

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. Vanuatu has one of the highest levels of aid per capita in the world. Aid funds account for 25% of the government budget (depending on the cycles of the larger projects) and most capital investments. An increasing proportion of funds is being managed and reported through the Government Development Fund. According to the fund, Vanuatu received Vt4.48 billion (equivalent to US\$46.0 million) of aid assistance in 2010.

2. Numerous studies indicate that the poor quality, low reliability, and high cost of basic infrastructure in Vanuatu remains a major constraint on broad-based economic growth and poverty reduction in Vanuatu. Because of its small size, the country has difficulty generating sufficient internal revenue to finance infrastructure construction and maintenance required to support the delivery of basic services. Thus, the vast majority of new capital investment in infrastructure in recent years has occurred with development partner funding.

3. The major development partners in the infrastructure sector are the Asian Development Bank (ADB), Australian Agency for International Development (AusAID), European Union (EU), Japan International Cooperation Agency (JICA), Millennium Challenge Corporation, New Zealand Aid Programme (NZAP), and the World Bank.

4. In March 2006 the Millennium Challenge Corporation signed a 5-year, \$65.69 million compact with the Government of Vanuatu to reduce poverty and stimulate economic growth by targeting the country's poor transportation infrastructure. The compact was restructured in early 2008 due to escalating global construction costs and currency fluctuations. The construction and sealing of two national roads—the Efate Ring road and the Santo East Coast road—became the main focus of the restructured compact. In June 2009 the Government of Vanuatu signed a funding agreement with NZAP to provide additional funding support to the project. The program was successfully completed in April 2011.

5. Through its long-term (10–15 year) Vanuatu Transport Sector Support Program, Australia is supporting the government in achieving a sustainable, reliable transport system. Phase 1 of the program for \$20 million commenced in September 2009 and is focused on improving safety and reliability of 140 kilometers of priority road links across the islands of Tanna, Malekula, and Ambae. Depending on priorities and in coordination with other donors working in the transport sector, assistance may be expanded to support interconnectivity of the various transport modes (land, maritime, and aviation) across the country. The program also builds on AusAID's Governance for Growth's work in public financial management, with support for the Ministry of Infrastructure and Public Utilities (MIPU). Key themes for assistance include sustainability, maintenance (especially preventive maintenance), and increasing the quality and value for money of road maintenance. The program also aims to strengthen asset and financial management, accountability, and transparency in the sector. With the aim of building private sector capacity for road maintenance in the provinces and generating rural employment opportunities, selected physical works will also be executed through community and small-scale contractors.

6. NZAP's Joint Commitment for Development for Vanuatu 2011–2015 focuses on productive infrastructure such as roads, airfields, domestic shipping, and urban and tourism infrastructure; private sector-led economic development; land reform; and delivery of basic public services. In 2009, NZAP in cooperation with ADB developed the Interisland Shipping

Support Project focused on (i) better access to markets and social services in the outer island target areas, (ii) stronger safety regulations and more compliance, and (iii) better shipping infrastructure. The preliminary cost was estimated at \$24.11 million, comprising a \$12.57 million Asian Development Fund loan, \$8.50 million NZAP grant, and \$3.04 million of government financing.¹ The launch of the project is scheduled in 2012 and will be implemented for 5 years.

7. JICA's support is focused on improving water supply in rural areas; developing an international wharf; upgrading stevedoring facilities; and providing professional experts, volunteers, and in-country and exchange training programs for MIPU and Ni-Vanuatu officials in civil engineering, harbor management, meteorological forecasting, and social services. During 2008–2010 JICA also upgraded the Port Vila main wharf through its grant assistance of ¥1.7 billion (approximately \$21.0 million). JICA is now considering rehabilitation of Port Vila's Star wharf through its proposed lending program for \$56.0 million. The loan agreement is scheduled to be signed by 31 March 2012, with project completion being scheduled by December 2015. The agreement between Vanuatu and the European Community (EDF 10) for 2008–2013 focuses on adding value to agricultural and tourism products, improving basic rural infrastructure such as telecommunications and renewable energy, and general budget support. The World Bank provides support in the areas of telecommunications and information and communication technology, airport development, renewable energy, tourism, regulatory authorities functioning, climate change adaptation, and public–private partnerships.

B. Institutional Arrangements and Processes for Development Coordination

8. MIPU through its Public Works Department as one of the proposed project's key implementing agencies is leading most of the infrastructure development projects and programs in Vanuatu, such as public works (land transport, roads, and civil works), ports and harbors, civil aviation, telecommunications, meteorology and geohazards, and postal services. MIPU's capacity to deliver major improvements to physical infrastructure is hampered by budget and human resource constraints and land and customary ownership issues. MIPU's corporate plan for 2011–2013 acknowledges the government's past failure to adopt a whole-of-sector approach to planning, and the need to harmonize activities for better utilization of MIPU's limited resources (infrastructure, finance, and human). To address this, the government will establish the Vanuatu Project Management Unit (VPMU) under the Ministry of Finance and Economic Management (MFEM) as a dedicated unit for managing large and nationally significant projects like the proposed project with allocation of budget and core staff. The VPMU will be responsible for day-to-day project implementation. A VPMU Steering Committee (SC) will be established to provide overall guidance and direction for the proposed project. The SC will have representation from MFEM and other key implementing agencies

9. Cooperation with development partners is an important feature of ADB's activities in Vanuatu, and the proposed project has been closely coordinated with all major development partners. In particular, AusAID provided significant input into the components and activities of the project during the design phase. During the initial stage of project preparation it became clear that, to successfully implement the recommendations of the drainage and sanitation master plan (which prioritized urgent drainage and sanitation infrastructure and services for greater Port Vila), the project should also cover rehabilitation and upgrade of core urban roads

¹ The total cost and financing plan of \$24.11 million is tentative and will be updated once the revision of the total project cost estimates is completed. In addition, on 10 June 2011 NZAP approved additional grant financing of NZ\$17 million (US\$14 million equivalent).

within the drainage basins. As a result, the Government of Australia has agreed to provide additional grant cofinancing of \$31.0 million. Collaboration with the New Zealand Agency for International Development (NZAID) is anticipated in the next phase of the urban development project.

10. Analyses conducted during project preparation have specifically taken account of previous experience, lessons, and ongoing efforts by development partners. In addition, during the course of the study, observations, findings, and recommendations were routinely discussed with other development partners in Vanuatu, including NZAP, EU, JICA, and the World Bank. The issues raised and the strategic directions of proposed interventions have been agreed among the government, ADB, and AusAID.

C. Achievements and Issues

11. As a result of this positive coordination during the project preparatory phase, the Government of Australia will provide cofinancing support of \$31.0 million through a grant. This funding will be administered by ADB.

12. Implementation of various infrastructure projects in Vanuatu by development partners has led to greater emphasis on improving the government's performance in the sector through (i) better planning and budgeting frameworks integrated across agencies and levels of government, (ii) increased focus on maintenance planning and implementation through private sector contractors and community groups, (iii) application of new asset management tools, and (iv) institutional and policy reforms for increasing private sector participation and developing capacity in the MFEM and MIPU.

D. Summary and Recommendations

13. The scope and intention of the proposed project, inclusive of all of its components, has been closely coordinated with all major development partners, including AusAID, NZAP, and JICA. ADB's support for the sector is considered appropriate and timely, and the proposed project is complementary to existing aid agency programs. Development coordination will remain important for the project to be implemented smoothly and to realize its full expected benefits.