

# EU / VANUATU 2002 JOINT ANNUAL REPORT

## 1. EXECUTIVE SUMMARY

The important event of the year 2002, for Vanuatu, has been the signature of the Country Support Strategy Paper and the 9<sup>th</sup> EDF national Indicative Programme on February 11<sup>th</sup>, 2002, by the Prime Minister and by the Head of the EC Delegation in Papua New Guinea, under whose overall responsibility the Vanuatu Office falls.

The implementation of the main 8<sup>th</sup> EDF project, i.e. the EUVED Programme (€ 8.3 million, 80% of NIP) progressed smoothly. Under the efficient management of the EU funded Technical Assistance, rate of progress and costs were kept in line with the provisions of the relevant Work Programmes. It is expected that the objectives of this project will be met by the end of its activities in August 2003. The Mid-Term Review of the Programme took place in the second quarter of 2002. In addition to assessing compliance with objectives and making recommendations for adaptations, this expertise also made suggestions outlining a possible follow-up intervention under the forthcoming 9<sup>th</sup> EDF. The formulation however of such a meaningful project requires the provision of technical assistance to the Ministry of Education. The relevant expert, already identified, is expected during the second quarter of 2003.

The Technical Assistance to the NAO's department came to its end in July 2002. It is widely accepted, and fully shared by the EC Office in Port-Vila, that the EU/Vanuatu Co-operation would have suffered without this expertise, due mainly to severe skilled manpower constraints in the Administration. Whereas the prompt continuation of this technical assistance was needed, several factors delayed its procurement. The relevant contract was finally awarded in late 2002. It is expected that the expert will take up his post during the first quarter of 2003.

During 2002 the Technical Assistant to the Public Works Department continued his assignment by providing diverse assistance. This expertise is needed due to the absence of qualified engineers in the department. The expert has been providing essential services concerning the monitoring of the ongoing EU financed infrastructure interventions, the formulation of a long term operational planning in the sector of transport infrastructure, and training of counterparts. He has also provided essential input for the preparation of the envisaged PWD Maintenance Training Project under the 9<sup>th</sup> EDF.

Following the effective mobilisation of the Implementing Authority in 2001, the implementation of the Vanuatu Maritime College Strengthening Project picked up pace during 2002. The main works contract for the construction of the expanded facilities is progressing well. The contract for the waterfront components was concluded in late 2002. However, the last component, i.e. the Cargo Handling Training Facility, has encountered several difficulties, mainly due to its specialised nature that makes it hard to find suitable Contractors. After three tendering attempts, it is hoped that the current tender will prove successful. The signature however of the relevant contract will require first the agreement of the Commission for a derogation from the rules of origin. The necessary exercise will be launched in early 2003. The NAO has also indicated that they may request a project ceiling increase in order to allow the implementation of the full scope of works originally envisaged and subsequently reduced due to higher than estimated costs. Recourse, in such a case, would be made to the small balance of funds still remaining under the 7<sup>th</sup> EDF.

Work on the Rural Access Roads financed under the 7<sup>th</sup> EDF was practically completed in mid-2001. Final acceptance of the last works was effected in July 2002. Concerning the STABEX financed Big Bay Road River Crossings Rehabilitation Works, the relevant works were practically completed in April 2002. A small amount of funds is still available under this facility. The most appropriate use of these is under examination.

Implementation of the training activities under the Rural Tourism Project, that commenced in mid-2001 was completed during the last quarter of 2002. Relevant feedback indicated that it has been an overall useful project that however will need some follow-up in order to consolidate the progress achieved. One of the inputs of the Project Co-ordinator was to outline the envisaged Tourism Education and Training Project under the forthcoming 9<sup>th</sup> EDF.

With a view to assisting Vanuatu's electoral process, an appropriate project was promptly formulated and approved. It was implemented during a short period in the second quarter of 2002, when national elections took place. This EDF project in conjunction with complementary assistance by the other donors, including France and UK, made substantial contribution in having these elections declared free and fair.

Following the conclusion of a contract in the third quarter of 2002, an evaluation of past EDF financed land transport projects was carried out during the last quarter of the year under review. The conclusions and recommendations of this study shall be taken into account when finalising the envisaged 9<sup>th</sup> EDF PWD project mentioned earlier.

The second instalment of the EU funded Support to Economic Reform Programme was released during 2002. This assistance, in the form of budgetary support, was directed towards meeting costs associated with the recruitment of additional teachers necessitated by the expansion of the junior secondary schools under the EUVED project mentioned above. The validity of the relevant Financing Agreement was extended by 6 months in order to allow the execution of a comprehensive audit of this intervention. It is expected that a contract to this effect will be concluded in the first quarter of 2003.

Concerning the 9<sup>th</sup> EDF, preparatory activities for one of its envisaged projects, i.e. Support to Non State Actors, were initiated with the commencement of consultations between the EC Office in Port-Vila and a wide-range of civil society organisations with particular emphasis to ones concerning women. Following an appraisal by the EC Office in Vanuatu an appropriate project was formulated and submitted to European Commission Headquarters for consideration in the second quarter of 2002. By the end of the period under review this new project was at an advanced stage of approval.

The implementation of the 9<sup>th</sup> EDF project concerning the Training of Air Traffic Controllers commenced in July 2002. Some problems associated with the foreseen training in Fiji obliged the management to revert to New Caledonia. Completion of the project would substantially be achieved by year's end.

The 9<sup>th</sup> EDF project of support to Producers Organisations commenced its implementation in late 2002. This project, co-financed with France, is expected to accelerate its progress during 2003.

Based on input by the Rural Tourism Training Project Manager, and with contributions by other stakeholders, taking also into account relevant provisions in the recently updated Master Plan of Tourism Development in Vanuatu, the EC Office and the NAO prepared the Draft Financing Proposal of the envisaged 9<sup>th</sup> EDF Tourism Education and Training Project. This was submitted to the EC Headquarters in the third quarter of 2002 for their consideration.

On a general note, frequent contacts have been maintained during 2002 with the two EU Member States Embassies in Port-Vila (France, UK), especially with the view to ensuring complementarity of interventions. In the same spirit of cooperation, both EU ambassadors have been systematically invited in events marking inauguration of projects, signing of Financing Agreements, etc. At the same time regular contacts have also been maintained with the other donor agencies present in the country.

## **2. VANUATU's NATIONAL POLICY AGENDA**

### **2.1. Objectives of Government Policy**

The Government's central role will be to provide the stable macroeconomic and other conditions necessary for private sector investment and development. The Government recognises that it is the private sector that must take the lead in achieving higher economic growth. Sustainable growth can only be based on a dynamic private sector operating in increasingly competitive conditions. Sustainable growth also means that all sections of the community must have increased access to income earning opportunities. The Government emphasizes that the benefits of growth must be distributed fairly and evenly. Providing ni-Vanuatu with the means to go into business is a critical component of the Government's policies. Better education, training, business advice and access to credit are key elements of this strategy.

### **2.2. Comprehensive Reform Program**

Vanuatu started implementing a Comprehensive Reform Programme (CRP) back in 1997 with loan funding assistance from the Asian Development Bank of around US \$ 20 million. Its main objectives centred on the following:

- Achieving and maintaining a stable government including macro-economic stability
- Supporting and creating stable conditions for a private sector led growth, and
- To ensure social equity and sustainability in the economic development process.

This year marks the fifth year of its implementation, but there are still major hurdles to overcome including governance issues, continued need for strengthening of weak institutions within the public service, the legal sector, the parliament and the private sector.

As a consequence, the Government is currently in the process of adopting a Prioritised Action Agenda (PAA). The goal of the PAA is to formulate and articulate the medium term priorities of the Government, and to sequence and resource policy interventions so as to realise the developmental goals of the State. The formulation of such priorities has been undertaken with the stakeholders; as such this document draws on the outcome of past forums and collaborative work with the Director Generals and their staff. The aim of the PAA is to provide a framework that will instil policy stability and provide longevity to the reforms.

The objectives of the Prioritised Action Agenda and in the given order of priority are as follows: First, a series of actions ordered in terms of priority has to be taken to lift the economy on to a higher and more sustainable growth path. Restoring macroeconomic prudence including correction of the structural deficit forms the core of this strategy. Second, donor assistance has to be realigned with the priorities of the state to direct resources into the priority areas to maximise the impact of such investments. Third, policy stability is initiated via the setting of priorities that have life spans beyond a twelve-month budget cycle and ideally across election cycles. Such priority setting will provide the basis for directing budgetary resources into priority areas over the medium (3-5 year term) instead of the very short-term (i.e. 12 month budget cycle).

### 3. ANALYSIS OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

#### Social and Economic Indicators

Type	Indicator	2000	2001	2002	2003	2004
Impact	1. Proportion of population below \$ 1 per day	N.A (40% in 1998)	N.A (40% in 1998)	N.A (40% in 1998)	N.A (40% in 1998)	N.A
	2. Proportion of population with access to land	94%	94%	94%	94%	
	3. Prevalence of underweight children (under five years of age)	12%	12%	12%	12%	12%
	4. Under-five mortality rate	26/1000	26/1000	26/1000	26/1000	26/1000
Outcome	5. Net enrolment in primary education	35,083	36,482	38,000	39,500	41,000
	6. Primary Completion Rate	56%	48%	50%	50%	50%
	7. Ratio of girls to boys in:					
	Primary education	48:52	48:52	48:52	49:51	49:51
	Secondary education	49:51	49:51	49:51	49:51	49:51
	Tertiary education	40:60	43:56	45:55	47:53	47:53
	8. Proportion of births attended by skilled health personnel	65%	65%	70%	70%	70%
	9. Proportion of 1 year old children immunised against measles	53%	53%	55%	60%	60%
	10. HIV prevalence amongst 15-24 year old women	Nil	Nil	Nil		
	11. Proportion of population with sustainable access to improved water source	60%	60%	65%		
	Input	Share of education in the national budget	26%	26%	29%	29%
Share of health in the national budget		12%	12%	13%	13%	13%
Aid (% of Gross National Income)		14%	13%	14%	14%	14%

#### 3.1. Political Situation

Vanuatu is a young democracy and is still developing politically. Vanuatu became independent in 1980 as a constitutional republic headed by a President. A Prime Minister, and a Cabinet appointed by the Prime Minister from 52 Members of Parliament, hold executive power. MPs are elected by universal suffrage for a four-year term. A number of political parties contest the elections, the most recent of which was held in May 2002.

In January 1998, following revelations in an Ombudsman's report about political interference and bad loans in the Vanuatu National Provident Fund (VNPF), riots and looting took place in the capital of Port Vila as fund members tried to withdraw their savings. Government had to lend the Provident Fund € 7.8 million. The ensuing rise in liquidity caused a serious monetary and exchange rate crisis.

A degree of political stability returned following elections in March 1998. The Prime Minister made it his priority to regain confidence and engaged enthusiastically in the implementation of the Comprehensive Reform Program driven by the Asian Development Bank (ADB).

On 25<sup>th</sup> of November 1999, after several months of political negotiations, the Opposition group took power after a vote of no confidence. The Prime Minister, Barak Tame Sope composed a Government of twelve ministers representing the five parties of the coalition with

28 of the 52 parliamentary seats. In April 2001 the Opposition group, led by Honourable Edward Natapei tabled a vote of no-confidence that created a political crisis. After several weeks of legal battle over the validity of the vote of no-confidence, the new Prime Minister, Edward Natapei took power. The new Government confirmed that they would continue the implementation of the Comprehensive Reform Program (CRP) and maintain the changes implemented by the previous Government. The Government's commitment to the CRP was noted by the ADB which released the 2<sup>nd</sup> tranche of its Programme Loan in support of the implementation of the CRP. At the CRP National Summits, Government reiterated its commitment to CRP with some adaptations aiming at improving service delivery.

National elections held in May 2002 returned Prime Minister Natapei based on the same coalition arrangement. These elections were observed by a group, comprising foreign and local personalities, organised by the Transparency International. In their report, the observers confirmed that the elections were free and fair. They made however a number of recommendations aiming at improving the electoral process. They also recommended the introduction of legislation for a positive discrimination in favour of women, so that 30% of the seats in the national assembly be occupied by them. After a long time without a female representative, a woman was elected as Member of Parliament in these elections.

There are six provincial governments, which have elected representatives. The provincial governments have limited capacity, funding and responsibilities. Whereas these administrations have been drafting outlines of master plans called Rural Economic Development Initiative (REDI), it will be some time before they are in a position to take effective control of their development agenda.

Constitutional provisions protect individual freedoms. An independent judiciary is established. However, despite numerous damning reports by the Ombudsman, there has been reluctance to prosecute political leaders for alleged corruption. It is noted that promotion of good governance is a key objective of the CRP. In July 2002 the ex-Prime Minister Barak Sope was found guilty of fraudulent practices while in office and he was condemned to 3 years imprisonment. However, after serving less than 4 months of his jail term, he was released following a presidential pardon, ostensibly granted on medical grounds.

The nomination of a Police Commissioner in July 2002, in order to fill this vital post that had been vacant for almost 2 years, was met with unprecedented reaction from senior police cadres. The latter detained for a brief period senior government and administration officials whom they accused of not having followed correct procedures for this nomination. After some tense times, and after customary reconciliation ceremonies, a relative calm was returned in the capital town. The Supreme Court annulled the nomination of the Commissioner. In the mean time the Government took to court the instigators of the "mutiny". In the ensuing trial, few of them were given suspended sentences. The procedure for the recruitment of the much needed Police Commissioner was re-launched. As a result of these problems, the police force morale and efficiency has been down, resulting in an increase of petty criminality in the urban areas.

Non-governmental organisations are generally weak in Vanuatu with inadequate resources to maintain the NGO umbrella organisation VANGO (Vanuatu Association of NGOs). Budget line (B7-643) support from the European Commission has been granted to VANGO in late 2001, aiming at rebuilding their operational capacity. There are two trade unions that cater for all workers including civil servants and for teachers. They have agreed to amalgamate by the end of 2003. The private sector is represented by the Chamber of Commerce and Industry, which is partly funded by a government grant. The chamber plays an active role in the national economic life. They organised a successful business forum in Port Vila aiming

principally at bringing together Government and Private sector and thus create conditions that would facilitate the kick-start of the stagnating economy.

In the presentation of the 2003 Budget, the Finance Minister admitted the very difficult economic situation of the country. Facing serious difficulties in balancing the accounts he introduced new taxes, supposedly of a temporary nature until a study would identify more appropriate ways for raising revenue. The civil society organisations reacted angrily to these new taxes and called for closer cooperation and indeed consultations before new measures, affecting the population at large, are introduced. An eventual continuation of the difficult economic situation might cause social tension during 2003.

There is freedom of the press. There are two independent newspapers, one published three times a week and the other only once. The government runs two radio stations and a TV station. Private entrepreneurs have been licensed to provide cable TV.

There are no reports of human rights abuses in Vanuatu. However, there are endemic cases of domestic violence. While the Government is finalising a Domestic Violence Bill, a number of NGO's have been mobilised to raise public awareness, especially in the rural areas, on the rights of women. Traditional chiefs are being associated with the whole process in order to ensure the uninhibited implementation of the coming legislation.

### **3.2. Economic and Social Situation**

#### ***Structure and Growth of the Economy***

Commercial agriculture and forestry account for only 8.6% of Vanuatu's economic activities. Together with subsistence agriculture plus firewood, which corresponds to 10%, the total primary sector represents 18.7% of GDP (in constant prices). Industry including manufacturing, construction, utilities and subsistence construction represents about 9.5% of GDP. 71.8% of Vanuatu's GDP is produced by the services sector which includes retail trade, hotels and restaurants, transport/communications, Finance and Insurance, Real Estates, Government Services and Personal services.

Most of the rural population is engaged in agricultural production for subsistence and some cash cropping. Copra remains the mainstay of the agricultural sector.

Real economic growth in 2002 is estimated to be negative around -0.3%. Modest growth is expected in some sectors and continued negative rates of growth in others, although the rate of decline in these sectors is slowing compared to last year. Agriculture, Fisheries and Forestry are expected to experience a lower growth rate of 0.2%, compared to 0.6% in 2001. Copra production is anticipated to record a growth of 7.1% in 2002; this is mainly attributed to the subsidised domestic copra price and to the fact that there were no major cyclones or hurricanes experienced in the country over the past twelve months. The industry sector is expected to show slight positive growth of 0.4% and the decline in the services sector is anticipated to slow to -0.5%. The tourism sector is forecasted to experience a further fall of 6.9% for this year.

#### ***Macroeconomic Performance and the Process of Reform***

Inflation, as measured by the consumer price index for the main urban centres, remained moderate in recent years. The overall inflation rate for 2002 is estimated at 2%.

To a large extent the inflation is imported: the higher rate of inflation in Australia, Vanuatu's largest supplier of home consumption articles (45% of total imports), is outweighing the potential benefit Vanuatu could have drawn from the strong vatu rate against AUD; in addition, in a down turning economy companies tend to increase their sales prices in order to

compensate for lower sales volumes. The overall price level in the medium term will depend largely on the Government maintaining prudent fiscal, monetary and exchange rate policies, price changes by monopolies in the economy, notably utility companies and changes in the international economic environment. Given the rise of expenditure commitments in the past years it is important that fiscal responsibility is adhered to in order not to put too much pressure on the general price level. In the medium term the inflation rate is estimated to be around 2.4%.

For monetary policy management, the Reserve Bank of Vanuatu places high priority on a market based monetary management system. It regulates the monetary market by adjusting the level of balances within the financial system. The Government's main monetary policy objectives are:

1. Maintaining price stability or keeping a low and sustainable level of inflation; and
2. Maintaining a healthy and viable external (balance of payments) position.

The main monetary policy instruments used to achieve the above are:

- Open market operations
- Reserve requirements
- Discount windows operation
- Repurchase Facility (REPO)
- Interest Rates.

Vanuatu's balance of payments is characterised by a substantial trade deficit (imports of goods are far exceeding exports), which is usually financed by a large surplus in the services account (receipts from tourism) and inflows from foreign aid and investment. Recent years' accounts performed well, except for 1999 where very low services receipts were recorded, causing a large current account deficit for the year.

During the first half of 2002, the current account moved into deficit, a turnaround from the surplus recorded in the second half of 2001. This was partly caused by low tourism earnings. The favourable outturn in private inflows and other accounts mentioned above could not offset services deterioration and poor investment thus netting a VT57 million deficit in the overall balance of payments by June 2002.

The total domestic revenue as at 31<sup>st</sup> December 2002 stood around VT 6,321.3 million, which is around 19.1% of nominal GDP. Total VAT collections for the year were VT2,181.7 million. This is significantly lower than the forecast VT2, 505.8 million; this was due to the downturn in economic activity, which led to lower turnover. Import duty collection for the year to 31<sup>st</sup> of December was VT 2,203.8 million or 83% of the amount that had been forecast. This is also lower than that receipted in the same period of 2001, which was VT 2,287.9 million.

Total recurrent expenditure to the end of December 2002 was VT 7,024.9 million or 98 per cent of the 2002 budget. This is below the forecast of VT7,166.8 million and is a significant achievement given the large non-budgeted payments at the start of the year. This achievement also shows the success and importance of Department of Finance's strategy to limit warrant release, virements and financial visa applications. Had it not been for these measures the Government's financial position would have been much worse.

The stock of external debt has risen rapidly in recent years and in 2002 stands at VT 9,657.6 million, or 29.2% of GDP. This compares with a stock of external debt of only VT 2,800 million, or 15.6% of GDP, in 1990. The domestic debt on the other hand stood at around VT 3,232.2 million, or 9.8% of GDP by the end of 2002. The total stock of debt currently stands

at around 39% of GDP. Government considers it prudent to limit external debt over the medium term to an average of 40% of GDP. This limit would allow new borrowings to finance priority development projects but would ensure that the growth of external debt is stabilised at a level, which is manageable. This would keep Vanuatu just below the average external debt to GDP ratio for all developing countries.

The choice of borrowing from the domestic market or from overseas, depends on the costs and risks of each choice. In general, domestic borrowing is to be preferred over external borrowing. This is because domestic borrowing is made in Vatu and so there is no exchange risk involved. However, this domestic borrowing is done on a commercial basis with the interest cost determined by the local financial market. Concessional loans from overseas may sometimes therefore be less costly, and, if the exchange risk is judged to be small, and liquidity in the domestic capital market relatively tight, such loans could be incurred to avoid crowding out domestic private investors.

If borrowing for a development project is necessary, Government will make the decision on whether to borrow domestically or from overseas on a case-by-case basis based on the costs and risks of each source at that time.

Government's effort to develop the local capital market, a major objective of financial sector reform under the reform program, is an important determining factor in future decisions on balancing domestic and external borrowings for development financing.

A table summarising the economic data of the country is shown hereunder.

	2001	2002	2003	2004	2005
<b>GDP (% change)</b>	-2.1	-2.8	0.8	1.8	2.4
<b>Trade Balance</b> (millions of VUV)	-8,448	-7,989	-8,300	-8,340	-8,590
<b>Current Account Balance</b> (millions of VUV)	-474	-1,881	-500	-276	-519
<b>Gross Official Reserves</b> (millions of VUV)	5,531	4,854	5,000	5,000	5,650
<b>Months of import cover</b>	5.4	4.7	5.1	5.2	5.4
<b>Consumer Price Index</b> (% change over previous year)	3.6	2.0	2.5	2.5	2.5
<b>Tax Revenue</b> (millions of VUV)		5,773	5,671	6,336	6,508
<b>Total Recurrent Revenue</b> (millions of VUV)		6,565	6,334	7,070	7,264
<b>Total Recurrent Expenditure</b> (millions of VUV)		7,230	7,231	6,901	7,095
<b>Total Payments</b> as % of GDP		9,220 27.0	9,669 27.8	9,185 25.7	9,379 25.1
<b>Total Revenue &amp; Grants</b> (millions of VUV)		7,308	7,204	7,460	7,654
<b>Total Expenditure &amp; Net Lending</b> (millions of VUV)		8,125	8,246	7,276	7,470
<b>Deficit / Surplus</b> as % of GDP		-817 -2.4	1,042 -3.1	184 0.5	184 0.5
<b>External Debt</b> (total bilateral in millions of VUV)	1,181	1,025	938	855	773
<b>External Debt</b> (total multilateral millions of VUV)	8,959	8,787	8,747	8,685	8,605
<b>Total Domestic Debt</b>	2,786	3,432	3,632	3,432	3,432

(millions of VUV)					
<b>Total Stock of Debt</b>	12,927	13,244	13,316	12,972	12,810
as % of GDP	38.0	40.0	39.9	38.2	36.8

**Note:** All figures for years 2003, 2004, and 2005 are estimates only

Although the overall level of the stock of debt remains within prudent levels when compared to GDP, there is still a slight problem with the increase in the 'flow' of debt servicing payments. Government policy is to use any receipts from the sale of assets to retire domestic debt and fund revenue generating development initiatives thereby freeing up funds for use on the provision of front line service delivery.

The increase in the flow of debt servicing payments will also mean that the Government will finance its development needs through grant funding, with loans only being considered as a last option and then only for projects which can show a financial level of return greater than the cost of servicing the debt in both the short and long term.

### **3.3. Sustainability of Current Policies**

#### ***Poverty and Gender Issues***

Vanuatu is ranked the third poorest country in the Pacific. Adult literacy is estimated at only 33.5 per cent, with life expectancy at birth of 66 years.

Urban drift and unemployment pose serious challenges against a backdrop of stagnating living standards. Cultural safety nets have been based on a strong customary traditions of social relationships. Thus absolute poverty did not exist in most of this largely subsistence society. However, these mechanisms are now under pressure. Many families are having difficulties fulfilling customary expectations; others are opting out of the traditional system altogether. Unemployed youth in the urban centres do not fall under any customary authority thus sliding towards petty crime.

Current social, economic and political indicators indicate that women are disadvantaged. Vanuatu has a high fertility rate, with each woman bearing an average of five to six children. However, the proportion of births attended by skilled health personnel have increase, from 65% in 200 to 70%in 2002.

Birth control is low and teenage pregnancy common. Poor nutrition of both mothers and infants is a major health concern. Girls are less likely than boys to finish their junior education, let alone continue on into secondary and tertiary levels. Women are more likely to be involved in unpaid tasks and work much longer hours than men. Women are generally more successful in small business and are more reliable borrowers of bank funds. Nevertheless, the involvement of women in formal decision-making processes is rare.

#### ***The Environment***

Lack of capacity has also stalled the introduction of comprehensive environmental protection legislation, which is still in draft form. Environmental issues need to be addressed if tourism is to realise its growth potential. In Port Vila, lagoon water quality has already fallen and is a potential threat to the tourism industry.

#### ***Vulnerability***

Vanuatu was ranked the most vulnerable state out of 110 developing small countries by a 1998 Commonwealth Secretariat report. Recent disasters are Cyclone Dani in early 1999, earthquakes in late 1999 of 7.1 on the Richter scale, and of 7.4 magnitude on the 3rd January

2002 and the most recent unusual hail storm causing massive damage to buildings and food crops on the island of Tanna as well as to local infrastructure. Land slides and tidal waves are also not uncommon and put strains on the Government's ability to manage its infrastructure. Total rehabilitation costs from the first two disasters were approximately € 15 million, whereas damages caused by the last earthquake are estimated at around € 10 million.

A high dependence on a few commodity exports makes Vanuatu vulnerable to changes in export prices. The price of copra, the main source of rural incomes, is in constant decline. The marketing board had been subsidising the price of copra but clearly this policy is not sustainable, and its inevitable reversal is a matter of time.

### ***Sector Priorities***

Government is committed to increasing spending in the social sectors. Indeed, significant budgetary increases for education and health have been instituted by the Government. More specifically in education, whereas the 2001 allocation was 26%; this has gone up to 29% for the year 2002. Same trend for health: from 12% in 2001 to 13% in 2002.

In the medium term the emphasis in terms of sector allocation looks likely to change with the marginal increases expected in the productive sectors such as agriculture and tourism.

### ***Education***

This sector continues to be one of the largest budgetary commitments by government and thus signals the importance attached to all aspects of education in Vanuatu. The key policy goal for the education sector is the provision of universal primary education. While the government is also committed to continue to improve the quality of all forms of education (both formal and informal), as well as the quality of human resources and to introduce a more effective and sustainable way of management in the education sector, there is an overall sense that progress has been limited. Financial difficulties faced by government and the community at large to support education is at present, one of the major concerns for the progress of education in Vanuatu. Existing resource management inadequacies and the inability of development policies to address the current concerns further compound the issue.

A renewed focus on quality basic education as the foundation for nationwide education will ensure that all sectors of the population, rural areas in particular, and those disadvantaged and disenfranchised, will have access to quality education, and will thus emerge with knowledge and skills required for sustainable development in Vanuatu. Therefore, as further education capacities are made available, an increasing number of well – qualified basic education graduates will be available to take advantage of the opportunities, thus ultimately increasing the quantity and quality of the nation's secondary and tertiary educated human resource personnel.

The National Institute of Technology located in the nation's capital, is Vanuatu's only major training institution offering courses in both English and French. There is a crucial need to make such training widely accessible via expansion into rural areas. A total of 35 rural training centres, serviced by NGOs and church organizations, provide basic technical and vocational training to local urban and rural communities. A few NGOs and a limited number of individuals also provide life skills training to the general population. While a large proportion of secondary school graduates take up vocational training, some 70 percent of the dropouts return to the rural agricultural sector or engage in small enterprises of dubious sustainability. Funding for further education and a lack of jobs upon graduation remain major sector development constraints. Notwithstanding this fact, the Government is committed to identifying and securing long- term funding from donors to enhance the human resource base of the nation.

## ***Health***

The department of Health is currently reviewing its structure with a view to achieving better and more timely service delivery, thus more responsive to the demands of the population. The structure takes into account reporting systems, clearly defined job definitions and specifications and the Central Board of health which is a forum comprising of all stakeholders, including NGOs, to discuss issues relevant to the improvement of health services. The establishment of clear health sector priorities for resource allocation and the provision of clear guidelines on core functions and activities for public health services, and developing cooperative guidelines for non-core services to be provided by the NGOs by the board, would result in the improvement of health standards and service delivery.

The major challenge in this regard is to support the establishment of efficient and effective health facilities around the country without compromising the financial capacity of the government. Empowering people to improve standards of health delivery at their respective localities by the department, must also be implemented as the referral of patients to Northern District Hospital and the Vila Central Hospital is an expensive exercise, given that the majority of these can be treated at the localities with improved communication systems, health facilities and better trained health professionals. The Ministry recognises the need to upgrade equipment, facilities, transport and communication systems, monitoring and evaluation of diseases, collection and timely processing of statistical information to improve efficiency, and is committed to improving the referral system under a devolved health structure.

There have been significant improvements in the general health of the people of Vanuatu over the past 20 years as judged by standard health indicators such as infant mortality, life expectancy and crude death rates. Malaria and other vector borne diseases are in regression and presently exist only in some islands. It does not constitute a major threat to public health nor is it a major deterrent to tourism. Despite these improvements maternal mortality remains unacceptably high, nutrition in many areas is poor, and infectious diseases are still prevalent with a significant increase in the number of recorded STDs. The first case of HIV/AIDS was reported in Vanuatu in the month of August 2002.

## ***Transport***

Much of rural Vanuatu is devoid of the necessary transport infrastructure for development. The lack of capacity in the Public Works Department to maintain existing transport links has rendered some of the infrastructure beyond repair. As part of the CRP, an Infrastructure Master Plan has been developed. The lack of terrestrial transport infrastructure is exacerbated by the high cost of domestic airfares and limited inter-island shipping services.

The national marine infrastructure sector is composed of five main agencies as listed below with a brief description.

- ♦ *Ports and Harbours Department*-responsible for the operation and management of the main ports at Port Vila and Luganville.
- ♦ *Vanuatu Maritime Authority* – began operations in 1999 as the regulatory authority involved in maintaining safety standards, licensing and administration of shipping, maritime and seafaring acts, and search and rescue operations. It also maintains an efficient and effective international shipping registry from which additional revenue is collected.
- ♦ *Vanuatu Maritime College*- located in Santo, providing seafaring training to both local and international seafarers.

- ♦ *Provincial Councils*- that should have taken over the responsibility for the operation and maintenance of minor public ports and wharves.
- ♦ *Shipping Industry*- Until 1999 was restricted to Ni- Vanuatu, and now includes around 120 vessels capable for inter-island transport.

Vanuatu relies heavily on marine transportation for its trade and inter- island domestic travel, however, boats are old and unreliable; service to small islands is irregular and unscheduled. The abolishing of the Costal Trading Act in 1999 and a corresponding amendment to the VIPA Act, to allow for foreign ownership of vessels over 80 tonnes, has resulted in an increase in the number of foreign owned vessels operating in the country which has, in turn, resulted in a significant improvement of shipping services. Government policy on marine transport will concentrate on maintaining and developing/upgrading shipping infrastructure, improving vessel and seafarer safety and strengthen their commitment to the deregulation of ownership.

Where air transportation is concerned, under CRP a number of initiatives were implemented in Civil Aviation Sector of which one of the most significant was the division of the said department into a Civil Aviation regulatory Authority and Airports Vanuatu Limited which is responsible for the operations of the nations' three international airports. They are also contracted by the government to maintain the 26 Outer-island airstrips.

There has been significant donor and government investment in the airport infrastructure, which has seen the upgrading of the Bauer field and Pekoa international airports enabling them to cater for B767s and B737s respectively. However, in order for Pekoa international airport to start accepting international flights, it is necessary to upgrade the terminal building and in Bauerfields' case, additional ground handling equipment would be required in the event of B767 flights. International airports will no longer be a limitation to growth in air traffic and tourist arrivals once these issues have been addressed. With regards to the outer island airstrips, lack of regular and specific maintenance has resulted in the deterioration of their conditions and as such significant expenditure is envisaged for their upgrading. The policy objectives are to provide safe and reliable airport services to cater for growth in domestic and international passenger and cargo services, and to provide efficient and cost effective service to passenger and cargo traffic both domestically and internationally.

The condition of roads in Vanuatu is very poor owing to below-standards initial construction and inadequate maintenance. Several ad-hoc and short-term donor funded technical assistance is used for road construction. The Land Transport Authority is inefficient by no sole fault of its own as at present, legislation does not clearly define the roles governing road regulations which are handled by a variety of different departments, statutory bodies and the municipality. The general policy of the government is to provide and adequately maintain an appropriate land transport system that enhances social and economic development in Vanuatu.

### ***Forestry***

Most of the industry is based around logging operations in natural forests, with logs being processed in mills and exported as sawn timber. Sawn timber exports at € 2.5 million represent 13 per cent of all exports. Vanuatu has a comprehensive forest policy supported by appropriate legislative and regulatory measures due to a ban on the export of unprocessed logs. However, monitoring of compliance is weak.

In addition to major saw-milling activities there are over 200 licensed chainsaw and walk about sawmills in the country. They are harvesting selected high value logs to be utilised in joinery or furniture manufacture.

## ***Fisheries***

Given that Vanuatu is located in the greater area of the world's largest tuna resource, it is perhaps surprising that fisheries contributes very little to the Vanuatu economy. Offshore tuna resources have been licensed to foreign fishing nations with little downstream processing occurring in Vanuatu. The amount of revenue from these licenses is not precisely known. Attempts to develop significant local participation in commercial fishing have been disappointing. Lack of adequate cold storage facilities, inadequate access to markets and the high cost of credit have been identified as factors inhibiting the growth of the industry. Consequently, exports have been marginal and stagnant with domestic demand being increasingly met by imports of canned fish in particular.

## ***Capacity Building***

General shortages of skilled local personnel and low government salaries make institutional capacity a major constraint to development. Although these problems are being addressed in the CRP, it will take many years to build up local capacity. Meanwhile, a high dependence will remain on expatriate technical assistance, a fact that at times creates resentment.

### **3.4. External Environment**

One of the key policies of the CRP is to work towards a high degree of openness to the global economy. A new foreign investment law has been passed to make it easier for foreign investors to meet residency and work permit requirements.

## ***Offshore Finance***

The Vanuatu offshore centre development was under considerable strain in 2002. This was largely due to a temporary ban of Vanuatu Banks from the international banking system, particularly the US banking system. However, this was in no way due to Vanuatu's inclusion in the OECD black list. The temporary ban was due to the enactment of the US Patriot Act, which makes provisions for security and due diligence checks on all banking transactions going to and from the United States. Consequently, this required on-sight inspection of customer bank accounts by officers from US banks. The US banks considered that the exercise of carrying out on-sight inspections on customer bank accounts in Vanuatu would be too costly for them, therefore the banks decided not to transact with Vanuatu Banks. This issue has now been resolved and Vanuatu does not have any more problems in the area of international banking.

In view of the anti-money laundering exercise, Vanuatu considers the strengthening of its offshore finance sector against money laundering activities, terrorist financing and other illegal purposes/activities as significant. Vanuatu already complies with all of the FATF's 48 recommendations.<sup>1</sup> In fact, Vanuatu is the only nation in the Pacific region to have established a fully functional Financial Intelligence Unit. For the record, Vanuatu has never been on any FATF black listing, unlike of some of its Pacific neighbours. In November 2002, Parliament further enacted legislation to provide for the suppression of terrorist financing and the confiscation of proceeds of crime. This genuinely shows Vanuatu's willingness to comply with international standards on money laundering.

Although Vanuatu has been black-listed as an uncooperative jurisdiction with the threat of possible defensive action by OECD member countries beginning April 2003, it continues to

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<sup>1</sup> 40 of the FATF recommendations relate to work on money laundering whilst the additional 8 deal with anti-terrorist financing.

maintain positive dialogue with the OECD on the issue of harmful tax competition towards resolving the current problem.

### ***Trade Arrangements***

Domestic political intervention forced the postponement of World Trade Organisation (WTO) membership. Vanuatu had finalised an accession package and was due to join at the 2001 Doha ministerial conference. However politicians deemed the conditions too harsh for domestic businesses to accept in the short term.

Vanuatu has not yet ratified the Pacific Island Countries Trade Agreement (PICTA), a regional free-trade area due to be phased in over the next decade. Vanuatu can also potentially join the Pacific Agreement on Closer Economic Relations (PACER), a treaty aimed at expanding economic co-operation.

Under the 2000 Cotonou Agreement, Vanuatu as part of the ACP is committed to the negotiation of new WTO-compatible trade arrangements with the EU that will come into force in 2008. New reciprocal Economic Partnership Agreements (EPAs) between the ACP and the EU will replace existing non-preferential trade arrangements.

The SPARTECA agreement between the Pacific islands, Australia and New Zealand provides duty-free access for Vanuatu agricultural products into the Australian and new Zealand markets. Vanuatu, however, faces difficulty in complying with the strict standards required.

The Melanesian Spearhead Group (MSG) involves bilateral trade agreements within the region. An MSG Free Trade Area is due to take effect by 2003 for Fiji and Papua New Guinea and 2005 for the Solomons and Vanuatu. However, amid protests from Fiji, Vanuatu negotiated emergency protective tariffs on six MSG products in October 2002 aimed at protecting local industries for three years.

### ***Fisheries Agreements***

Vanuatu currently has bilateral fisheries agreements with a number of Pacific Rim countries. However, information on the revenue accruing from these arrangements is not readily available.

There is interest for a Fisheries Agreement with the European Union. In the EC's fisheries policy framework, bilateral agreements are being explored with a number of Pacific island countries. The prospect of such arrangements with Vanuatu has yet to be explored.

### **3.5. Medium Term Challenges**

It is clear that there will be an increasing demand for new services to meet the demands of the increasing population. There is also a need for increasing revenues to support existing government services and a need for employment growth to ensure that unemployment levels do not become unsustainably high. All of this means that Vanuatu needs to increase the rate of its economic growth. This will only come both from having good macroeconomic settings, microeconomic reform that encourages growing markets, new investment and productivity improvements.

### ***Agriculture***

The volcanic nature of the many islands of Vanuatu means that the soils are rich and fertile. Forty per cent of the land has conditions favourable to agriculture development, yet less than half this area is under any form of cultivation. Copra, cocoa, and cattle sectors have potential. Kava and forest products have experienced a sharp rise in the recent past with the former experiencing a sharp decline in the past 12 months due to import bans imposed by several

industrialised countries. Vanuatu's dependency on a few commodity exports renders the country highly vulnerable to shifts in world prices for these commodities. Nevertheless, export markets exist and can be further developed through regional agreements (SPARTECA and MSG).

With improved marketing arrangements and infrastructure, there is scope for increasing smallholder cocoa exports (especially in the organic niche market). There is also market potential for organically grown coffee in Tanna for sale to tourists, and to meet growing overseas demand for organic coffee. The achievement of quality export standards by the Vanuatu abattoirs coupled with the fact that Vanuatu is one of the few countries that are globally recognized as not having mad cow disease and having a hundred percent organically grown beef, and most recently the lifting of import restrictions by the Australian government presented a most promising opportunity for beef exports and is a significant development in the agriculture sector while at the same time providing a boost to nations growing cattle industry. This indicates that there is potential for further processing of agricultural products in Vanuatu as demonstrated above.

### ***Tourism***

Tourism is currently centred on the capital Port Vila. Source markets are mainly Australia and New Zealand. Visits by cruise ships are also a significant source of tourism revenue. Visitor arrivals have increased steadily over the last four years, with a growth of approximately 20 percent in holiday visitors in 2000 reaching the level of 110,000 visitors for the first time. Political problems in other regional destinations have made Vanuatu more attractive and reinforced its image as the 'Friendly Face of the Pacific'. However, the gradual normalisation of the situation in Fiji started affecting adversely tourism arrivals in Vanuatu.

The recent upgrading of the major international airport to B-767 level offers the opportunity for Vanuatu to attract tourists from new markets. In addition, the upgrading of Santo airport to B-737 level is likely to lead to further investment in the tourism sector on that island. Furthermore, plans are underway for direct air links between the island of Tanna and New Caledonia. Services to the outer islands are likely to be further improved as a result of the proposed upgrading of an additional four airstrips to Dash 8 level (funded by AFD).

Port Vila has the potential for many more tourist arrivals (an estimated 200,000 tourists per year is possible) but is constrained at present by a lack of high quality hotel rooms and a lack of skilled human resources, as well as the relatively high prices in Vanuatu. The other islands also have great potential, particularly for eco- and adventure tourism, but have even more acute human resource capacity constraints, and the problem of access to them.

New investments in hotels and tourist attractions are currently taking place in Port Vila and Santo. In addition tourism is benefiting from the relocation of some operators who were previously based elsewhere in the region. Investment by local entrepreneurs in the outer islands, albeit on a small scale, is increasing, as evidenced by the increased membership base of the Vanuatu Island Bungalows Association, which has been supported by the EC. However, as long as the country continues to be viewed as an expensive tourist destination, the country will lose out to other less expensive destinations such as Fiji.

### ***Education***

It is recognised by all stakeholders of the development process in Vanuatu that the level of appropriately skilled human resources is a major constraint. At all levels of the economy, including the public service, there are deficiencies in terms of service delivery and managerial capacity. Hence the need to expand and improve education. Australia, EU, and France are important players in this field in Vanuatu. The World Bank and the ADB are also looking for

investment in the education sector although the nature of the proposed assistance, i.e. loans, are not very appealing to Government.

#### 4. OVERVIEW OF PAST AND ON-GOING CO-OPERATION

Lome Convention I	4 <sup>th</sup> EDF	€ 1,335,000
Lome Convention II	5 <sup>th</sup> EDF	€ 4,332,000
Lome Convention III	6 <sup>th</sup> EDF	€ 5,500,000
Lome Convention IV	7 <sup>th</sup> EDF	€ 7,500,000
Lomé Convention IV/2	8 <sup>th</sup> EDF	€ 10,500,000
Cotonou Convention	9 <sup>th</sup> EDF	€ 15.300,000
Total NIPs		€ 44,467,000
Stabex		€ 32,000,000

All funds under the 6<sup>th</sup> EDF have been used and projects closed. Virtually all funds under the 7<sup>th</sup> EDF have been committed and almost all projects closed. Concerning the 8<sup>th</sup> EDF, all funds (including a “top up” of € 1.0 million) have been committed and some projects closed.

The 9<sup>th</sup> EDF Country Programme was signed on the 11<sup>th</sup> February 2002 with Education and Training as focal sector. An agriculture project and a programme of support to non-state actors are being funded outside the focal sector. These interventions comprise the programmable aid under A-envelope (€ 12 million). An allocation of up to € 3.3 million under B-envelope is also included in the 9<sup>th</sup> EDF.

During 2002, a total of €4,986,000 were disbursed, of which €3,508,500 under the NIPs, €715,000 under STABEX, and €762,500 under structural adjustment.

#### 4.1. Focal sector

Since 6<sup>th</sup> EDF, the EC has supported the education sector in Vanuatu in response to requests from Government to improve or expand education facilities and in line with the EC policy of improving education as a means for achieving sustainable development and eradicating poverty. The assistance provided to primary education (6<sup>th</sup> and 7<sup>th</sup> EDF) has been positively evaluated. The evaluators recommended support from 8<sup>th</sup> EDF for junior secondary education so as to double the number of primary school leavers (20 per cent at the time) going into junior secondary schools. Education has been identified as focal sector of the 9<sup>th</sup> EDF due also to its cross-cutting relevance to other sectors.

##### 4.1.1 8<sup>th</sup> EDF

##### European Union/Vanuatu Education Development (EUVED Programme)

Education is the area of concentration of the 8<sup>th</sup> EDF National Indicative Programme with 79% of the NIP funds allocated to it.

Vanuatu has 24 government run junior secondary schools, and 26 non-government ones. The EUVED programme has provided, amongst other activities, the upgrading of 18 junior secondary schools plus the Vanuatu Teacher College and the Examination Center. Following a devastating earthquake in January 2002, it was decided to use project funds to reconstruct the Ministry of Education. The programme has also provided in-service training of teachers as well as textbooks and basic laboratory equipment.

Implementation of the programme started in September 1999. Progress is on schedule and works on most schools are already completed. The VTC library and the Exam Centre are also

completed. Work on the Ministry building has started, and it is expected to be completed at around mid-2003. A Project Management Unit, staffed with an expatriate, a Volunteer, and six Local Staff, manages efficiently the implementation of the various activities under the programme. On-the-job training is being provided to ensure effective transfer of know-how. Local communities in the vicinity of these schools, including women, have been actively involved through the services of a local sociologist. The works implemented improve the surrounding environment due to the provision of proper drainage, and also due to the fact that technology used is appropriate to local conditions. Overall completion is expected in August 2003.

The **Intervention Framework / Indicators** are as follows:

	<b>1994</b>	<b>2001</b>	<b>2001</b>	<b>2002</b>	<b>2002</b>	<b>2003</b>
	<b>Base Year</b>	<b>Target</b>	<b>Actual</b>	<b>Target</b>	<b>Actual</b>	<b>Target</b>
<b>Activity</b>						
<b>Total enrolment JSS</b>	<b>4392</b>	<b>-</b>	<b>7475</b>	<b>8784</b>	<b>8199</b>	<b>8784</b>
<b>% of students passing to SSS</b>	<b>8.6</b>	<b>-</b>	<b>11.8</b>	<b>8.6</b>	<b>9.1</b>	<b>8.6</b>
<b>Teachers in JSS</b>	<b>191</b>	<b>-</b>	<b>367</b>	<b>-</b>	<b>591</b>	<b>-</b>
<b>Secondary Schools Advisors (trained)</b>	<b>Nil</b>	<b>-</b>	<b>-</b>	<b>30</b>	<b>27</b>	<b>-</b>
<b>Value of textbooks distributed</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11.8mVt</b>	<b>7.3mVt</b>	<b>4.4mVt</b>
<b>Value of science equipment distributed</b>	<b>-</b>	<b>4.8mVt</b>	<b>0.7mVt</b>	<b>6.1mVt</b>	<b>2.0mVt</b>	<b>4.0mVt</b>
<b>Upgraded JSS</b>	<b>-</b>	<b>7</b>	<b>6</b>	<b>9</b>	<b>9</b>	<b>3</b>
<b>Maintenance Workshops</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>6</b>	<b>2</b>

### **Vanuatu Maritime College**

This project comprises the strengthening of the Maritime College in Santo. The College trains seafarers and fishermen. A multi-donor assistance, with EU and France being the main contributors of funds, aims at extending and upgrading the college's facilities in order to meet growing demand for training but also in order to ensure that such training complies fully with relevant international standards. The Financing Agreement was signed in February 2001, tenders had been launched in early 2002, and building works started in the second half of 2002. These works are expected to benefit their surroundings by providing appropriate drainage. One component had to be re-tendered. It is expected that the contract for this would be concluded in the 1<sup>st</sup> quarter of 2003, provided a derogation from the rules of origin for some of its components would be granted. The possibility of raising the project ceiling by making use of funds still available under the 7<sup>th</sup> EDF will be examined, so that some additional infrastructure works could be carried out. In that way all initial objectives will be

achieved. An increased number of students, including female ones, will benefit from this improved education and find it easier to get a gainful employment.

#### 4.1.2 9<sup>th</sup> EDF

Preparation of the Financing Proposal for an appropriate “post-EUVED” project has been deferred in order to allow the Ministry of Education to better define their policy towards Junior Secondary Education and the implementation of a year 7 and 8 program (called Top Up schools). Funds from the 9<sup>th</sup> EDF, amounting to around €430,000 have been requested to provide a TA to the Ministry of Education to assist in the policy formulation area. This expert, already identified, was expected to commence her assignment in the second quarter of 2003. Thus, the draft Financing Proposal for the envisaged main 9<sup>th</sup> EDF project, to which an amount of about €4.75 million would be allocated, was expected to be prepared at around mid-2003. The envisaged Framework Intervention Indicators are as follows:

	Education and Training Programme	Indicator	Sources of verification	Assumptions
Impact	Human resources development particularly at post-primary school level, thus increasing the number of educated people and reducing poverty	General poverty situation in the country	Specific socio-economic survey and data	Political stability and maintenance of education's share in national budget allocations
Outcome	<ul style="list-style-type: none"> <li>- Increased number of students with access to post-primary school education</li> <li>- Improved school curricula (both English and French)</li> <li>- Education Management Information system established</li> </ul>	<ul style="list-style-type: none"> <li>• Number of students enrolled in junior secondary schools</li> <li>• Number of students enrolled in the community schools</li> <li>• Number of students graduating from junior secondary schools</li> <li>• Number of dropouts from junior secondary schools</li> <li>• Examination of pass rates</li> <li>• Review of schools curricula and implementation of actions</li> <li>• Implementation of EMIS</li> </ul>	<ul style="list-style-type: none"> <li>- Ministry of Education Examination Centre Reports</li> <li>- Ex-post evaluation of project.</li> </ul>	Education policy of improving quantity and quality at all levels maintained
Output	<ul style="list-style-type: none"> <li>- Number of educated people increased</li> <li>- Quality of education improved</li> <li>- Overall management of education data streamlined</li> </ul>	<ul style="list-style-type: none"> <li>• Number of graduates from different levels of education</li> <li>• Number of teachers Trained</li> <li>• Number of schools/ classrooms improved</li> <li>• Ratio of pupils/classroom</li> <li>• EMIS working</li> </ul>	<ul style="list-style-type: none"> <li>- Ministry of Education statistics</li> <li>- Ex-post evaluation</li> </ul>	Completion of the envisaged EDF project
Input	<ul style="list-style-type: none"> <li>- Annual budget allocation</li> <li>- 9<sup>th</sup> EDF programme of support</li> <li>- Other donors' contributions</li> </ul>	<ul style="list-style-type: none"> <li>• Percentage of public spending on education</li> <li>• EDF disbursements</li> <li>• Disbursements by other donors</li> </ul>	<ul style="list-style-type: none"> <li>• National statistics</li> <li>• OLAS figures</li> <li>Data from other donors</li> </ul>	Effective co-ordination with other donors

In the meantime, the project of Training local Air Traffic Controllers, has started. A total of €300,000 have been committed to this project. Collaboration with the Civil Air Authorities in New Caledonia has been established. The objective is to train locals so that they can replace the 4 expatriate Air Traffic Controllers. Eight students have been selected and are undergoing

proper training. It is expected that at least 4 of them will make it to the internationally accepted standards.

The Financing Decision (DAG) for the new TA to the NAO, of a total of €700,000 was also taken, and tendering procedures implemented. By the end of the year under review, the relevant contract had been awarded. The principal expert was expected to take up his post during the 1<sup>st</sup> quarter of 2003. He will provide much needed expertise for a period of three years, during which he will also provide on-the-job training so that appropriate capacity building can be realised.

A draft Financing Proposal for the envisaged project in support of the education in the tourism sector (infrastructure, vocational training, in service training), of an amount of €1,999,000 was prepared and submitted to the Commission for their appraisal. It was expected that it would be approved by mid-2003. The main component of this project aims at doubling the capacity of the Vanuatu Institute of Technology in training students for the tourism and hospitality industry.

The first draft of the Financing Proposal for the envisaged PWD Maintenance Training project had also been prepared during 2002. However this draft would be finalised in early 2003, once the Evaluation Report on the EDF transport projects would have been received. It was expected that the Commission would appraise this €1,995,000 project during the first half of 2003.

#### **4.1.3 Macroeconomic support**

In 2001 a Financing Agreement was signed for a Structural Adjustment Support Program for an amount of € 1.6 million of direct budgetary assistance. A first tranche of 762.500 Euro was released in late 2001. The second tranche of the same amount was released in the third quarter of 2002 after the review of the conditions stipulated in the relevant Financing Agreement. Funds were destined to support the education budget, and more specifically to meet the salaries of the additional teachers recruited by Government as a direct result of the expansion of Junior Secondary Schools under the EUVED programme. With a view to allowing the execution of a comprehensive audit of this project, the validity of the relevant Financing Agreement was extended to 30.06.2003. It was planned to have this audit carried out during the second quarter of 2003.

#### **4.2 Outside focal sector**

##### **Rural Tourism Training**

The end of the year under review saw the completion of this project that comprised the provision of appropriate training (management, accounting, tour-guiding, cooking) to the members of the Vanuatu Islands Bungalows Association set up earlier with assistance under the 7<sup>th</sup> EDF. Feedback from the beneficiaries, a large proportion of which comprise women,, indicate a positive outcome. Under the envisage 9<sup>th</sup> EDF Tourism Education and Training project, a follow up support to these resorts is planned in the form of facilitated access to a modest credit line, with a view to assisting them in effecting necessary upgrades of their facilities. Such an intervention would consolidate the progress achieved during the first two phases of the EDF investment in the sector.

##### **TA to NAO**

The Technical Assistance to NAO project came to its end in July 2002. It has been in overall a successful project because it provided much needed expertise to the NAO' department. The

two experts concerned have been instrumental in achieving a very good performance in the EU / Vanuatu co-operation. They also assisted in the management of aid by other donors and contributed to the overall aid co-ordination. On-the job training has also been provided to counterparts. A follow-up intervention has been included under the 9<sup>th</sup> EDF.

### **TA to PWD**

The Technical Assistant under this project, entrusted with the task of building up the capacity of the Public Works Department, started his assignment in September 2001. During the year under review, he continued providing advice on pertinent issues, monitoring the implementation of EU funded infrastructure projects, and also contributing to the preparation of the envisaged 9<sup>th</sup> EDF project of support to PWD Maintenance Training. Special expert advice by him was provided following the strong earthquake in January 2002.

### **Electoral Support**

At the request of the Government, a multi-donor effort was undertaken in the second quarter of 2002 in order to assist the Electoral Commission to organise the national elections, and also to assist Transparency International to put in place an observation group. A new EDF project of €75,000 was promptly prepared, approved, and successfully completed.

### **Evaluation of EDF land transport projects**

This evaluation was carried out in the last quarter of the year under review. This study had been considered necessary in order to allow the meaningful preparation of the envisaged 9<sup>th</sup> EDF project in support of the PWD. The relevant final report was expected in the first quarter of 2003.

### **9<sup>th</sup> EDF**

The non-focal sector Producers Organisation Project was approved by mid-2002. This agricultural project, to which the amount of €1.4 million had been committed, aims at assisting in the establishment of appropriate producers organisation, and providing to them expertise, training, and infrastructure facilities as necessary to making them commercially viable by the end of the 3-year duration. It commenced its implementation in the last quarter of 2002. It is noted that this project is co-financed with France.

The following **Intervention Framework Indicators** are envisaged:

<b>Year</b>	<b>2002</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>Target</b>	<b>Actual</b>	<b>Target</b>	<b>Target</b>	<b>Target</b>
<b>Activity</b>					
<b>Strengthening Existing POs</b>	7	7	7	7	7
<b>Establishing New Pos</b>			3	5	8
<b>Infrastructure Investment</b>			€ 209,500	€ 200,000	€ 140,500
<b>Expertise Training</b> /	One study (credit)	Study contract concluded	Three studies (Coco-fuel,	Two studies	One study

			Fishery, Cocoa)		
<b>Extension Services</b>	4 French Tas, 1 Extension Officer	4 French TAs & 1 Extension Officer in place	4 French TAs & 1 Ext. Officer & 4 Field Assist.	4 French TAs & 1 Ext. Officer & 5 Field Assist.	1 Extension Officer & 6 Field Assist.
<b>Credit Fund</b>			€ 64,000	€ 80,000	€ 16,000
<b>Marketing Info System</b> /	Tendering	Tender launched	1 Marketing Expert & 1 Counterpart	1 Marketing Expert & 1 Counterpart	1 Marketing Expert & 1 Counterpart
<b>Cocoa (tons of dry green beans)</b>		65	100	150	200
<b>Coffee ( tons of dry green beans)</b>		9	15	25	40
<b>Coconut Oil (Its)</b>			600	5,000	10,000
<b>Root-crops (tons / flower)</b>			2	5	10

### 4.3 Resources for Non State Actors

The Financing Proposal for the envisaged Support to Non-State Actors programme, of an amount of €600,000 was the subject of the appraisal of the Commission during the last quarter of 2002. Its approval was expected in early 2003. It is envisaged that a significant number of civil society organisations will be supported in order to build-up their capacity, and thus be in a better position to be actively involved in the country's development process. A wide range of Non State Actors, currently active in the various sectors of the national life, and with proven outer reach, will benefit from the inputs of this programme.

### 4.4 Other instruments

**4.4.1 EIB:** Under Lomé II, the EIB provided a loan of ECU 2 million to the former Development Bank of Vanuatu. In 1999, using the NIP of the 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> EDF, the EIB provided a loan of € 5 million to upgrade the country's main airport to higher standards (B-767) so as to promote tourism by opening access to new markets. By the end of the year under review this project was virtually completed. An EIB mission was expected in early 2003 in order to discuss with the Government, and the Private Sector, possibilities of funding under the forthcoming Cotonou Agreement, with special emphasis to the Investment Facility instrument provided therein.

**4.4.2 Regional Cooperation:** Regional Cooperation is handled mainly in Fiji by the FORUM Secretariat and the EC Delegation in Suva. Effective participation of Vanuatu, and ensuing benefit from these regional projects, is very limited. The regional body, and the Suva Delegation, have been asked to ensure better involvement of Vanuatu, and the EC Office in Port Vila, in the preparation of the 9<sup>th</sup> EDF projects. Indeed, the flow of relevant communication from Fiji was subsequently improved. It is hoped that Vanuatu will benefit from a number of regional projects under preparation at present.

**4.4.3 STABEX:** All remaining funds under the 95, 96, and 98 transfers had been earmarked for the funding of repair river crossing works, mainly on the Big Bay Road in Santo, that had been necessitated by the devastating effects of Cyclone Dani in 1999. These works were practically completed by May 2002. Due to interest earned by the placement of the relevant funds in the local banks, some funds (about €120,000) were still available. Whereas some of these funds would be used for the execution of a comprehensive audit of the STABEX operations, the balance was planned to be used for some additional repair works for damages also caused by the same cyclone. It was intended to have both these activities completed by the end of 2003.

#### **4.4.4 Budget Lines**

##### **B7 – 6261 Tropical Forest**

In December 1999 the project “Landowner Extension and Awareness of Reforestation Naturally” was signed for an amount of € 268.000. This 3 – year project effectively started on the 1<sup>st</sup> of March 2001. Its implementation is managed by the Forestry Department of the Ministry of Agriculture. Due to the demanding nature of this project the progress has been rather slow. The departure after one year on the post of the foreign Project Manager, and his replacement by an officer of the Department of Forests, have also affected adversely the progress of implementation. With a view to identifying problems and thus making necessary adaptations as required to achieve objectives, a Mid-term Review would be carried out in early 2003. It is possible that an extension of the project by one year would be recommended.

##### **B7 – 7020 Human rights and democracy**

Concerns the project Development Theatre for the Education and Capacity Building of Ni-Vanuatu and Pacific Islands Countries. This € 370.000 project is being implemented by the Wan Smol Bag Theatre, a local NGO, with a very good reputation in the country and indeed in the region. Useful, and very appropriate to local socio-cultural conditions work is being carried out under this project. The rural population is specifically targeted with simple messages, conveyed in different forms, that concern real-life problems.

##### **B7 - 6002 Decentralised Cooperation**

In September 2001 the European Commission approved the Vanuatu Partners in Development (VANPID) project for a total cost eligible for Commission’s financing of Euro 316,521. Implementation has effectively started in mid – 2002 and it is scheduled to last 3 years. The project’s objective is to improve the capacity of NGOs in the country so that they can have an enhanced participation in Development Programmes.

#### **ECHO**

On the 1<sup>st</sup> of January 2000, ECHO awarded an amount of € 160.000 for “Aide aux victimes du tremblement de terre à Pentecôte”. The NGO “Medecins du monde” is managing the project and is repairing schools and dispensaries damaged by the November 1999 earthquake. Implementation is underway.

## **5 PROGRAMMING PROSPECTIVE**

With the exception of the formulation of the main 9<sup>th</sup> EDF focal sector project, deferred to 2003 in order to allow a review of the sector’s policy and the identification of an appropriate intervention, all actions identified in the 9<sup>th</sup> EDF NIP (to be funded under the A – envelope) are on track. In fact several of them are under implementation. In addition, Vanuatu has also

prepared and submitted to the European commission for assessment, two projects under the B-envelope. It is expected that this assessment would be completed during the first quarter of 2003, so that procedures for securing the relevant funds could then be initiated with a view of obtaining the relevant Financing Decisions before the end of 2003.

The deferment of the focal sector project mentioned above has been necessitated by the wider considerations ensuing from the commencement, in 2002, of the functioning of the “community schools” as a step of the Government towards achieving the goal of “education for all”. With the gradual introduction of these schools, the drop out rate from the primary schools will be eliminated, and students that can not make it to the secondary schools will have the opportunity to do two extra years, the second of which will provide them with essential life skills. Initial reflections indicate that possible EDF funding of such schools would have a much wider impact. With the anticipated mobilisation in the second quarter of 2003 of the EDF funded expert to the Ministry of Education this issue will be studied further, and the envisaged focal sector project will then be formulated. These considerations do not necessitate any revision of the CSS/NIP since the envisaged project would respond to the foreseen response strategy.

It is expected that the constructive dialogue between the EC Office and the national administration will continue. Frequent meetings between the EC Resident Adviser and the NAO’s department ensure an effective monitoring of the preparation and implementation of the foreseen interventions. Line Ministries concerned are also constituting an integral part of the relevant process. Consultations between donors in general, and more specifically between the EC Office and the two EU Member countries present in Vanuatu, will also continue for the better co-ordination of aid. In this respect the Government is reflecting on the possibility of formalising foreign aid coordination, and it is also considering the idea of calling for a donors meeting by the mid-2003. The established dialogue with the civil society organisations will continue in order to ensure that they become effective development partners. The two projects in this area, i.e. the Budget-line VANPID project, and the forthcoming NIP programme in Support of the Non State Actors will allow the EC Office in Port Vila to be involved in such a manner as to prevent duplication and ensure effective coordination for better impact. A recent regional project of support to NGOs will also be taken into account.

Judging from the progress achieved so far, and also taking into account the relevant parameters as these have been exposed above, it is reasonably expected that Vanuatu’s Mid-term Review, envisaged for February 2004, will conclude to the good performance in using EU resources made available, and thus recommend that further financial assistance may be provided. In fact Vanuatu is working on this assumption by intensively reflecting on projects that could at that time be presented for initial consideration.

## **6 2003 Annual Operational Review – Specific themes**

### **6.1 The speeding up of the use of old EDF resources**

In overall, Vanuatu’s performance under all NIPs has been excellent. More specifically: 6<sup>th</sup> EDF: All projects completed. All projects closed with the exception of one that is also funded under the 7<sup>th</sup> and 8<sup>th</sup> EDFs. The remaining very small balance of €1,250 will have to be transferred to the 9<sup>th</sup> EDF.

7<sup>th</sup> EDF: All projects completed. All projects closed with the exception of one that is also funded under the 8<sup>th</sup> EDF. Most of the remaining NIP balance of €159,822 will be proposed to be used for an intended increase of funding for project 8 ACP VA 11 (Vanuatu Maritime College Strengthening).

8<sup>th</sup> EDF: All funds committed, with the exception of €48,472. Of the 6 open projects, 4 will be completed and closed by September 2003. The remaining 2 will be completed at around mid-2004. The 4 projects to be closed in 2003 will release around €100,000. This amount, plus the uncommitted amount mentioned above, will be proposed to complement the funding of the last 9<sup>th</sup> EDF project, i.e. the Education and Training Programme, intended to be considered by the EDF Committee in late 2003.

9<sup>th</sup> EDF: For A-envelope, 5 projects have been approved (by March 2003) and are under implementation. Financing proposals for two others have been submitted to the Commission and are being finalised. The relevant Financing Decisions are expected by mid-2003. There remains one last project, for which the Financing Proposal will be drafted by July 2003 for an eventual decision by the current year's end. For B-envelope, the two submissions of Vanuatu have been positively assessed by DG-Development. AIDCO is expected to initiate procedures for their implementation. One concerns an €1.7 million budgetary support, and the other a €1.35 million reconstruction project. Finalisation of the former may have to await the execution of the coming audit of the previous structural adjustment support, whereas for the latter a Financing Proposal will be drafted in April 2003. Financing Decisions for both are expected during the current year.

## **6.2 Setting indicators and targets for measuring results**

The intervention framework indicators for the on-going focal sector project in the 8<sup>th</sup> EDF has been provided in chapter 4.1 above. The intervention framework indicators, for the envisaged main focal sector intervention in the 9<sup>th</sup> EDF, has also been refined and provided in chapter 4.1.2. Concrete targets will be set, where possible in the areas identified, when the programme itself is designed. The intervention framework indicators, with targets, for the main non-focal sector project in the 9<sup>th</sup> EDF has been provided in chapter 4.2 above. Other targets / indicators are shown in the annexes to this report.

## **6.3 Dialogue in country with the NAO and non-State actors**

Regular reviews, of the progress of implementation of all EDF projects, are being carried out jointly by the NAO's department and the EC Office. Frequent contacts are maintained on an almost daily basis, thus ensuring promptitude and effectiveness. The imminent arrival of the Technical Assistant to NAO is expected to further reinforce this constructive working relationship. At the same time, constructive relations with the line Ministries concerned with the different EDF projects, are also maintained. Civil society organisations are being associated in most projects either in executive or in advisory roles. Their relative prominence in the socio-cultural context of Vanuatu makes them important development partners. An NIP project, a Budget Line one, and a Regional Project, are expected to significantly strengthen their capacities, and thus further facilitate their effective involvement in all phases of the projects cycle. Continuous contacts between the EC Office and the two EU Member States Embassies in Port Vila ensure coordination and indeed complementarity of aid granted to Vanuatu. The French Ambassador and the UK High Commissioner are associated, as a rule, with all important events concerning the EU funded projects. Regular meetings with the other donors present in the country are being organised with a view to sharing information and experiences, and indeed in order to coordinate actions in the field of development finance.

## **7. Conclusions**

Vanuatu continues to suffer from a stagnating economy and a significant population growth (2.7%). The rather narrow revenue base limits the capacity of the Government to raising

funds in such a level, as it is required for ensuring an effective delivery of services, especially to the rural communities who constitute around 80% of the population. Serious structural weaknesses of the economy are being gradually removed with the implementation of a structural adjustment programme. However, lack of visible results makes the Comprehensive Reform Programme increasingly unpopular. Adaptations to the CRP are being instituted with a view to addressing some of these concerns. At the same time, the Government is looking into feasible ways of increasing revenue collection. It is also making a determined effort to put in place necessary legislation that will allow Vanuatu to provide to OECD the required commitment that would result in having the country removed from the “black list” of countries not adhering to the Harmful Tax Practices Initiative.

It is clear that in, at least, the medium term the country will rely heavily on the inflow of aid. With a view to optimising the use of such aid, the Government intends to enhance coordination amongst donors. It is also intended to start changing the emphasis of such aid, directing it towards the two main productive sectors with potential for sustainable development, i.e. agriculture and tourism. It is however recognised that their development will require time and commitment, as well as effective participation of the beneficiaries. Serious constraints in both sectors, both at institutional and infrastructural levels, will have to be removed. Whereas some steps towards improving such enabling environment have been taken, more determined efforts by the Government are required.

Closer consultations with the private sector are required in order to ensure that they eventually become the envisaged locomotive of the national economy’s development. A successful Business Forum organised in late 2002 by the active Chamber of Commerce and Industry brought together the private sector actors and the Government. Whereas high expectations were raised, the latter’s commitment for involving deeper the private sector in legislation and decisions concerning them has not materialised. Following coordinated protests by the private sector and the civil society, the Government, at its highest level, undertook to improve the consultation process.

Macro-economic stability, a prerequisite for sustainable development, depends heavily on political stability. The current coalition government does give the impression of stability, without however removing the fact of policy differences between the two constituent parties. Opposition moves towards building up a momentum for launching a non-confidence motion could prove to be a destabilisation factor, since no coherent alternative plan to the Government’s one is proposed. One thing is clear; the country can ill-afford a political change just for the sake of change.

Abject poverty in the country is not visible, and may not exist. There are no starving people. This is due to the socio-cultural characteristics of the Melanesian society and the customary land tenure system. About 94% of population own land, in which they grow staple food-crops and/or raise livestock. A number of poverty studies have been carried out. Whereas they conclude that abject poverty does not exist, they do identify the existence of “poverty of opportunity”, meaning serious difficulties by many (especially in the rural areas) to access vital services like schools, clinics and markets. An ADB study recommended that Good Governance, Social Development, and Equitable Pro-poor Growth should form the basis for developing an appropriate for the country Poverty Reduction Strategy. A draft of the latter, based on a similar document for Samoa, is under consideration by the Government. The study has made an estimate of the International Poverty Line for Vanuatu calculating it according to the UNPD’s definition based on US\$1 per capita per day (1993 PPP). By using official household income figures of 1998, the study estimates that around 40% of all

households in the country had incomes below this level. It was, however, not been possible to calculate a specific national poverty line for Vanuatu.

The 8<sup>th</sup> EDF focal sector activities had a very positive impact. About 1000 junior secondary school places have been created by the programme's activities. In addition, the Teachers College has been equipped with a new Library, the Examination Centre has been extended, and a Secondary Schools Inspectorate has also been created. A new building for the Ministry of Education is being built. Additional teachers, recruited in order to staff the 30 new classrooms built under the programme, had their salaries paid through a budgetary support under a separate EU funded programme. Teachers in place have been re-trained, with coordinated efforts by two other donors (France and Australia). Textbooks have been purchased and delivered to schools. Local communities have been associated, whenever possible, with the individual projects. Maintenance training, and tools, have been provided. An overall successful project. The Rural Tourism Training Project, completed in December 2002, had apparently positive results by improving the skills of the operators concerned. The progress achieved is intended to be consolidated with the envisaged new EDF intervention in the tourism sector. Activities under the 9<sup>th</sup> EDF focal sector have commenced in 2002. During 2003 these are expected to intensify in order to achieve, in 2004 and 2005, the intended results and impact. The recently started EDF project in support of agricultural producers presents valid opportunities in this productive sector, which is the mainstay of the national economy. Particular interest is being raised by the newly approved Support to non-State actors Programme that aims at building up the capacity of civil society organisations, so that they could become effective development partners.

The realistic prospect of having all 9<sup>th</sup> EDF (A+B-envelopes) funds committed in 2003 shows clearly the excellent performance of Vanuatu in using judiciously the EU aid. It is believed that the 2003 operational review will conclude to this effect. Furthermore it is anticipated that the February 2004 Midterm Review will confirm this excellent performance, and lay the ground for an eventual recourse of the country to additional funding. This optimistic scenario is based on the level of highly satisfactory working relations between the EC Office and the NAO/Line Ministries on the one hand, and the efficient contacts between the EC Office and the EC Headquarters competent services. Effective coordination with the EU Member States present in Vanuatu, and frequent contacts with the other donors are positive factors in the whole equation. The realistic expectations of confirming good performance are based on the refinement of relevant intervention framework indicators that would allow an effective monitoring, and assessment, of progress of implementation. Provided therefore that there would be no disruptive political upheavals, and also assuming that there will be no catastrophic national calamities, Vanuatu would be in a position to demonstrate its eligibility of receiving further assistance by the EU.

## 8. ANNEXES

### 8.1 Intervention framework(9<sup>th</sup> EDF)

<i>Education and Training Support Programme of Actions (€10.0 million)</i>	<b>Performance Indicators</b>	<b>Sources of verification</b>	<b>Assumptions</b>
<b>Overall Objective</b> To promote the development of Vanuatu's Human Resources	Improvement in the Human Development Index	Published surveys and reports (UNDP)	Government maintains education's share in national budget allocations
<b>Programme Purpose</b> To improve standard of teaching and access for students in the secondary education, expand vocational training and provide on the job training	Measurable increases attributable to Programme activities in the numbers enrolling for secondary education, graduating from VIT's tourism school, and receiving on-the-job training in PWD, DESD, and AVL.	Project reports and education statistics	The six separate projects are implemented as planned
<b>Results</b> Improvement of secondary education Teacher training Improved education planning Strengthened training in tourism  Improved skills in road maintenance Improved aid management Improved skills in Air Traffic Control	Increase in number of primary school leavers into secondary education Reduction in drop-out rates  Formulation of clear policies Increase of VIT tourism graduates from 18 to 36 a year; up to 100 tourism operators trained Equipment supplied, foremen trained DESD staff trained; effectiveness of aid management Up to 8 locals trained	Education statistics Education statistics Updated Master Plan Project implementation reports, evaluation Project implementation reports TA's reports; feedback from donors Number of foreign ATCs replaced by locals	Full involvement of national departments concerned     Gradual increase in maintenance budget  Trained locals remain in country

## 8.2. Chronogramme

Title	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b><u>A-envelope</u></b> Area of concentration : Education and training												
<b>TA to Education</b>	Identification		Proposal		Approval	Contract	Implementation					
<b>Education and Training Project</b>					Identification		Financing Proposal	Financing Decision	Financing Agreement	Implementation		
<b>TA to DESD II</b>			Tender	Evaluation	Contract	Implementation						
<b>Air Traffic Controllers Training</b>	Proposal	Approval	Implementation									
<b>Tourism Education and Training</b>			Identification	Financing Proposal	Financing Proposal	Financing Decision	Financing Agreement	Implementation				
<b>Public Works Maintenance Training</b>			Identification		Financing Proposal	Financing Decision	Financing Agreement	Implementation				
<b>Non-focal area</b>												
<b>Producers Organisation Project</b>	Financing Proposal	Approval	Financing Agreement	Implementation								
<b>Support to Non State Actors</b>	Financing Proposal		Appraisal	Financing Decision	Financing Agreement	Implementation						
<b><u>B-envelope</u></b>												
<b>FLEX Support</b>			Submission of Data	Assessment	Order of Service to AIDCO	Financing Proposal	Financing Decision & Agreement	Disbursement of funds				
<b>Reconstruction Support</b>			Identification	Assessment	Order of Service	Financing Proposal	Financing Decision	Financing Agreement	Implementation			

### 8.3. Commitments and expenditure

Title		2002		2003		2004		2005		2006	
		S1	S2	S1	S2	S1	S2	S1	S2	S1	S2
Education and training	Commitment			430.000	4.750.000						
	Expenditure			100.000	100.000	500.000	1.000.000	1.500.000	1.500.000	480.000	
Tourism Education and Training	Commitment			1.999.000	600.000		400.000	300.000	199.000		
	Expenditure					500.000					
P.W.D. Maintenance Training	Commitment			1.995.000							
	Expenditure				500.000	800.000	300.000	200.000	195.000		
TA to DESD	Commitment			600.000							
	Expenditure			180.000	90.000	90.000	90.000	90.000	60.000		
Training of ATCs	Commitment		300.000								
	Expenditure		150.000	100.000	50.000						
Support to Non State Actors	Commitment			600.000							
	Expenditure			300.000	150.000	150.000					
POP project	Commitment		1.400.000								
	Expenditure		30.000	270.000	250.000	250.000	250.000	250.000	100.000		
FLEX Support	Commitment				1.700.000						
	Expenditure				1.700.000						

<b>Reconstruction of LAB</b>	Commitment				1.350.000						
	Expenditure					500.000	700.000	150.000			
<b>TOTAL:</b>	<b>Commitment</b>	<b>1.700.000</b>	<b>5.624.000</b>	<b>7.800.000</b>							
	<b>Expenditure</b>	<b>180.000</b>	<b>950.000</b>	<b>3.440.000</b>	<b>2.790.000</b>	<b>2.740.000</b>	<b>2.490.000</b>	<b>2.0540.000</b>	<b>480.000</b>		

## 8.4 Financial Situation

Project		Beginning 2002		End 2002	
No	Title	Commitment	Disbursement	Commitment	Disbursement
<b>6<sup>th</sup> EDF</b>					
6 VA 26	Rural Access roads	345.000	327.255	343.751	343.751
<b>7<sup>th</sup> EDF</b>					
7 VA 10	Rural Access Roads	2.176.098	2.124.591	2.140.178	2.140.178
7 VA 22	TA to PWD	198.181	40.513	198.181	128.477
<b>8<sup>th</sup> EDF</b>					
8 VA 03	EUVED Programme	8.300.000	3.979.558	8.300.000	6.591.578
8 VA 06	TA to NAO	747.000	416.534	702.326	702.326
8 VA 10	TA to PWD	165.000	-	165.000	-
8 VA 11	VMC Strengthening	287.000	144.508	660.508	292.371
8 VA 12	SERP	800.000	762.500	800.000	762.500
8 VA 13	SERP	800.000	-	800.000	762.500
8 VA 14	Rural Tourism Training	120.536	55.782	120.536	120.536
8 VA 15	Electoral Support	-	-	74.229	74.229
8 VA 17	Road Sector Projects Evaluation	-	-	116.650	-
<b>9<sup>th</sup> EDF</b>					
8 VA 16	Producers Organisation Project	-	-	1.400.000	19.120
8 VA 18	TA to NAO	-	-	745.000	-
8 VA 20	Training of Air Traffic Controllers	-	-	300.000	150.000

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## Annex 8.5

Table 1: Status of 8<sup>th</sup> European Development Fund Pacific Regional Indicative Programme

<b>Project Title and No.</b>	<b>Sector</b>	<b>Budget ( Euro)</b>	<b>Implementing Agency</b>	<b>Financing Agreement signed/Project Commencement date</b>
8 ACP RPA 006 Fiji School of Medecine Infrastructure Improvement Project	Human Resource Development	7,500,000	Fiji School of Medecine	13 March 2002
8 ACP RPA 009 USP/HRD Programme	Human Resource Development	5,000,000	The University of the South Pacific	13 March 2002
8 ACP RPA 007 Reducing Vulnerability of Pacific ACP States through Island Systems Management	Natural Resources & Environment	7,000,000	South Pacific Applied Geoscience Commission ( SOPAC)	13 March 2002
8 ACP RPA 004 Pacific ACP and OCT Regional Oceanic and Coastal Fisheries development programme (PROCFISH)	Natural Resources & Environment	8,100,000	Secretariat of the Pacific Community	20 December 2001
8 ACP RPA 003 Pacific Plant Protection Project	Natural Resource Environment	3,200,000	Secretariat of the Pacific Community	20 December 2001
(8.RPA.005) Economic Partnership Project	Trade/Non-focal	750,000	Pacific Forum Secretariat	6 February 2001
(8 ACP RPA 011) Information resource Centre and Pacific Environmental Information Network	Natural Resources & Environment	560,000	South Pacific Regional Environment Programme	29 June 2000
8 ACP RPA 011 Technical Assistance to South Pacific Tourism Organisation	Tourism/ Non-focal	600,000	South Pacific Tourism Organisation	15 May 2002
8 ACP RPA 010 & 7 ACP RPA 782  Development of Sustainable Agriculture in the Pacific (DSAP)	Natural Resources & Environment	4,300,000	Secretariat of the Pacific Community	13 November 2002

**STABEX OVERVIEW**  
**Situation at 31 December 2002**

<b>Programme</b>	<b>Transfer (A)</b>	<b>Net Interest ( B)</b>	<b>Total Fund (C)</b>	<b>Commitments (D)</b>	<b>Payments (E)</b>	<b>Bank Balance (F)</b>
Stabex 199? *						
Stabex 199? *						
Stabex 199? *						
Stabex 199 ?*						
<b>TOTAL</b>	<b>€1,242,381</b>	<b>VUV2,868,742</b>		<b>1 VUV 166,551 ,412</b>	<b>VUV164,959,245</b>	<b>VUV16,973,710</b>

(\*) Including Stabex balances 199 ? (€.....)

Total funds available for new commitment :

Total Funds ( C= A+B)	€ 1,242,391 + VUV 2,868,742
Commitments ( D)	VUV 166,551,412
Funds Available (C-D)	VUV 16,973,710

**ANNEX 8.7(a)****STABEX**1. Situation at 31.12.2001 by FMO by country **Vanuatu**

	Total amount of Decisions  (A)	Total amount of payments made to accounts in Europe on the basis of transfer agreements  (B)	Total amount of payments made to local accounts from accounts in Europe  (C)	Total amount of FMOs + Riders signed + Interest  (D)	Total amount of contracts signed on the basis of FMOs  (E)	Total amount of payments made from FMOs  (F)	Balance of all bank accounts in Europe  (G)	Total balance of local bank accounts  (H)
FMOs closed	€ 31,588,403	€ 31,588,403	€ 31,588,403	€ 31,959,012	0	€ 31,959,012	0	0
FMOs on going	€ 1,242,381	€ 1,242,381	€ 1,242,381	€ 1,242,381	VUV 166,551,412	VUV 82,382,327	0	VUV 107,740,944
TOTAL								

**ANNEX 8.7(b)****STABEX**1. Situation at 31.12.2002 by FMO by country **Vanuatu**

	Total amount of Decisions	Total amount of payments made to accounts in Europe on the basis of transfer agreements	Total amount of payments made to local accounts from accounts in Europe	Total amount of FMOs + Riders signed + Interest	Total amount of contracts signed on the basis of FMOs	Total amount of payments made from FMOs	Balance of all bank accounts in Europe	Total balance of local bank accounts
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
FMOs closed	€ 31,588,403	€ 31,588,403	€ 31,588,403	€ 31,959,012	0	€ 31,959,012	0	0
FMOs on going	€ 1,242,381	€ 1,242,381	€ 1,242,381	€ 1,242,381	VUV 166,551,412	VUV 164,959,245	0	VUV 16,973,710
TOTAL								