

PROGRAM COMPLETION REPORT

ON THE

COMPREHENSIVE REFORM PROGRAM
(Loan 1624-VAN[SF])

TO THE

REPUBLIC OF VANUATU

December 2002

CURRENCY EQUIVALENTS

Currency Unit – Vatu (Vt)

		At Appraisal (31 May 1998)	At Program Completion (14 December 2000)
Vt1.00	=	\$0.0078	\$0.0069
\$1.00	=	Vt127.25	Vt144.32

ABBREVIATIONS

ADB	–	Asian Development Bank
AMU	–	Asset Management Unit
AusAID	–	Australian Agency for International Development
COM	–	Council of Ministers
CRP	–	Comprehensive Reform Program
DBV	–	Development Bank of Vanuatu
DCO	–	Development Committee of Officials
DESD	–	Department of Economic and Social Development
DG	–	Director-General
DSM	–	Department of Strategic Management
ERAA	–	Expenditure Review and Audit Act
ERC	–	Expenditure Review Committee
FIA	–	Foreign Investment Act
GDP	–	gross domestic product
GBEU	–	Government Business Enterprise Unit
MFEM	–	Ministry of Finance and Economic Management
NBV	–	National Bank of Vanuatu
NGO	–	nongovernment organization
NSO	–	National Statistics Office
PAC	–	Public Accounts Committee
PFEM	–	Public Finance and Economic Management
PSC	–	Public Service Commission
SOE	–	state-owned enterprise
TA	–	technical assistance
VAT	–	value-added tax
VNPF	–	Vanuatu National Provident Fund

NOTES

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

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BASIC DATA

A. Loan Identification

1.	Country	Republic of Vanuatu
2.	Loan Number	1624-VAN (SF)
3.	Program Title	Comprehensive Reform Program
4.	Borrower	Republic of Vanuatu
5.	Executing Agency	Department of Strategic Management
6.	Amount of Loan	SDR 14,977,000
7.	Program Completion Report Number	PCR: VAN 31485

B. Loan Data

1.	Appraisal	
	– Date Started	20 Apr 1998
	– Date Completed	1 May 1998
2.	Loan Negotiations	
	– Date Started	11 Jun 1998
	– Date Completed	17 Jun 1998
3.	Date of Board Approval	16 Jul 1998
4.	Date of Loan Agreement	6 Aug 1998
5.	Date of Loan Effectiveness	
	– In Loan Agreement	5 Nov 1998
	– Actual	6 Aug 1998
	– Number of Extensions	None
6.	Closing Date	
	– In Loan Agreement	31 Dec 2000
	– Actual	14 Dec 2000
	– Number of Extensions	None
7.	Terms of Loan	
	– Service Charge	1% per annum
	– Maturity (number of years)	40
	– Grace Period (number of years)	10
8.	Tranche Releases	

a. Dates

Item	Appraisal	Actual
Date of First Tranche	6 Aug 1998	11 Aug 1998
Date of Incentive Subtranche	11 Dec 1998	26 Feb 1999
Date of Second Tranche	31 Oct 1999	14 Dec 2000

b. Amounts (\$ million)

Item	Appraisal	Actual
First Tranche	10.00	9.96
Incentive Subtranche	5.00	5.19
Second Tranche	5.00	4.80
Total	20.00	19.95

9.	Disbursements	Initial Disbursement	Final Disbursement	Time Interval
		11 Aug 1998	14 Dec 2000	28.2 months
		Effective Date	Original Closing Date	Time Interval
		6 Aug 1998	31 Dec 2000	28.8 months

C. Program Data

Tranching Schedule

Item	Appraisal (\$ million)			Total
	First Tranche Release 1	Release 2	Second Tranche	
Public Sector Rightsizing and Restructuring	4.00	1.00	2.00	7.00
Financial Institutions Restructuring/ Rehabilitation	3.00	3.00	2.00	8.00
Fiscal Stabilization	3.00	1.00	1.00	5.00
Total	10.00	5.00	5.00	20.00

Item	Actual (\$ million)			Total
	First Tranche Release 1	Release 2	Second Tranche	
Public Sector Rightsizing and Restructuring	3.03	2.48	0.61	6.12
Financial Institutions Restructuring/ Rehabilitation	4.07	0.92	1.74	6.73
Fiscal Stabilization	2.86	1.79	2.45	7.10
Total	9.96	5.19	4.80	19.95

D. Supporting Technical Assistance

Name of Technical Assistance	Estimated Cost (\$'000)	Actual Cost (\$'000)
TA 2984-VAN: Institutional Support to Central Agencies for the Comprehensive Reform Program – Phase I	630.0	582.0 ^a
TA 3046-VAN: Institutional Support to Central Agencies for the Comprehensive Reform Program – Phase II	1,200.0	1,109.6
TA 3449-VAN: Institutional Support to Central Agencies for the Comprehensive Reform Program – Phase III	700.0	609.2 ^a
Total	2,530.0	2,300.8

^a Amount of contracts awarded to date. Technical assistance ongoing.

E. Project Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From Aug 1998 to Dec 1998	Satisfactory	Satisfactory
From Jan 1999 to Oct 1999	Satisfactory	Satisfactory
From Nov 1999 to Dec 1999	Satisfactory	Partly Satisfactory
From Jan 2000 to Dec 2000	Satisfactory	Partly Satisfactory

F. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members ^a
Reconnaissance	5–14 Feb 1997	3	30	a, j, h
Fact-Finding	2–29 Sep 1997	3	36	a, b, h
	2–14 Sep 1997	1	13	d
	2–12 Sep 1997	1	11	e
	22 Aug–21 Sep 1997	1	30	i
	17 Nov–3 Dec 1997	6	80	a, b, c, g, h, j
Preappraisal	20 Apr–1 May 1998	1	12	a
Postappraisal	11–17 Jun 1998	1	7	a
Loan Negotiations	18–26 Nov 1998	6	19	f, k
Program and TA Review 1	19 Jul–13 Aug 1999	6	36	f, h, k
Program and TA Review 2	7–18 Aug 2000	6	22	f, h, k
Program and TA Review 3	14–23 Oct 2002	1	8	f
Program Completion Review ^b				
Total			304	

^a a – senior programs officer, b – senior financial analyst, c – counsel, d – strategy/policy officer, e – social development specialist, f – senior project implementation officer, g – manager/Office of Pacific Operations, h – regional representative, i – senior project economist, j – staff consultant, k – TA consultants.

^b The program completion mission was undertaken by Ms. A.T. Vatucawaqa, Senior Project Implementation Officer, South Pacific Regional Mission.

I. PROGRAM DESCRIPTION

1. In July 1998, the Asian Development Bank (ADB) approved the Comprehensive Reform Program (CRP) Loan (the Program) for SDR14.977 million (\$20.0 million equivalent) from its Special Funds resources to the Republic of Vanuatu. The Program aimed to enhance and sustain private sector-led economic growth with its benefits distributed equitably within Vanuatu. This was to be achieved by (i) redefining the role of government and enhancing the quality and delivery of its services, (ii) increasing the productivity and growth of the commercial and private sector, and (iii) supporting improvement of social indicators. Two technical assistance (TA) grants supported implementation of the Program's policy framework.¹ Other TAs that complemented the Program included preparation of a strategic plan for the National Bank of Vanuatu (NBV) and entrenching and deepening CRP reforms – Phase III.²

2. To meet these objectives, the Program's specific components were to (i) strengthen the legislative and institutional framework of government; (ii) introduce responsible fiscal management; (iii) achieve fiscal balance and stabilization; (iv) restructure public sector institutions and processes; (v) undertake long-term institutional strengthening of public sector institutions; (vi) improve the investment policy environment to encourage private sector investment; (vii) reform financial sector policies to support private investment; (viii) restructure government financial institutions; (ix) redefine commercial functions of government; (x) mitigate the negative impacts on groups that are vulnerable and at risk due to the reform process; and (xi) enhance social services to disadvantaged groups and rural communities.

3. The CRP was conceived in February 1997 in response to the disarray in macroeconomic policy stemming from fiscal fragility and political instability dating back to 1996. The situation was exacerbated by the growing public disenchantment with continuing economic stagnation, poor social services, Vanuatu National Provident Fund (VNPF) riots (see Appendix 1, which summarizes the chronology of events under the Program), and inefficient public administration. Consequently, the Government was determined to restore fiscal balance and business confidence through formulation of its CRP. The CRP document was presented to a national summit in June 1997 and received bipartisan support. ADB organized a consultative group meeting in July 1997, at which the CRP document was presented. External funding agencies were unanimous in their support. The Government requested ADB to assist in the preparation of a CRP matrix and action plan. The Government's CRP matrix closely reflected the broad visions enshrined in Vanuatu's constitution. The ADB program loan reform matrix is a subset of the full CRP matrix. The reformulation into a smaller matrix reflected the decision by ADB to give priority to assisting public sector reform, improving governance, strengthening government financial institutions, and strengthening public sector institutions. This program completion report provides an overview and a preliminary evaluation of initial impact and benefits.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

4. The Program was designed and formulated through a nationwide consultative and participatory process to reform the political and economic structure of Vanuatu. A national task

¹ ADB. 1998. *Technical Assistance to Vanuatu for Institutional Support to Central Agencies for the CRP-Phase II*. Manila. Assistance was earlier provided under ADB. 1998. *Technical Assistance to Vanuatu for Institutional Support to Central Agencies for the CRP- Phase I*. Manila.

² ADB. 1997. *Technical Assistance to Vanuatu for Strategic Plan for the National Bank of Vanuatu*. Manila; ADB. 2000. *Technical Assistance to Vanuatu for Institutional Support to Central Agencies for the CRP-Phase III*. Manila.

force was set up to oversee the reform formulation process. In addition, there were two task teams, one covering the area of financial and economic reforms and the other governance and public sector reforms, each chaired by former prime ministers. Both task teams included representatives from all sections of Vanuatu society, reflecting bipartisan support. Intensive policy discussions ensued for 3 months, consistent with the spirit of consultation during formulation of the CRP. The CRP was endorsed by the Council of Ministers (COM) before being formally adopted at the 1997 national summit. A technical secretariat, the Department of Strategic Management (DSM), was established in the Prime Minister's Office in early 1998 headed by a qualified and experienced ni-Vanuatu as full-time CRP coordinator for 3 years.

5. The rationale of the program loan and the content of the CRP were consistent with ADB's 1996 Strategy for the Pacific and the country's strategy (para. 43). Major funding partners³ also backed the Program. The Government's development policy letter, dated 16 June 1998 and addressed to ADB, clearly described the immediate and medium-term policy of the Government for the realization of the CRP and the agreed reform measures, which were also summarized in the policy matrix (Appendix 2). The program objectives and supporting 11 components (para. 2) were translated into 46 specific policy and institutional reform measures involving 19 government agencies. There were no changes in the agreed reform measures during program implementation.

B. Program Outputs

6. During the program period, the Government demonstrated its firm commitment to the implementation of the agreed reform measures, and either fully, substantially, or partially completed these measures under the Program, except for two measures. These were (i) review of policy and regulatory regimes for services and key utilities, and introduction of rational pricing and/or user charge schemes to ensure cost recovery; and (ii) signing of a working partnership agreement between the Government and a nongovernment organization (NGO). The program outputs are described in paras. 7–27 by immediate objective and by component, based on the assessments made in line with the program loan reform matrix, which was formulated at appraisal.⁴

- 1. Redefine the Role of Government and Enhance the Quality and Delivery of its Policy, Regulatory, and Development Services**
 - a. Strengthen the Legislative and Institutional Framework of the Government**

7. The Program called for enactment of several pieces of legislation, which had the objectives of strengthening the executive government, and inducing good governance and better economic management. Of the many CRP laws enacted, four significant laws were passed by parliament and implemented in 1998, namely: Government Act No. 5 of 1998, Leadership Code Act No. 2 of 1998, Public Service Act No. 11 of 1998, and Public Finance and Economic Management (PFEM) Act No. 6 of 1998. The Government Act emphasized the strategic focus of the work of the COM; clarified the roles of ministers, their political advisors, and director-generals (DGs); and limited the size of the political establishment which supported ministers, although this has been undermined to some extent by the amendments introduced in

³ Major partners included Australian Agency for International Development (AusAID), New Zealand AID, United Nations Development Programme, Department for International Development, and Government of France.

⁴ ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Vanuatu for the Comprehensive Reform Program*. Manila.

2000 to the Public Service Act and the Government Act allowing political advisors back into executive decision-making roles. The Leadership Code Act established enforceable standards of conduct for politicians, senior public servants, and other leaders. Under the Act, the ombudsman had investigative powers. The Government enacted a new Ombudsman's Act No. 27 in November 1998, providing the office with broader jurisdiction over administrative actions, including those by public enterprises. The Public Service Act removed political interference from the public service by strengthening the independence of the Public Service Commission (PSC) and improved its management. For the first time, better-qualified people were appointed to the PSC thereby improving the quality of PSC's own decision making. However, the PSC still needs to overcome existing capacity constraints to improve its responsiveness on employment matters and assist ministries in making performance improvements. The PFEM Act introduced new financial disciplines and procedures. It provided a more comprehensive and internally consistent framework for the conduct of fiscal operations.⁵

8. The new laws have had significant impacts on the operations of government, compared to prereform days, notwithstanding the occasional derailment in the enforcement of the rule of law due to staff constraints and ineffective coordination between the judiciary and the police. The COM work has been more transparent, more focused, and deliberative in setting strategic directions. The work of the Development Committee of Officials (DCO) in screening papers submitted to the COM has ensured continued improvements in the quality of technical advice, although further strengthening of the DCO is needed. Its consideration of papers has often brought to light strategic, legal, and financial aspects that have led it to make useful suggestions for COM's consideration. The COM established a Ministerial Budget Committee in 1998 to set budget parameters and review progress against expenditure targets. The Committee's work has been crucial to establishing greater fiscal discipline and monitoring wasteful expenditure.

b. Introduce Responsible Fiscal Management

9. The Government's finances have been strengthened, largely through the introduction of improved financial and management procedures and enactment of supporting legislation such as the PFEM Act and Expenditure Review and Audit Act (ERAA) No. 3 of 1998, which strengthened fiscal oversight and performance accountability of the executive to Parliament. The ERAA allowed for the establishment of an Expenditure Review Committee (ERC) to review and report on public expenditure matters. Operating in parallel to the ERC was the Public Accounts Committee (PAC). In August 2000, Parliament introduced amendments to the ERAA to provide for the PAC to exercise the review functions that are set out in the ERC and to provide for the chairperson to be an opposition member of Parliament. The Auditor-General's office supports the work of the PAC with resources provided under CRP funds. However, the last sitting of the PAC was in 1999 and since then subsequent incoming coalition governments have failed to reappoint a new PAC. In the absence of any monitoring process, some unusual expenditure items have gone unchecked. The envisaged Vt6.0 million earmarked for the PAC under the second tranche has not been released to date.

10. Performance concepts were introduced under program budgeting. It took some time for all government personnel to understand this new system and, with the recent introduction of a new information system,⁶ departmental staff are becoming familiar with the relevant concepts

⁵ Involved assigning accountabilities and reporting arrangements, and clarifying the Government's powers to tax, spend, borrow, and provide guarantees.

⁶ An AusAID-funded project with the Ministry of Finance and Economic Management (MFEM) recently installed an accounting software program, Smartstream, and provided supporting hardware. The new system is providing managers with the most updated information and is improving financial planning and control.

and reporting requirements. Under a corporate plan exercise, the Department of Economic and Social Development (DESD) is now required to annually review the Government's budget according to programs and activities of departments per plan. Performance or service targets are submitted annually to DESD for review. Despite a slow start, this exercise is showing signs of promise, as reporting on attainment of service targets has increased from 25% to 47% based on reports received. The Australian Agency for International Development (AusAID) project with the Ministry of Finance and Economic Management (MFEM), together with TA support from ADB and other external financing agencies, has supported the implementation of program budgeting across departments and ministries.

c. Achieve Fiscal Balance and Stabilization

11. The Program had anticipated an economic growth rate of at least 4% by 2000 with annual increases thereafter. This was to be achieved through a number of measures, one of which was a reduction in the budget deficit in year 2 of the Program (1999) followed by a balanced recurrent budget in 2000 through increased revenue and reduced expenditures with a refocus on high priority programs in the education and health sectors. Contrary to expectations, a balanced recurrent budget remains a challenge for the Government due to an unexpected decline in revenues and increases in outlays as exacerbated by conflicting demands on the incoming coalition government, such as an unbudgeted back-payment made to the police in 2001 (while other public servants have not been given such a payment). The first phase of reform saw a contraction in gross domestic product (GDP) of 0.2% on an annual basis, during the period 1998 to 1999. The annual rate of GDP growth for 2002 is forecast at 3%, due mainly to a recovery in the agriculture sector and continued success of tourism. The cash-flow position of the Government remains precarious. Recurrent revenue and recurrent expenditures for the 8 months to August 2002 represented 60% and 70%, respectively, of the budget forecast for the year. The value-added tax (VAT) was introduced as planned, and revenues were in line with targets until recently, as a slowing down in business activities and lack of enforcement are now affecting revenues. The shortfall in revenues has been met through domestic borrowing, overdrafts from the Reserve Bank of Vanuatu, issue of government bonds of varying maturities, and selling of some government shares in public companies. This is clearly an unsustainable situation. Due to persistent cash-flow problems, departmental operations have been restricted to monthly warrants and explicit authorizations for hiring of staff by MFEM. The size of the budget deficit for 2002 is expected to slightly improve over last year's figure from -3.75% of GDP to around -1.0% largely on account of delays in implementing externally-financed capital projects.

12. Tax and tariff systems were overhauled as a stimulus to economic activity. Export taxes were abolished, turnover tax was replaced with VAT, and there was a reduction in the number and magnitude of import tariffs. Income from VAT has fluctuated since its introduction. To compensate for the effects of these measures, some expenditure savings remaining from the public service rightsizing program⁷ were redirected to budgetary support. Similarly, the Government slowed down the restructuring of ministries by withholding release of redundancy /retirement payments. A Foreign Investment Act (FIA) passed in June 1999 has improved transparency in regulation of foreign investment. The Government recognizes that the current tax structure is in need of simplification and rationalization and is advocating more compliance measures to be enforced. On the expenditure side, further restructuring by all ministries is ongoing with both the Ministries of Health and Education reducing their number of directors by one and plans are under way for mergers and amalgamations of some departments in 2003–2004.

⁷ The rightsizing yielded about 7% savings in the wages bill.

d. Restructure Public Sector Institutions and Processes

13. Redefining the role of government and improving public sector efficiency were critical elements of the Program. As a first step, meritocratic systems for appointment, promotion, and evaluation were introduced. This was followed by the establishment of (i) an independent public service, which has proved effective in serving the Government and public; (ii) a legal framework for the effective and fair employment, management, and leadership of employees; and (iii) assurance of the rights and obligations of employees. A new public service manual is in place to provide guidance. Political interference in the public service has been largely removed. The appointment of DGs on competence and merit has strengthened public service autonomy and efficiency despite a relatively small pool of competent people to draw from. Initially, the DGs faced considerable obstacles in learning their new leadership and management roles, in developing effective working relationship with their ministers and with political advisors in managing the restructuring of new ministries, and in responding to the Government's priorities under the CRP. This was partly due to the poor public service situation that they inherited, the absence of mentoring support, and the protracted delay in fielding of the AusAID-funded public sector institutional strengthening project. Recently, PSC implemented a rotation program for selected DGs and directors with a view to enhancing their leadership roles. Performance agreements are being drafted that will be the basis for reviewing performance and effectiveness of the public service and DGs. This exercise will undoubtedly contribute to the streamlining of operating processes and improvement of service effectiveness.

14. DSM was established with the objective of coordinating policy and implementation actions of the Government. DSM was staffed with suitably qualified and experienced personnel but most have either been transferred to other departments or gone on long-term study leave. The public service reforms resulted in the reduction in number of government ministries from 34 to 13. Under the rightsizing exercise, PSC approved, on the recommendation of DGs, over 700 redundancies⁸ across the public service, notwithstanding the backfilling to key service delivery departments. Most of the people affected accessed the transition services to prepare them in reorganizing their lives. Key business processes and information systems to monitor progress were put in place as evident from the annual strategic and corporate plans prepared by each ministry. The Government Act established the DCO⁹ that initially comprised DGs and the director of DSM as the secretariat to review policy papers submitted to COM.

e. Undertake Long-Term Institutional Strengthening of Public Sector Institutions

15. The Management Improvement Plan implemented by the Service Delivery Improvement Committee has assisted the public service and put in place a corporate plan for each ministry and business plans for all departments. After a difficult transition period, the plans are now better linked to the Government's budgeting process in terms of expenditure priorities and resourcing. A Remuneration Tribunal established by act of Parliament in 1998 to set levels of remuneration for public servants has issued two determinations; however, implementation is being stalled due to budgetary constraints and derailment within the Government's parliamentary process to make amendments to the outcome of the determinations.¹⁰ Under the

⁸ This was equivalent to about 16% of the total public service staffing levels in 1999.

⁹ DCO is a technical committee for which membership was expanded via a private member's bill passed by Parliament in 2000 to include, first, political advisors.

¹⁰ Under the Remuneration Tribunal Act, the Tribunal's decision is final. Apparently, the Tribunal's determination of the government legal officers' salary package was below the expectations of the officers, who in turn requested

second tranche, a budget of Vt35 million was committed. The system of monitoring performance against targets in the program budgets of departments and ministries by DESD appears to be on an ad hoc basis due to weak capacity and delayed submission of required reports by the respective agencies, though some improvements are being noted. From 2003, PSC will build into the performance agreements of DGs four or five key service targets as monitorable outputs as the basis of measuring performance.

16. Several mechanisms are in place to monitor public sector performance. In addition to the two task force teams there is the social task force monitoring group, national and provincial summits, and NGOs. A Prime Minister's advisory group launched in August 2002 has replaced the workings of the social task force monitoring group. Reports such as the fiscal position, National Audit Office reports, Ombudsman's Office reports, National Statistics Office (NSO), etc. are produced regularly and available to the public on request. Most of these reports have also been published in the news media. NSO is mandated to collect social statistical data and systems are already in place to collect such data from service delivery agencies. Under TA 3833-VAN,¹¹ a social statistician is being recruited to help in this exercise. Capacity constraints to produce the above reports in a timely manner remain a challenge.

2. Increase the Productivity and Growth of the Commercial and Private Sector

a. Improve the Investment Policy Environment to Encourage Private Sector Investment

17. Under the Program, a new FIA and Credit Union Act were enacted in 1998, a credit guarantee scheme supported by the Government of the People's Republic of China (PRC) grant came into effect in 2001, an NGO network to channel credit to ni-Vanuatu was put in place, and a master plan for infrastructure development was developed and partially implemented. The FIA in its original form was sound but Schedules I and II to the Act were found to be restrictive on reserved investments, and were subsequently amended. The FIA created a more conducive legal framework for foreign investment but the licensing process remains lengthy and an application can be stopped or slowed unnecessarily by a host of bureaucrats. The Vanuatu Investment Promotion Authority was established to help streamline investment-licensing procedures. Further strengthening of the Authority is needed. The credit guarantee scheme was slow to start due to the absence of working experience among staff and funding. Grant funds from the PRC Government in support of the credit guarantee scheme were made available and directed in 2001 to the Department of Ni-Vanuatu Business for Vt111 million (\$804,348) and Vt150 million (\$1.087 million) to the Department of Cooperatives. Credit support from women's organizations and credit unions has been instrumental in enhancing credit flows to the rural sector. The infrastructure master plan is being implemented in coordination with the ADB outer islands development project, currently being processed.

b. Reform Financial Sector Policies to Support Private Investment

18. A significant reduction in tariffs and rationalization of the tariff structure were introduced in 1998. The average levels of tariffs were lowered from 29% to 22% with further reductions in protective duties made in each of the next 3 years. By 2004, the total reduction in average tariff

reconsideration based on private sector scales. COM reviewed the determination report but was limited in its ability to make amendments. Hence the decision of how best to proceed has stalled. Meanwhile, the Government is losing its qualified lawyers and doctors either to the private sector or overseas.

¹¹ ADB. 2002. *Technical Assistance to Vanuatu for the Institutional Strengthening of the National Statistics Office*. Manila.

levels will amount to 33%. Vanuatu has also become a signatory to various bilateral and regional trade agreements¹² with preparations advanced to becoming a member of the World Trade Organization. In 1998, the Government revoked all import licenses that effectively awarded monopolies to business entities. One notable government entity affected by this decision was the Vanuatu Commodities Marketing Board, the sole marketing body responsible for buying copra from copra producers and marketing it. Following deregulation, private sector copra buyers came onto the scene, setting quality standards and offering higher prices, thereby crippling the Board's profitability structure. Overall, the tariff reforms remain on track.

c. Restructure Government Financial Institutions

19. Prior to the introduction of reforms, both the Development Bank of Vanuatu (DBV) and NBV were technically insolvent and the VNPF faced significant funds deficiency. The three institutions were grossly mismanaged and directed by politically appointed boards of directors. Political interference was the main cause of the institutions' nonperformance. Most board members lacked formal qualifications, business skills, and basic business understanding. The Government had always recapitalized them, offering no incentives to make them strive for commercial viability or improve their return on equity; there was no support for a strong financial governance structure, nor any reward for achieving higher efficiency. Consequently, these distortions perpetuated weak public financial institutions. The Program was designed to restructure and rehabilitate the NBV, VNPF, establish an Asset Management Unit (AMU), dissolve DBV, and enact related legislation to ensure their sustainable effectiveness and provide stability in the financial system.

20. As a first step in implementing effective bank restructuring, the Financial Institution Act (No. 2) of 1999 was enacted, empowering the Reserve Bank of Vanuatu to supervise all domestic financial institutions.¹³ The Financial Services Commission supervised the large number of offshore banks but a recent amendment to the Financial Institutions Act by parliament in December 2002 now empowers the Reserve Bank of Vanuatu to supervise both onshore and offshore banks. In this regard, banking supervision will need to be reviewed. Following the dissolution of DBV, the AMU was created through AMU Act No. 22 of 1998 to oversee the recovery of outstanding loans transferred from DBV and NBV, and recovery of bad debts owed to the Government and its agencies. While some recovery has been achieved, the receipts fall below budgeted expectations. The Government is encouraged to consider exit options for the AMU so as to satisfactorily conclude its original mandate, as there is little rationale for its continued existence.

21. Through TA 2961-VAN (footnote 2), NBV was strengthened to sustain private sector-led economic growth. The principal outputs of the TA were (i) an implementation and monitorable strategic plan for NBV; (ii) business policies and policy guidelines to manage NBV's asset portfolio; and (iii) reorganization and staffing, evaluation of staff competencies, and determination of human resources requirements to implement the strategic plan. The strategic plan embraced satisfactory legislative, corporate governance, management, and operational measures, and met most of NBV's expectations (except no plan was made for recovery of the assets transferred to AMU). Commitment to implement the strategic plan was enhanced by the

¹² As a member of the Melanesian Spearhead Group, it aims at agreeing to terms and conditions for a faster reduction in tariffs and other trade barriers among member groups, even though trade between these members is miniscule. Vanuatu will also benefit from the Pacific Islands Closer Economic Cooperation and Pacific Island Countries Trade Agreements among Forum Island countries.

¹³ The definition of domestic financial institutions was limited to onshore commercial banks and excluded nonbanks such as the insurance companies, VNPF, and other credit institutions like DBV.

Vt400 million capital injection under CRP funds, and appointment of a professionally qualified board of directors, international general manager, and three other managers. NBV has made significant progress in turning itself around from a loss-incurring operation to a sustainable and profitable banking operation. In 2000, net profit totaled Vt25,637 while for 2001 a net loss of Vt19,597 was declared.¹⁴

22. VNPF has had a remarkable turnaround since its near collapse in 1998 following riots and a political decision for substantial payouts of Vt3.2 billion to members. Under the CRP, the VNPF Act was amended allowing appointment of a professionally qualified board of directors, placement of up to 50% of the Fund's investments offshore, and an increase in contribution rates. This was supported by the appointment of an experienced and qualified international general manager to head the institution and a Vt225 million capital injection to help with the deficit position of Vt355 million. Unlike NBV's assistance structure, VNPF's general manager almost single-handedly restructured the Fund, including training of staff. Through TA 3449-VAN (footnote 2), ADB supported VNPF with the design and installation of a new members' information system and assisted with one week of management training. Significant progress has been achieved and by 2001 the deficit had turned into a surplus of Vt17.7 million and by the end 2002, a surplus of Vt63.7 million is expected. The long-term profitability of the Fund is assured as contributions have increased to Vt50 million–60 million a month.

d. Redefine Commercial Functions of Government

23. The Government Business Enterprise Unit (GBEU) was set up in 1998 to manage divestment of state-owned enterprises (SOEs), ensure that any residual SOEs were run on a commercial basis, and evaluate the financial status of the Government's commercial investments. Prior to the reform, political interference in the operation of SOEs was the norm as evident from the near collapse of the NBV, VNPF, and DBV. The enactment of key legislation and introduction of corporate governance structures under the Program has limited the degree of political interference. In the last 3 years, the GBEU has successfully corporatized the Civil Aviation Authority and Vanuatu Post. Vanuatu Post has started paying dividends to the Government, though the Civil Aviation Authority is in a difficult financial position. In 2001, a total of 10 SOEs were sold to the private sector with the national airline due for partial privatization (up to 50%). In 2002, the plan has been that three more SOEs will be corporatized, five will be sold, and a further five will be partially privatized. However, efforts in this regard have been slow. While the GBEU has long-term plans to divest government interests in all SOEs to the private sector, the process has stalled because of revenue impacts on the budget. It remains unclear how much revenue impact will be created under this assumption on the budget. Some take the view that the regulatory structure and enforcement mechanisms to induce competitive pricing, which may be required for the divestment process to succeed, are absent, hence there is no sense in pursuing the exercise. Accordingly, the Government is encouraged to carefully sequence the divestment process in light of the impact on the budget and the risks of simply transferring monopolies from the Government to the private sector, so as to maximize net gains to society. Following enactment of the Government's Contracts and Tenders Act No. 10 of 1998, most ministries have successfully contracted out services to the private sector, e.g., quarantine services, health services, and road maintenance.

¹⁴ The net loss resulted from a restatement of the last 5 years' results to give a balanced comparative analysis of the effect of government grant assistance on NBV's actual trading results for those years. Past external audits have treated grants as income instead of amortizing them. Preliminary indications for 2002 show that a small profit will be realized, which will be NBV's first real profit recorded since inception.

3. Support the Improvement of Social Development Indicators

a. Mitigate the Negative Impacts on Groups that are Vulnerable and at Risk from the Reform Process

24. A Transition Services Unit was established to help retrenched public servants find alternative jobs or business development opportunities. About 93% of retrenched staff accessed the services to find alternative employment, undergo training, obtain advice on business management, and seek assistance for those who opted for repatriation to their home islands. In addition, a mechanism to monitor the social impacts of the CRP and immediate measures to ameliorate negative impacts on disadvantaged groups was developed in 1998 by a social impact advisor with staff of DSM. Unfortunately, little progress has been achieved. Through the recommendation of the social monitoring advisor, NSO was tasked to collate data in order to formulate baseline indicators for subsequent monitoring of CRP social impacts. Currently, there is a growing body of data for social monitoring and social policy development but the updated statistics post-CRP and analysis are lacking. The 1999 census defined some baselines for measurement of impacts linked to the nine social policy issues under the CRP. Analysis of social statistics would allow better policy objectives to be established by DSM and for NSO to monitor progress. This work will be strengthened with the fielding of a social statistician with NSO in 2003 under TA 3833-VAN (footnote 11). Further support in this area should be supported to ensure the social impacts of CRP are mitigated and proper policies developed to address social inequities.

b. Enhance Social Services to Disadvantaged Groups and Rural Communities

25. Consistent with the Program, there was a doubling of capital budget allocations for education and health. A comprehensive Education Master Plan formulated in 1999 with World Bank assistance was revised in late 2001.¹⁵ In an effort to deliver services better to teachers, schools, and the public, the Ministry of Education completed another reorganization in 2001 for implementation in 2002. Two structures were created, the Ministry of Education focusing on formal education and the Ministry of Training, Youth and Development focusing on informal education. Further plans are in place to streamline the structure of both ministries in 2003 with the view to better integrate the outputs and improve efficiencies. Published statistics in annual reports for 2000 and 2001 confirm improvements in the number of students enrolled at primary and secondary school and at tertiary institutions; the number of new schools opened; that the quality of the curriculum has improved and is better focused; and that the organization structure reflects recent education developments.

26. The master plan for the Ministry of Health covered the period 1997 to 2001. The plan aimed at improving the quality, coverage, and relevance of health services in Vanuatu and provided the policy framework for preparing and implementing annual corporate plans for the Ministry. Further restructuring and strengthening of the Ministry is ongoing with a view to sharpening its focus on improving service delivery both at the national and provincial levels. Since 1999, the outcome of various reform initiatives under the 2000 and 2001 corporate plans have resulted in improved quality of life indicators, wider access to medical care in rural communities following the opening of dispensaries, better planning and distribution systems in

¹⁵ The revised "Vanuatu Education Program for All" plan captures two important innovations introduced under the original plan. The first is the introduction of learning in the vernacular language from kindergarten through to class 8 in primary; the second is the creation of a new kind of school—a community day secondary school for years 7 and 8. The World Bank has agreed to incorporate these changes in its revised project proposal.

place through an incremental devolution process, improved health worker knowledge and skills in family health issues, an improved information system, and an improved drug system. The AusAID health-strengthening project has been supporting the Ministry in implementing its plan.

27. A decentralization commission report has been prepared and launched following wide consultation in 2001. The report identified local government issues that needed to be addressed. The Minister of Internal Affairs has recently launched a committee to review the recommendations in the report and prioritize them vis-à-vis other recommendations contained in the Rural Economic Development Initiative Report developed for each of the six provinces. Implementation of the recommendations will await Parliament's approval of the report.

C. Program Costs

28. ADB supported the Program with a \$20 million equivalent loan from its Special Funds resources. The loan proceeds were withdrawn for the purposes of financing foreign currency expenditures incurred for eligible items of procurement as specified in Schedule 3 of the Loan Agreement, including those incurred within 180 days prior to loan effectiveness. The counterpart funds generated from the loan proceeds were to be used for (i) financing the public service rightsizing and restructuring program, including modest financial and human resources development support for persons retrenched from the public service under a managed transition service program; (ii) supporting the restructuring and rehabilitation of public financial institutions; and (iii) supporting fiscal stabilization (see Basic Data).

D. Disbursements

29. Loan proceeds were withdrawn in accordance with ADB's standard disbursement procedures and used exclusively to finance the full foreign exchange costs of items produced in and procured from ADB's members, other than those on the negative list. The loan was disbursed in two tranches. The first tranche of \$15 million equivalent was released in two parts: \$10 million equivalent was disbursed on 11 August 1998 and the incentive subtranche of \$5 million equivalent was disbursed on 26 February 1999. The second tranche of \$5 million equivalent was disbursed on 14 December 2000.

E. Program Schedule

30. The program period was for about two and half years between July 1998 and December 2000. The Program was completed in December 2000 with the release of the second tranche of the loan. The second tranche release was delayed by about 14 months from the initially envisaged date of October 1999 due to the fall of a pro-reformist Government in November 1999. However, this delay did not affect the schedule for overall CRP program implementation. The loan account was closed on 14 December 2000, i.e., before the 31 December 2000 closing date specified in the Loan Agreement (Appendix 1).

F. Implementation Arrangements

31. DSM was designated as the program Executing Agency with responsibility for overall coordination and implementation of the CRP, including ensuring that the Government's assurances were met. MFEM was responsible for initiating withdrawals under the loan and for managing the special account for the counterpart funds. DSM's implementation and coordination role was undertaken in collaboration with MFEM, the Attorney General's Office, PSC, and other agencies. The Project Coordination Committee, CRP Task Force, and national

summits also played an important role in regular monitoring of the Program and policy matrix conditions. The implementation arrangements for the Program were adequate for delivering the program outputs envisaged at appraisal; however, effective coordination and timeliness in the delivery of certain outputs were constrained by weak human resource capacity in the public service. ADB's TA consultants effectively interacted with these government agency staff and provided them with the necessary technical and advisory support for facilitating program implementation (para. 39).

G. Conditions and Covenants

32. The Program consisted of a total of 46 policy conditions or actions, four of which were first tranche policy actions complied with at the time of loan approval by the ADB Board. Appendix 2 gives the status of compliance with policy actions. Six actions were specified as conditions for incentive subtranche release, 7 actions for release of the second tranche, and 29 actions were to be implemented during the program period. Of the 46 policy actions, the Government has completed 44 and work on the remaining two is ongoing. These agreed actions adequately reflected specific program objectives.

33. The status of compliance with loan covenants at the time of the program completion review is summarized in Appendix 3. These covenants are related to general and program specific requirements included in the Loan Agreement. The Government generally complied with all loan covenants except for the conditions requiring submission of audited accounts.

H. Related Technical Assistance

34. ADB processed three separate TAs to take account of (i) the new organizational structure of DSM; (ii) the overall management framework for the CRP; and (iii) the policies, strategies, and coordinating mechanisms with a strong emphasis on the transfer of skills. Support was provided to central government agencies including DSM, MFEM, PSC, and the Attorney General's Office. The delivery of the TA support was in three phases, covering fiscal years 1998–2000. TA 2984-VAN (footnote 1) covered the period April to August 1998 and played a key role in establishing DSM and in mapping out the overall management framework for the CRP. After three extensions, the TA is now being closed. TA 3046-VAN (footnote 1) is attached to this loan and covered the period mid-September 1998 to December 1999. The third phase, TA 3449-VAN (footnote 2) covers 2000 and beyond, and is ongoing. In each phase, the TA focused on four key areas: (i) overall national-level coordination, development management, and monitoring of the implementation of the CRP; (ii) coordination of the good governance and public sector reform component of the CRP; (iii) coordination of the economic and financial management reform component of the CRP; and (iv) development of leadership skills and managerial capacity at the level of the DG of ministries and the directors of departments.

35. ADB provided 20 person-months of consulting services under Phase I, 58 person-months under Phase II, and 31 person-months under Phase III. Complementing the ADB-funded CRP TA programs were the AusAID-funded public sector strengthening project, institutional strengthening of the MFEM, and the health sector strengthening project. Other bilateral funding agencies including New Zealand AID, United Kingdom Department for International Development, France, European Union and the PRC assisted with the CRP.

I. Consultant Recruitment and Procurement

36. Under the Program, a team of four qualified and experienced banking professionals (including the general manager) was externally recruited to manage the restructuring of the NBV. Part of their salaries was met from loan proceeds in the first year and subsequently directly from internal revenue generation of NBV. ADB engaged various individual consultants under separate TAs in accordance with its *Guidelines on the Use of Consultants*.

37. The loan proceeds were used to cover the foreign exchange costs of eligible items under the Program in accordance with the provisions of Schedule 3 of the Loan Agreement. Based on the MFEM certification, ADB's loan review and program completion review missions confirmed that procurement was made in accordance with the procurement procedures stipulated in Schedule 4 of the Loan Agreement.

J. Performance of Consultants, Contractors, and Suppliers

38. At the request of the Government, the services of the three core TA consultants¹⁶ directly engaged under Phase I were continued in Phase II to ensure the necessary depth and continuity of support. The consultants performed in accordance with their terms of reference. The overall performance of the TA consultants was satisfactory and effectively contributed to program implementation.

K. Performance of the Borrower and the Executing Agency

39. Notwithstanding the difficult environment, limited skilled human resources, and high staff turnover, DSM provided quality support in all aspects of program implementation. The CRP coordinator played a significant role in driving the reform process, encouraging local officials to be fully committed to the policy actions, and showed clear understanding and strong determination to successfully implement the Program. In the early days of reform there was a strong ownership of the Program by the reformist Government, albeit with some adjustments by successive coalition governments. This facilitated sensitive policy dialogue and ensured implementation of difficult policy decisions. DSM was also instrumental in facilitating coordination with other ministries and agencies and, more importantly, in fostering constructive dialogue with politicians and other stakeholders in public, economic, and financial sector reforms. DSM intensively pursued coordination support among funding agencies in an endeavor to inform and engage them in its reform efforts. The Program Coordinating Committee and the Financial Institutions Restructuring Committee played a key role in monitoring CRP implementation and facilitating interactions among key stakeholders at the central agencies. The annual national summits and national task force groups cum Prime Minister's advisory group regularly monitored implementation issues.

40. The delayed start to the public sector strengthening project to support, mentor, and train newly appointed DGs, directors, and staff in their new roles affected implementation. This was partly due to the Government's shortcomings in managing and coordinating funding agencies programs (para 56). Staff recruited for DSM, with the exception of the director, were all fresh graduates and lacked sufficient seniority status to effectively articulate monitoring issues with officers of other departments. Numerous changes in cabinet ministers, political advisors, DGs, and directors disrupted continuity and institutional memory.

¹⁶ The core team included the CRP coordinator, public sector reform advisor, and the economic reform advisor.

41. The Government has generally met the requirements of loan administration except that implementation has stalled due to waning commitment of some coalition governments, as well as capacity and budgetary constraints. The frequent changes in government have derailed commitment and momentum of reform as compared to that envisaged at appraisal. The loan covenant requiring submission of audited program accounts for 1998–2000 has not been met. Overall the performance of the Government was partly satisfactory.

L. Performance of the Asian Development Bank

42. The ADB Vanuatu Office provided regular monitoring of the Program. Following loan effectiveness, the Office fielded three review missions and monitored progress through occasional visits by other headquarters missions to Vanuatu. The location of the office in country was a critical success factor in directly engaging the Government and other external funding partners in constant dialogue to identify and resolve policy and implementation issues. Continuity of ADB staff during the program implementation period also contributed to the establishment of effective working relationships with the Government. Extensive partner consultation was conducted with each review mission. The overall performance of ADB was satisfactory.

III. EVALUATION OF PERFORMANCE

A. Relevance

43. The Program was relevant both at appraisal and completion. The rationale of the Program loan and the content of the CRP were consistent with ADB's 1996 Strategy for the Pacific and the country strategy. However, the design of the Program was too ambitious and complex in terms of time targets, weak institutional capacity, and cultural adaptation. The CRP placed heavy demands on local politicians, officials, and the wider community. Parliament was required to approve complex legislation with little scrutiny and reflection. At the working level, both ministers and public servants found it difficult to make the transition between the old and new systems of management with no close mentoring, resulting in protracted delays during implementation. At the same time there was inadequate local expertise to cope with the complex requirements of introducing the reform program. Consequently, there was high dependence on international expertise. The speed of policy making made it difficult for the officials to adequately explain to the population the key aspects of the reform, thus weakening the consultative mechanism and strong momentum developed during the CRP formulation phase. The fall of the pro-reformist government in November 1999 was a major setback to the pace and sequence of reform measures resulting in delayed implementation and realization of the expected fiscal adjustment.¹⁷ Despite its fall, subsequent coalition governments remained committed to CRP initiatives because the process of establishing good governance had been firmly established.

B. Efficacy in Achievement of Purpose

44. The Program is rated as efficacious. Through the public sector reform initiative, political interference has largely been removed in public service employment matters. Measures for strengthening institutions relating to good governance and reforming the public service, particularly those agreed as milestones for loan approval and first tranche conditions, have been

¹⁷ It was envisaged at appraisal that through necessary structural and fiscal adjustments, a move to recurrent budget balance should occur in 1999, followed by a surplus in 2000. This has still to happen.

effective. Strengthening capacity within the newly established ministries and key agencies for implementing economic reform policy, performing strategic regulatory functions, and improving service delivery are being implemented with some tangible outcomes. The 10% rightsizing of the public service achieved its intended purpose but the monetary saving was minimal as reflected in the following Table. Reform of the financial institutions is one of the most successful outcomes of the Program. Economic reforms to boost confidence for enhancing private sector investment are ongoing with some mixed results. While VAT has made some contributions to the revenue base, compliance and enforcement in the rural and urban areas remain a challenging task. In the absence of increased economic activity by the private sector, tariff reform has had a consequential negative impact on the government budget. The privatization and corporatization of government enterprises has also slowed down because of the negative revenue impact it creates on the budget. The GBEU is preparing a COM paper on the privatization process incorporating lessons learned under Phase I and the next steps proposed for action. Of the successfully corporatized SOEs, Vanuatu Post declared its first interim dividends in June 2002 while Vanuatu Maritime Authority has returned to the Government Vt21 million of the total Vt200 million received since corporatization.

Table: Public Service Ministry Staff Numbers and Average Salaries

Ministry	April 1998: Prereform	Jan 1999 Staff Ceilings	July 2002	Change in Nos. from Prereform
Prime Minister	49	41	41	(8)
Internal Affairs	778	700	656	(122)
Ministry of Finance & Economic Management	144	117	161	17
Trade & Business Development	54	43	51	(3)
Agriculture, Forestry, Fisheries, & Quarantine	240	180	168	(72)
Education	1,640	1,563	1,879	239
Health	752	706	758	6
Lands	146	110	111	(35)
Infrastructure & Public Utilities	462	375	201	(261)
Total	4,265	3,835	4,026	(239)

Estimates	1997 Pre- rightsizing	2002	Change (Vt)
Average Salary in Ministries (Vt/yr)	597,000	669,000	72,000
Average Parliamentary Salary (Vt/yr)	313,000	2,384,000	2,071,000

Source: Public Service Commission.

C. Efficiency in Achievement of Outputs and Purpose

45. The Program is rated as efficient. The policy dialogue initiated by ADB during program formulation and implementation with funding partners was a major catalyst for Vanuatu to embark on its reform. The process was done through a nationwide consultative and participatory process to reform the political and economic structure of the country. Support for the reform was initially on a bipartisan basis. This was followed by a consultative group meeting in July 1997, which resulted in overwhelming support from the international funding community.

D. Preliminary Assessment of Sustainability

46. The sustainability of the Program is rated as less likely. The severe capacity constraints and lack of a pool of experienced and skilled managers have inevitably resulted in a high

dependency on foreign expertise. Accordingly, some concerns were raised about sustainable capacity building and development, and control and ownership of reforms. The expenditure to date on human resources development and implementation would be wasted if it was obvious that the local capabilities and skills required to implement the various laws enacted were lacking. Parliament had to approve complex legislation with little scrutiny and reflection. Associated with this is the weak law enforcement capacity. There is little coordination between the five key related agencies in the enforcement chain including the Auditor-General's Office, the Ombudsman's Office, the Public Prosecutor's Office, the judiciary, and the police. The current instability within the police force is evident in the fragile nature of the main law enforcement agency. In view of the potential risk of policy reversal, ADB will need continued dialogue with the Government aimed at promoting sustainable public and economic sector reforms in the country.

47. Restructuring of the financial institutions is positive and ongoing. However, political interference in the decision-making process in the sale of some large SOEs has resulted in huge legal damages to the Government and loss of investor confidence. Foreign investors making inquiries for business licenses have experienced protracted delays through bureaucratic processes. Private sector investment overall remains low because of political uncertainties and the high cost of doing business.

E. Sociocultural and Other Impacts

48. The sociocultural and other impacts are moderate. The direct impacts of the Program are in three broad areas: (i) public service delivery, (ii) strengthening of financial institutions and fiscal activities, and (iii) social and economic impact on the wider communities. On the fiscal front, the rightsizing of the public service was short lived as political advisors returned following amendments to the Government Act and Public Service Act, thus raising wage bills. The introduction of VAT and tariff reductions provided some opportunities for unwarranted price rises in the outer islands but they have since been controlled. The impact of VAT has caused some hardships to rural families in terms of their ability to pay for education and medical services, and has added to the cost of doing business. Reform of the public service has produced some credible performances compared to prereform days. For the first time, the public service now has better-qualified and experienced staff who are appointed on merit. Gone are the days of people being appointed on political or *wantok* (clan) basis and people being dismissed unfairly. Therefore, professionalism and independence of the public service has been established. In addition, public servants now have better access to training opportunities.

49. Any CRP will have both negative and positive social effects. The baseline data to document winners and losers through social impact monitoring are either out of date or have not been collected. Efforts are under way at the NSO to engage a social statistician (para. 24). Because the Transition Services Unit was closed in 1999 there is no information on the status of retrenched public servants who have started their own businesses, or found alternative employment, whether their position has improved or not, etc. This is one of the shortcomings of the Program in that the functions of the Transition Services Unit, to regularly monitor public service restructuring, were not transferred to the PSC. Data collation and interpretation remain a problem in Vanuatu and government departments should be encouraged to collect and document information needed for decision making.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

50. Although the release of the incentive subtranche and second tranche conditions were both delayed, the program objectives were considered partially achieved compared to expectations at appraisal. The Government was committed to the completion of critical reform measures, though implementation subsequently stalled due to frequent political instability and budgetary difficulties. The relevant TAs effectively contributed to timely program completion. Based on ADB's program rating system, the Program is rated partly successful,¹⁸ although it is close to the successful category. The Program would have been rated successful had the chances of sustainability been assessed as being greater.

B. Lessons Learned

51. A key lesson under the Program is the value of a wide consultation and participation process to entrench support and broad ownership for any reform initiative. The consultation process carried out during preparation of the CRP and still continuing provided an opportunity for stakeholders to understand, monitor, and reassess their goals and make adjustments.

52. The Program underestimated the severe capacity constraints within Vanuatu. The reform initiatives created new systems and processes that are alien to Vanuatu's management and local culture. Consequently, considerable frustrations, lethargy, and communication breakdown were experienced during implementation.

53. The sequencing of reform was inadequately assessed at appraisal, without due consideration to the sustainability of the project. The CRP was too ambitious and addressed three major sectors simultaneously (public, economic, and financial) instead of being more focused. A more logical approach would have been to develop a financial sector project loan separate from the program loan covering public sector reform. Similarly, the Program assumed too much in expecting the private sector to step into the vacuum following the public service retrenchment program. Unfortunately, the framework needed to develop the private sector was absent. In addition, some reform initiatives, such as privatization of public enterprises and the creation of an environment that induces private sector investment, will take many more years than envisaged under the Program.

54. Following the dissolution of DBV, access to credit has been a problem for the public at large. The ni-Vanuatu Business Center established to cater for the business interests of ni-Vanuatu was inadequately resourced but replete with bureaucratic procedures. Further institutional strengthening will be needed before the Center becomes productive. This is an example of waste as ADB helped establish the former DBV, dissolved it, and created another new institution for which the intended objectives have not been met.

55. A strong governance framework has been one of the highlights of the Program. This is reflected in the voluminous number of laws enacted. But severe capacity constraints mean that these laws were passed without much scrutiny. In most cases, further amendments were made to enable effective implementation.

¹⁸ This program completion report is part of a sample of such reports independently reviewed by the Operations Evaluation Department. This review has validated the methodology used and the rating given.

56. ADB should be committed to fund institutional strengthening programs of key central agencies to ensure alignment of outputs with the intended reform objectives. Experience in Vanuatu has shown that work driven by project milestones has frequently failed to take account of governments' overall strategic reform agendas. Therefore, some of the outputs and capacity building envisaged under the Program have not been satisfactorily met on time. At the same time the Government should be assertive in its leadership role in managing the outputs of various funding agencies.

C. Recommendations

1. Program-Related

57. **Future Monitoring.** The responsibility for monitoring CRP implementation was vested with DSM. Following completion of the Program, most of the senior technicians were transferred to other government departments resulting in a loss of institutional knowledge and monitoring. In view of the proposed restructuring of DSM with DESD, the Government is requested to convene regular roundtable meetings to allow external funding agencies to be briefed on the proposed changes and make adjustments accordingly. Regarding monitoring, the Government should adequately resource DSM to (i) follow up the implementation of the Remuneration Tribunal determinations, recommendations of the decentralization commission, and reactivation of the PAC, (ii) prepare and implement a regulatory function to monitor and regulate the utility sector, and (iii) strengthen the application of the rule of law.

58. **Social Impact Monitoring.** The Government should be requested to submit to ADB a complete report of its analysis of the social impact of the CRP and the further policy initiatives that it intends to develop. Assuming that this could be completed in 2003, the program performance audit report could then be initiated in early 2004.

2. General

59. **Continuity in Personnel.** Efforts should be made to ensure a reasonable degree of continuity in personnel of the Government and ADB for program formulation and implementation. This will facilitate effective program coordination and implementation.

60. **Institutional Assessment.** To formulate a reform measure for SOEs, a detailed action plan should be prepared based on an in-depth institutional assessment and agreed with the Government and the GBEU prior to program implementation. This holds true for any private sector development initiative.

61. **Sustainability and Political Reforms.** The Government should seriously address reform of the political parties to address political instability, particularly given the emerging public outcries for more lasting change. In this regard, the draft final report of the Constitutional Review Commission currently being finalized for parliament approval will provide a good basis for further reforms of Vanuatu's political and electoral systems.

CHRONOLOGY OF MAJOR EVENTS

Date	Event
5–14 Feb 1997	Country Programming Mission. A memorandum of understanding on the Comprehensive Reform Program (CRP) was signed with the Government
Mar–Jun 1997	Two national level task teams were set up: (i) Economic Reforms and (ii) Public Sector Reforms each chaired by former prime ministers
2–8 Apr 1997	Country Consultation Mission
26–27 Jun 1997	National summit to present and endorse the CRP document
27 Jun 1997	Port Vila Accord signed at the conclusion of national summit
28 Jul 1997	Consultative Group Meeting in Noumea, New Caledonia
2–19 Sep 1997	Loan Fact-Finding Mission (first)
12 Nov 1997	Management Review Meeting
17 Nov–3 Dec 1997	Appraisal Mission (first)
12 Dec 1997	TA 2961-VAN: <i>Strategic Plan for the National Bank of Vanuatu</i> approved.
IV week Nov 1997	Dissolution of Parliament in preparation for national election
13 Jan 1998	Vanuatu National Provident Fund riots. The unanticipated riots precipitated a change in direction and scope of the CRP loan package
29 Jan 1998	TA 2984-VAN: <i>Institutional Support to Central Agencies for the CRP - Phase I</i> approved.
5–6 Feb 1998	ADB Mission to Paris to explain Vanuatu's CRP and the proposed contribution of the Government of France.
13 Mar 1998	Funding agency coordination meeting
30 Apr 1998	Funding agency coordination meeting
20 Apr–1 May 1998	Postappraisal Mission
20 May 1998	Circulation of draft report and recommendation of the President (RRP) for staff review committee meeting (SRC)/loan and technical assistance coordination committee meeting (LTACC)
10 Jun 1998	SRC/LTACC meeting to discuss CRP loan
11–17 Jun 1998	Country contact mission to undertake loan negotiations
14 Jun 1998	Loan negotiations undertaken in Port Vila
15 Jun 1998	Funding agency coordination meeting
9–10 Jul 1998	National task force meeting
16 Jul 1998	Loan 1624-VAN: CRP loan and TA 3046-VAN approved
6 Aug 1998	Loan Agreement signed and concurrently declared effective
11 Aug 1998	First tranche of \$10 million released upon loan effectiveness
9 Oct 1998	Funding agency coordination meeting
27 Oct–11 Nov 1998	Interdepartmental Task Force Mission to assess ADB's assistance for reform programs in the Pacific, of which Vanuatu was one.
3–5 Nov 1998	National summit
18–26 Nov 1998	First Loan and TA Review Mission
27 Jan 1999	Circulation of draft progress report for release of incentive subtranche
21–25 Feb 1998	Visit by seven members of the ADB Board of Directors to Vanuatu
23 Feb 1999	Board approved on no-objection basis release of incentive subtranche
24 Feb 1999	Funding agency meeting with the ADB Board of Directors
26 Feb 1999	Incentive subtranche of \$5 million released to the Government
1–5 Mar 1999	Country Programming Mission for 1999

Date	Event
22 Mar 1999	Project Coordination Committee (PCC) meeting
21 May 1999	Funding agency coordination meeting
12 Jul–6 Aug 1999	Budget Expenditure Review Mission
19 Jul–13 Aug 1999	Second Loan and TA Review Mission
28 Oct 1999	PCC meeting
Nov 1999	Change in Government. Proreform Government fell
30 Mar–20 Apr 2000	Country Programming Mission for 2000
17 Apr 2000	A private members' bill was tabled to amend the Government Act No. 5 1998 and Public Service Act No. 11 1998. ADB raised concerns about the implications of the proposed amendments on the second tranche.
19 Apr 2000	Funding agency coordination meeting
5–7 Jul 2000	National summit
7–18 Aug 2000	Third Loan and TA Review Mission
12 Oct 2000	PCC Meeting
3 Nov 2000	Interdepartment circulation of draft progress report for release of second tranche
27 Nov 2000	Circulation of progress report to the ADB Board
13 Dec 2000	Board approved on no-objection basis release of second tranche
14 Dec 2000	Second tranche of \$5 million release to the Government

CONSOLIDATED POLICY MATRIX

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
Immediate Objective 1: Redefine the role of Government and enhance the quality and delivery of its policy, regulatory, and development services				
Component 1.1 Strengthen the legislative and institutional framework of the Government to make it more accountable.	1.1.1 Enact new Government Act to define boundaries between political leadership and public service.	Clarify functions of various departments/agencies; constrain political interference in public service; and cap number of political advisers at four for Prime Minister and deputy prime minister and three for each minister.	Completed. Enacted and came into effect on 24 Aug 1998. The act contains provisions to achieve the desired objectives. Further experience and education in the operation of the new roles is needed. Amendments, which came into operation on 16 Oct 2000, better clarify the roles of ministers, director-generals (DGs), and political advisors (PAs).	Completed. The Act is better understood and is achieving the desired effect. However, there have been instances where incoming PAs clash with their DGs because of different expectations and lack of understanding of their roles.
	1.1.2 Enact Leadership Code Act to establish enforceable standards of ethical behavior of politicians, senior civil servants, and other leaders.	Establish greater accountability of leaders to the public.	Completed. Enacted and came into effect on 7 Sep 1999.	Completed. Incoming coalition government is limiting the enforcement of the Act. Follow-up by the Public Prosecutor and the police remain ineffective and weak.
	1.1.3 Enact new Ombudsman Act to support the Leadership Code and strengthen public accountability.	Establish greater accountability of leaders to the public at large.	Completed. The Ombudsman Bill was enacted on 27 Nov 1998 and gazetted on 11 Jan 1999.	Completed. An amendment empowering the ombudsman to prosecute leaders is limited by the ineffectiveness of the police and public prosecutor.
Component 1.2 Introduce responsible fiscal management.	1.2.1 Enact public Finance and Economic Management (PFEM) Act.	Ensure fiscal responsibility and predictable fiscal policy environment.	Completed. Enacted and came into effect on 1 Jul 1998.	Completed. The Act has proven effective with some coalition governments trying to impose new expenditure plans.
	1.2.2 Enact Expenditure Review and Audit Act to strengthen fiscal oversight and performance accountability to Parliament	Reinforce accountability requirements at all levels in the public sector.	Completed. Enacted and came into effect on 7 Sep 1998. Parliament enacted amendments to the Act on 25 Aug 2000 designating the Public Accounts Committee (PAC) as the committee responsible for scrutiny of government expenditure.	Completed. Since 1999, the PAC has not met as the opposition party refuses to participate.
	1.2.3 Establish with adequate staffing and resources, and operationalize the Expenditure Review Committee to scrutinize public expenditure.	Ensure public expenditures are controlled within available revenue.	Completed. Became fully operational on 9 Oct 2000.	Partly complied with. The committee has not met since 2000. The Auditor-General's Office provides secretarial support.
	1.2.4 Ensure program budgeting is fully operational for all government departments and agencies.	Ensure performance and results orientation through monitorable targets, which are assessed periodically.	Ongoing. Budget Committee meeting is held regularly to monitor and approve eligible expenditures. Staffing ceilings are set, and identified performance indicators monitored against targets.	Ongoing. A new Smartstream information system is on line to assist in monitoring performance and results.

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
Component 1.3 Achieve fiscal balance and stabilization	1.3.1 Achieve a balanced budget by increasing revenue and reducing expenditure, while ensuring real increases in allocations for health and education services.	Reduce deficit in Program year 2. Achieve balance in Program year 3.	Ongoing. Recurrent budget deficit reduced from 1.3% of gross domestic product (GDP) in 1998 to 0.7% in 1999. The Government budgeted for a balance in the recurrent budget in 2000. An unexpected decline in revenues in 2000 suggests that this will not now be achieved. The recurrent budget deficit is likely to be between 1-2% of GDP. Health expenditures were increased by 3.3% in 1999 and by a further 6.3% in the 2000 budget. Expenditure on education was increased by 8.1% in 1999 and increased further by 0.04% in the 2000 budget.	Ongoing. Achievement of a recurrent budget remains a challenge for this coalition government. Estimates for this fiscal year to Dec 2002 show that the budget deficit will improve over last year's figure. Revenue forecasts in past years have been too ambitious while expenditures have been escalating. The Government proposes to table three revenue bills in the Nov sitting of Parliament.
	1.3.2 From FY1999, produce budget in format integrating recurrent and development revenues and expenditures.	Provide complete information on Government's overall financial operations.	Completed. The 1999 budget format represented improvement on 1998 and the budget for 2000 is a fully integrated budget.	Completed.
	1.3.3 Enact and implement new Value Added Tax (VAT) Law to widen the tax base and increase revenue.	A wider and more equitable tax system is in place, and revenue mobilization is increased.	Completed. Enacted 16 Jul 1998 and became effective on 1 Aug 1998. Total VAT revenues are in line with budget. As of May 2000, Vt0.9 billion of the budgeted Vt2.3 billion has been collected.	Completed. VAT collection is contingent on economic activity. In terms of revenue elasticity, it adds some relief but is insufficient. More compliance is needed.
	1.3.4 Reduce total number employed in public sector by between 10% and 15%.	Reduce expenditure and facilitate public service rightsizing.	Completed. The 10% net reduction criteria was met in Jan 1999. A total of 711 persons have been made redundant.	Completed.
	1.3.5 Review policy and regulatory regimes for services and key utilities, and introduce rational pricing/user charge schemes to ensure cost recovery.	Adequate policy, regulatory, and cost recovery arrangements are in place to ensure sustainability of Services at levels required by the public.	Ongoing. The Vanuatu Infrastructure Master Plan includes a component for review of these policies under Phase II and III of implementation of the Plan. The World Bank report on the regulation of utilities and other infrastructure has been completed.	Ongoing. The Government is considering implementing the recommendations of the two plans subject to availability of resources. Consultation is under way with proposed ADB outer islands development project.
Component 1.4 Restructure public sector institutions and processes to make them results focused and accountable	1.4.1 Enact the Public Service Act.	Allow the Public Service Commission (PSC) to professionalize the public service and avoid political appointments.	Completed. Enacted and became effective on 31 Jul 1998. Amendments enacted by Parliament in Aug 2000 provide adequate resources for PSC, improved arrangements for managing performance of DGs and directors, and	Completed. Performance agreements being developed for all DGs for 2 years with a focus on 4–5 key performance indicators to measure performance. DGs and directors

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
			and a stronger focus on service delivery and the role of DGs.	put on rotation programs this year.
	1.4.2 Restructure PSC with full powers to manage the public service.	PSC will provide leadership in professionalizing the public service, and ensure that appointments to the public service are only made on merit.	Completed. PSC powers and independence strengthened under the new Public Service Act. The new chairperson has provided strong leadership on issues related to management of the public service. The quality of PSC's decision making has improved as a result of its better-qualified membership. A long-term strengthening project is in place.	Completed. PSC is a more professional organization now compared to prereform days. It is free of political interference, has a professionally appointed board, and appointments are made on merit and proven experience and capability.
	1.4.3 Establish the Department of Strategic Management (DSM) with adequate staffing to coordinate the CRP process, and monitor progress and results.	DSM will provide leadership and accountability for successful implementation of the CRP; and effective policy and strategic coordination of all government agencies.	Completed. DSM was established in early 1998. DSM coordinates the CRP process and monitors progress and results. It provides advice to the Prime Minister on the strategic management of the country's social and economic development, and proactively coordinates implementation of the Government's social and economic strategies.	Completed. Following completion of the Program, the trained technicians have either been moved to other government departments or have gone on overseas study leave.
	1.4.4 Introduce results-oriented management and performance-based program budgeting system for all government departments/agencies.	Monitorable targets are established to assess the performance of departments.	Completed. Performance indicators for all ministries were published with the 1998 and 1999 budgets, and have been reviewed. Performance against indicators is being monitored quarterly by the Budget Committee. For the first time, annual accounts have also been produced and are ready for discussion in Parliament.	Completed and ongoing. Work in this area needs further improvement. Staff of the Dept. of Economic & Social Develop. do not actively monitor performance indicators. Neither is there any penalty for failure to submit. Because the PAC has not met, the annual accounts are also not being reviewed.
	1.4.5 Establish management information systems and annual ministry performance reports to Parliament.	Make departmental performance subject to public review and thus introduce greater accountability to the public.	Completed. The information monitoring system review is ongoing; first annual ministry performance reports are being provided to Parliament in 2000.	Partly complied with. No annual report has been discussed in Parliament due to the absence of a PAC to meet and review.
	1.4.6 The Auditor-General will review PSC operations and departmental performance, and report to Parliament.	Accountability to the public is increased and assurance is given that political interference is eliminated or minimized in public service.	Ongoing. A new Auditor-General was appointed in Oct 1998. An institutional strengthening project has begun. An independent project monitoring group (PMG) has recently reviewed and reported on PSC performance. The next PMG is scheduled for Dec 2000.	Partly complied with. Work of the Auditor-General has been constrained by the absence of the PAC to meet and review reports compiled by her office.

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
Component 1.5 Undertake long-term institutional strengthening of public sector institutions	1.5.1 PSC and DSM will develop and start implementing a management improvement plan for all government agencies to ensure effective implementation of key management systems such as corporate planning, program budgeting, and performance monitoring.	Show qualitative improvement in agency results annually.	Completed. Council of Ministers (COM) approved the Management Plan on 29 Sep 2000. The Plan is now being implemented with activities such as corporate and business planning process well advanced.	Completed. Business plans are now successfully linked to the annual budgeting process.
	1.5.2 Revise the PSC manual to establish a professional human resource development (HRD) system for management and career development of public service.	Show qualitative improvement in agency results annually.	Completed. A new PSC manual has been issued. An English version has been completed; a French translation is awaited.	Completed.
	1.5.3 Develop and implement and HRD plan to enhance skills at all levels.	Improve capacity and efficiency to deliver better services.	Completed. The HRD public sector plan has been completed and is being implemented with the main focus being on management and planning.	Completed and ongoing.
	1.5.4 Establish, under legislation, a government remuneration tribunal with adequate staff and resources to set salaries and allowances.	Provide consistency and discipline in setting of salary levels.	Completed. The tribunal was established, and has issued its first determinations. It is consulting public servants on the implications. Further resource arrangements for 2000 have been secured from DSM with 2001 allocation budgeted under the second tranche release.	Partly complied with. The tribunal has completed two determinations but its implementation has been stalled due to lack of funding support. The original budget of Vt35 million was diverted to cover fiscal stabilization.
	1.5.5 Introduce systems and processes for policy and strategy coordination, for monitoring impacts, and for managing the development process.	Continuing feedback on results is achieved, and there are corrective actions in response	Ongoing. DSM and other central agencies staff have been providing support and advice to ministers and Development Committee of Officials (DCO) on strategic policy issues. National Task Force, provincial council, and national summits held. Work on establishing a database on monitoring the social impacts of the CRP has commenced and is progressing well within the National Statistics Office to consult on reform policy issues. In 1999, the CRP minister initiated an extensive tour of remote islands to enable more consultation with the community.	Ongoing. The CRP has encouraged a consultation process to continuously reassess strategies, structures, and outputs with the view to making corrective actions. Forums such as national summits, provincial meetings, and PM's advisory group meetings have been beneficial in monitoring progress.

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
	1.5.6 Establish and operationalize a DCO consisting of all DGs, chaired by the DG of the Ministry of the Prime Minister to coordinate government-wide policy and technical advice to the COM.	The DCO, supported by DSM as a technical secretariat, will ensure that all submissions to the COM that have a policy, developmental, financial, or legal implication are thoroughly assessed and evaluated.	Completed. DCO meets almost every week to screen papers for submission to the COM. Its operations have improved the quality of reports and advice provided to the COM	Completed. While noticeable improvements are seen in the quality of advice, DCO and its secretariat, DSM, need further strengthening.
	1.5.7 Establish and enforce, with the approval of the COM, clear guidelines, standards, and procedures for formal submissions to the COM requiring the approval or clearance of the COM.	COM has the benefit of technical input and policy advice from senior public servants to support decision making.	Completed. Guidelines prepared and issued by the Prime Minister. The guidelines set enforceable standards that submissions to the COM must comply with and also act to ensure necessary consultation and coordination has occurred across ministries. Recent amendments to the Government Act have strengthened procedures to be followed for COM submissions.	Completed. Instances have been noted whereby some policy papers have gone to COM without prior scrutiny of DCO. The frequent changes in government have resulted in some slippages. This is an area requiring further monitoring.
	1.5.8 Introduce systems and processes to establish, monitor, report on, and economic objectives in line with the Financial Economic Management Act.	Help achieve the goals of increased economic growth and a balanced budget.	Ongoing. Systems and processes established but need strengthening. Cash flow forecasting committee meets regularly and the macroeconomic committee has just resumed meeting after a lapse of about 12 months. Fiscal strategy reports and updates are being published regularly as required by the Financial Economic Management Act.	Ongoing. The lack of Parliament and public debate on finance-related issues means that the intended goals of economic growth and a balanced budget are not achieved.
Immediate Objective 2: Increase the productivity and growth of the commercial and private sectors in urban and rural areas				
Component 2.1 Improve investment policy environment to encourage private sector investment	2.1.1 Enact the Foreign Investment Act to create a favorable environment for private sector operations.	Simplify and make transparent the regulations governing private sector investments thus encouraging foreign investment.	Completed. The act was passed and came into effect on 24 Aug 1998. An amendment was enacted on 11 Jun 1999. The amended act provides for transparency of operations by liberalizing the schedule of reserved investments.	Completed. The workings of the Vanuatu Investment Promotion Authority in implementing the Act need further review and strengthening.
	2.1.2 Enact Credit Union Bill to support domestic resource mobilization and make credit more easily available to ni-Vanuatu.	Encourage investment on the part of ni-Vanuatu, especially in the rural areas.	Completed. The COM approved the bill. It was enacted by Parliament on 18 Aug 1999 and became effective 1 Oct 1999.	Completed.

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
	2.1.3 Determine feasibility of a credit guarantee scheme, particularly for rural borrowers; if found feasible and viable, ensure implementation.	If feasible, this will facilitate lending to noncollateralized borrowers, particularly in rural areas.	Completed. Feasibility studies are complete. However, implementation was postponed because the proposed measures to expand credit would have been inconsistent with the Government's monetary policy stance and stabilization policies. The Ministry of ni-Vanuatu Business is developing a trust fund mechanism.	Completed. Through a grant from the People's Republic of China, a sum of Vt111 million was given to the Department of Ni-Vanuatu Business and Vt150 million to the Department of Cooperatives to assist with a credit guarantee scheme.
	2.1.4 Establish a nongovernment organization (NGO) Network to channel credit to ni-Vanuatu.	Enhanced credit flows and technical assistance to the rural sector.	Ongoing. The credit union movement and similar organizations such as cooperatives and women groups are providing the service. Aid support in this area has been provided by ADB, Australian Agency for International Development (AusAID), New Zealand (NZ), and France (agriculture projects).	Ongoing. Credit support schemes run by NGOs and credit unions, cooperatives, etc. help in providing credit. The demand for more access to credit is recognized following dissolution of the Development Bank of Vanuatu
	2.1.5 Establish a master plan for national infrastructure development.	Improve and maintain infrastructure to support economic growth.	Completed. The COM approved the plan on 19 Oct 2000. The scope of the plan comprises: policies, priority ranking of projects, institutional and financial arrangements, and implementation programs.	Completed. The implementation of the plan is being done partly under the ADB urban infrastructure project and the proposed outer islands development project.
Component 2.2 Reform financial sector policies to support private investment.	2.2.1 Lower import tariffs by at least one third on average.	Lower input prices and enhance competitiveness of local industry.	Completed. Initial tariff cuts effective from 1 Jul 1998 lowered average tariffs by 22%; further cuts occurred in July of 1999 and 2000. Those programmed to take effect in each of the next three years will bring the total reduction to 33%.	Completed.
	2.2.2 Eliminate all export taxes (except on logs).	Encourage exports and increase rural industries.	Completed. All export taxes (except on logs and unworked shells) abolished on 1 Jul 1998.	Completed.
	2.2.3 Revoke all import licenses that create monopolies.	Open up competition and thereby increase investment.	Completed. All import licenses that create monopolies were abolished on 1 Jul 1998.	Completed.
Component 2.3 Restructure government financial institutions	2.3.1 Amend the Reserve Bank of Vanuatu Act to give it responsibility to supervise all domestic financial institutions.	Supervision of government banks is more effective.	Completed. The Financial Institutions Act was passed in 1999.	Completed.

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
	<p>2.3.2 Restructure the National Bank of Vanuatu (NBV) to make it commercially viable and effective, particularly in servicing the middle and low-income market, including the rural areas. In this connection, ensure the following:</p> <p>(i) Formally adopt and commence implementation of the NBV Strategic Business Plan (SBP).</p> <p>(ii) Appoint independent professionally qualified board of directors.</p> <p>(iii) inject equity of Vt400 million</p> <p>(iv) Enact legislation for and establish an Asset Management Unit (AMU).</p>	<p>Enlarge NBV's share of domestic resource mobilization and provide increased banking services to ni-Vanuatu. Strengthen its competitiveness with other financial institutions.</p> <p>Achieve improved profitability on a sustainable basis. Performance targets are clear and also progress can be measured.</p> <p>Governance and policy development improved. Political interference is eliminated, and accountability of chief executive strengthened.</p> <p>Restore capital adequacy.</p> <p>Improve levels of collections of outstanding loans, and cover bad debts owed to the Government and its agencies.</p>	<p>Completed. NBV has been fully capitalized and is operational with a learner organization structure. Its vision is to be a profitable, competitive Vanuatu bank driven by customer needs. A capable international managing director now heads NBV.</p> <p>Completed. The principles of the SBP were broadly adopted. Concrete performance targets were set and are regularly reviewed to ensure they are achieved. NBV recorded a profit of Vt26 million as of 31 Dec 1999, NBV's second year of profitable operation since restructuring.</p> <p>Completed. A new independent professionally qualified board was appointed, comprising the general manager of the Chamber of Commerce (chairperson), currently not a sitting member as he has not declared his personal assets per the leadership code; Attorney General (deputy chairperson); a representative each from the Vanuatu Commodity Marketing Board, Financial Services Commission, and Financial Services Center; and NBV's managing director.</p> <p>Completed. The Government authorized release of Vt320 million to NBV on 24 Nov 1998 and of Vt202 million on 31 Dec 1998.</p> <p>Completed. AMU Act enacted in Sep 1998. AMU established in Oct and began operation on 2 Nov 1998. The sudden departure of the international</p>	<p>Completed. A second international managing director joined NBV last year. He has helped strengthen the financial reporting systems and operations of the NBV.</p> <p>Completed. Due to differences in accounting treatment by auditors, NBV's declared profits for 1999–2000 were restated to reflect proper amortization of government grant. This resulted in losses recorded for 1999–2000. The first real profit will be recorded in 2002.</p> <p>Completed. NBV is managed on a pure commercial discipline basis with proper financial governance structures and procedures in place.</p> <p>Completed.</p> <p>Completed.</p>

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
	<p>(v) Transfer bad and doubtful loans of NBV and Development Bank of Vanuatu (DBV) to AMU.</p> <p>(vi) Amalgamate into NBV the good loans portfolio of DBV to create a single bank offering personal and commercial banking services.</p> <p>(vii) implement revised organization and accountability structure in accordance with NBV's SBP.</p> <p>(viii) Externally recruit and appoint a new general manager, operations manager, human resource manager, and senior credit officer.</p> <p>(ix) Establish best practice benchmarks for all operations.</p>	<p>Rationalize investment in the financial sector. Improve return on investments.</p> <p>Concentrate skilled resources. provide broader range of services and improve profitability.</p> <p>Improve performance of NBV's staff, including reporting and accountability.</p> <p>Appropriate banking expertise and experience reflected in commercial orientation.</p> <p>Improve efficiency in banking processes.</p>	<p>managing director has left a vacuum at AMU. It is performing well below its financial targets and the Government has to make an urgent decision on AMU's continued existence.</p> <p>Completed. DBV transferred bad and doubtful loans in early Nov 1998 to AMU. Vanuatu National Provident Fund (VNPF) sold its nonperforming loans to AMU and mix of loan portfolio to NBV. NBV similarly sold its bad loan portfolio to AMU in May 1999 and bought VNPF's loan portfolio.</p> <p>Completed. NBV is continuing to make progress in fulfilling its profit maximization objective.</p> <p>Completed. NBV is now fully operational with a leaner organizational structure.</p> <p>Completed. All four senior executives have taken up posts: managing director, operations manager, credit manager, and human resources manager. NBV has regionalized the positions of manager customer sales and service and manager operational support and development.</p> <p>Completed. Vigorous staff training has been introduced and is ongoing. Performance indicators have been developed for each unit. The 1999 improved performance was achieved through (i) improved loan quality and growth performance, (ii) performance management, (iii) human resources development plan, (iv) upgrading of the</p>	<p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed.</p>

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
	<p>(x) Develop and begin implementation of a detailed human resource development program.</p> <p>(xi) Amend the NBV Act to facilitate SBP implementation.</p> <p>(xii) Achieve the following minimum performance milestones: (a) a 15% reduction in costs (b) return to profitability (c) average annual return to shareholders of 1% of assets (d) a 10% market share of assets of all registered banks</p>	<p>Improve staff skills and improve performance.</p> <p>Resource utilization. Increased reserves. Improved service to ni-Vanuatu and other customers.</p> <p>Improved image of NBV. Greater ni-Vanuatu participation in monetized economy.</p>	<p>information technology platform, (v) implementation of new policies and procedures, and (vi) marketing plan.</p> <p>Completed. A management plan is in place, subject to annual review. Of the 5 managerial positions, a local holds 1, 2 have been regionalized, and 2 will be held by international personnel, i.e., managing director and risk manager for the next 5–10 years.</p> <p>Completed. Passed and gazetted in Sep 1998.</p> <p>(a) Achieved. Costs reduced by 13% in Dec 1998 and by 22% in Dec 1999 (excluding Vt26 million provision). (b) Achieved. Profitability of Vt26 million at 31 Dec 1999. Unaudited profit for the 7 months to 31 Jul 2000 is Vt30 million. (c) Achieved. The return on assets as of 31 Dec 1999 was 2.75% and is expected to be 1% at end of 2000. (d) Achieved. The market share (assets) in terms of loans stands at 11% and it terms of deposits, 22% of the Vatu market.</p>	<p>Completed. Four international staff only, with two recruited from the Pacific region.</p> <p>Completed.</p> <p>Completed.</p> <p>The first profit is forecasted for 2002.</p> <p>Completed.</p> <p>Completed.</p>
	<p>2.3.3 Rehabilitate VNPf to ensure its viability: (i) Amend legislation to enable the last 26% of special withdrawals to be paid.</p> <p>(ii) Amend the VNPf Act to: mandate professional, arms-length fund management; allow offshore investments; mandate good staffing;</p>	<p>Confidence in VNPf is restored.</p> <p>To avoid further erosion of confidence, demonstrate that the Government fully respects its commitment.</p> <p>Restore member confidence.</p>	<p>Completed. Legislation passed and gazetted in September 1998.</p> <p>Completed. Legislation enacted on 27 Nov 1998 and gazetted 28 Dec 1998 (Amendment Act No. 23).</p>	<p>Completed.</p> <p>Completed. VNPf is now professionally managed.</p>

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
	<p>employment principles for all staffing; and restrict ministerial involvement to matters of policy and performance review</p> <p>(iii) Appoint professionally qualified new board of directors</p> <p>(iv) Transfer effective control of all direct nonperforming investments to a specialist asset management unit. See 2.3.2.</p> <p>(v) Implement a smaller, flatter organization structure that is focused only on contribution and benefit management.</p> <p>(vi) Review contribution rates and member interest credit rates.</p> <p>(vii) Amend the act to give effect to restructuring plan.</p>	<p>Improve governance; remove political interference.</p> <p>Remove operational responsibility for this function from VNPF. Allow focus on new role.</p> <p>Reduce costs. Demonstrate government determination to rehabilitate VNPF.</p> <p>Increase capital formation rate and equity for members.</p>	<p>Completed. The board comprises two government representatives, two representing employers and two representing employees.</p> <p>Completed. Enacted under VNPF Amendment Act No.23 of 1998 and Asset Management Unit Act No. 22 of 1998. The board approved the transfer on 29 Dec 1998 and early 1999.</p> <p>Completed. Staff numbers were reduced from 43 to 20. Extensive training was undertaken to improve staff skills. A related issue is the quality of the information system, which is under review. ADB TA 3449-VAN will fund the development of a new member's contribution system.</p> <p>Completed. Following amendment to VNPF Act No.23, the new contribution rates are (a) from 1 Jan to Dec 2000, at a rate of 4% from employer and 4% from employee; (b) from 1 Jan 2001 and thereafter, at a rate of 6% employer and 6% from employee.</p> <p>Completed. The progress made in the act implemented in Dec 1998 and early 1999 includes: (i) new professional board members appointed; (ii) nonperforming assets (Vt389 million) transferred to AMU and housing loan portfolio to NBV for Vt740 million; (iii) organization restructured in Mar 1999; (iv) new international general manager appointed in July 1999; (v) offshore</p>	<p>Completed. A professional board is in place.</p> <p>Completed.</p> <p>Completed. Through TA 3449-VAN, ADB supported the design and installation of a new member contribution information system.</p> <p>Completed. New rates are in effect.</p> <p>Completed.</p>

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
	(viii) The Government to appropriate funds to replace members' equity funds lost through bad investments.	Restore and maintain member confidence.	funds manager (Pacific Century Trust [BHV] in Hawaii) appointed to manage 20% of VNPF's funds; and (iv) new contribution rate for 2000 at 8% was implemented. Completed. The Government has already advanced VNPF Vt890 million to help fund member's withdrawals. A provision for release of funds to VNPF is expected under the second tranche release.	Completed. Under second tranche release a sum of Vt225 million was injected to VNPF.
Component 2.4 Redefine commercial functions of the Government	2.4.1 Establish a government business unit (GBU) to formulate policy and strategy for commercialization, corporatization, and privatization.	Policy and transparent guidelines are established.	Completed. GBU was established in April 1998. Policy statement and guidelines prepared in June 1998, after wide consultations. The Civil Aviation Authority is now a corporatized entity under a management contract with civil aviation and an airport managing company. The postal service was corporatized in early 2000. Ports and marine management corporatization will likely take place in 2001.	Completed and ongoing. A working paper re next phase of corporatization is under preparation. In 2001, 10 SOEs were sold to the private sector, and 3 SOEs were corporatized. In 2002, 5 are planned to be sold, 3 to be corporatized, and 5 for partial privatization.
	2.4.2 Identify public sector assets for divestment and commence implementation.		Completed and ongoing. Tour Vanuatu has been liquidated. Both South Pacific Fishing Co., and Port Vila Fisheries Ltd. have been sold. Other assets considered include Vanuatu Livestock Development Ltd., Metenesel Estate Ltd., and Vanuatu Holdings Ltd. The GBEU is actively searching for buyers for some other unsuccessful and/or marginal enterprises owned by the Government.	Completed and ongoing. A number of SOEs have been identified for corporatization, or full or partial privatization.
	2.4.3 Introduce contracting out arrangements.	New tendering legislation in place by June 1998.	Completed and ongoing. As part of the finance regulations, emphasis has been placed on the Government adopting the contracts and tender acts. The latter has been enacted. New tendering regulations have been completed.	Completed and ongoing.

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
Immediate Objective 3: Support the improvement of social development indicators particularly for the disadvantaged and the rural population.				
Component 3.1 Mitigate the negative impacts on groups that are vulnerable and at risk due to the reform process.	3.1.1 Create a transition unit with adequate staff and budget resources to manage the transition arrangements for approximately 500 former public sector staff: training, career counseling, outplacement, and redeployment benefits.	Minimize the social and economic costs to those displaced.	Completed. The unit completed its work and disbanded. Residual work is being handled by the Ni-Vanuatu Business Center. Ninety-three percent of those made redundant used the unit.	Completed.
	3.1.2 Establish a mechanism to monitor the social impacts of the CRP and immediate measures to ameliorate negative impact particularly on disadvantaged groups.	Minimize social and economic costs to those displaced.	Ongoing. A social and impact monitoring framework was approved earlier this year and was endorsed during the June 2000 National Summit. DSM has completed compiling survey results from the island impact monitoring system. In addition, ministers are undertaking extensive tours of the islands to disseminate and collect information from the public.	Ongoing. Work in this area is being assisted with the development of a social database within the National Statistics office.
Component 3.2 Enhance social services to disadvantaged groups and rural communities	3.2.1 Double capital budget allocations from current levels of about 6% for education and health.	Enhance health and education services, particularly to rural communities.	Ongoing. In 1998, total appropriation for the education ministry was Vt1,691 billion; 1999, Vt1,828 billion; and 2000, Vt1,835 billion. For the health ministry, total appropriation in 1998 was Vt844.6 million; 1999, Vt872.3 million; and 2000, - Vt926.9 million.	Ongoing.
	3.2.2 Complete a comprehensive review of health and education policies and services, and require ministers to develop five-year action plans for presentation to the COM, to enhance social indicators in these two sectors.	Improve performance of the social indicators pertaining to these two sectors within the next five years.	Completed. The Ministry of Education has prepared its corporate plans for 1999 and 2000. A health corporate plan and business plan have been completed and are being implemented on an annual basis.	Completed.
	3.2.3 Establish a working committee involving representatives of NGOs, credit unions, women's organizations etc; to promote government-NGO cooperation in the more effective provision of social services and rural credit to the rural poor. The committee will meet at least every quarter to review progress.	Enhance cooperation of NGOs in the CRP implementation process. Provide more extended outreach to rural communities.	Ongoing. The working committee, established in October, is currently designing a memorandum of understanding for future cooperation between the government and NGOs. This work has been enhanced by the Social Equity Task Force to monitor social impacts; and extensive visit by ministers to rural islands.	Ongoing. The MOU between the Government and the NGO has not yet been signed.

CONSOLIDATED POLICY MATRIX (cont'd.)

Policy Objectives and Reform Measures under the Program	Monitorable Reform Measures	Expected Impacts	Status Oct 2000 – ADB Progress Report	Status Oct 2002 – ADB Program Completion Report
	3.2.4 Establish a decentralization commission to develop policy and implementation strategy for decentralized governance.	The delivery of services at local and rural levels is improved.	Completed. The commission has been established following amendment of the Decentralization Commission Act.	Completed. The report is yet to be ratified by Parliament before recommendations can be implemented.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, environmental, and economic management practices.	Section 4.01 (a)	Complied with
In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.	Section 4.01 (b)	Complied with
The Borrower shall make available, promptly as needed, the funds, facilities, services and other resources which are required, in addition to the proceeds of the loan, for the carrying out of the Program	Section 4.02	Partly complied with. The budget allocated for the remuneration tribunal was diverted to support fiscal stabilization due to fiscal crises.
The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.	Section 4.03	Complied with
Except as the Asian Development Bank (ADB) may otherwise agree, the Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the eligible items financed out of the proceeds of the loan and to indicate the progress of the Program.	Section 4.04 (a)	Complied with
The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Section 4.04 (b)	Complied with
The Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods financed out of the proceeds of the loan; (iii) the counterpart funds and the use thereof; (iv) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the policy letter; (v) the financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters relating to the purposes of the loan.	Section 4.05 (a)	Complied with

Covenant	Reference in Loan Agreement	Status of Compliance
<p>Without limiting the generality of the foregoing, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the implementation of the Program and on the accomplishment of the targets and carrying out of the actions set out in the policy letter. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.</p>	Section 4.05 (b)	Complied with
<p>Promptly after the closing date for withdrawals from the loan account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the loan.</p>	Section 4.05 (c)	Complied with
<p>It is the mutual intention of the Borrower and ADB that no other external debt owed a creditor other than ADB shall have any priority over the loan by way of a lien on the assets of the Borrower. To that end, the Borrower undertakes (i) that, except as ADB may otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will <i>ipso facto</i> equally and ratably secure the payment of the principal of, and service charge and any other charge on, the Loan; and (ii) that the Borrower, in creating or permitting the creation of any such lien, shall make express provision to that effect.</p>	Section 4.06 (a)	Complied with
<p>The provisions of paragraph (a) of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.</p>	Section 4.06 (b)	Complied with
<p>The term “assets of the Borrower” as used in paragraph (a) of this Section includes assets of any administrative subdivision or any agency of the Borrower and assets of any agency of any such administrative subdivision, including the Reserve Bank of Vanuatu and any other institution performing the functions of a central bank for the Borrower.</p>	Section 4.06 (c)	Complied with

Covenant	Reference in Loan Agreement	Status of Compliance
Immediately after the effective date, the Borrower shall establish, in a manner satisfactory to ADB, a special account for the specific purpose of depositing and utilizing the counterpart funds.	Schedule 5, para. 1 (a)	Complied with
Whenever the Borrower withdraws proceeds of the loan from the Loan Account, the Borrower shall promptly deposit into the special account the Vatu amounts equivalent to the amount of the proceeds so withdrawn.	Schedule 5, para. 1 (b)	Complied with
Except as the Borrower and ADB may otherwise agree, the counterpart funds shall be utilized not later than 31 Dec 2000 to meet the expenditures to be incurred pursuant to para. 2 of Schedule 5.	Schedule 5, para. 1 (c)	Complied with
Separate accounts and records in respect of the special account shall be maintained in accordance with consistently maintained sound accounting principles and shall be audited annually by independent auditors, whose qualifications, terms of reference and experience are acceptable to ADB, in accordance with sound auditing standards. Certified copies of such audited accounts and records shall be furnished to ADB promptly after their preparation but in any event not later than six (6) months after the date of the closing of the loan account, as the case may be.	Schedule 5, para. 1 (d)	Not complied with. Unaudited accounts only were submitted to ADB. The Government's Auditor-General is awaiting clarifications from officials before releasing the accounts.
The Borrower shall ensure that the counterpart fund shall be used to finance (i) public sector rightsizing and restructuring, including financial and human resource development support for persons retrenched from the public sector under a managed transition service program; (ii) restructuring and rehabilitation of public financial institutions; and (iii) fiscal stabilization, in amounts to be agreed upon with ADB.	Schedule 5, para. 2	Complied with
The Borrower shall (i) ensure that the policies adopted and actions taken as described in the policy letter prior to the date of this Loan Agreement continue in effect for the duration of the program period, and (ii) promptly carry out the other policies and actions included in the Program as specified in the policy letter, including the policy matrix attached to the policy letter, and ensure that such policies and actions continue in effect for the duration of the program period.	Schedule 5, para. 3	Partly complied with. The frequent changes in government meant that commitment and sequencing of reform initiatives were disrupted resulting in delayed implementation schedule.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>Except at the Borrower and ADB may otherwise agree, the program Executing Agency shall bear overall responsibility for implementation of the Program. The program Executing Agency shall consult with concerned agencies to ensure that the reforms under the Program are undertaken in line with the agreed schedule.</p>	<p>Schedule 5, para. 4</p>	<p>Complied with</p>
<p>The Borrower shall establish a comprehensive reform program task force, to be chaired by the minister responsible for the Program's implementation and comprising representatives of the government, political parties, traditional chiefs, private sector, nongovernment organizations, community groups and trade unions, to monitor program implementation and report to a national summit. The chair-minister shall report directly to the Prime Minister and provide the Council of Ministers with regular progress reports on the Program. A national summit, involving broad representation of the nation, shall meet to review and assess the progress of, and provide feedback on, the implementation of the Program.</p>	<p>Schedule 5, para. 5</p>	<p>Complied with. In August 2002, this task force group was replaced with the Prime Minister's Advisory Group.</p>
<p>The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, the progress made in carrying out the Program.</p>	<p>Schedule 5, para. 6</p>	<p>Complied with</p>
<p>The Borrower shall continue policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on desirable changes to overcome or mitigate such problems and constraints.</p>	<p>Schedule 5, para. 7</p>	<p>Complied with</p>
<p>The Borrower shall keep ADB informed of policy discussions concerning the Program undertaken with other international and bilateral agencies as ADB may reasonably request, and shall provide ADB with the opportunity to comment on any resulting policy proposals.</p>	<p>Schedule 5, para. 8</p>	<p>Complied with</p>
<p>The Borrower, ADB, and the representatives of the other major external funding agencies for the Program shall formally meet at least once in every 6 months to review program implementation.</p>	<p>Schedule 5, para. 9 (a)</p>	<p>Complied with</p>

Covenant	Reference in Loan Agreement	Status of Compliance
Before 30 June 1999 or such other date as the Borrower and ADB may agree, a joint review shall be carried out concerning the Borrower's progress in implementing the policy reforms set out in the policy letter, including, in particular, the fulfillment of the conditions listed in Attachment 3 to Schedule 3 to the Loan Agreement. To facilitate this review, the program Executing Agency shall provide ADB with relevant information, in addition to the reports and information referred to in Section 4.05 of this Loan Agreement, in such detail as ADB may reasonably request. This review shall form the basis for discussions between the Borrower and ADB on (i) further measures that may be considered necessary or desirable to promote the continued reforms, and (ii) release of the second tranche.	Schedule 5, para. 9 (b)	Complied with
