# **V. COUNTRY PERFORMANCE AND LENDING LEVELS**

## **A. Lending Level Proposed**

38. Vanuatu's external debt servicing, using the standard measure, is only 1.3 percent of exports of goods and services, which is very low by international standards. Therefore, debt-service capacity will not affect future borrowing. However, the Government believes that annual debt service costs of no more than 8 percent of domestic revenue and external public debt of no more than 40 percent of GDP, which currently remains at around 25 percent, are prudent. The Government set the target for annual external borrowing at Vt700 million (around \$5 million) or 2 percent of the annual budget. Considering the constraints in revenue and expenditures, such a

borrowing target appears prudent. The ADB TA for Strengthening of Development Policies<sup>20</sup> will independently assess the Government's borrowing capacity. The Government is currently setting priorities for investment projects over the next 2–3 years, during which time ADB will remain a major lending agency together with the World Bank, the European Investment Bank (EIB), and the Agence Francaise de Developpement (AFD).

39. The country's performance during the CRP's implementation has been mixed. Institutional weaknesses were mainly due to poor absorptive capacity and lack of commitment and direction, particularly in 2000. Based on these, a "low case" lending level for 2002–2004 would be \$6 million, and a "base case" lending level, \$10 million. No "high case" is proposed considering the Government's absorptive capacity. It is the Government's view that ADB should maintain its proposed lending level at around \$10 million during 2002–2004. (Preliminary performance-based lending triggers and the proposed loan and TA program for Vanuatu are in Appendix 4 and 5 respectively.)

## **B. Loan Program**

40. To help improve the outer islands' accessibility, national infrastructure management, and rural banking, the Government is requesting a loan of \$5 million–6 million for the outer islands infrastructure development project for 2002. The loan targets improving not only physical transport assets, but also institutional capacity for transport infrastructure management at the central and provincial levels. The Government also requested a loan of \$2 million for the rural financial services project for 2003. The project will help address the lack of banking services outside Port Vila and Luganville, particularly for the agriculture sector and small businesses. To help bring down unemployment among young people by providing them with technical and vocational skills, the Government is proposing a loan of \$2 million for technical vocational education in 2004. The Government is also requesting a loan for urban sanitation and public health or agriculture development around 2005 (Appendix 5).

## **C. Technical Assistance and Economic and Sector Work Program**

41. The TA and economic and sector work program for 2001–2003 will focus on sustaining the reform process, enhancing governance and service delivery, and implementing economic and sector policies in key sectors. Project preparatory TAs are also proposed. A summary of the economic and sector work program is in Appendix 6.

## **D. Summary of Changes**

42. In 2001, the changes from the previous Country Assistance Plan are as follows:
- (i) Loan for rural financial services for \$5 million moved to 2003 for \$2 million;
  - (ii) Standby loan for outer islands infrastructure development removed;
  - (iii) TA for Strengthening Development Policies for \$200,000;
  - (iv) TA for institutional strengthening of the National Statistics Office for \$150,000;
  - (v) TA for capacity-building of the Parliament for \$200,000;
  - (vi) TA for agriculture and fisheries development for \$400,000 absorbed by the 2001 TA for Strengthening Development Policies for \$200,000;

<sup>20</sup> TA No. 3666-VAN: *Strengthening Development Policies*, for \$200,000, approved on 6 June 2001.

- (vii) TA for frontline services performance enhancement 2 for \$150,000 replaced by TA for performance improvements to service delivery units for \$250,000;
  - (viii) TA for CRP sustainability 2 for \$400,000 is dropped;
  - (ix) TA for Capacity-Building of the Legal Sector for \$300,000, was approved in December 2000, for \$330,000 (TA-3613); and
  - (x) TA for capacity-building in rural financial services for \$200,000 dropped.
43. Changes in 2002 are the following:
- (i) Loan for outer islands infrastructure development is downsized from \$7.5 million to \$6 million;
  - (ii) Loan for the skills development program for \$2 million is renamed technical, vocational education and training for \$2 million and moved to 2004;
  - (iii) TA for capacity-building in infrastructure management for \$150,000 is increased to \$200,000;
  - (iv) TA for capacity-building in skills development for \$200,000 is dropped;
  - (v) TA for CRP sustainability 3 for \$300,000 is replaced by CRP follow-up;
  - (vi) New TA for capacity-building for agriculture sector development for \$300,000;
  - (vii) TA for private sector development for \$300,000 is dropped;
  - (viii) TA for urban sanitation, public health, and environment project for \$500,000 is deferred to 2003; and
  - (ix) TA for Vanuatu National Council of Women phase 2 for \$200,000 is dropped.
44. Changes in 2003 are the following:
- (i) Loan for rural financial services for \$2 million is inserted;
  - (ii) Loan for agriculture and fisheries development program for \$5 million is dropped;
  - (iii) TA for technical vocational education and training project for \$200,000 is inserted;
  - (iv) TA for capacity building of NGOs for \$100,000 is introduced;
  - (v) TA for urban sanitation, public health, and environment project for \$500,000 is moved from 2002;
  - (vi) TA for capacity-building in agriculture and fisheries management for \$200,000 is dropped;
  - (vii) TA for capacity-building in urban sanitation, public health and environment for \$200,000 is dropped; and
  - (viii) PIER for \$200,000 is dropped (moved to 2001 and renamed as Strengthening Development Policies).
45. Change in 2004 is the following:
- (i) Loan for technical vocational education and training project (formerly skills development) for \$2 million is inserted.
46. Project selection briefs and TA concept papers are in Appendix 7 and 8 respectively.

**APPENDIXES**

<b>Number</b>	<b>Title</b>	<b>Page</b>	<b>Cited on (page, para )</b>
1	Economic Indicators	13	2, 8
2	Social Indicators	14	5, 18
3	Portfolio Performance Indicators	15	8, 34
4	Lending Triggers	17	10, 39
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## ECONOMIC INDICATORS

Item	1995	1996	1997	1998	1999	2000 <sup>a</sup>
<b>A. Income and Growth</b>						
1. GDP per Capita (dollars, current)	1,280	1,276	1,225	1,176	1,143	1,179
2. GDP Growth (% in constant prices)	3.2	0.1	0.6	4.4	-2.4	4.1
Agriculture	6.4	4.6	4.9	6.8	-9.3	3.5
Industry	6.4	-12.0	-18.1	8.9	2.6	13.9
Services	1.4	0.7	2.1	3.0	1.6	2.9
<b>B. Saving and Investment (current market prices)</b>						
				(percent of GDP)		
1. Gross Domestic Investment	30.5	—	—	—	—	—
2. Gross Domestic Saving	23.0	—	—	—	—	—
<b>C. Money and Inflation</b>						
				(annual percent change)		
1. Consumer Prices (annual average)	2.2	0.9	2.8	3.3	1.9	—
2. Broad Money (M2)	8.5	3.4	1.9	14.5	8.2	—
<b>D. Government Finance</b>						
				(percent of GDP)		
1. Total Revenue	26.6	23.5	23.0	25.8	26.4	—
2. Total Expenditure and Net Lending	29.4	25.3	23.0	37.0	27.7	—
3. Overall Surplus/Deficit (-)	-2.7	-1.8	-0.7	-10.3	-1.4	—
<b>E. Balance of Payments</b>						
1. Merchandise Trade Balance (% of GDP)	-23.5	-24.3	-20.9	-19.9	-24.5	—
2. Current Account Balance (% of GDP)	-2.1	-1.9	-5.2	4.8	-11.6	—
3. Export (vatu) growth (annual percent change)	9.0	6.2	21.3	5.8	-25.4	—
4. Import (vatu) growth (annual percent change)	2.5	5.2	0.1	4.0	2.5	—
<b>F. External Payments Indicators</b>						
1. International Reserves (million vatu, end of period)	5,513.0	4,872.0	4,599.0	5,755.0	5,509.0	—
- months of imports	7.6	5.6	4.7	6.5	5.1	—
2. External Debt Service (% of exports of goods & services)	1.5	1.4	1.5	1.6	1.6	—
3. External Debt (% of GDP)	20.3	18.6	18.5	24.7	26.1	—
<b>G. Memorandum Items</b>						
GDP (current prices, million vatu)	26,633.0	28,231.0	24,999.0	27,291.0	27,602.0	—
Exchange Rate (vatu per dollar, annual average)	113.0	111.6	115.9	127.5	129.1	—
Population (thousand)	168	173	177	182	193 <sup>a</sup>	—

— = data not available, GDP = gross domestic product, GNP = gross national product.

<sup>a</sup> Estimates

Sources: Republic of Vanuatu: 2000 Fiscal Strategy Report; Reserve Bank of Vanuatu: Quarterly Economic Review, Dec. 1999, Statistics Office, Vanuatu: Statistical Indicators, Oct-Dec. 1999.

## SOCIAL INDICATORS

Item	1985	1990	Latest Year	
<b>Population Indicators</b>				
Total Population (thousands)	129.1	147.3	193.2	1999
Annual Population Growth Rate (% change)	3.50	3.10	3.00	
<b>Social Indicators</b>				
Total Fertility Rate (births per woman)	—	5.1	4.4	1996
Maternal Mortality Rate (per '000 live births)	—	—	68.0	1997
Infant Mortality Rate (below 1 year; per '000 live births)	—	55	45	1997
Life Expectancy at Birth (years)	—	63	65	1997
Female	—	62	66	1997
Male	—	64	63	1997
Adult Literacy (%)	32	32	34	1997
Primary School Enrollment (% of school-age population)	—	—	63	1994
Female	—	—	—	
Secondary School Enrollment (% of school-age population)	—	—	16	1989
Female	—	—	—	
Child Malnutrition (% of under age 5)	—	—	23	1994
Population Below Poverty Line (%)	—	—	—	
Income Ratio of Highest 20% to Lowest 20%	—	—	—	
Population with Access to Safe Water (%)	—	87	87	1996
Population with Access to Sanitation (%)	—	91	91	1996
Public Education Expenditure as % of GNP	6.3	5.0	6.3	1999
Public Health Expenditure as % of GDP	3.5	2.5	3	1999
Human Development Index	—	0.533	0.425	1999
Human Development Ranking	—	106	116	1999

— = data not available, GDP = gross domestic product, GNP = gross national product.

Source: South Pacific Regional Mission Staff and Government estimates.

**PORTFOLIO PERFORMANCE INDICATORS**  
**Table A3.1 : Implementation, Disbursement Performance and Postevaluation Results of**  
**Public Sector Projects**  
 (as of 31 December 2000)

A. Project Portfolio	Net Loan Amount		Rating (No.) <sup>a</sup>											
	\$ million	%	Total		Implementation Progress				Development Objectives					
			No.	%	HS	S	PS	U	HS	S	PS	U		
Agriculture and Natural Resources	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0	0
Energy	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0	0
Finance	19.95	64.5	1	33.3	0	1	0	0	0	0	1	0	0	0
Social Infrastructure	9.07	29.3	1	33.3	0	0	1	0	0	1	0	0	0	0
Transport and Communications	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0	0
Multisector	1.93	6.2	1	33.3	0	1	0	0	0	1	0	0	0	0
<b>Total</b>	<b>30.95</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

  

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	0.00	30.94	30.94
(2) Disbursed amount (\$ mn, cumulative, active loans only)	0.00	27.55	27.55
(3) Percentage disbursed [(2)/(1)] (%)	0.00	89.04	89.04
(4) Disbursements (\$ mn, active loans only, latest year)	0.00	10.56	10.56
(5) Disbursement ratio (%) <sup>b</sup>	0.00	63.00	63.00

  

C. Net Transfer of Resources (\$ million)	OCR	ADF	Total
Net transfer in 1996	0.00	2.40	2.40
Net transfer in 1997	0.00	1.60	1.60
Net transfer in 1998	0.00	4.30	4.30
Net transfer in 1999	0.00	1.50	1.50
Net transfer in 2000	0.00	2.20	2.20

  

D. Postevaluated Projects (by year of PPAR Circulation)	1996-2000											
1. Postevaluation Rating (as of 31 December 2000)	No. %											
Highly Successful (HS)	0 0.0											
Successful (S)	0 0.0											
Partly Successful (PS)	0 0.0											
Unsuccessful (U)	1 100.0											
No Rating (NR)	0 0.0											
<b>Total</b>	<b>1 100.0</b>											
2. Postevaluation Rating by Sector 1996-2000 (as of 31 December 2000)	HS		S		PS		U		NR		Total	
	No.	%	No.	%	No.	%	%	No.	%	No.	%	
Agriculture and Natural Resources	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Energy	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Finance	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Social Infrastructure	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Transport and Communications	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Others/Multisector	0	0.0	0	0.0	0	0.0	1	100.0	0	0.0	1	100.0
<b>Total</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>1</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>1</b>	<b>100.0</b>

<sup>a</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partly satisfactory; U: Unsatisfactory; NR: No Rating

<sup>b</sup> Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

<sup>c</sup> Source: Postevaluation Information System

**Table A3.2: Status of Project Implementation  
Public Sector Projects  
(as of 31 December 2000)**

Sector <sup>a</sup>	Project Title	Net Loan Amount		Approval Date	Effectivity Date	Closing Date		Project Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating <sup>o</sup>	
		OCR (\$ million)	ADF			Original	Revised				Implementation Progress	Development Objective
SOC	Urban Infrastructure Project		9.066	27-Jun-96	16-Jun-97	31-Dec-01	-	55	7.35	5.68	PS	S
F	Comprehensive Reform Program		19.947	16-Jul-98	06-Aug-98	31-Dec-00	-	0	19.95	19.95	S	S
OTH	The Cyclone Emergency Rehabilitation Project		1.926	20-Apr-99	05-Aug-99	30-Sep-00	-	100	1.96	1.93	S	S
<b>Total</b>			<b>30.939</b>						<b>29.26</b>	<b>27.55</b>		

<sup>a</sup> Sector: AGR: Agriculture & Natural Resources, ENE: Energy, F: Finance, SOC: Social Infrastructure, T&C: Transport and Communications, OTH: Others

<sup>o</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partly satisfactory; U: Unsatisfactory ; NR: No Rating

### Lending Triggers

Scenario	Lending Level (Fy2002-2004)	Triggers
<b>Low Case</b>	\$6 million	<ul style="list-style-type: none"> <li>● Political instability, manifested by changes in government more than once a year.</li> <li>● Uncertain investment climate caused by frequent policy changes and lack of transparency.</li> <li>● No sustained revenue recovery, weak expenditure management and a widening fiscal deficit.</li> <li>● Rule of law ineffective as reflected in lack of accountability of leaders and civil servants.</li> </ul>
<b>Base Case</b>	\$10 million	<ul style="list-style-type: none"> <li>● Moderate political stability, manifested by changes in government less than once a year.</li> <li>● Cabinet endorsement of the next phase of the Comprehensive Reform Program with clear and substantive policy priorities.</li> <li>● Lowering of some administrative barriers to investment.</li> </ul>

**LENDING AND TECHNICAL ASSISTANCE PROGRAMS**  
**Table A5.1: Lending Program, 2002-2004**

Sector/Project Name	Poverty Classification	Thematic Priority	Year of PPTA	Total	Project Cost Financing (in \$ million)				
					ADB		Govt	Cofinancing (Others)	
					OCR	ADF			Total
<b>2002 Firm Loans</b>									
<b>Social Infrastructure</b>									
1. Outer Islands Infrastructure									
Project	PI	ECO	1999/2000	7.5	6.0	6.0	1.5	0.0	
<b>Total</b>				<b>7.5</b>	<b>6.0</b>	<b>6.0</b>	<b>1.5</b>	<b>0.0</b>	
<b>2003 Loan Pipeline</b>									
<b>Finance</b>									
1. Rural Financial Services									
Project	PI	ECO	1999	3.0	2.0	2.0	1.0	0.0	
<b>Total</b>				<b>3.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.0</b>	<b>0.0</b>	
<b>2004 Loan Pipeline</b>									
<b>Social Infrastructure</b>									
1. Technical Vocational									
Education and Training	PI	ECO	1999/2000	3.0	2.0	2.0	1.0	0.0	
<b>Total</b>				<b>3.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.0</b>	<b>0.0</b>	

ADB = Asian Development Bank, ADF = Asian Development Fund, ECO = economic growth, OCR = Ordinary Capital Resources, PI = poverty intervention,

PPTA = Project Preparatory Technical Assistance.

Table 5.2: Technical Assistance Program, 2002-2004

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			ADB	Others	Total
<b>2002 Technical Assistance Program</b>					
<b>Social Infrastructure</b>					
1. Capacity Building in Infrastructure Management	SPRM	ADTA	200.0		200.0
<b>Subtotal</b>			<b>200.0</b>		<b>200.0</b>
<b>Agriculture and Natural Resources</b>					
2. Capacity Building and Policy Formulation for Agriculture and Fisheries Sector Development	SPRM	ADTA	300.0		300.0
<b>Subtotal</b>			<b>300.0</b>		<b>300.0</b>
<b>Others</b>					
3. Capacity Building and CRP Sustainability	SPRM	ADTA	300.0		300.0
<b>Subtotal</b>			<b>300.0</b>		<b>300.0</b>
<b>Total</b>			<b>800.0</b>		<b>800.0</b>
<b>2003 Technical Assistance Program</b>					
<b>Social Infrastructure</b>					
1. Technical Vocational Education and Training	SPRM	ADTA	200.0		200.0
2. Urban Sanitation, Public Health and Environment Project	SPRM	PPTA	500.0		500.0
<b>Subtotal</b>			<b>700.0</b>		<b>700.0</b>
<b>Others</b>					
3. Capacity Building of NGOs	SPRM	ADTA	100.0		100.0
<b>Subtotal</b>			<b>100.0</b>		<b>100.0</b>
<b>Total</b>			<b>800.0</b>	<b>0.0</b>	<b>800.0</b>
<b>2004 Technical Assistance Program</b>					
None					

**ECONOMIC AND SECTOR WORK PROGRAM**

<b>Type of ESW</b>	<b>Strategic or Operational Objective</b>	<b>Modality (staff/staff consultant/ADTA/ RETA)</b>
<b>1. Economic Work</b>		
<b>2001</b>		
(i) Strengthening Development Policies (Pacific Islands Economic Review)	Strategic	ADTA/Staff
(ii) Institutional Strengthening of the National Statistics Office	Statistics	ADTA
<b>2002</b>		
(i) Capacity Building and Policy Formulation for Agriculture and Fisheries Sector Development	Operational	ADTA/Staff
<b>2. Thematic work</b>		
<b>2001</b>		
(i) Legal and regulatory framework for Poverty Alleviation	Strategic	RETA
<b>2002</b>		
(i) Capacity Building and CRP Sustainability	Operational	ADTA/Staff
<b>2003</b>		
(i) Capacity Building of NGOs		
<b>3. Sector Work</b>		
<b>2001</b>		
(i) Capacity Building of the Parliament	Operational	ADTA/Staff
<b>2002</b>		
(i) Capacity Building in Infrastructure Management		
<b>2003</b>		
(i) Technical Vocational Education and Training Project	Operational	ADTA/Staff

ADTA = advisory technical assistance, CRP = comprehensive reform program, NGOs = nongovernment organizations, RETA = regional technical assistance

## PROJECT SELECTION BRIEFS

**Table A7.1: Outer Island Infrastructure Development Project**

<b>A: Data</b>	
Project Number:	
Country:	Vanuatu
Sector:	Infrastructure
Subsector:	N/A
Project Division:	SPRM
Contact Person in Projects Division:	Cheolghee Kim
Programs Division:	Jeffry Stubbs
Tentative Loan Amount According to CSP:	\$6 million
Proposed Lending Modality:	Project loan
PPTA:	1999
Proposed PPTA Amount:	N/A
Attached ADTA:	Capacity-Building in Infrastructure Management
Proposed ADTA Amount:	\$200,000
Start Predesign Phase:	N/A
Start Design Phase:	1999
Approval year According to CSP:	2002
Proposed Executing Agency:	Ministry of Infrastructure and Public Utilities (EA), Public Works Department (EA)
Contact Person in Proposed Executing Agency:	Manasseh Tary, Director-General
<b>B: Description</b>	
Brief Rationale of Project:	Lack of infrastructure is holding back the development of parts of Vanuatu, particularly the outer islands. The project will help upgrade existing road, bridge, wharf, airport and storage facilities with a view to improving accessibility. It will also help upgrade PWD's infrastructure management capacity. The project should accelerate the rate of growth of agriculture and tourism and help connect rural communities with urban market centers, both in the outer islands.
Summary of Preparatory Work by DMC and/or ESW by ADB or Others:	Previous sector work includes a transport master plan and a shipping study, both funded by the Bank; an infrastructure master plan, funded by the Bank; and feasibility studies of port, airport and road investments, funded by the Bank and Agence Francaise de Developpement.
Comparative Advantage of ADB in Proposed Project:	The Bank has expertise in the infrastructure sector and capital funding in amounts not available from other donors.

Rational and Scope of attached ADTA:	Please see separate TA concept paper.
Development Objective (thematic priority):	Economic growth, human development
Environmental Classification:	B
Social Issues:	Communities are being consulted to ascertain their problems and their priorities.

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program  
 DMC = developing member country, ESW = economic and sector work, PPTA = project/program preparatory  
 technical assistance

**Table A7.2: Rural Financial Services**

<b>A: Data</b>	
Project Number:	L33155-01
Country:	Vanuatu
Sector:	Financial Sector
Subsector:	Development Finance Institution
Project Division:	POHQ
Contact Person in Projects Division:	A. Iffland
Programs Division:	SPRM
Tentative Loan Amount According to CSP:	\$2 million
Proposed Lending Modality:	ADF
PPTA:	TA 3206-VAN Rural Financial Services
Proposed PPTA Amount:	\$250,000
Attached ADTA:	
Proposed ADTA Amount:	
Start Predesign Phase:	1999
Start Design Phase:	1999
Approval year According to CSP:	2003
Proposed Executing Agency:	Department of Economic and Social Development (TBC)
Contact Person in Proposed Executing Agency:	L. Vuti
<b>B: Description</b>	
Brief Rationale of Project:	To help alleviate poverty by improving access to financial services in rural areas.
Summary of Preparatory Work by DMC and/or ESW by ADB or Others:	PPTA was carried out during 1999 and 2000. Technical assistance under the PPTA is provided to the National Bank of Vanuatu and focuses on downscaling technology for microfinance services.
Comparative Advantage of ADB in Proposed Project:	
Rationale and Scope of attached ADTA:	
Development Objective (thematic priority):	
Environmental Classification:	
Social Issues:	

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program  
 DMC = developing member country, ESW = economic and sector work, PPTA = project/program preparatory  
 technical assistance

**Table A7.3: Technical Vocational Education and Training**

<b>A: Data</b>	
Project Number:	
Country:	Vanuatu
Sector:	Social Infrastructure
Subsector:	Education
Project Division:	POHQ
Contact Person in Projects Division:	A. Iffland
Programs Division:	SPRM
Tentative Loan Amount According to CSP:	\$2 million
Proposed Lending Modality:	ADF
PPTA:	TA 3437-VAN Skills Development
Proposed PPTA Amount:	\$250,000
Attached ADTA:	Technical Vocational Education and Training
Proposed ADTA Amount:	\$200,000
Start Predesign Phase:	2000
Start Design Phase:	2001
Approval year According to CSP:	2004
Proposed Executing Agency:	Ministry of Education, Youth and Sport
Contact Person in Proposed Executing Agency:	G. Andrews
<b>B: Description</b>	
Brief Rationale of Project:	The Project will provide technical and vocational education and training for youth and women in rural and urban areas to enhance their income-earning capabilities and reduce poverty.
Summary of Preparatory Work by DMC and/or ESW by ADB or Others:	PPTA was implemented in 2000/2001. ADB supported a participatory planning workshop to assist key stakeholders to formulate the objectives and the main features of a national formal and non-formal TVET system.
Comparative Advantage of ADB in Proposed Project:	
Rationale and Scope of attached ADTA:	An ADTA will design a policy for formal and non-formal TVET, strengthen the national coordinating mechanism and establish a sustainable finance mechanism for non-formal vocational education and training.
Development Objective (thematic priority):	
Environmental Classification Project:	
Social Issues:	

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program  
 DMC = developing member country, ESW = economic and sector work, PPTA = project/program preparatory technical assistance

## TECHNICAL ASSISTANCE CONCEPT PAPERS

**Table A8.1: Capacity Building and Policy Formulation for Agriculture and Fisheries Sector Development**

<b>A. Profile</b>	
Department, Division, RM, Officer Concerned:	OPO, SPRM, A.T. Vatucawaqa
Type of TA (ADTA, PPTA, RETA):	ADTA
Name of Loan Project to follow (if PPTA):	n.a.
Country, Region (as applicable):	Vanuatu
Sector/subsector:	Agriculture
Poverty Classification and Thematic Priorities: <sup>a</sup>	Economic growth
Program Year: <sup>b</sup>	2002
Expected Approval Date (mo/yr):	May 2002
Estimated Completion Date:	May 2004
<b>B. Concept and Design</b>	
1. Rationale (specific problem/issues to be addressed in TA)	The agriculture and fisheries sectors form the mainstay of Vanuatu's productive and economic sectors. Almost 80 percent of Vanuatu's population live in rural areas and depend on agriculture and fisheries for their livelihood. To-date, Vanuatu has not fully realized the potentials that exist in these sectors due to development, institutional and budgetary constraints, according to a recent ADB sector review of the agriculture and fisheries sector 2000. Accordingly, Government is committed to develop and improve the institutional capabilities within the Ministry, and to develop the sectors through some strategic interventions.
2. Relation to Strategic Objectives (How the TA addresses the following.) <ul style="list-style-type: none"> <li>• poverty reduction/thematic priorities</li> <li>• country strategy (where applicable)</li> <li>• regional cooperation</li> </ul>	The TA fits in with the Government's national Comprehensive Reform Program initiatives by improving the delivery of services to the outer islands, improving the livelihoods of the rural population and contributing to economic growth of the country.

<sup>a</sup> Economic growth, human development, gender and development, good governance, environmental protection, private sector development, regional cooperation, and support for Bank operations (for RETAs)

<sup>b</sup> Year of inclusion in CSP or CAP for transition period.

3. Scope (specific major components, e.g. capacity building)	The TA would assist the Government in instituting a consultative and participatory process involving stakeholders in the agriculture and fisheries sectors that will lead to the firming up of a national agriculture and fisheries policy including institutional arrangements. Project components would include strengthening MAQFF's institutional capacity in policy planning, refocusing and reorganizing the agricultural extension services, enhancing agricultural research programs, and developing skills. The TA would be guided by the public-sector reform principles of the CRP.
4. Expected Outcome and Monitorable Indicators	A national policy for agriculture and national policy for fisheries sector developed and approved by the Ministry. A strengthened Department of Agriculture and Department of Fisheries
5. Previous TA(s) on the Same Theme, in the sector, country, or region (last five years).  <ul style="list-style-type: none"> <li>▪ name, amount, status</li> <li>▪ assessment of outcome</li> </ul>	TA No. 3312-VAN for \$145,000 was a sector review of the agriculture and fisheries sectors. It reviews the opportunities and constraints that exist within the sector through a comparative advantage assessment. It also reviews the potential that exists and makes specific recommendations on improvements within the sector and at the institutional level. A consultation approach was used in the preparation and discussion of the draft findings.
6. Executing agency, implementing agency, counterpart agency (for RETAs as applicable)	The Ministry of Agriculture, Quarantine, Fisheries and Forestry was both the executing and implementing agency for reasons of convenience.
7. Cost and Financing Plan  <ul style="list-style-type: none"> <li>(i) ADB Financing (JSF, TASF)</li> <li>(ii) Sources other than JSF/TASF</li> </ul>	Total cost is \$300,000 through TASF
8. Country/RETA IPF for relevant year	\$800,000 for 2002

ADB = Asian Development Bank, ADTA – advisory technical assistance, CSP = country strategy program, JSF = Japan Special Fund, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, RM = resident mission, TA = technical assistance, TASF = Technical Assistance Special Fund.

**Table A8.2: Capacity Building and CRP Sustainability**

<b>A. Profile</b>	
Department, Division, RM, Officer Concerned:	OPO, SPRM, A.T. Vatucawaqa
Type of TA (ADTA, PPTA, RETA):	ADTA
Name of Loan Project to follow (if PPTA):	n.a.
Country, Region (as applicable):	Vanuatu
Sector/Subsector:	Economic
Poverty Classification and Thematic Priorities: <sup>a</sup>	Economic Growth
Program Year: <sup>b</sup>	2002
Expected Approval Date (mo/yr):	April 2002
Estimated Completion Date:	Dec 2004
<b>B. Concept and Design</b>	
1. Rationale (specific problem/issues to be addressed in TA)	The CRP has being under implementation for three years but demonstrated impacts on the wider economy has being slow and hindered by political instability. In an effort to entrench the various economic initiatives an effective capacity building and planning program needs to be developed and resourced at the rural and provincial level through close mentoring of the local managers. This service and capacity building program would fit in well with the work of the Decentralization Commission.
2. Relation to Strategic Objectives (How the TA addresses the following.) <ul style="list-style-type: none"> <li>• poverty reduction/thematic priorities</li> <li>• country strategy (where applicable)</li> <li>• regional cooperation</li> </ul>	The TA fits in with the Government's national Comprehensive Reform Program by strengthening the capacity of local government institutions to be responsive and effective in the delivery of their services.

<sup>a</sup> Economic growth, human development, gender and development, good governance, environmental protection, private sector development, regional cooperation, and support for Bank operations (for RETAs)

<sup>b</sup> Year of inclusion in CSP or CAP for transition period.

3. Scope (specific major components, e.g. capacity building)	The TA would assist the Government in implementing their policies of decentralizing autonomy to the provincial districts as well building institutional capacities at the provincial level. Project components would include strengthening provincial institutional capacity in policy planning, developing management skills, and prioritizing limited resources.
4. Expected Outcome and Monitorable Indicators	<ul style="list-style-type: none"> <li>● Close mentoring of local managers in key government institutions.</li> <li>● Strengthened institutions of government and provincial offices.</li> <li>● Prioritized and effective planning systems</li> <li>● Manuals on performance improvements</li> </ul>
5. Previous TA(s) on the Same Theme, in the sector, country, region (last five years) <ul style="list-style-type: none"> <li>▪ Name, amount, status</li> <li>▪ Assessment of outcome</li> </ul>	TA 3449-VAN: Institutional Support to Central Agencies for the Comprehensive Reform Program, Phase III for \$700,000, approved in May 2000.
6. Executing agency, implementing agency, counterpart agency (for RETAs as applicable)	Ministry of Comprehensive Reform Program will be the implementing agency and the Department of Strategic Management as the executing agency.
7. Cost and Financing Plan <ul style="list-style-type: none"> <li>(i) ADB Financing (JSF, TASF)</li> <li>(ii) Sources other than JSF/TASF</li> </ul>	Total is cost is \$300,000 through TASF
8. Country, RETA IPF for relevant year	\$800,000 for 2002

ADB = Asian Development Bank, ADTA – advisory technical assistance, CSP = country strategy program, JSF = Japan Special Fund, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, RM = resident mission, TA = technical assistance, TASF = Technical Assistance Special Fund.

**Table A8.3: Capacity Building in Infrastructure Management**

<b>A. Profile</b>	
Department, Division, RM, Officer Concerned:	OPO, SPRM, Cheolghee Kim
Type of TA (ADTA, PPTA, RETA):	ADTA
Name of Loan Project to follow (if PPTA):	
Country/Region (as applicable):	Vanuatu
Sector/Subsector:	Infrastructure
Poverty Classification and Thematic Priorities <sup>a</sup>	Economic growth
Program Year <sup>b</sup>	2002
Expected Approval Date (mo/yr):	June 2002
Estimated Completion Date:	June 2003
<b>B. Concept and Design</b>	
1. Rationale (specific problem/issues to be addressed in TA)	The Public Works Department (PWD) as the main provider of infrastructure maintenance service plays an important role. Reliable data for helping determine what and when to maintain at what cost are crucial, but were non-existent in the past. This will become a basis for adequate budget allocation. This TA aims to provide a Road Asset Management System (RAMS) for PWD's use in a sustained manner. This will help catalyze a key weakness identified under the planned outer islands infrastructure development project (OIIDP), to which this TA will be attached.
2. Relation to Strategic Objectives (How the TA addresses the following.) <ul style="list-style-type: none"> <li>▪ poverty reduction/thematic priorities</li> <li>▪ country strategy (where applicable)</li> <li>▪ regional cooperation</li> </ul>	The TA will strengthen the capacity of infrastructure management by the PWD. Improved road asset management will allow more efficient transport network across the country, which will promote economic development in rural areas and help reduce the prevailing poverty.

<sup>a</sup> Economic growth, human development, gender and development, good governance, environmental protection, private sector development, regional cooperation, and support for Bank operations (for RETAs)

<sup>b</sup> Year of inclusion in CSP or CAP for transition period.

3. Scope (specific major components, e.g. capacity building)	The TA will assist to establish (a) a detailed inventory of all roads and bridges, (b) a simple RAMS capable of providing ranked schedules of maintenance works based on condition rating surveys and rational economic criteria, (c) a rolling 3-year plan of priority maintenance works, (d) a related plan for rationalizing equipment and procuring additional plant items, and (e) a strategy for securing adequate and reliable funds for maintenance in the longer term through a system of cost recovery.
4. Expected Outcome and Monitorable Indicators	An RAMS is established. The number of maintained roads is increased. Improved budget allocation for roads maintenance.
5. Previous TA(s) on the Same Theme, in the sector, country, or region (last five years)  <ul style="list-style-type: none"> <li>▪ name, amount, status</li> <li>▪ assessment of outcome</li> </ul>	PPTA No. 3224-VAN: Outer Islands Infrastructure Development Project, for \$750,000. The PPTA has been implemented since December 1999 and its final stage for engineering designs is underway. The TA reviewed the current status of the infrastructure and identified weaknesses and constraints and recommended options to improved the infrastructure maintenance. This TA was a brainchild of the PPTA.
6. Executing agency, implementing agency, Counterpart agency (for RETAs as applicable)	Director General, Ministry of Infrastructure and Public Utilities (EA)/Director, PWD (IA)
7. Cost and Financing Plan  <ul style="list-style-type: none"> <li>(i) ADB Financing (JSF, TASF)</li> <li>(ii) Sources other than JSF/TASF</li> </ul>	\$200,000 (desirably from JSF)
8. Country, RETA IPF for relevant year	\$800,000 for 2002

ADB = Asian Development Bank, ADTA – advisory technical assistance, CSP = country strategy program, JSF = Japan Special Fund, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, RM = resident mission, TA = technical assistance, TASF = Technical Assistance Special Fund.