

## SUMMARY STATEMENT OF STRATEGY

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

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	
<b>Goal 1. Eradicate Extreme Poverty and Hunger</b>				
<b>Target 1: Reduce incidence of extreme poverty by half from 1990 to 2015</b>				
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)
<b>Target 2: Reduce the proportion of people who suffer from hunger by half from 1990 to 2015</b>				
4. Prevalence of child malnutrition (% of children under 5)	20.0 <sup>a</sup> (1985)	12.1 <sup>b</sup> (1996)	23.0 <sup>c</sup>	(1997)
5. Proportion of population below minimum level of dietary energy consumption (%)	—	—	—	
<b>Goal 2. Achieve Universal Primary Education</b>				
<b>Target 3: Attain 100% primary school enrolment by 2015</b>				
6. Net enrollment ratio in: (%)				
Primary education	70.7 <sup>d</sup>	103.9 <sup>d,e</sup> (1998/99)	95.9	(2000/01)
Male	70.2 <sup>d</sup>	103.4 <sup>d,e</sup> (1998/99)	91.7	(2000/01)
Female	71.3 <sup>d</sup>	104.4 <sup>d,e</sup> (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 <sup>e,f</sup> (1991)	101.1 <sup>d</sup> (1998)	70.0	(2002)
8. Literacy rate of 15–24 year olds (%)	—	—	90.0	(1999)
Male	—	—	91.0	(1999)
Female	68.0 <sup>c</sup> (1980-89)	—	89.0	(1999)
<b>Goal 3. Promote Gender Equality and Empower Women</b>				
<b>Target 4: Eliminate gender disparities in primary and secondary education by 2005 and to all levels of education no later than 2015</b>				
9. Ratio of girls to boys in: (%)				
Primary education	89.0 <sup>d</sup>	91.0 <sup>d</sup> (1998)	99.0 <sup>d</sup> (2000)	92.0 (2002)
Secondary education	62.0 <sup>f</sup>	111.0 <sup>d</sup> (1998)	77.0 <sup>d</sup> (2000)	94.0 (2002)
Tertiary education	—	63.0 <sup>d</sup> (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 <sup>d</sup>	—	0.0 <sup>d</sup> (2000)	1.9 <sup>d,g</sup> (2003)

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

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**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 <sup>c</sup> (1995-97)	73.0 <sup>j,n</sup>	(1999)
Urban	100.0 <sup>l</sup> (1988)	—	89.0 <sup>j,n</sup>	(1999)
Rural	64.0 <sup>l</sup> (1988)	—	73.0 <sup>j,n</sup>	(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 <sup>c</sup> (1995-97)	50.0 <sup>j,o</sup>	(1999)
Urban	82.0 <sup>l</sup> (1988)	—	78.0 <sup>j,o</sup>	(1999)
Rural	33.0 <sup>l</sup> (1988)	—	42.0 <sup>j,o</sup>	(1999)

27. Access to secure tenure (% of population)<sup>m</sup>

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— = not available.

\* Data refer to years or periods prior to 1995.

<sup>a</sup> United Nations Children's Fund (UNICEF). 1997, 1999, 2000. *The Progress of Nations*.

<sup>b</sup> Vanuatu Statistics Office. 1996. *National Nutrition Survey*.

<sup>c</sup> United Nations Development Programme (UNDP). 1994, 1999. *Pacific Human Development Report*. UNDP. 1994, 1999, 2000, 2001, 2002. *Human Development Report*.

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

<sup>e</sup> 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>.

<sup>f</sup> 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>.

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

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

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

<sup>j</sup> Vanuatu Statistics Office. 2000. *National Population and Housing Census Main Report*.

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

<sup>l</sup> 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>.

<sup>m</sup> 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.

<sup>n</sup> Includes access to piped water, community or household water tanks.

<sup>o</sup> 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
<b>A. Income and Growth</b>					
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>B. Saving and Investment (current market prices)</b>					
			(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
<b>C. Money and Inflation</b>					
			(annual percent change)		
1. Consumer Price Index <sup>a</sup>	3.3	2.1	2.5	3.7	2.0
2. Total Liquidity (M2)	12.6	(9.2)	5.5	5.6	(1.7)
<b>D. Government Finance</b>					
			(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)
<b>E. Balance of Payments</b>					
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)
<b>F. External Payments Indicators</b>					
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
<b>G. Memorandum Items:</b>					
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.

<sup>a</sup> 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
<b>1. Development Progress Indices</b>			
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	—	—	—
<b>2. Poverty Indicators</b>			
Headcount Index (% poor of total households)	—	—	—
Poverty Severity Index (%)	—	—	—
<b>3. Inequality Indicators</b>			
Gini Coefficient	—	—	—
Household Income (% of total)			
H25 <sup>1/</sup>	—	—	—
L25 <sup>2/</sup>	—	—	—
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*.

<sup>1/</sup> h25: highest quartile

<sup>2/</sup> L25: lowest quartile

Table A2.4: Country Social Indicators

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

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

— = not available.

<sup>a</sup> ADB. 2002. *Vanuatu: Economic Performance and Challenges Ahead*. Manila.

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

<sup>c</sup> United Nations Development Programme. *Pacific Human Development Report* (1994, 1999).

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

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

<sup>f</sup> ADB. *Key Indicators* (2001, 2002). Manila.

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

— = not available.

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

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

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

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

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 <sup>a</sup>								Potential Problem <sup>b</sup>		At Risk <sup>c</sup>		
	(\$ 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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>9.0</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>	-	-	<b>1</b>	<b>100.0</b>	-	-	-	-	-	-	-	-	-

<sup>a</sup> One rating for implementation progress and development objectives, based on the lower rating of either.

<sup>b</sup> Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

<sup>c</sup> 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)

<b>Disbursements and Transfers</b>	<b>OCR</b>	<b>ADF</b>	<b>Total</b>
<b>Disbursements<sup>a</sup></b>			
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 (%) <sup>b</sup>	-	100.6	100.6
<b>Net Transfer of Resources (\$ million)</b>			
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.

<sup>a</sup> Includes one ongoing loan.

<sup>b</sup> 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 <sup>a</sup>	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 <sup>b</sup>	100.0	0	0.0	0	0.0	0	0.0	1	100.0
<b>Total</b>	<b>0</b>	<b>0.0</b>	<b>1</b>	<b>50.0</b>	<b>0</b>	<b>0.0</b>	<b>1</b>	<b>50.0</b>	<b>0</b>	<b>0.0</b>	<b>2</b>	<b>100.0</b>

<sup>a</sup> Loan 766-VAN: Multiproject Loan.

<sup>b</sup> 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 <sup>a</sup>	At Risk <sup>b</sup>
		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
				<b>Total</b>	-	<b>9.0</b>						<b>8.9</b>	<b>9.0</b>				

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

<sup>a</sup> "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

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

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		
<b>2004 Firm Loans</b>					- Nil -					
<b>2005 Firm Loans</b>										
<b>Social Infrastructure</b>										
1. Outer Islands Development	PI	ECO/PSD	SPRM	1999	4.7		3.8	4.7	0.9	0.0
<b>Total</b>					<b>4.7</b>		<b>3.8</b>	<b>4.7</b>	<b>0.9</b>	<b>0.0</b>
<b>2006 Firm Loans</b>					- Nil -					
<b>Grand Total</b>					<b>4.7</b>		<b>3.8</b>	<b>4.7</b>	<b>0.9</b>	<b>0.0</b>

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)	
<b>2004 Technical Assistance Program</b>								
<b>Finance and Industry</b>								
1. Reform of the Legal and Regulatory Framework for Secured Transactions	PAHQ	ADTA	TBD	400.0	—	—	—	400.0
<b>Subtotal</b>				<b>400.0</b>				<b>400.0</b>
<b>Social Infrastructure</b>								
2. Updating the Outer Islands Infrastructure Development Project	PAHQ	SSTA	TBD	100.0	—	—	—	100.0
<b>Subtotal</b>				<b>100.0</b>				<b>100.0</b>
<b>Total</b>				<b>500.0</b>				<b>500.0</b>
<b>2005 Technical Assistance Program</b>								
<b>Social Infrastructure</b>								
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
<b>Subtotal</b>				<b>200.0</b>		<b>300.0</b>		<b>500.0</b>
<b>Finance and Industry</b>								
3. Feasibility Assessment of a Credit Reference Facility	PAHQ	ADTA	TBD	100.0	—	—	—	100.0
<b>Subtotal</b>				<b>100.0</b>				<b>100.0</b>
<b>Total</b>				<b>300.0</b>				<b>300.0</b>
<b>2006 Technical Assistance Program</b>								
<b>Finance and Industry</b>								
1. Establishment of a Registration System for Secured Transactions	PAHQ	ADTA	TBD	400.0	—	—	—	400.0
<b>Subtotal</b>				<b>400.0</b>				<b>400.0</b>
<b>Other</b>								
2. Strengthening Development Policies	PAHQ	ESW	TBD	250.0	—	—	—	250.0
<b>Subtotal</b>				<b>250.0</b>				<b>250.0</b>
<b>Total</b>				<b>650.0</b>		<b>300.0</b>		<b>650.0</b>
<b>Grand Total (2004–2006)</b>				<b>1,450.0</b>				<b>1,750.0</b>

— = 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><b>1. Type/modality of assistance</b></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><b>2. Assistance Focus</b></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><b>3. Coverage</b></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><b>4. Responsible division/department:</b>      South Pacific Regional Mission</p>						
<p><b>5. Responsible ADB officer(s)</b>              To be determined.</p>						
<p><b>6. Description of assistance(s)</b></p> <p>a. <b>Background/linkage to country/regional strategy:</b> 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. <b>Goal and purpose:</b> 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. <b>Components and outputs:</b> (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><b>d. Expected results and deliverables:</b> (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><b>e. Social or environmental issues or concerns (if any):</b> 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><b>f. Plans for disseminating results/deliverables:</b> (i) An impact monitoring system built into the project, and (ii) regular consultations with provinces and communities.</p>
<p><b>7. Proposed executing/implementing agencies:</b> Ministry of Infrastructure and Public Utilities</p>
<p><b>8. Nature/extent of government/beneficiary involvement in identification or conceptualizing the assistance:</b> 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><b>9. Timetable for assistance design, processing, and implementation:</b></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><b>10. Finance Plan</b> (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><b>1. Type/modality of assistance</b> (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><b>2. Assistance Focus</b></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><b>3. Coverage</b></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><b>4. Responsible division/department:</b> PAHQ/PARD</p>										
<p><b>5. Responsible ADB officer(s):</b> Winfried Wicklein, Private Sector Development Specialist</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b></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,<sup>1</sup> 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.

<sup>1</sup> 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><b>1. Type/modality of assistance</b> (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><b>2. Assistance Focus</b></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><b>3. Coverage</b></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><b>4. Responsible division/department:</b> PAHQ/PARD</p>										
<p><b>5. Responsible ADB officer(s):</b> Winfried Wicklein, Private Sector Development Specialist</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b></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

<p><b>1. Type/modality of assistance</b> (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><b>2. Assistance Focus</b></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><b>3. Coverage</b></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><b>4. Responsible division/department:</b> PAHQ/PARD</p>										
<p><b>5. Responsible ADB officer(s):</b> Winfried Wicklein, Private Sector Development Specialist</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b></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,<sup>1</sup> 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

<sup>1</sup> 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><b>1. Type/modality of assistance</b> (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><b>2. Assistance Focus</b></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><b>3. Coverage</b></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><b>4. Responsible division/department:</b> PAHQ/PARD</p>										
<p><b>5. Responsible ADB officer(s):</b> Andrea Iffland, Senior Knowledge Management Specialist</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b></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>b. Goal and purpose:</b></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><b>1. Type/modality of assistance</b> (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><b>2. Assistance Focus</b></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><b>3. Coverage</b></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><b>4. Responsible division/department:</b> PAHQ/PARD</p>										
<p><b>5. Responsible ADB officer(s):</b> Umaporn Wongwatanasin, Economist</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b></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>b. Goal and purpose:</b></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.<sup>1</sup> 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

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

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
<b>Outputs and Activities</b>		
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