

ASIAN DEVELOPMENT BANK

COUNTRY STRATEGY AND PROGRAM UPDATE (2004–2006)

VANUATU

October 2003

CURRENCY EQUIVALENTS

(as of 15 August 2003)

Currency Unit	=	Vatu (Vt)
Vt1.00	=	\$0.0083
\$1.00	=	Vt121.060

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CRP	–	comprehensive reform program
GDP	–	gross domestic product
NBV	–	National Bank of Vanuatu
OIIDP	–	Outer Islands Infrastructure Development Project
PDMC	–	Pacific developing member country
PAA	–	priority action agenda
SOE	–	state-owned enterprise
TA	–	technical assistance
TVET	–	technical vocational education and training
VNPF	–	Vanuatu National Provident Fund

NOTE

In this report, "\$" refers to US dollars.

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I. COUNTRY STRATEGY

1. The strategy of the Asian Development Bank (ADB) for Vanuatu addresses the underlying institutional constraints on Vanuatu's economic development. These include a lack of consistency and transparency in government decision making, a high-cost and uncertain environment for business, and a lack of fiscal capacity to expand essential public services. The strategy aims to help (i) build capacity for sound economic management and good governance; (ii) create an enabling environment for private sector development; and (iii) reduce poverty. It will help increase the rate of economic growth to a level higher than population growth. A summary statement of strategy is in Appendix 1.

2. The Government of Vanuatu gives priority to (i) improving governance and public service delivery via strengthened law enforcement and macroeconomic management capacity; (ii) improving the lives of rural people through better access to markets and management of natural resources; (iii) raising private investment by lowering obstacles to private enterprise; (iv) enabling greater stakeholder participation in policy formulation; and (v) increasing equity in access to services and employment opportunities.¹ Vanuatu suffers from low economic and social development indicators: gross domestic product (GDP) growth that has not kept up with the high rate of population growth; increasing unemployment; low private sector investment; substantial budget deficits; and an adult literacy rate of only about 75% (50% for women).

II. CURRENT DEVELOPMENT TRENDS AND ISSUES

A. Recent Political and Social Developments

3. Following the May 2002 election, a coalition government of the Vanuaaku Pati and the Union of Moderate Parties is governing the country. The coalition has lasted though with some periods of turbulence. In 2002, for example, there was an armed standoff in the center of Port Vila between the Vanuatu Police Force and the Vanuatu Mobile Force over a dispute in appointing a new Police Commissioner. Political instability and inconsistency in policy and leadership direction continue to undermine the framework of public service reforms and private sector initiatives introduced under the comprehensive reform program (CRP), thereby eroding public and investor confidence.

4. There are four branches of government: Parliament, a Council of Ministers to lead the executive, a public service to advise on and implement policy, and a State Law Office, police, and judiciary to enforce the rule of law. There are 52 seats in Parliament covering 17 constituencies throughout Vanuatu. Some of these institutions of government have had difficulty in fulfilling effectively the roles specified under the Constitution. Under the CRP, the process of renewal and rebuilding of the institutions of government is ongoing. Past and present projects, many of them supported by ADB, have helped (i) improve the executive by creating the Council of Ministers, supported by a Development Committee of Officials, to consider policy issues; (ii) enact a Government Act and a Public Service Act clearly defining roles for ministers and civil servants; (iii) strengthen the public service, State Law Office, judiciary, and police; (iv) improve fiscal management through better forecasting and revenue administration; (v) enhance dialogue between the Government, civil society, and the business community; and (vi) strengthen Parliament by enhancing the capacity of committees to review bills, budgetary documents, accounts and performance reports. However, since the CRP rightsizing, there has been a substantial increase in the size of the civil service, eliminating some of the financial

¹ As presented by the Prime Minister to the National Summit in November 2002 and subsequently endorsed by the Council of Ministers.

gains achieved under the CRP. Although performance agreements are being put in place for senior civil servants, the overall performance of the civil service remains weak.

5. The role of custom and of traditional rights in the modern state significant. In rural areas, people recognize both modern leaders and custom chiefs, and their roles are relatively well defined, with chiefs responsible for local issues and modern leaders for national issues. In urban areas, however, the custom systems tend to break down, leading to potential social conflict. Migrants to urban centers such as Port Vila and Luganville normally do not have land rights, often causing them to live in unsatisfactory conditions as “unofficial” tenants unable to secure power, water, and transport services. As a result, squatter communities are increasing. Land tribunals are being developed under legislation passed in 2002 and have the potential to help significantly in resolving land disputes. Strata title legislation also passed in 2002 will help make business investments easier, at least in urban centers. Crime is increasing as joblessness becomes more severe. The police remain ineffective in protecting the general public, and the courts are overloaded. A free press has helped keep the public informed and continues to be essential to good governance. An ADB governance report prepared for Vanuatu has been completed and, subject to the Government’s request, a workshop to discuss the findings will be arranged.

6. The geographic isolation and remoteness of the islands and the lack of job creation contribute to poverty. The wide income disparities between urban and rural areas are related in part to low agricultural productivity and poor outer island infrastructure facilities and services. Less than 500 jobs are created each year in the formal sector, while over 2,000 school-leavers seek employment. Vanuatu ranks among the lowest in ADB’s Pacific developing member countries (PDMCs) for adult literacy (75%) and net secondary enrollment (23%). The low rate of secondary enrollment and high levels of adult illiteracy are substantial obstacles to efforts to modernize and develop. While the infant mortality rate improved between 1979 and 2000 (from 94 to 30 deaths per 1,000 births), it remains high compared to other PDMCs (Appendix 2, Table A2.1). Education for All is being advocated as the priority program in this regard and female enrollment ratios are increasing. Gender balance is being addressed by the public service with one female director-general appointed and several females holding director-level positions.

B. Economic Assessment and Outlook

7. Real GDP declined further by 2.8% in 2002, following a fall of 2.1% in 2001, reflecting the effects on agriculture and tourism of several major cyclones, weak demand, increased competition from other island countries, and supply constraints including high cost and unreliable air and sea transport (Appendix 2, Table A2.2). Agriculture as a whole grew modestly, due to an expansion of the cocoa and root crop sectors, but the forestry sector contracted further by 11.6% following a larger decline in 2001. The construction and manufacturing sectors fell by 1.4% and 13.1% in 2002, respectively, leading to an overall industry decline of 5.9%. The services sector contracted by 3.9%. Tourist arrivals fell further by 6.5%, reflecting Vanuatu’s high costs, the withdrawal of Air Vanuatu’s direct services to Melbourne, and the more active marketing of the Fiji Islands. Several large hotels are experiencing occupancy rates of only 35%.

8. Inflation moderated at 2.0% in 2002, down from 3.7% in 2001. Exports grew by 1.1% in 2002 following a significant decline of 24.1% in 2001. Imports declined by 0.4% following growth of 0.9% in 2001. Consequently, the trade deficit decreased slightly to 24.2% of GDP. With the capital account in deficit due in part to a sizable drop in foreign direct investment, gross official reserves declined noticeably to \$34.9 million (4.7 months of imports) at the end of 2002. There is the potential for further decline unless tourism and exports are expanded.

9. The Government's fiscal situation improved slightly in 2002, with an overall deficit of 1.5% of GDP. The improvement was mainly due to expenditure restraints, in particular to the impact of financial controls on personnel costs, and to better revenue planning. However, a tight cash situation persisted throughout 2002 with the Government using a system of monthly warrants to control spending and the continuing use of advances from the Reserve Bank of Vanuatu to fill a financing gap. Payments for goods and services, subsidies, and capital spending were lower than in 2001. Revenue was also lower than originally estimated, reflecting the impact of weaker than expected economic growth. Such conditions are continuing in 2003.

10. Public debt declined slightly from 38% to 37% of GDP in 2002. The funding of substantial losses at the Vanuatu National Provident Fund (VNPF), the National Bank of Vanuatu (NBV), Vanair (the domestic airline), Air Vanuatu (the international airline) as well as the Vanuatu Commodity Marketing Board contributed to a significant buildup of domestic debt in the period 1997 to 2002. Such debt, which is held by the Reserve Bank, commercial banks, and VNPF, is now reaching the absorptive limits of the economy.²

11. The Government is concerned about recent and continuing increases in debt service requirements³ relative to domestic revenue. Total debt-servicing costs increased significantly from 2.6% at end-1998 to 6.1% at end-2002, and are expected by the end of 2004 to have risen to 7.7%, slightly below the target limit of 8.0%. Given the tight fiscal situation, the Government has decided to avoid any large increases in the level of debt, especially short-term debt, and to keep loan funding of projects to a bare minimum by seeking grant funding wherever possible.

12. ADB has helped prepare an action plan to improve fiscal management and it is being extended by a study of revenue sources under way with support from the Government of New Zealand. The plan and study indicate that there are opportunities to rationalize the import tax structure, improve land taxation, and introduce more consistency in tax and administration. Fiscal management needs to emphasize more realistic forecasting, better control and greater compliance. An enhanced revenue system with a broader tax base is needed in the long-term future, but a consensus has not emerged about its desirability in light of its economic impacts.

C. Implications for the Country Strategy and Program

13. The conditions and trends described above indicate that Vanuatu should aim over the medium-term (3–5-year) future to increase its rate of economic development to a level moderately in excess of the rate of population growth. Expansion of tourism is possible and even likely, provided that reasonably priced air transport services are expanded. Growth of agricultural production, particularly of beef and organic crops, is also likely provided that sea and air freight services are available. On the other hand, maintenance of social order will remain problematic. Although the courts, the State Law Office, and the police are being strengthened, it will be years before they are able to effectively keep up with their caseloads. Land management is being improved, but disputes due to lack of clarity of ownership and the difficulty of acquiring land for economic investment due to complex ownership patterns will continue. It will continue to be difficult to retain qualified professionals in the civil service, and to effectively manage the economy without them. There will be strong pressures for increased expenditure, for the

² About three quarters of public debt is external debt and one quarter is domestic debt. However, the debt servicing cost of the domestic debt exceeds that of the external debt by a factor of four. A recent offer of treasury bills received no purchase offers, indicative of the lack of confidence of investors.

³ Total debt service costs here are defined as domestic and external interest payments plus external principal repayments only. Inclusion of domestic principal repayments into the calculation would change debt servicing as a ratio of domestic revenue to 3.7% in 1998, 20.5% in 2002, and 30.9% in 2004.

infrastructure to support the productive sectors, and for the education and health services needed by a rapidly growing and young population. However, growth in revenues will be substantially constrained until the tax base is broadened.

14. For these reasons, ADB's assistance should focus on the underlying constraints on development. Transfer of knowledge will be as important as transfer of capital. It should help in:

- (i) development of a government and bureaucracy operating in a transparent, accountable, and fully accessible manner, with decisions on economic matters taken after public deliberation of the issues;
- (ii) creation of an enabling environment for private sector development, including reducing costs, encouraging competition, creating a secure framework for transactions, and expanding business development finance; and
- (iii) reduction in poverty, through improvements in governance and economic growth, as well as provision of services for the poor, particularly to address the problems of the outer islands.

15. Furthermore, it has been agreed that the Government may request ADB assistance primarily as grant-funded technical assistance (TA). Loan assistance will be used only sparingly, and only where sustainability is strongly indicated.

III. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM

A. Progress toward a Poverty Partnership Agreement

16. Vanuatu, with a human poverty index of 46.4, is ranked the third poorest country among PDMCs. About 40% of its population lives below the \$1 per day poverty line, and 23% of children under 5 suffer from malnutrition (Table A2.1). With a human development index of 0.425, Vanuatu also scores poorly in social development. ADB has helped Vanuatu prepare a poverty reduction strategy, which comprises further improving governance, enhancing the quality and coverage of education and health services, strengthening government and nongovernment organizations' social support systems, and removing impediments to private sector growth.⁴ Ongoing TAs are helping improve the effectiveness of Parliament and of selected frontline public services; a proposed loan project for outer island infrastructure development (OIIDP) may help improve accessibility to markets and social services; and an ongoing TA for technical vocational education and training (TVET) and a proposed TA for rural productive skills development will help improve the labor force, reduce unemployment, and increase cash income. The Government has agreed to participate in a poverty partnership with ADB. The poverty partnership agreement, signed on 12 September 2003, confirms the Government's commitment to analyze poverty, to develop appropriate strategies to reduce it and to implement these strategies through its policies and budgets.

B. Progress in the Country Strategy and Program Focus Areas

1. Good Governance and Economic Management

17. For the past 5 years, ADB's program in Vanuatu has been formulated in consistency with the CRP policy matrix. ADB's CRP project aimed to enhance and sustain private sector-led economic growth with its benefits distributed equitably within Vanuatu. This ambitious objective

⁴ ADB. 2001. *Regional Technical Assistance for Consultation Workshops on Poverty Reduction Strategies for Selected Pacific DMCs*. Manila.

was to have been achieved by (i) redefining the role of Government and enhancing the quality and delivery of its services, (ii) increasing the productivity and growth of the commercial and private sectors, and (iii) supporting improvement of social indicators. The CRP was also intended to rescue and restructure the NBV and VNPF. The CRP achieved some of the envisaged outcomes. Measures to redefine the role of government and restructure financial institutions were successful, while the objective of increasing economic growth has not been achieved and this has threatened the improvement of social indicators.

18. It is clear that reforms remain unfinished in several areas, particularly with regard to economic development. These areas include (i) lack of consistency, transparency, and accountability in economic and financial decision making; (ii) poor governance and/or weak management of state-owned enterprises (SOEs) and regulatory agencies; (iii) granting of protection, exemptions, and monopoly rights to selected industries and/or business persons without examination of the impacts of the action; (iv) inconsistent policy on the sale of government-owned assets; (v) worsening fiscal situation arising from unbudgeted payouts, lack of control over the wage bill, and laxity in revenue collection; and (vi) consistent weaknesses in the public service, particularly in senior positions.

19. The Government's Priorities and Action Agenda (PAA) has been developed with a view to linking the long-term CRP action matrix to short-term budget and action priorities. It calls for stepped-up efforts to focus on the productive sectors, particularly agriculture and tourism. The Government is placing priority on provision of support to these sectors. ADB has offered to help further develop the PAA, if so requested by the Government. Ongoing and proposed ADB assistance to help improve the financial sector will help in agriculture and tourism sector development. The European Union and the Government of France are providing support for development and marketing of agricultural products and other funding agency support is likely for the tourism sector.

20. The CRP involved stakeholder consultation in every facet of the reform process. The national summit meetings held in 1998, 2000, 2001, and 2002 were excellent opportunities for communities to participate in reviewing and assessing the progress of the CRP and in setting new strategic directions for reforms. ADB assisted the summit meetings and their preparatory work, and has been asked to assist them in the future. Similarly, ADB assisted in the preparation of the PAA. The first Business Forum organized by the private sector in October 2002 established a basis for building a strong government-private sector partnership. A Decentralization Commission Report, launched following wide consultation in 2001, is under review along with other recommendations contained in the Rural Economic Development Initiative report developed for each of the six provinces. With the benefit of hindsight, the decentralization policy would seem to have been rushed through with inadequate attention given to issues of capacity, resources, and views of the provincial councils. This has contributed to stagnation in service improvements in the outer islands.

2. Private Sector Development

21. The lack of political and policy stability and consistency, as well as external economic uncertainties have created an environment of diminishing business confidence, and remain the biggest impediment to private sector development in Vanuatu. The Government is failing to supply essential public goods that underlie effective and efficient private sectors—secure property rights, a legal system that allows contracting with confidence, efficient and low-cost infrastructure, and regulations that are consistently enforced.

22. Neither government nor private provision of infrastructure provides a low-cost service in Vanuatu. Government provision regularly fails due to little incentive for efficiency, political interference, and the tendency to overstaff and under maintain. Private provision, such as in the telecommunications and utilities sectors, is deficient because private suppliers have been granted nontransparent, long-term monopoly concessions that are poorly regulated, resulting in efficient yet very costly services in Port Vila and Luganville and hardly any service provision in rural areas. In effect, the current system exacerbates rather than reduces the effects of the country's natural endowment constraints such as isolation and size—inappropriate government intervention further pushes up costs, reduces competition, and tends to crowd out the private sector. As recognized in the CRP policy matrix and reconfirmed as priority actions by the Business Forum, progress in SOE reforms and privatization, which has been sluggish due to lukewarm political commitment, should be accelerated; private sector concessions should be reviewed and rectified; existing monopolies should be regulated to guarantee competitive market prices; and private participation in infrastructure projects should be promoted.

23. Vanuatu's underdeveloped onshore financial sector provides a minimal range of banking services that hardly reach beyond main urban areas; commercial banks have little outreach to low-income households; high interest rate spreads reflect high unit costs and risk premiums; and microfinance is in its infancy. Major impediments to the development of the financial sector include the lack of an effective secured transactions framework and the inability of the customary land tenure system to provide ni-Vanuatu investors with adequate collateral. The process to unlock the potential of land should be seriously considered, while however preserving the cultural role that land ownership plays in Vanuatu. The establishment of a well-functioning secured transactions system, especially for movable assets and crop liens, would generate economic and social gains especially for ni-Vanuatu investors who presently do not have access to credit, as it reduces transaction costs, lowers interest rates, and enhances credit intermediation. Creation of better credit information would be a useful adjunct for lowering the cost of borrowing by providing records of payment history and credit risk. ADB support is proposed in these areas. In addition, ADB is funding a study by the Foreign Investment Advisory Service to identify and reduce administrative barriers to investment.

24. Both the NBV and VNPF were restructured and recapitalized under the CRP. Both public financial institutions have made a tremendous turnaround and now operate satisfactorily. Strong management, external leadership, and good financial governance frameworks have contributed to the financial stability of the two institutions with no political interference. The successful restructuring of the two public financial institutions has helped restore public confidence in the banking and financial system in Vanuatu. ADB is providing assistance to these institutions in the area of a pilot microfinance project (NBV) and information systems and training (VNPF). ADB is also helping develop a proposal for a sustainable microfinance program.

3. Infrastructure

25. Inadequacy in transport infrastructure provision continues to be a major obstacle to economic growth, particularly in the outer islands. Despite numerous funding agency-assisted initiatives, little tangible progress has been made in addressing this problem. The latest offer of assistance from ADB, the proposed OIIDP, has been deferred for reasons of (i) lack of counterpart funds and (ii) unwillingness to borrow. There is no question that Vanuatu's infrastructure investment needs far outstrip the resources available. However, the Government has been unable to put together a strategy for funding the necessary improvements. The continuing degradation of existing infrastructure through deferred maintenance translates into huge losses in essential infrastructure assets. The Ministry of Infrastructure and Public Utilities is aware of the unfolding crisis, and with European Union funding is acquiring equipment and training staff in improved maintenance programs. Although Agence Française de

Développement is likely to provide support for airport development, and the Government of Japan for road and bridge development, there remains a substantial funding gap in the sector.

4. Social Development and Environment

26. Among the PDMCs, Vanuatu has some of the lowest human development indicators. Basic and secondary education, which are inadequate in quantity and quality (Appendix 2, Table A2.4), are being supported by the Governments of Australia and France, and the European Union. The World Bank has been considering a sector project focused on basic education, and ADB has under way an advisory TA to help prepare a TVET sector policy framework. The health sector enjoys support from the Governments of Australia, New Zealand, Japan and the Peoples' Republic of China, as well as the United Nations Development Programme. Proposed ADB projects will be screened for impacts on indigenous peoples.

27. Pressures on land, water, and the marine environment—reef depletion, soil erosion, water contamination due to poor waste disposal, watershed damage, and substantial climate variation—have become visible only in recent years (Appendix 2, Table A2.5). Continuing urban migration has given rise to slum communities without adequate water, sewerage, and waste management systems. Environment legislation drafted with ADB assistance⁵ was approved in 2002. ADB continues dialogue with the Government about the need to corporatize water services in Luganville, and has expressed interest in providing additional support for the sector if so requested.

28. Although women are responsible for harvesting and marketing most crops, as well as managing their households, they are disadvantaged socially, economically and politically. Rural women are especially disadvantaged, and women's groups are demanding more participation in various activities. ADB has helped build the capacity of the Vanuatu National Council of Women. The TVET TA, the microfinance pilot project, a proposed TA for rural productive skills development and the proposed OIIDP will all help improve services available to women. Gender targeting will be built into all these projects.

29. Vanuatu has a wide range of international and domestic nongovernment organizations, some deeply involved in development. The Chamber of Commerce and Industry has under way a series of programs to help develop the primary sector, including forestry (2002), livestock (2003), and marine resources (2004). The Chamber's program will be supported by ADB's involvement in the private sector development area. The ongoing TVET TA will support the development of nongovernment organizations, including the National Training Council and informal rural training centers.

C. Highlights in Coordination of External Funding and Partnership Arrangements

30. The first consultative group meeting for Vanuatu, held in Nouméa in July 1997, resulted in funding agency commitments to the CRP. The Government followed this with a development partners meeting on 4 September 2003, in Port Vila, based on the PAA. The meeting revealed a need for greater assistance for the economic sectors, including in economic policy, strategic planning, agriculture, tourism, infrastructure, education and private sector development. In some cases, such as in agriculture, tourism, and education, ADB is encouraging other funding agencies to close the gap, while in others, such as strategic planning, skills development, infrastructure, and private sector development, ADB will provide support directly. Present and proposed funding agency assistance is summarized in Appendix 2, Table A2.6.

⁵ ADB. 1996. *Technical Assistance to Vanuatu for the Urban Growth Strategy for Port Vila*. Manila.

IV. PORTFOLIO MANAGEMENT ISSUES

A. Portfolio Performance

31. ADB had granted, by 31 December 2002, nine loans and 51 TAs totaling \$51.25 million and \$12.75 million, respectively, since approval of the first TA for smallholder agriculture development in June 1982. The most recent loan, for cyclone emergency rehabilitation approved in April 1999 for \$2.00 million, was successfully completed in December 2000. The only active loan as of 31 December 2002 was the Urban Infrastructure Project. Of the nine loans, five have been for infrastructure rehabilitation, two for development finance, and one each for agriculture extension and the CRP. The outstanding balance on ADB loans represents the majority of Vanuatu's external debt. Of the 51 TAs (including 11 project preparatory TAs), over 40% have been for institutional support and capacity building. Three project preparatory TAs have not led to subsequent loans.

32. Vanuatu's loan portfolio performance has improved in recent years, but still lags behind the ADB-wide average in terms of implementation delays and compliance with loan covenants. Impediments include over ambitious project output targets, inadequate counterpart support and institutional weaknesses, and limited private sector capacity, particularly outside the urban centers of Port Vila and Luganville. While attempts have been made to address these constraints, with varying success, the infrastructure projects appear to have fared much better, probably because the targets and accomplishments are more clearly defined, and the sense of urgency is perceived as greater, as demonstrated in the cyclone rehabilitation project. More attention is needed to implementation of loan covenants, however, and this requires better coordinated action between the executing agency and the central agencies. Portfolio indicators for loans are shown in Appendix 2, Tables A2.7–A2.10.

33. As of 31 December 2002, 11 TAs were active of which 5 were ongoing and 6 completed, but not financially closed. All but two of the active TAs have required extended completion dates averaging over 30 months. Delays are attributed to late fielding of consultants, variations in consultant assignments leading to additional inputs, absence or delay in provision of counterpart resources, and generally a lack of urgency in keeping to agreed project schedules. Despite the implementation delays, all completed TAs have been rated as successful.

B. Performance Monitoring and Evaluation

34. While many executing agencies lack the necessary skills for effective monitoring of project implementation, these have largely been provided by project management consultants and in-house advisors. The presence of a regional mission has also contributed significantly, allowing prompt intervention in problem solving through regular hands-on involvement. Provision has also been made through loans and TAs for training of counterpart staff both in ADB policies and procedures and in sector-related developments.

V. COUNTRY PERFORMANCE AND LENDING LEVELS

A. Lending Program

35. Consistent with ADB's policy on performance-based allocation of Asian Development Fund (ADF) funding, the indicative allocation of ADF funds for Vanuatu is linked to both supply and demand aspects. From the demand side, the Government has indicated that (i) its continuing budget deficit and concern over the flow of debt will constrain its ability to undertake further borrowing from ADB and other agencies over the next 2–3 years and (ii) it will be difficult to mobilize counterpart funds. In the fiscal year 2003 budget, the Government set a target of

external borrowing of \$5 million from all sources. From the supply side, ADB applies performance triggers related to progress in (i) economic and fiscal management, (ii) efficiency of the public service, (iii) improvement in the quality and timeliness of statistics, (iv) creating a favorable investment climate, and (v) satisfactory portfolio management. The share of ADF allocation also depends on population and per capita income. The supply-side calculation indicates that Vanuatu would be eligible for a base-case lending program of \$6.0 million over the period 2004–2006, while the demand-side analysis suggests that either no lending or at best a minimal program involving perhaps one loan is likely. No ADF lending is presently proposed for 2003. ADB has urged the Government to focus on economic growth issues, and improve fiscal management in order to be able to pay down some of the domestic debt.

36. Accordingly, a minimal lending program is indicated for 2004–2006, essentially involving the deferred OIIDP in 2005 for a loan of \$3.8 million. Other loan projects that have been prepared but not further processed (Rural Finance and TVET) are not currently included in the program, pending further assessment by the Government. As the preparation for the OIIDP dates back to 1999, there is a need for a small-scale TA to review the scope of the Project, with a view to updating the design, costing and priority of specific components. ADB will request the Government to reconfirm its commitment to the project before proceeding with the TA. The Government has indicated it will request funding from other funding agencies for consultants for project management and construction supervision. A concept paper for the OIIDP is in Appendix 3.

B. Nonlending Program

37. Ongoing TAs include advisory TA on the policy framework and capacity building for TVET, capacity-building assistance to Parliament, institutional strengthening of the National Statistics Office, performance improvements to service delivery units, and finalizing assistance to central agencies for the CRP. Future assistance will narrowly focus on private sector development with a cluster TA spread over the period 2004–2006, building on a diagnostic study for improving access to credit in 2003. This will be followed with development of the legal and regulatory framework for secured transactions in 2004, a feasibility study of a credit reference facility in 2005, and establishment of a registration system for secured transactions in 2006. In addition, there will be a TA for rural financial services in 2003, followed by TAs during 2004–2006 for rural productive skills development, capacity building in infrastructure management, and strengthening development policies. As there is limited scope for lending, the only project preparatory TA over this period will be for redesign of OIIDP in 2004. Concept papers for nonlending products are in Appendix 4. Roadmaps for the transport and private sectors are in Appendix 5.

C. Summary of Changes to the Lending and Nonlending Program

38. The above program, which focuses on creating a suitable enabling environment for the private sector, is quite different from the program envisaged in prior years. OIIDP will be deferred to at least 2005, and perhaps later. Lending for the private sector and agriculture is unlikely to eventuate in the planning period. Consequent to this move away from a lending program to an emphasis on ADB's knowledge products and services, project preparatory TAs proposed earlier for private sector, agriculture, and urban sanitation projects and their related capacity-building TAs are unlikely to proceed. The program will be tightly focused around private sector development, with a view to demonstrating concrete outcomes, including an economic growth rate in excess of the population growth rate by 2007.

SUMMARY STATEMENT OF STRATEGY

Objectives	Build local capacity for sound economic management and good governance	Create an enabling environment for private sector development	Reduce poverty, particularly in rural areas
Strategic Focus/Key Result Areas	<ul style="list-style-type: none"> ▪ Enhance policy analysis and formulation capabilities of key central and line agencies ▪ Help prepare a midterm (3-year) strategic economic framework 	<ul style="list-style-type: none"> ▪ Establish sound policy framework and support services ▪ Ensure adequate physical infrastructure to support private sector growth 	<ul style="list-style-type: none"> ▪ Improve quality and accessibility of essential services, particularly infrastructure, education and health ▪ Support rural economic development
Ongoing/Proposed Loans	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Outer islands infrastructure development project (2005) 	<ul style="list-style-type: none"> ▪ None
Ongoing/Proposed TAs	<ul style="list-style-type: none"> ▪ Institutional support to central agencies for CRP (2000): preparation for Development Partners Meeting ▪ Institutional strengthening of the Parliament (2001) ▪ Institutional strengthening of the National Statistics Office (2002) ▪ Detailing of the Priority Action Agenda (2003) ▪ Strengthening development policies (2006) 	<ul style="list-style-type: none"> ▪ Diagnostic study for improving access to credit (2003) ▪ Reform of the legal and regulatory framework for securing access to credit (2004) ▪ Updating the outer islands infrastructure development project (2004) ▪ Feasibility assessment of a credit reference facility (2005) ▪ Capacity building in infrastructure management (2005) ▪ Establishment of a registration system for secured transactions (2006) 	<ul style="list-style-type: none"> ▪ Performance improvements to service delivery units (2001) ▪ Policy framework for technical vocational education and training (2002) ▪ Rural productive skills development (2005) ▪ Rural financial services (2003)
Other ADB Assistance	<ul style="list-style-type: none"> ▪ RETAs on governance and fiscal management 	<ul style="list-style-type: none"> ▪ Identification of administrative constraints on private sector development ▪ RETAs on private sector development 	<ul style="list-style-type: none"> ▪ Poverty partnership agreement (2003) ▪ RETAs on poverty reduction and environment
Other Funding Agency Assistance	<ul style="list-style-type: none"> ▪ Support for financial sector development (PFTAC) ▪ Support for the Reserve Bank (IMF) ▪ Finance and economic management (AusAID, NZAID) ▪ Revenue study (NZAID) ▪ Revenue compliance (AusAID, NZAID) ▪ Public Sector Reform (AusAID) 	<ul style="list-style-type: none"> ▪ Support for private sector development (FIAS) ▪ Producers Organization Project (EU and France) ▪ Support for infrastructure management improvement (EU) 	<ul style="list-style-type: none"> ▪ Support for education, health and community-based initiatives (AusAID, New Zealand, France, EU)
Target Outcomes	<ul style="list-style-type: none"> ▪ Key statistics produced and available for use in a timely manner ▪ GDP growth rate exceeds the population growth rate by end of 2007 	<ul style="list-style-type: none"> ▪ Investment climate improved, private sector investment on the upswing 	<ul style="list-style-type: none"> ▪ Ability to sustain the provision of social and financial infrastructure improved ▪ More practical vocational education and training curricula, greater outreach to women

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, CRP = comprehensive reform program, EU = European Union, FIAS = Foreign Investment Advisory Service, IMF = International Monetary Fund, NZAID = New Zealand Agency for International Development, PFTAC = Pacific Financial Technical Assistance Centre, RETA = regional technical assistance, TA = technical assistance.

COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE

Table A2.1: Progress toward the Millennium Development Goals and Targets

Goals and Targets	1990	1995	Latest Year	
Goal 1. Eradicate Extreme Poverty and Hunger				
Target 1: Reduce incidence of extreme poverty by half from 1990 to 2015				
1. Proportion of population below \$1 per day (PPP-values) (%)				
Total	—	—	40.0	(1998)
Rural	—	—	51.1	(1998)
2. Poverty gap ratio	—	—	—	
3. Share of poorest quintile in national consumption (%)	—	—	3.0	(1998)
Target 2: Reduce the proportion of people who suffer from hunger by half from 1990 to 2015				
4. Prevalence of child malnutrition (% of children under 5)	20.0 ^a (1985)	12.1 ^b (1996)	23.0 ^c	(1997)
5. Proportion of population below minimum level of dietary energy consumption (%)	—	—	—	
Goal 2. Achieve Universal Primary Education				
Target 3: Attain 100% primary school enrolment by 2015				
6. Net enrollment ratio in: (%)				
Primary education	70.7 ^d	103.9 ^{d,e} (1998/99)	95.9	(2000/01)
Male	70.2 ^d	103.4 ^{d,e} (1998/99)	91.7	(2000/01)
Female	71.3 ^d	104.4 ^{d,e} (1998/99)	100.5	(2000/01)
Secondary education			22.6	(1998/99)
7. Proportion of pupils starting Grade 1 who reach Grade 5	90.2 ^{e,f} (1991)	101.1 ^d (1998)	70.0	(2002)
8. Literacy rate of 15–24 year olds (%)	—	—	90.0	(1999)
Male	—	—	91.0	(1999)
Female	68.0 ^c (1980-89)	—	89.0	(1999)
Goal 3. Promote Gender Equality and Empower Women				
Target 4: Eliminate gender disparities in primary and secondary education by 2005 and to all levels of education no later than 2015				
9. Ratio of girls to boys in: (%)				
Primary education	89.0 ^d	91.0 ^d (1998)	99.0 ^d (2000)	92.0 (2002)
Secondary education	62.0 ^f	111.0 ^d (1998)	77.0 ^d (2000)	94.0 (2002)
Tertiary education	—	63.0 ^d (1998)	—	—
10. Ratio of young literate females to males (% of age group 15–24)	—	—	98.0	(2002)
11. Share of women in wage employment in the nonagricultural sector	—	—	36.5	(2002)
12. Proportion of seats held by women in national parliament	4.3 ^d	—	0.0 ^d (2000)	1.9 ^{d,g} (2003)

Goals and Targets	1990	1995	Latest Year	
Goal 4. Reduce Child Mortality				
Target 5: Reduce infant and child mortality by two thirds from 1990 to 2015				
13. Under-5 mortality rate (per 1,000 live births)	70.0 ^{d,f,h}	56.0 ^{d,h}	42.0 ^f	(2001)
14. Infant mortality rate (per 1,000 live births)	52.0 ^{d,f,h}	43.0 ^{d,h}	34.0 ^f	(2001)
15. Proportion of 1 year old children immunized against measles	66.0 ^f (1989-90)	75.0 (1999)	94.0 ^f	(2001)
Goal 5. Improve Maternal Health				
Target 6: Reduce maternal mortality rate by three quarters between 1990 and 2015				
16. Maternal mortality ratio (per 100,000 live births)	68.0 ⁱ (1993)	32.0 ^d	68.0	(1998)
17. Births attended by skilled health staff (% of live births)	87.0 ^{d*}	89.1 ⁱ	79.0 ^{c,f}	(1995-2000)
Goal 6. Combat HIV/AIDS, Malaria and Other Diseases				
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS				
18. HIV prevalence rate among 15–24 year old pregnant women	—	—	—	
19. Contraceptive prevalence rate (% of women aged 15-49)	—	—	15.0	(1998)
20. Number of children orphaned by HIV/AIDS	—	—	—	
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases				
21. Malaria:				
Prevalence rate (per 100,000 people)	—	—	3,260.0 ^d	(2000)
Death rate (per 100,000 people)	—	—	11.0 ^d	(2000)
22. Proportion of population in malaria risk areas using effective malaria prevention and treatment measures	—	—	83.0	(2000)
23. Tuberculosis:				
Prevalence rate (per 100,000 people)	—	—	65.0 ^d	(2000)
Death rate (per 100,000 people)	—	—	9.0 ^d	(2000)
24. Proportion of TB cases:				
Detected under DOTS (%)	—	32.1 ^d (1999)	34.4 ^d (2000)	60.1 ^d (2001)
Cured under DOTS (%)	—	88.0 ^d (1999)	89.0 ^d (2000)	—
Goal 7. Ensure Environmental Sustainability				
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources				

Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water

25. Access to an improved water source (% of population)

Total	—	87.0 ^c (1995-97)	73.0 ^{j,n}	(1999)
Urban	100.0 ^l (1988)	—	89.0 ^{j,n}	(1999)
Rural	64.0 ^l (1988)	—	73.0 ^{j,n}	(1999)

Target 11: By 2010, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

26. Access to improved sanitation (% of population)

Total	—	91.0 ^c (1995-97)	50.0 ^{j,o}	(1999)
Urban	82.0 ^l (1988)	—	78.0 ^{j,o}	(1999)
Rural	33.0 ^l (1988)	—	42.0 ^{j,o}	(1999)

27. Access to secure tenure (% of population)^m

—	—	—	—	—
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— = not available.

* Data refer to years or periods prior to 1995.

^a United Nations Children's Fund (UNICEF). 1997, 1999, 2000. *The Progress of Nations*.

^b Vanuatu Statistics Office. 1996. *National Nutrition Survey*.

^c United Nations Development Programme (UNDP). 1994, 1999. *Pacific Human Development Report*. UNDP. 1994, 1999, 2000, 2001, 2002. *Human Development Report*.

^d United Nations Statistics Division (UNSD). *Millennium Indicator Database (2002)*. Available: <http://millenniumindicators.un.org>.

^e United Nations Educational, Scientific and Cultural Organization (UNESCO). Institute for Statistics. Available: <http://portal.unesco.org/uis/>; UNESCO. *Statistical Yearbook*. Available: <http://www.unesco.org>.

^f United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). 2002. *Economic and Social Survey of Asia and the Pacific*; UNESCAP/UNDP. 2003. *Promoting the Millennium Development Goals in Asia and the Pacific: Meeting the Challenges of Poverty Reduction*. Available: <http://www.unescap.org>.

^g Inter-Parliamentary Union (IPU). *Information on National Parliaments*. Available: <http://www.ipu.org>.

^h World Health Organization (WHO)/UNICEF. 2002. *End-Decade Databases*. Available: <http://childinfo.org>.

ⁱ WHO. *Western Pacific Region Health Data Bank (rev/2001)*. Available: <http://wpro.who.int>.

^j Vanuatu Statistics Office. 2000. *National Population and Housing Census Main Report*.

^k UNSD. *United Nations Framework Convention on Climate Change-Carbon Dioxide Information Analysis Center (UNFCCC-CDIAC)*. Available: <http://unstats.un.org>.

^l UNICEF/WHO/Water Supply and Sanitation Collaborative Council (WSSCC). *Global Water Supply and Sanitation Assessment 2000 Report*; WHO/UNICEF. *Joint Monitoring Programme for Water Supply and Sanitation (Coverage Estimates 1980–2000)*. Available: <http://childinfo.org>.

^m Most land is held under customary land tenure, meaning that little is registered under legally enforceable titles. However, customary tenure gives most people access to land for subsistence purposes.

ⁿ Includes access to piped water, community or household water tanks.

^o Includes access to flush, water sealed or ventilated improved pit latrines.

Sources: Unless otherwise specified, data are from ADB's RETA 6002 Discussion Papers (2002), which are primarily based on the 1998 Household Income and Expenditure Survey and the 1989 & 1999 censuses.

Table A2.2 Country Economic Indicators

Item	1998	1999	2000	2001	2002
A. Income and Growth					
1. GDP per Capita (\$, current)	1,397	1,344	1,270	1,189	1,171
2. GDP Growth (% , in constant prices)	4.3	(3.2)	2.7	(2.1)	(2.8)
Agriculture	8.6	(12.2)	7.4	0.5	1.7
Industry	4.2	4.6	2.1	(4.7)	(5.9)
Services	3.8	(1.7)	1.4	(1.8)	(3.9)
B. Saving and Investment (current market prices)					
			(percent of GDP)		
1. Gross Domestic Investment	17.7	20.3	22.1	20.0	20.9
2. Gross Domestic Saving	22.4	19.2	19.3	20.6	16.7
C. Money and Inflation					
			(annual percent change)		
1. Consumer Price Index ^a	3.3	2.1	2.5	3.7	2.0
2. Total Liquidity (M2)	12.6	(9.2)	5.5	5.6	(1.7)
D. Government Finance					
			(percent of GDP)		
1. Total Revenue and Grants	21.8	22.5	20.8	20.0	22.7
2. Total Expenditure and Onlending	31.2	23.6	27.9	23.7	24.2
3. Overall Fiscal Surplus/Deficit (-)	(9.4)	(1.1)	(7.1)	(3.7)	(1.5)
E. Balance of Payments					
1. Merchandise Trade Balance (% of GDP)	(16.7)	(23.0)	(20.9)	(24.8)	(24.2)
2. Current Account Balance (% of GDP)	3.2	(4.8)	1.8	(2.3)	(2.1)
3. Merchandise Export (\$) growth (fob, annual % change)	1.6	(24.0)	1.6	(24.1)	1.1
4. Merchandise Import (\$) growth (fob, annual % change)	(5.5)	9.3	(7.6)	0.9	(0.4)
F. External Payments Indicators					
1. Gross Official Reserves (\$ million, end of period)	45.1	42.7	40.4	38.0	34.9
- in months of imports	6.7	5.9	5.8	5.4	4.7
2. External Debt Service (% of exports of goods & services)	0.5	4.0	0.9	1.1	1.0
3. External Debt (% of GDP)	20.8	25.5	31.6	29.7	29.8
G. Memorandum Items:					
GDP (current prices, in vatu million)	32423	32399	33662	34121	32956
Exchange Rate (vatu/\$, annual average)	127.5	129.1	138.3	145.7	139.1
Population (million)	0.182	0.187	0.192	0.197	0.202

fob = free on board, GDP = gross domestic product.

Fiscal year ends on 31 December.

^a Period average, 1990 = 100.

Sources: National Statistics Office (NSO). 2002. *National Accounts 1983–2001*; NSO. *Statistical Indicators*. Various issues; Reserve Bank of Vanuatu. *Quarterly Economic Review*. Various issues; National Budget. 2003. *Vanuatu Fiscal Strategy Report*; ADB. 2002. *Vanuatu: Economic Performance and Challenges Ahead*. Manila; Asian Development Bank estimates.

Table A2.3: Country Poverty Indicators

Item	Period		
	1990	1994	Latest Year
1. Development Progress Indices			
Human Development Index (HDI)	—	0.424	0.425 (1998)
PDMC Rank	—	8	10
Human Poverty Index (HPI)	—	—	46.4 (1998)
PDMC Rank	—	—	10
Composite Vulnerability Index	—	—	13.295 (1998)
PDMC Rank	—	—	1
Gender-Related Development Index	—	—	—
Global Rank	—	—	—
2. Poverty Indicators			
Headcount Index (% poor of total households)	—	—	—
Poverty Severity Index (%)	—	—	—
3. Inequality Indicators			
Gini Coefficient	—	—	—
Household Income (% of total)			
H25 ^{1/}	—	—	—
L25 ^{2/}	—	—	—
Income Ratio (H25/L25)	—	—	31.0 (1998)
Port Vila	—	—	> 50.0 (1998)
Rural	—	—	2.3 (1998)

— = not available; > = more than.

Sources: ADB. 2001. *Technical Assistance for Consultations Workshops on Poverty Reduction Strategies in Selected Pacific Developing Member Countries. Discussion Papers*. Manila; United Nations Development Programme. 1994, 1999. *Pacific Human Development Report*.

^{1/} h25: highest quartile

^{2/} L25: lowest quartile

Table A2.4: Country Social Indicators

Item	Period		
	1990	1995	Latest Year
A. Demographic Indicators			
1. Total Population ('000)	142.4 (1989)	168.4 ^a	186.7 (1999) 202 (2002 est.)
2. Annual Population Growth Rate (% change)	2.5 ^a (1979-89)	2.6 ^a	2.7 (1989-99)
3. Dependency Ratio (% of dependents to working age)	98.0 ^b (1989)	92.0 ^b (1997)	91.0 (1999)
Urban	...	—	65.0 (1999)
Rural	—	—	100.0 (1999)
4. Total Fertility Rate (births per woman)	5.3 ^a (1989)	5.0 ^c (1997-98)	4.5 (1999)
5. Ave. Household Size	5.1 ^a (1989)	—	4.4 ^d (2000) 5.1 (1999)
Urban	—	—	4.9 (1999)
Rural	—	—	5.2 (1999)
Poor	—	—	5.2 (1998)
Nonpoor	—	—	4.9 (1998)
B. Health			
1. Life Expectancy at Birth (years)	62.8 ^b (1989)	66.0 ^e (1997)	68.0 (1999)
Male	61.5 ^{a,b} (1989)	65.0 ^e (1997)	70.0 (1999)
Female	64.2 ^{a,b} (1989)	69.0 ^e (1997)	67.0 (1999)
2. Population with Access to Health Services (%)	—	80.0 ^c (1997)	80.0 (1999)
3. Population per Doctor	7,365 ^f (1990)	8,860 ^e (1997)	10,800 (1999)
4. Government Expenditure on Health			
As % of Total Government Spending	11.6 ^{a,f}	10.7 ^{a,f}	12.4 (2001)
As % of GNP	2.4 ^{a,f}	2.6 ^{a,f}	2.5 ^{a,f} (1997)
C. Education			
1. Adult Literacy Rate (%)	34.0 ^c (1989)	—	75.0 (1999)
Male	37.0 ^c (1989)	—	—
Female	30.0 ^c (1989)	—	50.0 (1999)
Urban	—	—	90.0 (1999)
Rural	—	—	69.0 (1999)
2. Combined Gross School Enrollment Ratio	57.0 ^c (1989)	—	53.7 ^g (1998/99)
Male	60.0 ^c (1989)	—	53.5 ^g (1998/99)
Female	55.0 ^c (1989)	—	53.8 ^g (1998/99)

Item	Period		
	1990	1995	Latest Year
3. Gross Primary Enrollment (% of aged 5-14 years)	72.0 ^c (1989)	110.8 ^g (1998/99)	117.0 ^g (2000/01)
Male	73.0 ^c (1989)	111.4 ^g (1998/99)	113.0 ^g (2000/01)
Female	70.0 ^c (1989)	110.2 ^g (1998/99)	121.3 ^g (2000/01)
4. Gross Secondary Enrollment (% of aged 15-19 years)	22.0 ^c (1989)	22.6 ^g (1998/99)	28.3 ^g (2000/01)
Male	26.0 ^c (1989)	20.6 ^g (1998/99)	30.7 ^g (2000/01)
Female	18.0 ^c (1989)	24.7 ^g (1998/99)	25.7 ^g (2000/01)
5. Student-Teacher Ratio (no. of students per teacher)			
Primary	27.0 ^f	23.4 ^g (1998/99)	23.1 ^a (2000)
Urban	—	—	24.8 ^a (2000)
Rural	—	—	22.8 ^a (2000)
Secondary	16.0 ^f	24.5 ^g (1998/99)	13.3 ^a (2000)
6. Government Expenditure on Education			
As % of Total Government Spending	22.5 ^{a,f}	23.7 ^{a,f}	26.4 (2001)
As % of GDP	5.0 ^{a,f}	5.2 ^{a,f}	5.5 (2001)

— = not available.

^a ADB. 2002. *Vanuatu: Economic Performance and Challenges Ahead*. Manila.

^b Secretariat of the Pacific Community (SPC), Demography/Population Programme. *Pacific Island Populations Data Sheet*. (1997, 2000, 2002, 2003). Available: <http://www.spc.int/demog/>.

^c United Nations Development Programme. *Pacific Human Development Report* (1994, 1999).

^d World Health Organization (WHO) /United Nations Children's Fund. 2002. *End-Decade Databases*. Available: <http://childinfo.org>.

^e WHO. *Western Pacific Region Health Data Bank* (rev/2001). Available: <http://wpro.who.int>.

^f ADB. *Key Indicators* (2001, 2002). Manila.

^g United Nations Educational, Scientific and Cultural Organization. Institute for Statistics. Available: <http://portal.unesco.org/uis>. Sources: Unless otherwise specified, data are from ADB's RETA 6002 Discussion Papers (2002), which are primarily based on the 1989 and 1999 censuses. Government spending data are from the Ministry of Finance.

Table A2.5: Country Environment Indicators

Indicator	1990	Latest Year
A. Energy Efficiency of Emissions		
1. Traditional Fuel Use (% of total energy use)	—	—
B. Water Pollution		
1. Water Bodies Exceeding Contact Recreation Standards		
Biological Oxygen Demand (BOD)	—	—
Chemical Oxygen Demand (COD)	—	—
C. Air Pollution		
1. Carbon Dioxide (CO ₂) Emissions		
Total ('000 metric tons)	66.0	80.7 (1999)
Per unit of GDP (kg/PPP\$ GDP)	—	0.1 (1999)
2. Sulfur Dioxide (SO ₂) Emissions		
Per capita (kilograms)	—	—
D. Land Use and Deforestation		
1. Total Land Area (km ²)	12,190	12,190 (2002)
2. Average Annual Deforestation Area (remaining km ²)	—	4,470.0 (2000)
% change ^a	0.8	-0.1 (1990-2000)
	(1990-95)	
3. Arable Land (% of total land)	2.0	2.5 (1998)
	(1993)	
4. Cropland, Permanent (% of total land)	10.0	7.4 (1998)
	(1993)	
5. Pastures, Permanent (% of total land)	2.0	—
	(1993)	
6. Population Density, Rural (people per km ²)	478	514 (2001)
	(1998)	
E. Biodiversity and Protected Areas		
1. Nationally Protected Area(s)		
Area (km ²)	—	34.7 (1998)
Number	—	8 (1998)
2. World Heritage Sites (number)	—	—
3. Mammals (number of threatened species)	3	5 (2002)
	(1998)	
4. Birds (number of threatened species)	6	7 (2002)
	(1998)	
F. Urban Areas		
1. Urban Population		
% of total population	18.0	22.1 (2001)
	(1989)	
2. Per Capita Water Use (liters/day)	—	—
3. Wastewater Treated (%)	—	—
4. Solid Waste Generated per Capita (kg/day)	—	—

— = not available.

^a A positive number indicates a loss of forest area, a negative number a gain.

Sources: Central Intelligence Agency. *The World Factbook* (2001, 2002). Available: <http://www.cia.gov>; Secretariat of the Pacific Community (SPC). 1997. *Pacific Island Populations Data Sheet*; SPC. 2002. *Oceania Population; Action Strategy for Nature Conservation in the Pacific Islands Region* (1999–2002); United Nations Development Programme. *Human Development Report* (2000, 2002); United Nations Statistics Division. 2002. *Millennium Indicator Database*. Available: <http://millenniumindicators.un.org>; International Bank for Reconstruction and Development/World Bank. *The Little Green Data Book* (2000, 2002, 2003). Washington, DC; World Bank. 2003. *World Development Indicators* database.

Table A2.6: Development Coordination Matrix
(last updated in August 2003)

Sector/Thematic/ Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
A. Economic and Public Sector Reform	<p>Ongoing</p> <ul style="list-style-type: none"> • TA 3789-VAN Performance Improvement to Service Delivery Units (2001) • TA 3449-VAN Institutional Support to Central Agencies for the CRP (2000): support for the next Development Partners Meeting • TA 3816-VAN Institutional Strengthening of the Parliament (2001) • TA 3833-VAN Institutional Strengthening of the National Statistics Office (2002) <p>Programmed</p> <ul style="list-style-type: none"> • Detailing of the Priority Action Agenda (2003) • Strengthening Development Policies (2006) 	<ul style="list-style-type: none"> • Advisor – Revenue Policy (NZAID) • VAT Audit and Compliance Support (NZAID) • Capacity Building of Vanwods (UNDP) • MFEM Institutional Strengthening Project (AusAID) • Public Sector Reform Project (AusAID) • Legal Sector Reform Project (AusAID) • Government Business Reform – Review and Enforcement (AusAID) • Revenue/Rates Compliance Support (AusAID) • Vanuatu Immigration Service Computerized System (AusAID) • IT Specialist (AusAID) • Cash grant for the Rural Economic Development Initiative (AUS/NZ) • Wan Smol Bag Development Theatre Project, Phase 3 (NZ) AESOP: • Legal Advisor to Attorney-General (DFID) • A Technical Adviser for the Land Valuation Office (CFTC) • Legal Adviser to Ombudsman (CFTC) • Development Theatre for the Education and Capacity Building of Ni-Vanuatu (EU) • March 2002 general elections (EU cash grant) • Advisors to DESD (JICA, NZ, EU)
B. Private Sector Development (including Tourism)	<p>Programmed</p> <ul style="list-style-type: none"> • Diagnostic Study for Improving Access to Credit (2003) • Reform of the Legal and Regulatory Framework for Securing Access to Credit (2004) • Feasibility Assessment of a Credit Reference Facility (2005) • Establishment of a Registration System for Secured Transactions (2006) 	<ul style="list-style-type: none"> • Rural Tourism Support – Vanuatu Island Bungalow Association (NZ cash grant) • Strengthening Business Training for Ni-Vanuatu (Japan cash grant) • Tourism Master Plan Review (CFTC) • Rural Tourism Strengthening Programme (EU) • Vanuatu Credit Guarantee Scheme (PRC) • Credit Union Rural Development Finance (PRC) • Solar Home System (JAP/VG)
C. Gender/Youth/Poverty	<p>Ongoing</p> <ul style="list-style-type: none"> • TA 6002-REG Poverty partnership agreement (2003) <p>Programmed</p> <ul style="list-style-type: none"> • Rural Financial Services (2003) • Rural Productive Skills Development (2005) 	<ul style="list-style-type: none"> • Tafea Womens Arts and Craft (NZAID) • Youth At Risk (UK) • Sanma Counselling Centre Project (NZ cash grant) • Protection of Child from Substance Abuse - Vila/suburbs (NZ cash grant) • Vanuatu Young People's Project, Phase 2 (AusAID cash grant) • VARDTCA Training Project, Phase 2 (UK cash grant)

Sector/Thematic/ Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
D. Education	<p>Programmed</p> <ul style="list-style-type: none"> • Policy framework for technical vocational education and training (2002) • TA for rural productive skills development (2005) 	<ul style="list-style-type: none"> • Short-term training award: Diploma in Teaching English as a Second Language (NZAID) • Vanuatu-Australia Secondary Teacher Education (AusAID) • INTV Strengthening Project – 1997 (AusAID) • Senior Secondary School Expansion Program (AusAID) • CSF – Lycee (France) • CFEB (Vanuatu Teachers College) (France) • Parallel codification in French and English – Vanuatu laws (France) • Junior Secondary Schools Project EUVED (EU) • Vanuatu Partnership in Development (EU) • Melanesian Arts and Cultural Festival (UNESCO) • Ethnomusicological Project (SWISS) • Teacher-In-Service Training Program – (USP) • Nonformal Education Strengthening Project (UNDP) • Extension of National Museum Storage Place (UNESCO) • Establishment of Maritime College (AFD/EU/FRA) • Training and Scholarships Award Programme (FRA/AUS/NZ) • Basic Education Sector Project (World Bank)
E. Health	No programmed activity in this sector	<ul style="list-style-type: none"> • Operation Mosquito (Rotary) • Maternity Ward Extension and New Operating Theatre (Rotary) • Hospital Ambulance Emergency Services (NZAID) • Health Sector Planning and Management Development (AusAID) • Pentecost Community Health Strengthening (AusAID) • Production of Bislama Sign Language VSFDP (AusAID) • Health Information System (AusAID) • Health Strengthening Programme (France) • Upgrading of Erakor Dispensary to a Health Centre (France) • Tokyo Women's Medical University – Collaboration (Japan) • Renovation of Emau Dispensary (Japan cash grant) • Pango Village First New Health Dispensary (Japan cash grant) • Northern District Hospital Development Plan (AFD/WHO) • Bed Net (JAP/NZ/SPC cash grant) • Implementation of Population Policy (UNFPA) • Urban Household Food Security – 1997 (UNDP/SPC) • AIDS Strategy (UN) • RH/FP/SH Health Programme, 1999-2001 (UNFPA/WHO) • Provision of dentists and doctors (PRC) • HIV/Aids Project (AusAID regional)

Sector/Thematic/ Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
F. Infrastructure 1. Transport and Communications 2. Urban Infrastructure 3. Water Supply Sanitation	<p>Ongoing</p> <ul style="list-style-type: none"> • Loan 1448-VAN Urban Infrastructure Project road and wharf rehabilitation due to earthquake damages of 3 January 2002 • TA 2596-VAN Urban Growth Management Strategy for Port Vila (attached to L1448): review and tabling of Vanuatu building codes in Parliament <p>Programmed</p> <ul style="list-style-type: none"> • Updating the outer islands infrastructure development project (2004) • Capacity building in infrastructure management (2005) • Outer islands infrastructure development (2005) 	<ul style="list-style-type: none"> • Vanuatu International Airports (AFD/EIB/AUS) • Cyclone Dani Reconstruction Program (AUS/NZ) • Extension de la téléphonie rurale (AFD/TVL) • Approach Control Training Ni-Van Traffic Controllers (ICAO) • South River Water Supply Project – Erromango (AusAID) • Outer Islands Airport Upgrading project (AFD) Naone Airstrip – Maewo (AFD) • Lonorore Airstrip Upgrade (AFD) • Institutional Strengthening – PWD (EU) • Irru Scheme Water Supply – Tanna (Japan) • Request for Japanese Volunteer (Japan) • Aniwa Rainwater Catchment Project (Japan cash grant) • Lonali Water Supply Project (Japan cash grant) • Fanafo Water Supply Project (Japan cash grant) • Irru Scheme Water Supply – Tanna (Japan cash grant) • Cash grant for rehabilitation of Emua wharf (AusAID) • Nguna RWC Project, Phase 1 (Japan cash grant) • Nguna RWC Project, Phase 2 (Japan cash grant) • Nguna RWC Project, Phase 3 (Japan cash grant) • Nembauk Water Supply Project (Japan cash grant) • MALAMPA Small Water Supply Project (Japan cash grant) • Rural Energy Development (VG/AFD) • Nematautu Water Supply Project (CAN) • Wowon Water Supply Project (CAN) • Enkul Water Supply Project, Phase 1 (CAN) • Rural Drilling and Hand Pump Installation Project West Epi (CAN) • Hand Pump Replacement Project – East Epi (CAN) • MALAMPA Small Water Supply Project (PRC)
4. Energy	No programmed activity in this sector	<ul style="list-style-type: none"> ▪ Rural Sanitation Project (UN) ▪ Solar Rural Photovoltaic Project (AFD) ▪ PWD Maintenance Project (EU) ▪ Air Traffic Controllers Training (EU)

Sector/Thematic/ Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
G. Environment	<p>Programmed</p> <ul style="list-style-type: none"> • No programmed activity in this sector. 	<ul style="list-style-type: none"> • Securing Erromango Protected Area (NZAID) • Vulcanology and Seismology Risk Prevention (France) • South Pacific Regional Initiative on Forest Genetic Resource (AusAID) • Urban Squatter Settlement Survey (ESCAP/PIFS) • National Climate Change Capacity-Building Project (SPREP) • Maskelynes Mangrove Management Plan (SPREP) • Vanuatu Geodetic Control (People's Republic of China) • Restocking of Vanuatu Natural Forest Areas (ITTO) • Development of the National Forest Sector Plan (ITTO) • World Geodetic System 84 (NZ cash grant) • Observers and Forecasters (WMO) • School Environment Newsletter (SPREP) • Vanuatu National Biodiversity, Phase 2 (GEF) • Vanuatu Geodetic Control (PRC)
H. Agriculture, Forestry, and Fisheries	<p>Programmed</p> <ul style="list-style-type: none"> • No programmed activity in this sector. 	<ul style="list-style-type: none"> • Genetic Analysis of <i>Santalum austro-caledonicum</i> (NZAID) • Livestock Research – 1998 (France) • Diversification (FRA/AFD) • Capacity Building for Forest Extension (AusAID) • Community-Based Fishing Development Project (FFA) • Construction of Agriculture College (People's Republic of China) • Forest Operator Accreditation Scheme Assessment (AusAID) • Landowner Extension and Awareness – Reforestation (EU) • Nonda Community Rural Development – Natural Resources (NZ cash grant) • Restocking of Vanuatu Natural Forest Areas (ITTO) • Development of the National Forest Sector Plan (ITTO) • FAO support for yam and banana production (EU) • Cash grant for Organic Producers Association (NZAID) • Seaweed (<i>Eucheuma cottonii</i>) farming project (FFA)

ADB = Asian Development Bank, AESOP = Australian Expert Service Overseas Programme, AFD = Agence Française de Développement, AUS = Australia, AusAID = Australian Agency for International Development, CAN = Canada, CFEB = Centre Formation Education Basic, CFTC = Commonwealth Fund for Technical Corporation, CRP = comprehensive reform program, CSF = Cycle Supérieure de Formation, DESD = Department of Economic and Social Development, DFID = Department for International Development, EIB = European Investment Bank, ESCAP = Economic and Social Commission for Asia and the Pacific, EU = European Union, EUVED = European Union Vanuatu Education Development Programme, FAO = Food and Agriculture Organization, FFA = Forum Fisheries Agency, FRA = France, GEF = Global Environment Facility, ICAO = International Civil Aviation Organization, IT = information technology, ITTO = International Tropical Timber Organization, JAP = Japan, JICA = Japan International Corporation Agency, MFEM = Ministry of Finance and Economic Management, NZ = New Zealand, NZAID = New Zealand Agency for International Development, PIFS = Pacific Island Forum Secretariat, PRC = People's Republic of China, REG = regional, SPC = South Pacific Commission, SPREP = South Pacific Regional Environment Programme, SWISS = Switzerland, TA = technical assistance, TVL = Telecom Vanuatu Limited, UK = United Kingdom, UN = United Nations, UNDP = United Nations Development Programme, UNESCO = United Nations Educational, Scientific and Cultural Organization, UNFPA = United Nations Population Fund, USP = University of the South Pacific, VAN = Vanuatu, VAT = value-added tax, VG = Vanuatu Government, WHO = World Health Organization, WMO = World Meteorological Organization.

Table A2.7: Portfolio Indicators - Portfolio Amounts and Ratings
(public sector loans, as of 31 December 2002)

Sector	Net Loan Amount		Total		Rating ^a								Potential Problem ^b		At Risk ^c		
	(\$ million)	(%)	(no.)	(%)	Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		(no.)	(%)	(no.)	(%)	
Agriculture and Natural Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Industry and Nonfuel Minerals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multisector	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social Infrastructure	9.0	100.0	1	100.0	-	-	1	100.0	-	-	-	-	-	-	-	-	-
Transport and Communications	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	9.0	100.0	1	100.0	-	-	1	100.0	-	-	-	-	-	-	-	-	-

^a One rating for implementation progress and development objectives, based on the lower rating of either.

^b Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is "at risk" if it is rated as partly satisfactory, as unsatisfactory, or as a potential problem.

Table A2.8: Portfolio Indicators - Disbursements and Net Transfers of Resources
(public sector loans, as of 31 December 2002)

Disbursements and Transfers	OCR	ADF	Total
Disbursements^a			
Total Funds Available for Withdrawal (\$ million)	-	9.0	9.0
Disbursed Amount (\$ million, cumulative)	-	9.0	9.0
Percentage Disbursed (disbursed amt/total available)	-	99.9	99.9
Disbursements (\$ million, latest year)	-	0.5	0.5
Disbursement Ratio (%) ^b	-	100.6	100.6
Net Transfer of Resources (\$ million)			
1998	-	11.0	11.0
1999	-	5.8	5.8
2000	-	9.9	9.9
2001	-	2.1	2.1
2002	-	(0.2)	(0.2)

ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Includes one ongoing loan.

^b Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

**Table A2.9: Portfolio Indicators—Evaluation Rating by Sector
(1996–2002)**

Sector	Highly Successful		Successful		Partly Successful		Unsuccessful		No Rating		Total	
	No.	%	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
Industry and Nonfuel Minerals	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Multisector	0	0.0	0	0.0	0	0.0	1	100.0	0	0.0	1 ^a	100.0
Others	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	1 ^b	100.0	0	0.0	0	0.0	0	0.0	1	100.0
Total	0	0.0	1	50.0	0	0.0	1	50.0	0	0.0	2	100.0

^a Loan 766-VAN: Multiproject Loan.

^b Loan 843-VAN(SF) & 1080-VAN(SF): Santo Port Project.

Table A2.10: Portfolio Implementation Status
(public sector loans, as of 31 December 2002)

No.	Sector	Loan		Title	Net Loan Amount		Approval Date	Effective- ness Date	Closing Date		Progress (% complete)	Cumulative Contracts/ Commitments (\$ million)	Cumulative Disbursements (\$ million)	Rating		Potential Problem ^a	At Risk ^b
		No.	Seg.		OCR (\$ million)	ADF (\$ million)			Original	Revised				IP	DO		
1.	SOC	1448		Urban Infrastructure Project	-	9.0	27/06/96	16/06/97	31/12/01	30/09/02	100%	8.9	9.0	S	S	No	No
				Total	-	9.0						8.9	9.0				

ADF = Asian Development Fund, DO = development objectives, IP = implementation progress, OCR = ordinary capital resources, PS = partly satisfactory, S = satisfactory, SOC = social infrastructure, U = unsatisfactory.

^a "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^b A loan is considered "at risk" if it is rated as "PS" or "U" in either implementation progress or development objectives, or if it is a potential problem loan.

Table A2.11: Lending Scenarios and Performance Triggers

Low Case	Base Case	High Case
<ul style="list-style-type: none"> • Macroeconomic and political instability and decline in economic growth rate • Large and unsustainable fiscal deficit • Deterioration of civil and public services • Improvement in quality of economic and social statistics to provide a better basis for policy formulation • Stagnation in private sector investment • Continued uncertainty about air and sea transport • Continued high costs of public utilities • Less than 75% of the ongoing TAs in the portfolio are rated as satisfactory or highly satisfactory; one or more loans rated as unsatisfactory • Indicative lending 2004–2006 \$4.7 million 	<ul style="list-style-type: none"> • Steady progress in restoring macroeconomic and political stability, with emphasis on the financial, public, and private sectors in creating a conducive environment for economic growth • Improvement in fiscal management with sustained revenue recovery, narrowing fiscal deficit, and adequate maintenance expenditure to prevent deterioration of assets. • Improvement in efficiency of civil and public services, with adequate prioritization, competent senior officers, and good control of expenditure • Improvement in quality and timeliness of economic and social statistics to provide a better basis for policy formulation • More favorable investment environment and some initiatives in reform of legal and regulatory framework to facilitate private sector development • Expanded air and sea transport services • Cost of telecommunications, water, power and stevedoring reduced • More than 75% of the ongoing TAs in the portfolio rated as satisfactory or highly satisfactory; no loan rated as unsatisfactory • Indicative lending 2004–2006 \$6.0 million 	<ul style="list-style-type: none"> • Macroeconomic and political stability achieved, decisions taken after public deliberation and analysis, key constraints on private sector investment eliminated, state-owned enterprises well managed. • Budget balanced, capital assets being replaced, adequate development expenditure to allow expansion of essential services. • Public services being delivered in a pro-active, service-oriented and development-supportive manner. • Economic and social statistics being produced and disseminated in a timely manner and of a quality as needed to support economic management. • Economic environment fully supportive of private sector development, as illustrated by consistency in policy making, elimination of special considerations, openness in contracting, low costs increased competition and increased availability of land. • Air and sea freight bottleneck substantial removed. • Cost of telecommunications, water, power, and stevedoring kept in the middle 50% of Pacific island countries. • More than 75% of the ongoing TAs in the portfolio rated as satisfactory or highly satisfactory; no loan rated as unsatisfactory • Indicative lending 2004–2006 \$7.5 million

TA = technical assistance.

Table A2.12: Assistance Pipeline for Lending Products, 2004–2006

Sector/Project Name	Poverty Classification	Thematic Priority	Division	Year Of PPTA	Total	Project Cost Finance (in \$ million)				
						ADB			Govt	Cofinancing (Others)
						OCR	ADF	Total		
2004 Firm Loans					- Nil -					
2005 Firm Loans										
Social Infrastructure										
1. Outer Islands Development	PI	ECO/PSD	SPRM	1999	4.7		3.8	4.7	0.9	0.0
Total					4.7		3.8	4.7	0.9	0.0
2006 Firm Loans					- Nil -					
Grand Total					4.7		3.8	4.7	0.9	0.0

ADB = Asian Development Bank, ADF = Asian Development Fund, ECO = economic development, Govt = Government, OCR = ordinary capital resources, OTH = others, PAHQ = Pacific operations division, PPTA = project preparatory technical assistance, PI = poverty intervention.

Source: Asian Development Bank estimates.

Table A2.13: Assistance Pipeline for Nonlending Products and Services, 2004–2006

Sector/Project Name	Responsible Division	Assistance Type	Sources of Funding					
			ADB Source	ADB (\$'000)	Others Source	Others (\$'000)	Total (\$'000)	
2004 Technical Assistance Program								
Finance and Industry								
1. Reform of the Legal and Regulatory Framework for Secured Transactions	PAHQ	ADTA	TBD	400.0	—	—	400.0	
Subtotal				400.0			400.0	
Social Infrastructure								
2. Updating the Outer Islands Infrastructure Development Project	PAHQ	SSTA	TBD	100.0	—	—	100.0	
Subtotal				100.0			100.0	
Total				500.0			500.0	
2005 Technical Assistance Program								
Social Infrastructure								
1. Capacity Building for Infrastructure Management	SPRM	SSTA	TBD	200.0	—	—	200.0	
2. Rural Productive Skills Development	PAHQ	ADTA	PRF	000.0	—	300.0	300.0	
Subtotal				200.0		300.0	500.0	
Finance and Industry								
3. Feasibility Assessment of a Credit Reference Facility	PAHQ	ADTA	TBD	100.0	—	—	100.0	
Subtotal				100.0			100.0	
Total				300.0			300.0	
2006 Technical Assistance Program								
Finance and Industry								
1. Establishment of a Registration System for Secured Transactions	PAHQ	ADTA	TBD	400.0	—	—	400.0	
Subtotal				400.0			400.0	
Other								
2. Strengthening Development Policies	PAHQ	ESW	TBD	250.0	—	—	250.0	
Subtotal				250.0			250.0	
Total				650.0		300.0	650.0	
Grand Total (2004–2006)				1,450.0			1,750.0	

— = not available, ADTA = advisory technical assistance, ADB = Asian Development Bank, PAHQ = Pacific operations division, PPTA = project preparatory technical assistance, SPRM = South Pacific Regional Mission, SSTA = small-scale technical assistance, TASF = technical assistance special fund, TBD = to be determined, TVET = technical vocational education and training.

Source: Asian Development Bank estimates.

Note: Funding available under existing regional TAs will be used to prepare an economic action plan and a poverty partnership agreement, map constraints to private sector development, and assess the need to improve business advisory services.

CONCEPT PAPERS FOR LENDING PRODUCTS

This appendix contains the concept papers for the following projected lending products:

- (i) Table A3.1. Outer Islands Infrastructure Development Project

Table A3.1: Outer Islands Infrastructure Development Project

Date: 27 June 2003

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Project loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Program loan</p> <p style="margin-left: 40px;">Sector loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector development program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other</p> <p><input type="checkbox"/> Nonlending</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project preparatory</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other than project preparatory</p> <p style="margin-left: 40px;"><input type="checkbox"/> Economic, thematic, and sector work</p> <p style="margin-left: 40px;"><input type="checkbox"/> Institutional development</p> <p style="margin-left: 40px;"><input type="checkbox"/> Other:</p> <p style="margin-left: 40px;"><input type="checkbox"/> Activities financed by JFICT or JFPR</p>						
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Infrastructure</p> <p>b. For project preparatory and lending, classification</p> <p style="margin-left: 20px;"><input type="checkbox"/> Core poverty intervention</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Economic Growth</p> <p style="margin-left: 20px;"><input type="checkbox"/> Gender and development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Environment protection</p> <p style="margin-left: 20px;"><input type="checkbox"/> Regional cooperation</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other:</p> </td> <td style="width: 50%; vertical-align: top;"> <p style="margin-left: 20px;"><input type="checkbox"/> Human development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Governance</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Private sector development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Social protection</p> </td> </tr> </table>	<p style="margin-left: 20px;"><input checked="" type="checkbox"/> Economic Growth</p> <p style="margin-left: 20px;"><input type="checkbox"/> Gender and development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Environment protection</p> <p style="margin-left: 20px;"><input type="checkbox"/> Regional cooperation</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other:</p>	<p style="margin-left: 20px;"><input type="checkbox"/> Human development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Governance</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Private sector development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Social protection</p>				
<p style="margin-left: 20px;"><input checked="" type="checkbox"/> Economic Growth</p> <p style="margin-left: 20px;"><input type="checkbox"/> Gender and development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Environment protection</p> <p style="margin-left: 20px;"><input type="checkbox"/> Regional cooperation</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other:</p>	<p style="margin-left: 20px;"><input type="checkbox"/> Human development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Governance</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Private sector development</p> <p style="margin-left: 20px;"><input type="checkbox"/> Social protection</p>					
<p>3. Coverage</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;"><input type="checkbox"/> Country</td> <td style="width: 33%;"><input checked="" type="checkbox"/> Subregional</td> <td style="width: 33%;"><input type="checkbox"/> Interregional</td> </tr> <tr> <td colspan="3"><input type="checkbox"/> Internal policy development</td> </tr> </table>	<input type="checkbox"/> Country	<input checked="" type="checkbox"/> Subregional	<input type="checkbox"/> Interregional	<input type="checkbox"/> Internal policy development		
<input type="checkbox"/> Country	<input checked="" type="checkbox"/> Subregional	<input type="checkbox"/> Interregional				
<input type="checkbox"/> Internal policy development						
<p>4. Responsible division/department: South Pacific Regional Mission</p>						
<p>5. Responsible ADB officer(s) To be determined.</p>						
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Lack of infrastructure is holding back the development of parts of Vanuatu, particularly the outer islands. In many areas, infrastructure is so poor that travel must be done on foot and takes days. In other cases transportation is slow and expensive. The Government and ADB put priority on rural development.</p> <p>b. Goal and purpose: To reduce poverty by accelerating income growth and access to social services by connecting isolated rural communities, agricultural and tourism areas in the outer islands with urban centers.</p> <p>c. Components and outputs: (i) Upgraded roads, bridges and river crossings on Malekula, Tanna and Ambae; upgraded wharfs on Malekula; upgraded airstrips on Malekula and Erromango; and (ii) improved institutional arrangements for sustainable operation and maintenance of the project facilities.</p>						

<p>d. Expected results and deliverables: (i) enhanced accessibility to social services, particularly schools and health facilities; (ii) enhanced trade, particularly in agricultural products; (iii) increased tourism; (iv) more reliable road, shipping and air travel, reduced travel times and reduced travel costs; (v) increased motor vehicle and passenger travel volumes; and (vi) enhanced investment and economic activity in the project areas.</p> <p>e. Social or environmental issues or concerns (if any): Communities have been and will continue to be involved in subproject planning. Environmental issues, expected to be minor, will be assessed case by case.</p> <p>f. Plans for disseminating results/deliverables: (i) An impact monitoring system built into the project, and (ii) regular consultations with provinces and communities.</p>
<p>7. Proposed executing/implementing agencies: Ministry of Infrastructure and Public Utilities</p>
<p>8. Nature/extent of government/beneficiary involvement in identification or conceptualizing the assistance: Rural communities, provincial governments, agriculturalists, tour and resort operators, and others have been consulted during project design, and will be consulted again as the project is implemented.</p>
<p>9. Timetable for assistance design, processing, and implementation:</p> <p>a. Year included in CAP, CSP, CSP update, SCSP, SCSP update, or interregional work plan: First included in the 1997-1999 CAP as a 1998 project.</p> <p>b. Expected date of submission for approval Lending: 2005 Nonlending (project preparatory): 2004 Nonlending (other than project preparatory): n/a</p> <p>c. Period and duration of assistance (s) Lending: 5 years Nonlending: 3 years</p>
<p>10. Finance Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending</p> <p><input type="checkbox"/> Ordinary capital resources</p> <p><input checked="" type="checkbox"/> Asian Development Fund: \$3.8 million</p> <p><input checked="" type="checkbox"/> Other</p> <p>If cofinancing is required indicate sources, and amount sought: Bilateral grant, \$400,000.</p> <p>If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing).</p> <p>b. For nonlending</p> <p><input type="checkbox"/> No resources required, other than ADB staff</p> <p><input type="checkbox"/> ADB's administrative budget</p> <p><input checked="" type="checkbox"/> Grant TA funds: \$200,000</p> <p><input type="checkbox"/> Others</p> <p>If cofinancing is required indicate sources, and amount sought:</p> <p>If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing).</p>

ADB = Asian Development Bank, CAP= country assistance plan, CSP = country strategy and program, NGO = non governmental organization, SCSP = subregional cooperation strategy and program, TA = technical assistance.

CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES

This appendix contains the concept papers for the following projected nonlending products and services:

- (i) Table A4.1 Reform of the Legal and Regulatory Framework for Secured Transactions
- (ii) Table A4.2. Feasibility and Promotion of a Credit Reference Facility
- (iii) Table A4.3. Establishment of a Registration System for Secured Transactions
- (iv) Table A4.4. Rural Productive Skills Development
- (v) Table A4.5. Strengthening Development Policies

Table A.4.1: Reform of the Legal and Regulatory Framework for Secured Transactions

Date: 27 June 2003

<p>1. Type/modality of assistance (double-click on appropriate box)</p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input checked="" type="checkbox"/> Other than project preparatory</p> <p><input checked="" type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: PAHQ/PARD</p>										
<p>5. Responsible ADB officer(s): Winfried Wicklein, Private Sector Development Specialist</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy:</p> <p>As reflected in ADB's <i>Private Sector Development Strategy</i>, support to private sector development (PSD) is an integral part of ADB's <i>Poverty Reduction Strategy</i>. PSD has been a major thrust of ADB's country strategy for Vanuatu as well as a pillar of the Government's Comprehensive Reform Program (CRP) that was financed by ADB. A private sector assessment (PSA) for Vanuatu was carried in late 2002 and finalized in March 2003. It identified the underdeveloped financial sector as a major constraint on Vanuatu's private sector.</p> <p>Vanuatu's financial sector is underdeveloped. It provides a minimal range of banking services—mainly demand and savings deposits and limited commercial and personal loans. The banking system faces the following challenges: banking services do not reach beyond main urban areas; commercial banks have little outreach to low-income households; credit to ni-Vanuatu entrepreneurs is extremely limited; there is little lending to agriculture and fishing; substantial interest rate spreads reflect high unit costs and risk premiums; informal lending is an important source of finance; and microfinance is still in its infancy. The underdevelopment of the financial sector is connected to two important and related elements: the lack of a secured transactions framework, and adverse implications of the customary land tenure system. The lack of a credit reference facility (credit bureau) adds to the problems.</p>										

A system of securing assets, both movable and immovable, is fundamental in developing any effective market for credit. The essential feature of secured transactions is that through the creation of a security interest, a lender can be granted undisputed priority in collecting against certain property of the borrower (secured interest), with a legal system that permits the secured party to recover and sell the property in a timely manner. A preliminary analysis of the legal framework for secured transactions indicates that Vanuatu does not meet the necessary conditions that would allow for the inexpensive and predictable use of movable property as collateral. With few exceptions,¹ it is not possible to use any property—moveable or fixed, tangible or intangible—as collateral for a loan outside of Port Vila and Luganville.

A well-functioning secured transactions system generates economic and social gains for creditors and debtors as it reduces transaction costs and improves access to credit. It effectively links savers and investors, and enhances credit intermediation. Broadly, the more and better the collateral offered by the borrower, the lower the interest rate, the longer the time to repay, and the larger the loan relative to income. Indigenous micro, small, and medium-sized enterprises will be the main beneficiaries from a secured transactions system, for they typically have no access to affordable credit. Given that collateral on customary land is practically impossible in Vanuatu, securing movable assets and crop liens promises to have a substantial impact on the development of the private sector.

The proposed technical assistance (TA) is integral part (phase 2) of a TA cluster that aims at improving the access of ni-Vanuatu to affordable credit by supporting the development of a modern and effective secured transactions system, and promoting the establishment of a credit bureau in Vanuatu.

b. Goal and purpose:

The proposed TA will assist the Government to develop an effective, comprehensive legal framework for secured transactions, including legislative and administrative amendments.

c. Components and outputs:

On the basis of a plan of action established during the preceding diagnostic review study (phase 1 of the TA cluster, to be undertaken in 2003), the proposed TA will help establish the principles of, and implementation arrangements for, a modern secured transactions regime including relevant legal, regulatory, institutional, and policy considerations relating to the four core elements of a secured transaction system. This will include amendments to existing laws, requirements for new laws, consequential legislation, and harmonization of other relevant laws, as appropriate. It will be presented, in form of a legal design input report, and discussed in a series of consensus-building workshops with relevant stakeholders including government agencies, bankers, lawyers, and private sector representatives. A study tour may be arranged to other small states with well-functioning secured transactions frameworks. The TA will then help to carry out reform of the legal framework for secured transactions necessary to support a modern, computerized registration system.

d. Expected results and deliverables:

- i. Existing laws and regulations amended and new laws drafted, as appropriate
- ii. Enactment of reforms to the legal framework sufficient to support a comprehensive, transparent, and effective registration system
- iii. Broad consensus and understanding of relevant stakeholders (government, lenders, legal practitioners, private sector representatives) in relation to the operating principles and legal framework of secured transactions

e. Social or environmental issues or concerns: None.

f. Plans for disseminating results/deliverables:

- i. The process will involve consensus-building workshops and seminars in Vanuatu
- ii. Broader dissemination of results is considered at the end of the follow-on TA (proposed for 2006), once the registration system has been established, in form of a case study on the establishment of comprehensive, modern, and effective secured transactions framework in Vanuatu, to be published and regionally disseminated

7. Proposed executing/implementing agencies:

The appropriate executing agency will be determined as a result of the diagnostic study that is being undertaken in 2003.

¹ With the exception of plantations and a few tourism resorts that have leases, which can be pledged to lenders.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

A private sector assessment for Vanuatu was carried in late 2002 and finalized in March 2003. Its methodology was based on sector focus group discussions with the private sector as well as discussions with government officials. The underdeveloped financial sector, especially the lack of access to affordable credit, was identified by almost all stakeholders as a major impediment to private sector development in Vanuatu. Discussions with private and public sector representatives during the country programming mission 2003 reconfirmed these findings and a comprehensive TA, in a phased cluster approach, was agreed on to develop a secured transactions framework and promote the establishment of a credit bureau for Vanuatu.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2004
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): March 2004
 - Activities financed by JFICT or JFPR:
- c. Period and duration of assistance
 - Lending:
 - Nonlending: 24 months.
 - Activities financed by JFICT or JFPR:

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
 - Ordinary capital resources: \$
 - Asian Development Fund: \$
 - Other: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
 - No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds
 - TA Special Fund: \$400,000
 - Japan Special Fund: \$
 - Other (specify, e.g., bilateral and multilateral trust funds): \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- c. For projects financed by
 - JFICT: \$
 - JFPR: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, SCSP = subregional cooperation strategy and program, TA = technical assistance.

Table A.4.2: Feasibility Assessment Promotion of a Credit Reference Facility

Date: 27 June 2003

<p>1. Type/modality of assistance (double-click on appropriate box)</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input checked="" type="checkbox"/> Other than project preparatory</p> <p> <input checked="" type="checkbox"/> Economic, thematic, and sector work</p> <p> <input type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: PAHQ/PARD</p>										
<p>5. Responsible ADB officer(s): Winfried Wicklein, Private Sector Development Specialist</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy:</p> <p>As reflected in ADB's <i>Private Sector Development Strategy</i>, support to private sector development (PSD) is an integral part of ADB's <i>Poverty Reduction Strategy</i>. PSD has been a major thrust of ADB's country strategy for Vanuatu as well as a pillar of the Government's Comprehensive Reform Program (CRP) that was financed by ADB. A private sector assessment (PSA) for Vanuatu was carried in late 2002 and finalized in March 2003. It identified the underdeveloped financial sector as a major constraint on Vanuatu's private sector.</p> <p>Vanuatu's financial sector is underdeveloped. It provides a minimal range of banking services—mainly demand and savings deposits and limited commercial and personal loans. The banking system faces the following challenges: banking services do not reach beyond main urban areas; commercial banks have little outreach to low-income households; credit to ni-Vanuatu entrepreneurs is extremely limited; there is little lending to agriculture and fishing; substantial interest rate spreads reflect high unit costs and risk premiums; informal lending is an important source of finance; and microfinance is still in its infancy. The underdevelopment of the financial sector is connected to two important and related elements: the lack of a secured transactions framework, and adverse implications of the customary land tenure system. The lack of a credit reference facility (credit bureau) adds to these problems.</p>										

The lack of a credit bureau in Vanuatu contributes to the existing low levels of access to credit (particularly for individuals of limited financial means), high costs for the terms on which credit is provided, high rates of default by both individuals and businesses, restrictive terms of credit, and lack of competition for providing credit. A credit bureau is a facility that aggregates key information about persons seeking loans and goods or services on credit terms, stores and regularly updates it, and then provides a standardized report back to any of the members of the bureau. The standard range of credit information is received and provided by the bureau, including an individual's history of credit applications and whether there have been any occasions of late or nonpayment of the credit terms. Discussions with relevant stakeholders have identified a need, both in terms of the market demand and the operating environment, for a credit bureau in Vanuatu. The current basis on which credit information is shared between financial institutions is fragmented, anecdotal, and unreliable. As a consequence, there is a high level of risk associated with decisions to provide loans and credit. The establishment of a private sector operated credit bureau has the potential to positively contribute to the objective of generating additional income and employment opportunities, especially for the micro and small enterprise sector in Vanuatu.

The proposed technical assistance (TA) is integral part of a TA cluster that aims at improving the access of ni-Vanuatu to affordable credit by supporting the development of a modern and effective secured transactions system, and promoting the establishment of a credit bureau in Vanuatu. A diagnostic review in 2003 will provide the analytical basis for the TA cluster and recommend an action plan for the implementation thereof.

b. Goal and purpose:

The TA will improve the access of ni-Vanuatu to affordable credit by supporting the establishment of a credit bureau in Vanuatu. It will assist the Government to identify the systems and rules for establishing and operating a credit bureau. It will assess the viability of a credit bureau, including a self financing model, and promote its private sector-led establishment.

c. Components and outputs:

The TA will (i) assess the need for a credit bureau in Vanuatu; (ii) examine the options, using best international practices, for establishing and operating a bureau; (iii) recommend options for private sector control of such facility; (iv) prepare cost estimates and a business plan for the bureau; (v) recommend any legislative and/or administrative amendments that may be required to facilitate the establishment of a bureau, including any rights to privacy that may apply; (vi) develop a database for a bureau service and the systems and rules of operation; and (vii) promote the establishment of a credit bureau among private investors. If a formalized credit bureau is not required in Vanuatu at this time, the TA will propose measures necessary to facilitate the exchange of credit information among the financial organizations in Vanuatu.

d. Expected results and deliverables:

- i. Complete viability study for the establishment of a credit bureau in Vanuatu;
- ii. Set of recommendations in relation to necessary legal amendments;
- iii. Interested/potential private sector investors for credit bureau identified; and
- iv. Consensus for the need for a credit bureau in Vanuatu created.

e. Social or environmental issues or concerns: None.

f. Plans for disseminating results/deliverables:

- i. The process will involve workshops and seminars in Vanuatu;
- ii. The final TA report will be made available to all stakeholders and interested parties. If the TA leads to the immediate establishment of a credit bureau, dissemination of the case study should be considered (dissemination through ADB website and press conference/releases).

7. Proposed executing/implementing agencies:

The appropriate executing agency will be determined as a result of the outcome and recommendations of the diagnostic study that is being undertaken in 2003.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

A private sector assessment for Vanuatu was carried in late 2002 and finalized in March 2003. Its methodology was based on sector focus group discussions with the private sector as well as discussions with government officials. The underdeveloped financial sector, especially the lack of access to affordable credit, was identified by almost all

stakeholders as a major impediment to private sector development in Vanuatu. Discussions with private and public sector representatives during the country programming mission 2003 reconfirmed these findings and a comprehensive TA, in a phased cluster approach, was agreed on to develop a secured transactions framework and promote the establishment of a credit bureau for Vanuatu.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2005
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): March 2005
 - Activities financed by JFICT or JFPR:
- c. Period and duration of assistance
 - Lending:
 - Nonlending: 18 months.
 - Activities financed by JFICT or JFPR:

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
 - Ordinary capital resources: \$
 - Asian Development Fund: \$
 - Other: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
 - No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds
 - TA Special Fund: \$100,000
 - Japan Special Fund: \$
 - Other (specify, e.g., bilateral and multilateral trust funds): \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- c. For projects financed by
 - JFICT: \$
 - JFPR: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, SCSP = subregional cooperation strategy and program, TA = technical assistance.

Table A.4.3: Establishment of a Registration System for Secured Transactions

Date: 27 June 2003

1. Type/modality of assistance (double-click on appropriate box)		
<input type="checkbox"/> Lending		
<input type="checkbox"/> Project loan		
<input type="checkbox"/> Program loan		
<input type="checkbox"/> Sector loan		
<input type="checkbox"/> Sector development program loan		
<input type="checkbox"/> Other:		
<input checked="" type="checkbox"/> Nonlending		
<input type="checkbox"/> Project preparatory		
<input checked="" type="checkbox"/> Other than project preparatory		
<input checked="" type="checkbox"/> Economic, thematic, and sector work		
<input type="checkbox"/> Institutional development		
<input type="checkbox"/> Other:		
<input type="checkbox"/> Activities financed by JFICT or JFPR		
2. Assistance Focus		
a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector:		
b. For project preparatory and lending, classification		
<input type="checkbox"/> Core poverty intervention		
<input type="checkbox"/> Poverty intervention		
c. Key thematic area(s)		
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	
<input type="checkbox"/> Other:		
3. Coverage		
<input checked="" type="checkbox"/> Country	<input type="checkbox"/> Subregional	<input type="checkbox"/> Interregional
<input type="checkbox"/> Internal policy development		
4. Responsible division/department: PAHQ/PARD		
5. Responsible ADB officer(s): Winfried Wicklein, Private Sector Development Specialist		
6. Description of assistance(s)		
a. Background/linkage to country/regional strategy:		
<p>As reflected in ADB's <i>Private Sector Development Strategy</i>, support to private sector development (PSD) is an integral part of ADB's <i>Poverty Reduction Strategy</i>. PSD has been a major thrust of ADB's country strategy for Vanuatu as well as a pillar of the Government's Comprehensive Reform Program (CRP) that was financed by ADB. A private sector assessment (PSA) for Vanuatu was carried in late 2002 and finalized in March 2003. It identified the underdeveloped financial sector as a major constraint on Vanuatu's private sector.</p>		
<p>Vanuatu's financial sector is underdeveloped. It provides a minimal range of banking services—mainly demand and savings deposits and limited commercial and personal loans. The banking system faces the following challenges: banking services do not reach beyond main urban areas; commercial banks have little outreach to low-income households; credit to ni-Vanuatu entrepreneurs is extremely limited; there is little lending to agriculture and fishing; substantial interest rate spreads reflect high unit costs and risk premiums; informal lending is an important source of finance; and microfinance is still in its infancy. The underdevelopment of the financial sector is connected to two important and related elements: the lack of a secured transactions framework, and adverse implications of the customary land tenure system. The lack of a credit reference facility (credit bureau) adds to the problems.</p>		

A system of securing assets, both movable and immovable, is fundamental in developing any effective market for credit. The essential feature of secured transactions is that through the creation of a security interest, a lender can be granted undisputed priority in collecting against certain property of the borrower (secured interest), with a legal system that permits the secured party to recover and sell the property in a timely manner. A preliminary analysis of the legal framework for secured transactions indicates that Vanuatu does not meet the necessary conditions that would allow for the inexpensive and predictable use of movable property as collateral. With few exceptions,¹ it is not possible to use any property—moveable or fixed, tangible or intangible—as collateral for a loan outside of Port Vila and Luganville.

A well-functioning secured transactions system generates economic and social gains for creditors and debtors as it reduces transaction costs and improves access to credit. It effectively links savers and investors, and enhances credit intermediation. Broadly, the more and better the collateral offered by the borrower, the lower the interest rate, the longer the time to repay, and the larger the loan relative to income. Indigenous micro, small, and medium-sized enterprises will be the main beneficiaries from a secured transactions system, for they typically have no access to affordable credit. Given that collateral on customary land is practically impossible in Vanuatu, securing movable assets and crop liens promises to have a substantial impact on the development of the private sector.

The proposed technical assistance (TA) is integral part (phase 4) of a TA cluster that aims at improving the access of ni-Vanuatu to affordable credit by supporting the development of a modern and effective secured transactions system, and promoting the establishment of a credit bureau in Vanuatu. On the basis of a diagnostic review in 2003 (phase 1), a TA is proposed in 2004 to support the establishment of an effective legal and regulatory framework for secured transactions (phase 2). Phase 3 of the cluster TA will help promote the establishment of a credit reference facility in Vanuatu.

b. Goal and purpose:

The proposed TA will support the design of the architecture and the establishment of a computerized registration system, including capacity building and training.

c. Components and outputs:

The TA will help prepare the overall design of a modern registration system based on the reformed legal framework for secured transactions. This will include the identification of equipment, ownership structure, links to relevant existing registries, software, operation plan, location, staffing, fee structure, funding and administrative action plan, and training of operations staff and public awareness activities in support of the introduction of the system.

The TA will produce the following specific outputs:

- i. Plan for establishment of a public registry. The plan will cover (a) registry design; (b) ownership structure (including an assessment of possible private or joint private-public sector participation in the setting up, funding, and operation of the public register); (c) operating procedures and manuals for the staff; (d) a user guide; (e) an investment plan—requirements for equipment and software, and budget requirements; and (f) a staffing plan;
- ii. Plan for training. The plan will specify (a) time-bound training needs in synchrony with the staffing plan, and (b) public awareness activities including open seminars for a core group of private sector users; and
- iii. Simulation and demonstration of the proposed registry. A detailed information technology system will be designed, in connection with a demonstration model of the computerized registration system. The TA will train the demonstration model for selected government officials, private sector stakeholders, and potential staff of the registry to develop necessary skills for implementing the system.

d. Expected results and deliverables:

- i. Design, simulation, and demonstration of a detailed, computerized registration system in support of a comprehensive secured transactions framework for Vanuatu; and
- ii. Trained system users and stakeholders

e. Social or environmental issues or concerns: None.

f. Plans for disseminating results/deliverables:

- i. The process will involve workshops and seminars in Vanuatu; and

¹ With the exception of plantations and a few tourism resorts that have leases, which can be pledged to lenders.

- ii. Broader dissemination of results, including the outcome of the TA to develop the legal framework for secured transactions (proposed in 2004), is considered in form of a case study on the establishment of comprehensive, modern and effective secured transactions framework in Vanuatu, to be published and regionally disseminated.

7. Proposed executing/implementing agencies:

The appropriate executing agency will be determined as a result of the outcome and recommendations of the diagnostic study that is being undertaken in 2003.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

A private sector assessment for Vanuatu was carried in late 2002 and finalized in March 2003. Its methodology was based on sector focus group discussions with the private sector as well as discussions with government officials. The underdeveloped financial sector, especially the lack of access to affordable credit, was identified by almost all stakeholders as a major impediment to private sector development in Vanuatu. Discussions with private and public sector representatives during the country programming mission 2003 reconfirmed these findings and a comprehensive TA, in a phased cluster approach, was agreed on to develop a secured transactions framework and promote the establishment of a credit bureau for Vanuatu.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2006
- b. Expected date of submission for approval
 Lending:
 Nonlending (project preparatory):
 Nonlending (other than project preparatory): March 2006
 Activities financed by JFICT or JFPR:
- c. Period and duration of assistance
 Lending:
 Nonlending: 18 months.
 Activities financed by JFICT or JFPR:

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
- Ordinary capital resources: \$
 - Asian Development Fund: \$
 - Other: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
- No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds
 - TA Special Fund: \$400,000
 - Japan Special Fund: \$
 - Other (specify, e.g., bilateral and multilateral trust funds): \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- c. For projects financed by
- JFICT: \$
 - JFPR: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

Table A4.4: Rural Productive Skills Development

Date: 27 June 2003

<p>1. Type/modality of assistance (double-click on appropriate box)</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input checked="" type="checkbox"/> Other than project preparatory</p> <p> <input checked="" type="checkbox"/> Economic, thematic, and sector work</p> <p> <input type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input type="checkbox"/> Economic growth</td> <td><input checked="" type="checkbox"/> Human development</td> </tr> <tr> <td><input checked="" type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input type="checkbox"/> Economic growth	<input checked="" type="checkbox"/> Human development	<input checked="" type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input type="checkbox"/> Economic growth	<input checked="" type="checkbox"/> Human development									
<input checked="" type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: PAHQ/PARD</p>										
<p>5. Responsible ADB officer(s): Andrea Iffland, Senior Knowledge Management Specialist</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy:</p> <p>Rural men and women lack knowledge of how to process and market their produce. Although women are responsible for harvesting and marketing many crops and handicrafts, they receive little in the way of skills training and development. With only about 500 jobs created each year in the formal sector, the informal sector must take up the balance. Unemployment is growing.</p> <p>b. Goal and purpose:</p> <p>To expand the access of rural people to productive skills development and training including in the areas of production, processing, and marketing of agricultural products and tourism services, building on the results of earlier TAs.</p>										

c. Components and outputs:

The TA will help (i) strengthen existing nonformal training centers by helping them adjust their curricula to the needs of the rural economy; (ii) develop new mechanisms for delivery of rural productive skills training, i.e., by community groups, through distance education or through extension agents; (iii) expand a pilot project now under way; and (iv) with inputs from other funding agencies, establish a sustainable funding mechanism for nonformal vocational education and training.

e. Expected results and deliverables:

- i. Development of new curricula and institutions for its delivery;
- ii. Trained sector specialists; and
- iii. Sustainable funding mechanism.

e. Social or environmental issues or concerns: None.**f. Plans for disseminating results/deliverables:**

- i. The process will involve workshops and seminars in Vanuatu; and
- ii. Results may be disseminated more broadly through the press, radio, television, schools and communities.

7. Proposed executing/implementing agencies:

The appropriate executing agency will be determined as a result of the outcome and recommendations of an ongoing TA.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

Surveys have been undertaken of training needs, including those of small rural employers, and of training services, including those in the nonformal sector. A workshop is being held in mid-2003 to bring together various stakeholders and seek their views.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2002
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): March 2005
 - Activities financed by JFICT or JFPR:
- c. Period and duration of assistance
 - Lending:
 - Nonlending: 18 months.
 - Activities financed by JFICT or JFPR:

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
 - Ordinary capital resources: \$
 - Asian Development Fund: \$
 - Other: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

b. For nonlending

- No resources required, other than ADB staff
- ADB's administrative budget: \$
- Grant TA funds
 - TA Special Fund
 - Japan Special Fund: \$
 - Other (specify, e.g., bilateral and multilateral trust funds): \$300,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

c. For projects financed by

- JFICT: \$
- JFPR: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, SCSP = subregional cooperation strategy and program, TA = technical assistance.

Table A4.5: Strengthening Development Policies

Date: 23 July 2003

<p>1. Type/modality of assistance (double-click on appropriate box)</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input checked="" type="checkbox"/> Other than project preparatory</p> <p> <input checked="" type="checkbox"/> Economic, thematic, and sector work</p> <p> <input type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: PAHQ/PARD</p>										
<p>5. Responsible ADB officer(s): Umaporn Wongwatanasin, Economist</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy:</p> <p>Vanuatu's development has been slowed by frequent shifts in economic policy, weak governance, a small middle class, and a civil service with limited capacity. However, under the Comprehensive Reform Program, progress has been made in improving governance, and a priority action agenda prepared under a 2001 TA for strengthening development policies is expected to help set priorities and create more consistent policies.</p> <p>b. Goal and purpose:</p> <p>To help strengthen economic policies by (i) reviewing past progress, (ii) identifying economic issues, and (iii) preparing recommendations for economic policy action.</p>										

c. Components and outputs:

The TA will produce a Pacific islands economic report (PIER) analyzing the growth of the Vanuatu economy in depth, analyzing issues, and providing recommendations for action. It will be produced by a team of economists likely to comprise (i) macroeconomist/team leader, (ii) statistics specialist, and (iii) sector specialists to be determined. The level of effort is expected to be about 10 person-months, spread over a period of 3–4 months.

d. Expected results and deliverables:

- i. Pacific island economic report on Vanuatu, thoroughly documented; and
- ii. Resolution of high priority economic issues.

e. Social or environmental issues or concerns: None.**f. Plans for disseminating results/deliverables:**

- i. The process will involve workshops and seminars in Vanuatu;
- ii. Results will be disseminated through a published report; and
- iii. Results may also be disseminated more broadly through the press, radio, and television.

7. Proposed executing/implementing agencies:

The appropriate executing agency will be the Ministry of Finance and Economic Management.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

Consultations will be held with civil society, with different rural and urban community groups, with the private sector and with NGOs including those representing women.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2002
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): March 2006
 - Activities financed by JFICT or JFPR:
- c. Period and duration of assistance
 - Lending:
 - Nonlending: 12 months.
 - Activities financed by JFICT or JFPR:

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
 - Ordinary capital resources: \$
 - Asian Development Fund: \$
 - Other: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
 - No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds
 - TA Special Fund: \$250,000

- Japan Special Fund: \$
- Other (specify, e.g., bilateral and multilateral trust funds):

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

c. For projects financed by

- JFICT: \$
- JFPR: \$

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, SCSP = subregional cooperation strategy and program, TA = technical assistance.

SECTOR ROADMAPS

This appendix contains the roadmaps for the following sectors:

- (i) Private Sector Development
- (ii) Transport Sector Development

I. ROADMAP FOR PRIVATE SECTOR DEVELOPMENT

A. Introduction

1. In Vanuatu, as elsewhere, a strong and dynamic private sector is vital to long-term economic growth and improved quality of life, and thus is a necessary condition for sustained poverty reduction. As a result of economic growth, per capita incomes rise, employment is created, and the Government has access to additional resources for social expenditure. At the same time, the private sector's unique ability to develop new ideas and absorb knowledge is indispensable to the process of technology generation and diffusion. The private sector also has an important role to play in providing infrastructure facilities and services, as well as basic social services provided that monopolistic behavior is sensibly regulated. Vanuatu's private sector can only flourish and create employment opportunities, however, if the environment in which it operates is conducive to business.

2. A number of factors, both natural and introduced, constrain business activity in Vanuatu. Natural endowment constraints include the country's remoteness and internal dispersion, economic exposure and susceptibility to natural disasters, relatively narrow resource base, small domestic market and, to some extent, sociocultural factors. Little can be done to change these natural endowments. What can be changed however is the business environment in which the Government—deliberately or inadvertently, directly or indirectly—adds to the cost of doing business, thus reducing profits, and discouraging dynamism and entrepreneurship.

3. As reflected in ADB's *Private Sector Development Strategy*, support to private sector development (PSD) is an integral part of ADB's *Poverty Reduction Strategy*. PSD has been a major thrust of ADB's country strategy for Vanuatu as well as a major pillar of the Government's Comprehensive Reform Program (CRP) that was financed by ADB. A private sector assessment (PSA) for Vanuatu was carried out in late 2002 and finalized in March 2003. It identified the major obstacles for PSD and set out the priorities for a medium-term PSD action plan for Vanuatu.

B. Major Issues and Challenges for Private Sector Development in Vanuatu

1. Investment Climate

4. Critical characteristics of a conducive investment climate include sound macroeconomic management; trade and investment policies that promote openness, productivity, and growth; functioning institutions including property rights; predictability of enforcement; ease of company formation; and the availability of flexible collateral mechanisms to support access to credit. However, many of these elements are missing in Vanuatu.

5. The lack of political and policy stability and consistency, as well as economic uncertainties create an environment of diminishing business confidence, and remain the biggest impediment to PSD in Vanuatu. The Government is failing to supply essential public goods that underlie effective and efficient private sectors—secure property rights, a legal system that allows contracting with confidence, efficient and low-cost infrastructure, and regulations that are consistently enforced. Common complaints of business people, both ni-Vanuatu and foreign, include government policy uncertainty; red tape and bureaucracy, especially for business registration and foreign investment clearance; unfavorable general economic climate; government regulations or lack thereof; lack of skilled labor; land issues; lack of adequate infrastructure; and utility costs and reliability. Various targeted industries, subsidies, and granted monopolies distort business decisions and have long-term negative effects on efficiency, cost

structure, profitability, and growth of the private sector. The Government must address these issues as a matter of priority—and realize that investors, both domestic and foreign, require sound public policies and effective supporting institutions.

2. Economic and Fiscal Regime

6. Macroeconomic stability and microeconomic efficiency are closely linked. Therefore, it will be important to deal with the looming problems resulting from fiscal imbalances, an inefficient tax system, an exchange rate policy that appears to be sustaining an overvalued currency, and a tariff regime that discriminates against both the tourism and agricultural sectors, the two primary sources of income for the Vanuatu economy. The Government should address the problem of cross subsidies by insisting on full cost pricing of public service obligations and providing direct assistance to the recipients of the aid.

3. Infrastructure Provision

7. One of the consequences of smallness and remoteness experienced by Vanuatu is the cost of transportation, both surface and air. Unit costs are high because of distance from international markets, and small volumes often create a monopoly position for freight carriers and airlines. In addition, relatively low volumes of inter-island traffic within the country make road transportation and coastal shipping costly. High transport costs are equivalent to a tax on exports, imports, and locally traded products. Likewise, the application of adequate information and communications technology at affordable prices to decrease the costs for business is a matter of priority to overcome the country's physical separation from other countries as well as internal dispersion.

8. Neither state nor private provision of infrastructure provides a low-cost service in Vanuatu. Government provision regularly fails due to little incentive for efficiency, political interference, and the tendency to overstaff and under maintain. Private provision, such as in the telecommunications and utilities sectors, has failed because private suppliers have been granted nontransparent, long-term monopoly concessions that are poorly regulated, resulting in efficient yet very costly services in Port Vila and Luganville, and hardly any service provision in rural areas. In effect, the current system exacerbates rather than reduces the effects of the country's natural endowment constraints—inappropriate government intervention further pushes up costs, reduces competition, and tends to crowd out the private sector.

9. As recognized in the CRP policy matrix and reconfirmed as priority action by the Business Forum (in 2002), therefore, progress in state-owned enterprise reforms and privatization, which has been sluggish due to lukewarm political commitment, should be accelerated; private sector concessions should be reviewed and rectified; existing monopolies should be regulated to guarantee competitive market prices; the Government should be charged, at full cost, by state-owned enterprises for the provision of public service obligations; and private participation in infrastructure projects should be promoted.

4. Financial Sector

10. Vanuatu's financial sector provides only a minimal range of banking services—mainly demand and savings deposits and limited commercial and personal loans. The banking system faces the following challenges: banking services do not reach beyond main urban areas; commercial banks have little outreach to low-income households; credit to ni-Vanuatu entrepreneurs is extremely limited; there is little lending to agriculture and fishing; substantial interest rate spreads are high reflecting high unit costs and risk premiums; informal lending is an important source of finance; and microfinance is still in its infancy. The underdevelopment of the

financial sector is connected to two important and related elements: the lack of a secured transactions framework, and adverse implications of the customary land tenure system. The lack of a credit reference facility (credit bureau) adds to the problems.

11. A system of securing assets—movable and immovable, tangible and intangible—is fundamental in developing an effective market for credit. Vanuatu does not meet the necessary conditions that would allow for the inexpensive and predictable use of movable property as collateral (secured transactions). A well-functioning secured transactions system generates economic and social gains for creditors and debtors as it reduces transaction costs and improves access to credit. It effectively links savers and investors, and enhances credit intermediation. The lack of a credit bureau in Vanuatu contributes to the existing low levels of access to credit (particularly for individuals with limited financial means), high costs for the terms on which credit is provided, high rates of default by both individuals and businesses, restrictive terms of credit, and lack of competition for providing credit.

12. The system of customary land ownership presents particular challenges to lenders hoping to secure loans against property. With few exceptions, land and leases on land are not regarded as adequate security by the financial market. The four central issues with land tenure in Vanuatu are: (i) issues related to land registration, including unclear ownership and boundaries; (ii) restrictions on the transferability and use of land; (iii) uncertainty surrounding land tenure rights; and (iv) the cost of land disputes. All of these issues must be resolved, if the ni-Vanuatu are to be able to use land—their greatest asset—to secure credit. Any system that is established must unlock land from unproductive uses at the same time as preserving the cultural role that land ownership plays. The land restructuring process should be undertaken in the following order: (i) identify the rightful claimants to a roughly defined piece of land and record those claimants as common owners; and (ii) define and record the boundaries to each plot of kinship land; and, (iii) put in place a governance structure agreed to and operated by the owners to manage the land.

5. Tourism

13. Although tourism is already a major part of the economy (accounting for about 40% of GDP and 75% of foreign exchange), its full potential remains largely unrealized. Vanuatu is not an attractive investment location for tourism because customary land for building tourist facilities is insecure, credit is unavailable, utilities are unnecessarily expensive, air services are underdeveloped, and taxes are high.

14. In the face of regional competition and scarce capital resources, an overriding objective for the government must be to create a policy and regulatory environment conducive to tourism development and expansion. From the standpoint of investors, whether in tourism or in other sectors, the environment for doing business becomes attractive when they have confidence in: the certainty of private contracts; the consistency and timeliness of government decisions; the provision of reliable and cost-effective infrastructure and services such as power, water, telecommunications, roads, and air connections; the reasonableness of fees and taxes charged by government; and the availability of credit.

15. The Government should develop an overall tourism development strategy in conjunction with industry representatives, taking into account externalities that require private-public decision making. In addition to the Government's role in facilitating infrastructure upgrading of airports and roads and improving the services and performance of the airlines through the introduction of competition, focused marketing efforts should be considered in terms of attracting both tourists and tourism investors.

6. Agriculture, Fishing, and Forestry

16. Vanuatu possesses significant potential wealth in its agricultural, fishing, and forestry resources—its backbone industry, accounting for around 23% of GDP and almost all merchandise exports. However, these sectors are clearly under performing and will not create the requisite opportunities under the current business environment. The reasons for the poor performance are numerous: (i) the overvalued exchange rate and trade policy reduce the profitability of rural-based exports; (ii) coastal shipping and logistics infrastructure are inadequate to move produce to local markets and export-assembly points; (iii) the state monopoly in copra and cocoa, previously held by the inefficient Vanuatu Commodities Marketing Board; (iii) utilities such as electricity, telecoms, and ports are inefficient, expensive or both—in either case a tax on rural activity; and (iv) problems surrounding land tenure effectively prevent foreign investors and local entrepreneurs from commercializing agriculture and forestry.

17. The removal of the most binding constraints on the rural sector could greatly enhance economic activity in rural areas. Most important, the Government needs to make a concerted effort to address the overarching issue of land tenure. Other priority steps must be: clarifying land tenure; lowering the costs of utilities; investing in infrastructure; changing the role of the Vanuatu Commodities Marketing Board from marketing to regulation; and providing support for private sector marketing of agricultural products including arrangements for certification of products in different countries.

C. External Assistance

18. Other funding agencies provide assistance in areas such as economic management and good governance, including institutional strengthening projects, thereby supporting the creation of an enabling business environment through assistance. Substantial grant assistance is provided in support of rural enterprise development, including tourism. Several funding agencies are providing support to business training, credit guarantee schemes and microfinance, usually channeled through, and managed by, government agencies.¹ Some assistance is being provided in support of land mapping. The World Bank is planning to support Vanuatu in the area of utilities, especially on regulatory issues. A number of project proposals, by the Foreign Investment Advisory Service, to improve the foreign investment environment are pending government approval.

D. ADB PSD Strategy for Vanuatu

19. The PSA identified the expensive and inefficient provision of infrastructure by monopolies and the lack of collateral as the major impediments for PSD. The combined effect of these constraints is to contribute substantially to the high-cost business environment in Vanuatu as well as to the lack of access to affordable credit—affecting all sectors of the economy. Given its comparative advantage through previous sector involvement, ADB will focus its PSD thrust on support to improve access to collateral.

20. ADB will provide a series of TAs to improve the access of ni-Vanuatu to affordable credit by supporting the development of a modern and effective secured transactions system, and promoting the establishment of a credit bureau in Vanuatu. The TAs will assist the Government (i) to develop an effective, comprehensive legal framework for secured transactions, including legislative and administrative amendments (TA in 2004); (ii) to identify the systems and rules for establishing and operating a credit bureau and assess the viability of a private sector operated

¹ Some of these small credit facilities have not been fully subscribed to. This suggests that the provision of such funds through government agencies is not being managed efficiently.

credit bureau (TA in 2005); and (iii) to design the architecture and to establish a computerized registration system (TA in 2006). A small-scale TA in 2003 will prepare the cluster TA by reviewing the underlying issues and developing a detailed, strategic action plan for the implementation of the envisaged reform package.

E. Performance Monitoring

21. Medium- and long-term sector performance can be gauged through ratios indicating achievements in the fiscal regime, access to credit, privatization and state-owned enterprise reform, domestic and foreign investment; and export performance relative to imports.

Table 1: Private Sector Development Roadmap

Item	Indicators	
	Current	10 Years
1. Thematic Outcomes/Impacts		
<ul style="list-style-type: none"> Fiscal surplus/deficit (+ / - in % of GDP) Increased commercial bank credit to the private sector (% of GDP) Decreased average commercial lending rates Reduced ratio of government expenditure to GDP Reduced share of public sector employment (% of formal employment) Increased ratio of gross capital formation to GDP Per unit transportation and freight handling costs (air and surface) reduced Per unit communication costs (telephone and internet) reduced Increased foreign investment in nominal terms Increased ratio of revenue from exports to imports 	-2.1 (2002) 38.7 (2000) 11.6% (2002) 23.8% (2002) 31% (2000) 21% (2001) High (tbd) High (tbd) Low (tbd) (2001) 26.5% (2002)	Surplus Higher Lower Lower Lower Higher Lower Lower Higher Higher
2. Thematic Outputs		
<ul style="list-style-type: none"> Sound and consistent economic, financial and sector policies Macroeconomic situation improved and fiscal balance achieved Secured transactions framework established, including for secure land titles, in combination with a credit bureau Business-related laws and enforcement improved Number of SOEs involved in commercial activities reduced, and monopolies broken up Regulatory frameworks improved, effective regulatory authorities established Additional and/or improved infrastructure developed Investment approval processes streamlined Effective public-private partnerships established, including in the tourism sector 	Poor Poor Insufficient Insufficient High Insufficient Insufficient Poor None	Improved Improved Established/ improved Improved Low Established/ improved Improved Streamlined Improved
3. Thematic Issues/Constraints		
<ul style="list-style-type: none"> Cost disadvantages in terms of remoteness, dispersion and market size (natural endowment constraints) Political instability and unpredictability of policies Macroeconomic and fiscal instability, including inefficient tax and tariff systems Weak PSD supporting institutions, including laws, legal institutions, predictability of law enforcement, property rights, regulatory environment, and good governance Undeveloped financial markets, including lack of secured transactions framework, lack of system for access to and exchange of credit information, and access to secure land title Poor and/or expensive infrastructure due to state monopolies (lack of competition) as well as poorly regulated private monopolies. Political interference and cross subsidies in (private and public) businesses Inefficient investment approval processes, including red tape Lack of business/government dialogue, and public-private partnerships in critical sectors 		

PSD = private sector development, SOE = summary of expenditures, CRP = Comprehensive Reform Program, PSA = private sector assessment, TA = Technical assistance, tbd = to be determined

II. ROADMAP FOR TRANSPORT SECTOR DEVELOPMENT

A. The Transport System

1. Vanuatu, comprising 80 sparsely settled inhabited islands, with an economy dependent on subsistence agriculture, modern tourism, and financial services, relies on sea, air, and road transport in roughly equal proportions. Most domestic passenger and freight transport is carried by road and sea, with the domestic airline being used primarily for passenger transport and a very limited amount of high-value freight. Although most international cargo transport is by sea, air transport plays a key and necessarily constrained role in the transport of live and high-value international cargo. Although some parts of Vanuatu are well-served with transportation, many are not. Port Vila, for example, is well connected to international and domestic air and sea transport, and has a good network of roads. Many outer island settlements, however, lack road access, some lack reliable sea transport and most lack reliable air transport.

2. The provision of almost all sea transport services is by private shippers. Small domestic freighters of 10 tons or so ply the coastlines of the more inhabited islands, stopping periodically to pick up freight and sell light goods. Larger ships and barges ply the more frequently used routes, and transport vehicles, pumps and motors, heavy equipment, heavy supplies, cattle, and other livestock. International cargo ships provide cargo and oil services to the two urban centers of Port Vila and Luganville. Very large passenger ships call on Port Vila, and stop at scenic locations including Champagne Beach on Santo, Epi, and Aneityum. The provision of domestic air transport services is by Vanair, which operates a fleet of twin otter and other small aircraft, and small private operators, while the provision of international air transport services is by one aircraft, a Boeing 737. Although many of the islands are rugged and difficult to provide with roads, some islands, including Efate, Santo, and Tanna, have an extensive network of roads, mostly developed during the Second World War.

3. The Government continues to play an important role in providing sustainable air transport, as well as sea, air and road transport infrastructure. It owns Vanair, the domestic airline, and Air Vanuatu, the international airline, as well as the Civil Aviation Authority (CAA), which regulates air transport, and Airports Vanuatu Limited (AVL), which maintains and operates the Port Vila, Luganville, and Whitesands, Tanna airports. It also owns the three main international ports, also at Port Vila, Luganville, and Whitesands. The provincial governments own the smaller ports and airports. The Government is considering creation of a Port Authority, which may be merged with the Vanuatu Maritime Authority, giving it the power to regulate sea transport and operate the main ports. Most roads are maintained by the Government, through a network of six provincial offices each provided with heavy equipment. The airports at Port Vila, Luganville, and Whitesands, Tanna are well maintained while many of the other, smaller airports are poorly maintained, particularly in the rainy season. The international ports in Port Vila and Luganville are in good condition, while many of the smaller ones are deteriorating and a few are unusable. Although road maintenance is now being carried out reasonably well, particularly on the larger islands, it has been spotty in the past. Overall, and with the possible exception of facilities under the CAA, Vanuatu's transport infrastructure is declining in its standards.

4. The Government, recognizing the importance of transportation and transport infrastructure in an economy in which the population is widely dispersed, prepared in 1988 a Transport Master Plan, which it updated in 2000. Further updating was done in the context of preparing the Priority Action Agenda (PAA), as described below. One of the key requirements of the PAA is the establishment of a transport planning committee in the Ministry of Infrastructure and Public Utilities.

B. Sea Transport

5. Vanuatu's sea transport services are provided by a mix of about 120 foreign and ni-Vanuatu-owned vessels, with the foreign-owned vessels restricted to those greater than 80 tons or for specialized purposes such as scuba diving or sport fishing, operating through 28 ports and wharfs. Sector problems and constraints include the following:

- i. Infrequent services: much of the coastal shipping trade is driven by the copra industry;
- ii. Costly services: the cost of shipping coffee from Tanna to Port Vila, for example, is said to be greater than the cost of shipping the same coffee from Tanna to New Zealand; Port Vila's stevedoring services are among the most costly in the region;
- iii. Lack of profitability: with the copra trade diminishing, higher safety standards and more ships in business, some shippers are finding it difficult to make a profit;
- iv. Lack of repair facilities: there is only one dry dock shipping repair facility;
- v. Training of seafarers: there is a need for more throughput but the Vanuatu Maritime College has too limited a budget;
- vi. Lack of tugboat and other port vessels: the Luganville tug is no longer seaworthy, and the Port Vila tug is in need of replacement;
- vii. Poor condition of wharf infrastructure: although the Luganville and Port Vila international ports have recently been rehabilitated, there is a need to create more sustainable institutional arrangements for wharf maintenance and improve the container handling facilities in Port Vila;
- viii. There is a need to improve provincial wharfs at Litz-Litz and Port Sandwich on Malekula, and storage facilities in several ports; and
- ix. There may also be a need to improve oil handling facilities in Port Vila, to allow oil delivery by larger (and less costly) boats.

6. Although the safety and other regulations of the Vanuatu Maritime Authority generated criticism at first, it now seems generally recognized that ships need to be safe and that expenditures need to be made for that purpose.

7. The Government has under consideration a proposal to create a ports corporation, which would operate the larger ports as a self-contained corporation based on income from landing fees. A financial model has been prepared under which the corporation would be able to retain some revenues, and return others to the Government, thus avoiding a financial drain on the Government due to corporatization.

8. The Government of Japan, European Investment Bank (EIB), and Asian Development Bank (ADB) have expressed interest in funding port infrastructure. Japan may fund upgrading of cargo handling facilities in Port Vila, particularly if there is potential for reducing the high costs of stevedoring services. The Government of the People's Republic of China may provide two small ships to help in providing more regular services among the outer islands.

C. Air Transport

9. Vanuatu's air transport services are provided by Vanair, Air Vanuatu, and smaller operators through a network of 28 airports, of which three (those in Port Vila, Luganville, and Tanna) are equipped to handle small passenger jets. Although Port Vila can handle 767s, it is ringed by high hills, which limit the cargo such a plane can take. Pekoa field in Luganville will at some point in the future be able to handle 767s. In the meantime, the only jet service is by 737s, at Port Vila. Sector problems and constraints include the following:

- i. Unreliable outer island services: many grass and gravel airports suffer from closures during the rainy season. At such times, the only means of access of remote villages may be by boat or on foot;
- ii. Costly outer island and international services: the cost of travel from Port Vila to Australia or New Zealand is now approaching the cost of travel from North America or North Asia to the same countries;
- iii. Lack of alternative international carriers: until recently, Air Vanuatu had resisted allowing other foreign airlines to operate in Vanuatu. Now, it appears that a limited number of flights will be allowed from other carriers, which would help create competition and reduce costs;
- iv. Profitability: Vanair in particular suffers from time to time from lack of profitability. It is addressable by focusing on the more profitable routes, but at the expense of accessibility as outlined above. Air Vanuatu's profitability will have to be carefully managed in the light of increased international competition;
- v. Need to upgrade the international facilities: freight handling in Port Vila, the terminal in Luganville; and
- vi. Poor condition of outer islands airport infrastructure: although those outer island airports on a coral soil are relatively stable, many require improvements in the form of better drainage or surfacing.

10. The Government is examining methods of making outer island airports more self-sustaining, inter alia by making collection of landing fees more consistent and by putting airport maintenance under a management representative for each airport.

11. Projects proposed in the PAA include improvement of Bauer Field (cargo handling) and Pekoa field (terminal building), and improvement of runways at locations such as Southwest Bay and Port Sandwich on Malekula, Dillon's Bay on Erromango, Lonore on Pentecost, Nebul and Craig Cove on Ambryn, and Tongoa and Longana.

12. Agence Française de Développement is processing a grant-funded project under which three airports will be improved. ADB may consider the others under its proposed loan for the proposed Outer Islands Infrastructure Development Project (OIIDP).

D. Road Transport

13. Vanuatu's roads are the arteries by which most agricultural products are taken to market, most tourists are taken to their destinations, and most sick persons are taken to medical care. Road user vehicles comprise primarily four-wheeled vehicles, including a few heavy trucks, pickup trucks, light buses, and automobiles. There are about 1,600 kilometers (km) of national roads, most of them comprising coral or gravel roads, and about 300 km of local roads, some of them metalled (in the cities), but most being coral or gravel. The roads are maintained by the Public Works Department (PWD), out of provincial works depots. The quality of maintenance varies considerably. On the larger islands, such as Efate and Santo, and where the basic network is strong, maintenance of road surfaces and even, sometimes, roadside drains, is often reasonably adequate. However, there is little or no maintenance of bridges or river crossings, and these as well as the roads are often damaged during earthquakes and floods. The quality of road infrastructure is declining, and the backlog of needed construction is increasing. Sector problems and constraints include the following:

- i. Lack of access of many villages. In many cases, this is due to the ruggedness of the terrain. Often, however, footpaths exist which could be developed into roads given time and funding;
- ii. Costly services: truck and bus services are often very expensive, effectively stifling intra-island trade and commerce;

- iii. Slow services: the time required to travel around Efate varies from 3 hours when the roads are well maintained to 6 or 7 hours when they are not. At the former level, tourist transport is easy. At the latter, it is not;
 - iv. Lack of expertise: few, if any, field crews in PWD have the capacity to carry out even simple pothole fixing without close supervision;
 - v. Lack of staff: at one time, the PWD had no experienced engineers. Now, it has several, but they are hard pressed to carry out the supervisory works that are expected of them;
 - vi. Lack of funds: the cost of maintaining in a sustainable manner even a coral road system is far beyond the present fiscal capacity of the Government. Hence, the reliance on grant funding of projects;
 - vii. Poor regulation of road transport: responsibility for administering road safety, fares, regulations, traffic control and licensing is split between several agencies and is poorly coordinated;
 - viii. Inadequate definition of responsibilities: although provincial and local governments are conceptually responsible for maintenance and even development of local roads, in practice the PWD is responsible for most; and
 - ix. High cost of fuel: the current system of three fuel supply depots serviceable only by small boats means that the costs of fuel are inordinately high. The cost of fuel could be reduced by use of one supply point, accessible by a larger ship.
14. The Government is considering methods of decreasing the cost of fuel and of improving road maintenance, inter alia by making the provincial offices of PWD more accountable.
15. Projects proposed in the PAA include repairs to Teouma River Bridge, construction of bridge crossings such as those at Eton and Bule on Efate, and on Santo, and improvements of existing roads on Tanna, Malekula, and Ambae. In addition, there is a need to reconstruct Klem's Hill and parts of the ring road on Efate, and to construct new roads in a few places such as Pentecost.
16. The EU is providing equipment and training support in road maintenance. Under an ongoing project, PWD can also carry out maintenance projects up to \$0.5 million. In addition, the EU may provide budgetary support, which could be for maintenance projects. Japan International Cooperation Agency (JICA) is considering support for bridge repairs and upgrading on Efate. ADB is considering support for outer island roads on Malekula, Ambae, and Tanna under its OIIDP. Despite this existing and potential support, there remains a substantial funding gap in the sector. Better funding agency coordination may be required to fill the gap.

Table 2: Transport Sector Roadmap for Vanuatu

Item	Indicators	
	Current	10 Years
Infrequent shipping services in some islands	Some villages only served 1 or 2 times a year	More frequent services
High cost of shipping and handling	Costs among the highest in the Pacific	Costs of both stevedoring and sea transport reduced
Poor quality of infrastructure	Wharfs deteriorating	Deterioration stopped
Unreliable air transport in some places	Frequent cancellations, particularly during the rainy period	Fewer cancellations
High cost of international air transport	Cost about \$200 per person-hour traveled	Costs reduced by 33%
Lack of road access	Many villages not connected	More villages connected

Item	Indicators	
	Current	10 Years
High cost of road access	Costs high relative to value of produce carried	Reduced costs
Wear and tear on vehicles	Vehicles subject to damage due to poor roads	Quality of road surfaces improved
Outputs and Activities		
Improve port facilities	Lack of cargo handling facilities, some ports deteriorating	All ports being sustainably maintained
Corporatize ports authority	Lack of funds and staff	Funds and staff more adequate, roles suitably defined
Improve institutional arrangements for small ports	Lack of oversight of small ports	Docking fees collected, services performed
Improve airports	Lack of cargo and terminal capacity in the international airports, lack of all weather runways in small airports	Cargo and passenger facilities upgraded in the two international airports, runways upgraded in the outer islands
Improve institutional arrangements for small airports	Lack of oversight of small airports	Landing fees collected, services performed
Improve roads	Lack of road maintenance capacity, road standards declining	Maintenance capacity enhanced, Road standards stabilized
Reduce oil costs	Oil costs among highest in the region	Oil costs reduced
Improve institutional arrangements and staffing for road maintenance	Responsibilities unclear, regulations ill-coordinated, staff untrained and unaccountable	Responsibilities defined, regulation improved, staff trained and accountable
Improve funding for port, airport, and road maintenance	Fuel tax collections far exceed expenditures	Relationship established between collections and expenditures, expenditures sufficient to take care of routine maintenance and a portion of development expenditures.
	Except in international airports and ports, landing and docking fees are not regularly collected	Stronger institutional arrangements will result in better cost recovery