

**BOARD  
OF  
DIRECTORS**

**ASIAN DEVELOPMENT BANK**

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8 June 2001

**TECHNICAL ASSISTANCE TO VANUATU  
FOR STRENGTHENING DEVELOPMENT POLICIES**

The attached Report is circulated for the information of the Board. The President approved the technical assistance on 6 June 2001.

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**ASIAN DEVELOPMENT BANK**

**TAR: VAN 34275**

**TECHNICAL ASSISTANCE**

**TO THE**

**REPUBLIC OF VANUATU**

**FOR**

**STRENGTHENING DEVELOPMENT POLICIES**

**June 2001**

## **CURRENCY EQUIVALENTS**

(as of 24 May 2001)

Currency Unit	–	Vatu (Vt)
Vt1.00	=	\$0.006919
\$1.00	=	Vt145.530

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
DESD	–	Department of Economic and Social Development
GDP	–	gross domestic product
MAQFF	–	Ministry of Agriculture, Quarantine, Forestry and Fisheries
PDMC	–	Pacific developing member country
PIER	–	Pacific Islands Economic Report
TA	–	technical assistance
TOR	–	terms of reference

## **NOTE**

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

## I. INTRODUCTION

1. An economic report for Vanuatu in the Pacific Islands Economic Report (PIER) series of the Asian Development Bank (ADB) was published in 1997. Since then, with ADB's assistance, Vanuatu has embarked on the Comprehensive Reform Program (CRP), and the country and global economy have undergone major changes. A new report is therefore necessary. In March 2000, during the Country Programming Mission, the Government confirmed its willingness to prepare a new report with technical assistance (TA) from ADB.<sup>1</sup> The TA will comprehensively assess the economy in the context of recent economic and political developments. The report will include forward-looking recommendations that emphasize agriculture and natural resources development and poverty reduction, and support medium- and long-term development planning. Following the Government's confirmation, the Fact-Finding Mission was fielded on 26-28 March 2001. It reached an understanding with the Government on the objective, scope, implementation, financing arrangements, and terms of reference for the TA. The TA framework is in Appendix 1.

## II. BACKGROUND AND RATIONALE

2. The *Pacific Human Development Report 1999* ranks Vanuatu as the third lowest among the ADB's Pacific developing member countries (PDMCs) according to the human development index (HDI), and the third highest according to the human poverty index (HPI). From 1996 to 2000, the economy recorded an average annual growth rate of about 1 percent, significantly lower than the population growth rate of about 3 percent. Thus, the per capita gross domestic product (GDP) declined during this period, with adverse impact on the people's lives. The major challenges facing the country are how to boost sustainable economic growth and employment and improve the welfare of the people, particularly those in the rural areas.

3. Since 1998, the Government has been implementing the CRP, which is supported by an ADB loan and is focused on promoting economic growth. The strategy requires (i) comprehensive governance reforms, (ii) various measures to improve the environment for private sector activity, and (iii) a range of social and other reforms to improve economic and social conditions. The CRP has made progress in reforming the public sector by (i) strengthening budget processes, (ii) closing the Development Bank of Vanuatu, (iii) rehabilitating the National Bank of Vanuatu, and (iv) redesigning the Vanuatu National Provident Fund. However, an important issue in implementing the CRP's next phase is the need to integrate the program into the budget process and macroeconomic framework. A comprehensive set of sectoral reforms also needs to be formulated and integrated into the CRP in order to translate the reforms to economic growth and improved welfare of the people.

4. The economy is highly dualistic, with the quality and availability of infrastructure and government services falling dramatically outside the major towns of Port Vila and Luganville. About 80 percent of the population lives in rural areas with poor access to infrastructure and services. An important component of the CRP that is designed to improve economic and social conditions for remote communities is the proposed Outer Island Infrastructure Development Project. Public service delivery, particularly in rural areas and the outer islands, needs to be improved.

5. The spread between deposit and lending rates of commercial banks is very high, making capital expensive for local entrepreneurs while discouraging savings. The cost of utilities is also

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<sup>1</sup> The TA was first listed in *ADB Business Opportunities* in March 2001 as "Preparing an Economic Report."

high despite subsidies and exemptions. Major market imperfections result from the small size of the economy and the presence of monopolistic or oligopolistic market players. Vanuatu thus remains a high-cost economy with limited growth of business and industries. Although primary industries have the potential to do well, their growth is limited, posing a major challenge to policy makers and regulators of the economy.

6. Agriculture is more important to Vanuatu than for any other PDMC. Agriculture (including livestock), along with plantation forestry and tourism, has the potential for long-term sustainable growth. A less explored but potentially profitable sector is mining. ADB recently conducted a sector review of agriculture and fisheries under a recent small-scale TA and concluded that Vanuatu must quickly commercialize its agriculture and fisheries and promote foreign investment in plantation forestry in order to boost economic growth and benefit the poor.

7. The economy recovered in 2000 with real GDP growth estimated at 2.8 percent. Tourism and construction led the recovery. The agriculture sector continued to be weak. The economy is expected to grow at modest rates of 3-3.5 percent in 2001 and 2002, aided mainly by recovery in agriculture and the continued success of tourism. Significant progress in the CRP's implementation and improved medium-term growth performance and outlook provide the context and focus of the Vanuatu PIER. The results of ADB's recent work in agriculture and fisheries provide the context for preparing the agriculture and fisheries policy and action plan.

8. The report's main audience will be government officials and staff of funding and aid agencies. The report will provide a timely assessment of the economy and contribute to the formulation of development strategies and policies. The business community, academics, students, and others interested in the development of Vanuatu will also use the report.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Objective**

9. The TA will study the economy's past developments, current issues, and future prospects in order to identify development opportunities, constraints, and policy options. Special attention will be paid to sustainable economic development and the welfare of the underprivileged. Development of a policy and action plan for agriculture and fisheries will be a special theme for the TA. The report, therefore, will contribute to development policy formulation and implementation and provide inputs for ADB's assistance to Vanuatu.

#### **B. Scope of TA**

10. The TA will assess the macroeconomic and growth performance of Vanuatu and address the major obstacles to growth, including (i) the high cost structure of the economy, (ii) market imperfections, (iii) external vulnerability, and (iv) inadequacy of infrastructure. Public sector performance will be assessed in the light of the CRP including a brief review of the impact of past and ongoing reform measures.

11. The TA will review the major sectors, and the policies and regulatory environment that affect their operations. The constraints of factor markets, including land, labor, and capital, will be analyzed. Special attention will be paid to agriculture and fisheries because of their growth potential and impact on the poor. Policy recommendations will build on past experience and in the context of the CRP.

12. The TA will (i) systematize the past experience and studies into a coherent and integrated framework; (ii) update the economic assessment; (iii) suggest further policy directions and reforms; (iii) suggest refinement of the CRP, including sectoral reforms, and the program's integration with the budget process and macroeconomic framework; (iv) prepare a policy paper and action plan for agriculture and fisheries; and (iv) serve as a major reference document for all actors involved in the development of Vanuatu.

13. The TA team will work closely with the Government in order to enhance feedback, understanding, and ownership. The team will also seek a range of views from other key stakeholders, including private business and civil-society groups. The approach to this study will be participatory and will involve consultations, workshops, and seminars.

14. The Australian Agency for International Development (AusAID) has indicated that it will provide two sector specialist consultants for the preparation of the PIER, which will be labeled as a joint ADB-AusAID report.

### **C. Cost Estimates and Financing Plan**

15. The total cost of the TA, exclusive of the AusAID contribution, is estimated at \$245,000, of which \$180,000 is the foreign exchange cost and \$65,000 equivalent is the local currency cost. ADB will finance \$180,000 to meet the entire foreign exchange cost, and \$20,000 equivalent of the local currency cost. ADB will finance the TA on a grant basis from the ADB-funded TA program. The Government will finance the remaining cost of \$45,000 equivalent to cover the local currency cost of counterpart staff, office space for the consultants, communications, workshops and seminars, and other local support. The cost estimates are in Appendix 2.

### **D. Implementation Arrangements**

16. The Department of Economic and Social Development (DESD) will be the main Executing Agency for the TA, although it will be assisted by the Ministry of Agriculture, Quarantine, Forestry and Fisheries (MAQFF) in order to facilitate preparation of the agriculture and fisheries policy paper and action plan. ADB will provide about five person-months of international consulting services, including those of a macroeconomist who will be the team leader, and consulting services inputs for agriculture and natural resources. ADB will also provide 1-2 person-months of domestic consulting services. The two sector specialists are expected to be supported by AusAID. The Government will provide counterpart staff and office space within DESD and MAQFF, and other support and facilities. The counterpart staff will be actively involved in the technical review and analysis in order to ensure continuity of the Government's knowledge and skill in applying the TA recommendations.

17. The team leader will be responsible for the PIER's preparation and will be engaged for approximately two person-months, including approximately two weeks in Manila to finalize the report. About three person-months of consulting services will be provided to prepare an agriculture and fisheries policy paper and action plan, along with PIER chapters covering all natural resource sectors and tourism. The policy paper will be prepared separately, but its summary, along with the analysis of all natural resource sectors and tourism, will form a part of the PIER. The AusAID-financed consultants will prepare reports on the social, environment, infrastructure, and transport sectors. An economic adviser (domestic consultant) will (i) update the Vanuatu profiles, including an assessment of development constraints; (ii) collect information and data; and (iii) provide general support to team members. However, the tasks of

the individual consultants may vary depending upon the skills of the persons engaged. The outline terms of reference for the consultants are in Appendix 3.

18. Consulting services related to agriculture and natural resources may start before the other consulting services and will generally be completed in Vanuatu. The team leader and domestic consultants will start work together in Vanuatu for about one month overlapping with the last part of the consulting services for agriculture and natural resources. ADB will coordinate with AusAID to preferably make their consultants available during the same period.

19. In light of the proposed participatory approach, the team will organize workshops and seminars on relevant issues. The workshops will include stakeholders from the private sector, civil-society groups, and the Government. In liaison with DESD and MAQFF, the relevant feedback from the workshop will be incorporated into the final report.

20. The TA will commence in June 2001 and be implemented over about 10 person-months, with completion expected by March 2002. The ADB-financed consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the engagement of domestic consultants. All procurement under the TA will be in accordance with arrangements acceptable to ADB.

#### **IV. THE PRESIDENT'S DECISION**

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Republic of Vanuatu, in an amount not exceeding the equivalent of \$200,000 for the purpose of Strengthening Development Policies, and hereby reports such action to the Board.

**TECHNICAL ASSISTANCE FRAMEWORK**

<b>Design Summary</b>	<b>Performance Indicators</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<b>Goal</b>  Contribute to the enhanced performance of the economy on a sustainable basis	Real gross domestic product (GDP) per capita growth rate  Human development indicators	National accounts  Human development reports produced by the Government and external agencies	No major external shocks to disrupt economic performance  Stable Government committed to reforms
<b>Objectives</b>  Contribute to the formulation and implementation of development policies	Use of the Vanuatu Pacific Islands Economic Report (PIER) in Government decisions, budgets, and development plans	Government decisions, development plan documents, and budget documents	Government ownership and commitment to implement policies following the PIER and the policy and action plan Paper.
Support the development of a policy and action plan in agriculture and fisheries	Use of the policy and action plan paper by the Government in policy making, planning, and budget formulation related to agriculture and fisheries	Government decisions, development plan documents, and budget documents related to agriculture and fisheries	
<b>Output</b>  The PIER and agriculture and fisheries policy and action plan paper, covering economic development performance, constraints, prospects, and possible strategies	The PIER and the policy and action plan paper available for review and policy formulation purposes	Interim and final drafts of the PIER and policy and action plan paper, and review missions of the Asian Development Bank (ADB)	The PIER and the policy and action plan paper accepted by the Government, civil-society groups, the private sector, etc.
<b>Activites</b>  Macroeconomist-team leader	<b>Inputs</b>  2.25 person-months	Consultant's work plan ADB review missions	Appropriate technical assistance (TA) personnel available for the required period  Tasks completed on time  Easily accessed, comprehensive, timely, and reliable data  Good relationships among consultants and counterpart staff
Agriculture and natural resource sector specialists	3 person-months		
Domestic consultant	1.5 person-months		
Counterpart staff			



**COST ESTIMATES AND FINANCING PLAN<sup>a</sup>**  
(\$'000)

<b>Item</b>	<b>Foreign Exchange</b>	<b>Local Currency</b>	<b>Total Cost</b>
<b>A. Asian Development Bank Financing<sup>b</sup></b>			
1. International Consultants			
a. Remuneration and Per Diem	137	0	137
b. International and Local Travel	15	5	20
2. Domestic Consultant	0	10	10
3. Editing and Report Preparation	13	0	13
4. Workshops and Seminars	0	5	5
5. Contingency	15	0	15
<b>Subtotal (A)</b>	<b>180</b>	<b>20</b>	<b>200</b>
<b>B. Government Funding</b>			
1. Counterpart Staff	0	20	20
2. Office and Communications	0	15	15
3. Local Support and workshops	0	10	10
<b>Subtotal (B)</b>	<b>0</b>	<b>45</b>	<b>45</b>
<b>Total</b>	<b>180</b>	<b>65</b>	<b>245</b>

<sup>a</sup> AusAID contribution is not included.

<sup>b</sup> ADB-funded TA program.

Source: Staff estimates.

## **OUTLINE TERMS OF REFERENCE**

1. The team will draw on existing material, including earlier reports prepared by the Asian Development Bank (ADB), the Government, and other funding agencies, to avoid duplication of efforts. This work should be clearly linked with the Comprehensive Reform Program (CRP) and focus on providing further inputs for integrating the CRP into the budget process and the macroeconomic framework, and deepening and widening the reform process, particularly in the sectors. A macroeconomist will provide the team with intellectual leadership and guidance and be responsible for the overall quality of the economic report, and the policy and action plan paper. The two sector specialists (social sector and environment and infrastructure and transport), supported by the Australian Agency for International Development (AusAID), will analyze microeconomic and sector issues in related sectors.

### **A. Macroeconomist Team Leader (International Consultant)**

2. The terms of reference (TOR) of the macroeconomist team leader will include but not be limited to the following:

- (i) Review and analyze significant overall trends in the country's macroeconomic development, including the macroeconomic aggregates, and more fully developments in the last decade. Discuss in detail the period after the last Pacific Islands Economic Report (PIER) and examine the high cost structure of the economy.
- (ii) Assess the Government's fiscal performance and budgeting framework. Recommend improvements in the efficiency of fiscal policy in delivery of Government policy outcomes. In particular, examine the revenue implications of changes in the tax structure introduced under the CRP.
- (iii) Review and analyze monetary policy, the exchange rate mechanism, exchange control, and capital movements to improve the effectiveness of the policies in maintaining economic growth and macroeconomic stability. Review and analyze the structure of manufacturing, including informal micro- and small enterprises, particularly in the primary sector and food processing, to determine contribution of these sectors to employment, output, and potentials.
- (iv) Review and analyze the status and performance of the financial sector, including competition and regulation issues. Especially, examine the large spread between deposit and lending rates, and high cost of capital for businesses.
- (v) Review and analyze trade, investment, and competition policy, and suggest strategies to improve them. Especially examine the reasons for inadequate growth of competition, and for the continuation of monopolistic and dualistic practices.
- (vi) With the help of the social sector specialist, review labor market conditions and the wage policy, giving special consideration to their gender implications. With the help of the sector specialists and domestic economic adviser, assess the disparities between rural and urban incomes, employment, and other economic

opportunities, and comment on policies to promote equitable development in the rural areas and outer islands.

- (vii) Examine the role of commercial public enterprises, including their financial management, and comment on policies and strategies to improve their effectiveness and efficiency. Especially examine the phasing and sequencing of the enterprises' restructuring and identify options to deal with the consequent short-term losses in Government revenue. Review and examine the structure and performance of public services, and suggest improvements.
- (viii) With the assistance of the domestic economic adviser and sector specialists, examine the land tenure system and the current institutional capacity for land management and administration, and suggest acceptable reforms.
- (ix) Review and assess the impact of the Government's CRP to identify the bottlenecks in translating the benefits of reforms into higher economic growth and improved welfare of the people.
- (x) In close consultation with the Government, prepare policy recommendations that can integrate sectoral reforms with the CRP, enhance its impact, and integrate the CRP with the budgetary process and macroeconomic framework.
- (xi) Organize workshops and seminars involving the Government, private business, and civil-society groups to seek the views of all stakeholders. Lead team presentations and formulate recommendations.
- (xii) Coordinate and integrate the findings and recommendations of all sector specialists, including the two financed by AusAID. In consultation with the Government and ADB prepare the Vanuatu PIER and finalize the policy and action plan paper according to ADB's specifications, including clear chapter-by-chapter executive summaries.

3 The team leader will be responsible for the completion of all analyses and report writing, and for the overall quality of the report. The team leader will also be required to be at the ADB headquarters for about two weeks to finalize the report.

#### **B. Agriculture and Natural Resource Specialists (International Consultants)**

4. The TOR of the specialists on agriculture (including horticulture and livestock) and natural resources will include but not be limited to the following:

- (i) Prepare a brief review of agriculture, fisheries, forestry, mining, and tourism. Review trends in agriculture, fisheries, forestry, mining, and tourism in terms of subsistence production (where applicable), cash activities, investment environment, bottlenecks in growth, development potential, and export opportunities. Highlight the constraints on and options for the development of agriculture, fisheries, forestry, mining, and tourism, focusing on policy options.
- (ii) Analyze the development options and related strategies for policy, infrastructure, incentives, marketing, research, and service improvements for catalyzing private sector development in agriculture, fisheries, forestry, mining, and tourism. Review and analyze the tourism master plan to refine and update it.

- (iii) Build on and refine the recent work on agriculture and fisheries under ADB's recent small-scale technical assistance (TA) to Vanuatu for the agriculture and fisheries sector review.
- (iv) Prepare an agriculture and fisheries policy paper and an action plan for these sectors, building on the recent ADB sector review.
- (xiii) Seek the views of all stakeholders through workshops and seminars involving the Government, private business, civil-society groups, and through other means of consultation. Finalize the policy paper and action plan in consultation with the Government, taking into account its feedback and help publish the policy paper, if necessary.
- (v) Prepare relevant PIER chapters that incorporate a sector analysis of agriculture, fisheries, forestry, mining, and tourism, and include a summary of the policy paper and action plan on agriculture and fisheries. Help the team leader consolidate the final PIER and solicit reviews and comments.

### **C. Social Sector and Environment Specialist (International Consultant)**

5. The TOR of the social sector and environment specialist will include but not be limited to the following:

- (i) Prepare a brief review of reports and documents, including recent surveys and statistics, related to the various social sectors (health, education, gender, and youth) and the environment.
- (ii) Review and analyze the trends of social and environmental indicators to identify and recommend policy changes.
- (iii) Review and analyze (a) the management of rural areas, government expenditures, and service delivery systems, particularly in rural areas; (b) government expenditure on social sector and environment programs, and the role of subsidies and user fees; and (c) the role of the private sector in social sector and environment activities.
- (iv) Help the team leader review labor market conditions and the wage policy, giving special consideration to their gender implications.
- (v) Assess Vanuatu's medium-term resource requirements and suggest structural reforms to develop the social sectors.
- (vi) Analyze the social sectors, including their human resources, investment, cultural practices, and social service delivery mechanisms, and suggest policy directions.
- (vii) Prepare and complete relevant chapters of the PIER and help the team leader consolidate the final document after soliciting reviews and comments.

### **D. Infrastructure and Transport Specialist (International Consultant)**

6. The TOR of the specialists on infrastructure (including information technology and communication) and transport will include but not be limited to the following:

- (i) Prepare a brief review of reports and documents, including recent surveys and statistics, related to the infrastructure and transport sectors.
- (ii) Analyze the infrastructure and transport systems, and identify constraints on their development. In particular, comment on the adequacy of infrastructure and the availability and access to transport for agriculture production, tourism, fishing industry, industrial and mining activities, and the remote areas and outer islands.
- (iii) Evaluate and comment constructively on the operation and effectiveness of the Government's infrastructure development and maintenance policies and programs, including current pricing and cost recovery policies and practices, the taxation systems, and competition policies for infrastructure and transport.
- (iv) Review and analyze in detail the regulatory framework, particularly for utilities, and suggest options for improvement. Give special attention to why utilities are so expensive despite subsidies and tax exemptions.
- (v) Identify the constraints on production, which result from inadequate infrastructure, in terms of supply, availability, access to raw materials, and the need for imports and marketing. Assess the impact of additional transportation costs, which result from Vanuatu's remoteness, on economic growth, cost of living, and economic vulnerability.
- (vi) Help the team leader consolidate the reviews of and comments on the Outer Islands Development Project.
- (viii) Review and analyze the policy environment for private sector participation in infrastructure, including the regulatory framework.
- (ix) Prepare and complete relevant chapters of the PIER and help the team leader consolidate the final document, including soliciting reviews and comments.

**E. Economic Adviser (Domestic Consultant)**

- 7. The TOR of the economic adviser will include but not be limited to the following:
  - (i) In consultation with the team leader and sector specialists, update Vanuatu's profiles.
  - (ii) Advise the team leader on the differences between urban and rural areas; review of the land tenure systems, and other matters where local expertise and knowledge are required. Help the team leader organize workshops and seminars. Advise the sector specialists on their reviews and analyses, and provide general support to the team in preparing the PIER.

**F. Reporting Requirements**

- 8. The team leader will submit in to the Government and ADB the following reports:

- (i) **Inception report**, within one week of the start of services. It will outline the detailed work plan and the final report, and describe coordination with AusAID-financed consultants.
- (ii) **First midterm report**, at the end of the second week of the fieldwork. The report will give an overall progress report on TA implementation.
- (iii) **Second midterm report**, at the end of the fieldwork. The report will describe the progress of TA implementation and summarize the findings.
- (iii) **Draft final reports**, within two weeks of the end of fieldwork. The reports will include the draft final economic report and an overall summary report of the TA.
- (iv) **Final report**, two weeks after the receipt of comments from the Government and ADB on the draft final report. The final report will incorporate comments and other revisions.

9. The consultants will provide necessary reports and information to the team leader to facilitate writing of the above reports. In case the agriculture and natural resource specialists start work earlier, they will provide reports until the team leader starts work and takes over the reporting work. All drafts and final reports will be in English and follow ADB's specifications. The final paper on policy and action plan for agriculture and fisheries, and the final economic report, will be edited and revised with the help of the team leader or concerned consultants. ADB may also amend the reporting requirements or require additional reports.