

**EU / VANUATU
2003 JOINT ANNUAL REPORT**

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1. EXECUTIVE SUMMARY

In the political field, the year 2003 saw a government reshuffle with a new coalition of parties constituting a commanding majority in the parliament. A new cabinet, headed by the same Prime Minister, reaffirmed the Government's commitment to the continuation of the structural adjustments under the on-going Comprehensive Reform Programme (CRP). It has however signalled that an increased emphasis would be given to supporting the productive sectors (agriculture and tourism) with a view to enabling economic growth that would improve and guarantee service delivery, especially to rural communities. This would necessitate small reductions to budgetary allocations to social sectors (education and health), which however would continue to be the biggest recipients of recurrent outlays. An apparent political stability is hoped to incite domestic and foreign investments.

In the economic field, the year 2003 saw the much sought for bottoming-up of the national economy. Indeed, a positive growth estimated at around 1.6% has been recorded, driven by a strong recovery of agriculture, induced in its turn by improved world market prices and good weather conditions. Still better results are forecasted for 2004 due to anticipated good performance by the tourism industry. Inflation has been kept at moderate levels (3%). The central bank follows a sound policy of macroeconomic stability, and has assumed increased supervisory and regulatory roles vis-à-vis the banking actors that enabled the country to be taken off the OECD list of countries not adhering to the Harmful Tax Practices Initiative (HTPI). A policy of not entering into loans, unless as a last option, is being followed in order to keep under control the level of debt servicing payments. As a result, Government uses aid grants for the financing of development.

In the field of development, virtually all activities are being funded by grants from the country's traditional donors (Australia, EU, France, New Zealand), as well as People's republic of China. With a view to rationalising objectives and means, the Government organised in September in Port Vila a Development Partners Meeting, during which the outline of a Prioritised Action Agenda was presented. This prioritisation of envisaged activities responds to calls from donors for a more realistic and coherent development effort, facilitates the active participation in the development process of the civil society with particular attention to gender issues, and ensures that overall ownership remains with the Government. Measures to ensure better coordination amongst donors under the effective aegis of the Government, in order to ensure better synergy and lasting impact, were also agreed upon. A Medium Term Development Framework is to be prepared in order to guide this multi-donor drive aiming at achieving sustainable development.

Concerning the EU/Vanuatu Cooperation, despite some problems caused by the unsatisfactory performance of the ex-Technical Assistant to the NAO's department (resulting in a slowdown of contracts and disbursements when compared to 2002), the momentum built up in earlier years has seen the country achieving very good results. Virtually all 6th, 7th, and 8th EDF funds have been used. Of the 9th EDF NIP, the A-envelope (€12m) allocation has all been committed and relevant projects are being implemented, and of the (€3.3m) B-envelope's envisaged two projects one is under implementation, and the other one is under appraisal by the Commission. All STABEX funds have been virtually exhausted. This performance provides the grounds for an expectation of additional funding following the Mid-Term Review.

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, with special emphasis accorded to gender equality issues and to civil society involvement in the overall process. 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.

Furthermore, the government aims at a better coordination of the substantial aid volumes granted to Vanuatu in order to optimise results and impact. Active participation in regional arrangements, especially trade ones, is intended to smooth the country's gradual integration into the emerging world economic order, thus creating an enabling environment that would guarantee stability and induce investment, and in this way contribute towards achieving the goal of sustainable development.

2.2. Comprehensive Reform Programme

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
- Ensuring social equity and sustainability in the economic development process.

The year under review marks the sixth 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.

In 2003 the Government has approved and adopted a document known as the 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 to realise them. The formulation of such priorities has been undertaken with stakeholders with the aim of providing a framework that will instil policy stability and provide longevity to reforms. In this respect a Development Partners meeting was organised by the Government on the 4th of September 2003. The meeting was an opportunity to inform national stakeholders and development partners to work together in implementing the PAA. It provided a platform to enable partners to realign their development programme to better address the PAA priorities.

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. UPDATE ON THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

Social and Economic Indicators

Type	Indicator	2001	2002	2003	2004	2005	
Impact	1. Proportion of population below \$ 1/day	N.A	N.A	N.A	N.A	N.A ¹	
	2. Prevalence of underweight children (under five years of age)	12%	12%	12%	12%	12%	
	3. Under-five mortality rate	26/1000	26/1000	25.5/1000	25/1000	25/1000	
	4. Life expectancy at birth (years)	66.5	66.5	67	67	67	
	5. Income per capita (US \$)	1,181	1,224	1,530	1,554	1,582	
Outcome	6. Net enrolment in primary education	36,482	37,440	39,500	41,000	41,500	
	7. Primary Completion Rate	52%	50%	50%	52%	54%	
	8. Ratio of girls to boys in:						
	Primary education	48:52	48:52	49:51	49:51	50:50	
	Secondary education	49:51	49:51	50:50	50:50	50:50	
	Tertiary education	43:56	45:55	47:53	47:53	48:52	
	9. Primary school teacher/pupil ratio	24 :1	24 :1	23 :1	25:1		
	10. Secondary school teacher/pupil ratio	15 :1	17 :1	18 :1	20:1		
	11. Proportion of births attended by skilled health personnel	65%	70%	70%	75%	75%	
	12. Proportion of 1 year old children immunised against measles	53%	55%	60%	60%	65%	
	13. HIV prevalence amongst women	Nil	Nil	1			
	14. Proportion of population with sustainable access to improved water	60%	65%	67%	67%	69%	
	Input	Share of education in the national budget	27%	29%	29%	28%	28%
		Share of health in the national budget	12%	13%	13%	13%	13%
Aid (% of Gross National Income)		13%	14%	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 25th 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

¹ No officially recognised figure available. The Asian Development Banks, however, estimates that 40% of the population and 51% of those living in the rural areas have incomes below US\$ 1 per day.

implemented by the previous Government. The Government's commitment to the CRP was noted by the ADB, which released the 2nd 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. A group, comprising foreign and local personalities, organised by the Transparency International, observed these elections. 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. After a long time without a female representative, a woman was elected as Member of Parliament in these elections.

In November 2003 a government reshuffle took place, resulting in a new coalition (comprising the VP, the NUP, the Green Confederation, and PPP) with the same Prime Minister and with the biggest party, the UMP, moving to the opposition. Later the same month a by-election took place, seeing the re-election of Mr Barak Sope to parliament after having lost earlier his seat due to a conviction for fraudulent acts.

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. There is freedom of the press. There are two independent newspapers; one published five 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.

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 in 2003 a second 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 stagnant economy.

Whereas Vanuatu has ratified, up to now, only two of the 12 UN human rights treaties, there are no reports of human rights abuses in Vanuatu. However, there are 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 Situation

Structure and Growth of the Economy

The structure of the Vanuatu economy can broadly be summarised by looking at the share of each sector as a percentage of the overall GDP in constant prices. Such a view yields the following for Vanuatu:

- Commercial agriculture and forestry account for only 7.4% of GDP.
- The primary sector represents 10.5% of GDP (in constant prices).
- Industry including manufacturing, construction, utilities and subsistence construction represents about 8.7% of GDP.
- 73.4% 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. There was a marked growth in this sector in 2003. In particular cocoa and cattle have shown the biggest growth. This is due to a recovery in world prices, fair weather, and also opening up of new markets. Copra also showed some positive growth after a massive fall in sales in 2002. Kava experienced a negative growth in 2002 due to a ban in Europe and other western countries citing health reasons. However, results from 2003 show sales recovering due to increased demand from other pacific countries and also due to increased local demand.

Real economic growth in 2003 is estimated to be around 1.6% compared to a decline in 2002 of -2.8%. The biggest growth, estimated at 8.7%, is in Agriculture, Fisheries and Forestry. Copra production is anticipated to record a growth of 7.0% in 2003 compared to a 2002 decline of -13.1%; 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 has experienced a negative growth of -1.2% in 2003 as a result of declining activities in manufacturing, electricity and construction. However it is expected to show slight positive growth in the near future due to some major projects ready to be implemented. The services sector is anticipated to show a slight growth of 0.1% compared to -3.6% in 2002. This growth comes mainly from finance and insurance, real estate and other services. The tourism sector experienced a further fall of -3.0% in 2003 after a decline in 2002 of -9.1%. The future prospect of the sector looks promising with the recent government decision to opt for an open sky policy, and with indications from a regional carrier (Virgin Blue) to commence flying into Vanuatu in 2004, as well as with plans to increase the number of cruise ships to Vanuatu by P&O.

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 2003 is estimated at 3%.

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 2.5%.

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. The accounts performed well in 2003 compared to 2002 where the low services account had caused a huge current account deficit. The current account balance for the first nine months of 2003 made a turnaround from the contraction recorded during the third quarter of 2002. This improvement is attributed to increases in the trade balance from lower imports bills and high official inflows. However, tourism earnings vis-à-vis the second half of 2002 indicated a downturn due partially to the SARS scare, the US led war in Iraq, and the psychological impact the Bali bombings had on holiday makers.

The total domestic revenue as at 31st December 2003 stood around VT 7,797 million, which is around 21% of nominal GDP. Total VAT collections for the year are forecast to be VT 2,343.9 million. This is higher than the forecast figure. Import duty collection for the year to 31st of December was VT 2,013.6 million or 88% of the amount that had been forecast.

Total recurrent expenditure to the end of December 2003 is forecast to be VT 6,960 million or 100 per cent of the 2003 budget. This is a good achievement given the pressure on unbudgeted items that occurred throughout 2003. 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 2003 stands at VT 9,691.4 million, or 28.2% 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 3,784.1 million, or 11% of GDP by the end of 2003. The total stock of debt currently stands at around 39.3% 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. In the short term, the aim is to stabilise domestic debt levels by running zero to negative net domestic financing outcomes. In the longer term, reductions in domestic debt levels will be pursued as the recurrent budget moves into surplus.

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
GDP (% change)	-2.1	-2.8	1.6	2.1	2.6
Trade Balance (millions of VUV)	-8,448	-7,856	-8,300	-8,340	-8,590
Current Account Balance (millions of VUV)	-474	-518	-100	14	-215
Gross Official Reserves (millions of VUV)	5,531	4,854	5,000	5,000	5,300
Months of import cover	5.4	4.7	4.3	5.0	5.4
Consumer Price Index (% change over previous year)	3.6	2.0	2.5	2.5	2.5
Tax Revenue (millions of VUV)	5,794	5,671	6,470	6,394	6,570
Total Recurrent Revenue (millions of VUV)	6,684	6,334	7,191	7,091	7,288
Total Recurrent Expenditure (millions of VUV)	7,199	7,230	7,231	6,965	7,138
Total Payments as % of GDP	9,133 26.8	9,220 28.0	9,669 28.2	8,760 24.5	8,954 23.9
Total Revenue & Grants (millions of VUV)	7,366	7,204	7,758	7,484	7,678
Total Expenditure & Net Lending (millions of VUV)	8,612	8,246	7,606	7,340	7,513
Deficit / Surplus as % of GDP	-1,247 -3.7	-1,043 -3.1	152 0.4	144 0.4	167 0.4
External Debt (total bilateral in millions of VUV)	1,181	1,044	960	877	793
External Debt (total multilateral millions of VUV)	8,960	8,791	8,731	8,715	8,538
Total Domestic Debt (millions of VUV)	2,786	3,432	3,784	3,784	3,784
Total Stock of Debt as % of GDP	12,927 39.9	13,267 40.0	13,476 39.2	13,375 37.3	13,114 35.0

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. Achievements in social sectors / Cross-cutting issues

Poverty and Gender Issues

Vanuatu is ranked the third poorest country in the Pacific. Adult literacy is estimated at only 66 per cent, with life expectancy at birth of 67 years. Vanuatu has a relatively low level of literacy, in particular for women. Girls are less likely than boys to finish junior education, let alone continue on into secondary and tertiary levels. There is a high drop out rate.

Urban drift and unemployment pose serious challenges against a backdrop of stagnating living standards. Cultural safety nets have been based on a strong customary tradition of social relationships. Thus absolute poverty, as known in other parts of the world, does 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. 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, involvement of women in formal decision-making process is rare. There is only one woman MP in the national parliament of 52 members. Although Vanuatu has ratified the CEDAW it has found it difficult to implement it.

Vanuatu has a high fertility rate. There is a birth control awareness programme in place, but the less educated (especially in the outer islands) take little notice of it. However, the proportion of births attended by skilled health personnel has increased, from 65% in 2000 to 70% in 2003. Birth control is low and teenage pregnancy common, thus making them more susceptible to reproductive health problems. Poor nutrition of both mothers and infants is becoming a major health concern.

Migration

Despite economic difficulties, the level of poverty, social conditions generally and the regularity of natural disasters, emigration of ni-Vanuatu to other countries is so far on a minimal scale. Australia is the usual destination. There is an increasing number of ni-Vanuatu, however, working in foreign-owned shipping- fishing vessels, cruise ships, etc. This is largely due to the Vanuatu Maritime College, which specialises in the training of ni-Vanuatu in seafaring in a variety of discipline. Remittances from these trained sailors and hospitality workers earn Vanuatu a significant amount of foreign exchange (approximately .2 million Vatu annually).

The Environment

The Environment Unit Department under the Ministry of Lands, is monitoring all aspects pertinent to the protection and preservation of the environment. The Environmental Management and Conservation Act No 12 of 2002 is a piece of legislation which is now in effect, thus enabling Vanuatu to maintain environmental quality through the sustainable management of natural resources for the security and benefits of present and future generations. The Act has the following components: Administration; Environment Impact

Assessment; Biodiversity and Protected Areas. As a follow-up to the Act, a National Biodiversity Strategy has been prepared and put into effect.

Environmental Impact Assessments are, in general, carried out for all major projects. Donors, funding these projects, do routinely require the execution of these studies.

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 (7.1 on the Richter scale), and in January 2002 (7.4 magnitude), and the recent unusual hail storms 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.

3.4 Sectoral Policies

The Government is committed to raising the welfare of the general population via the following channels. First, by instilling macroeconomic prudence and creating a stable investment climate. Second, through raising income-earning opportunities of the general population. Third, by raising standards of service delivery particularly to the rural areas in terms of improving access to basic health and to primary education while lowering costs of internal trade. For the Government to achieve this, a medium term development framework, known as the Prioritised Action Agenda (PAA), has been prepared. It aims at the restoration of macroeconomic balance, actions to raise public service performance, actions to cut costs associated with transport and utilities, actions to grow the productive sectors of agriculture and tourism, and actions to improve access to basic services of health and education.

Whereas in previous years the Government had been increasing budgetary allocations to education and health, the general state of the economy and the renewed emphasis to a support to the productive sectors, necessitate small decreases in 2004.

Education

This sector continues to be the largest budgetary recipient, thus signalling 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 as emphasized in the PAA and the Education Policy 2004-2007. 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. Two major decisions were taken in 2003: the extension of universal basic education from 6 to 8 years in 2005, and the launch of the master Plan for the Technical and Vocational Education and Training (TVET). The former is to secure improved achievement level in general education, and the latter to render for training the cadres of professional and qualified labour.

In view of these reforms, the financial difficulties faced by government and the community at large to support education is increasingly 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. One way of

easing the financial burden would be to accelerate the merger of the dual (French and English) system of education and achieve a genuine ni-Vanuatu education.

In 2003, a total of 39,388 students were registered in primary education (51% male and 49% female). Junior secondary enrolments totalled up to 8,217 students with a 50:50 sex ratio. Senior secondary enrolments totalled up to 1,421 students, which is only 3.6% of those who started primary education.

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 Ministry of Health has completed its Corporate Strategic Plan 2004-2006. Key priority areas include realignment of functions and roles within the Ministry to ensure effectiveness, efficiency and responsive service delivery, strengthening health partnerships for coordinated service delivery and use of funds, equitable service delivery, extending and strengthening public health programmes and reproductive services, improving the drug supply system, planning new primary care facilities based on population accessibility, review of the patient referral system, developing a master health services plan, developing hospital standards to ensure quality and customer focused services, strengthening the national health information system and implementing human resource management and development initiatives.

In 2000, an integrated health system commenced, and in most provinces the community health sector is integrated with the hospital sector. The Ministry is actively addressing primary health care delivery at the community level, particularly in rural areas.

The health system design supports access to primary care services for local communities at aid posts through to dispensaries to health centers to provincial hospitals and ultimately tertiary hospitals. The level of referrals through the system is based on clinical needs to patients, with the aim of returning patients closer to their homes as soon as possible should further treatment be required.

The development of a Master Health Services Plan during 2004 will facilitate clear role delineation of all services to ensure that planning of facilities, equipment purchases and allocation of resources support the design, future directions and health needs throughout Vanuatu at the appropriate service delivery level.

Key health priorities include maternal and child health, nutritional health and safe foods, access to essential drugs, prevention and control of STD/HIV/AIDS, malaria, and other vector borne diseases, health promotion and living, mental health, primary dental care, and non-communicable diseases. There are also a number of widely identified needs that would improve health service delivery especially in rural areas such as adequate transport and communications, additional support for clinical education and provision of basic equipment.

Transport

It is generally agreed that transport is a major issue in Vanuatu, as the Government is facing increasing financial liability costs associated with public infrastructure. The main problem is the lack of maintenance, particularly in the land transport sector, due to the limited capacity of the responsible agencies to carry out appropriate actions to maintain the existing infrastructure. If this issue is not addressed urgently, transport will become a major constraint to development in Vanuatu.

Because Vanuatu is an archipelago, the three types of transport (marine, air, land) are widely used although for the user, they are not satisfactory in regard to comfort, regularity or cost.

Marine transport

In the marine sector, the Vanuatu Government action focused on training through the Vanuatu Maritime College Project funded by EU and AFD. The purpose of this project is to provide appropriate training for Vanuatu's seafarers employed on domestic and overseas vessels and by making rural fisheries training available to village people in remote areas. Recently, The Agence Française de Développement has expressed its interest in funding a harbour at Port Resolution in Tanna and a feasibility study should be undertaken soon.

Air transport

Air transport continues to benefit from substantial investment from donors and the Government. The reconstruction of the Pekoa terminal in Santo has started and should be completed by the end of this year, under joint funding by the Government and AFD. Construction of an international freight terminal is going on at Bauerfield Airport in Port Vila. Recently, the Government and AFD reached an agreement to upgrade three outer island airports: Norsup (Malekula), Longana (Ambae) and Lonorore (Pentecost), following a feasibility study on six airports. Detailed study should start early this year in order to prepare tender documents. Works are expected to begin early in 2005. The maintenance scheme for the 26 secondary airports has been outsourced and work is in progress in identifying a contractor to be responsible for operations and maintenance.

Land transport

According to recent inventory, the total length of roads in Vanuatu is 1528 km, including 85 km of sealed roads, the rest being gravel and earth roads. The sealed roads are located on Efate (61 km) and Santo (24 km). Roads are present on 20 islands but 70% of the network is on six of them: Efate, Santo, Malekula, Ambae, Tanna and Pentecost. Condition of rural roads is generally poor due to lack of maintenance. This is due mainly to insufficient funds available to do the maintenance and to the absence of clearly defined responsibility for the road asset management. In spite of a reorganization of PWD following the recommendations of the CRP, it is necessary to address several issues to restore its capacity to maintain the road network: improve staff skills in maintenance techniques, renew the equipment which is generally old and not economic to repair, adjust the budget to be in line with the length of the priority roads (those that have a proven financial return). Presently, road maintenance is limited to roads around the major towns.

Under the funding of major donor, several projects were carried out:

- the Big Bay project initiated after the Cyclone Dani passage in 1999 funded by EU;
- the Malekula and South Santo river crossings rehabilitation in the same recovery programme, but financed by AFD;
- the reconstruction of the Eton Bridge on the Ring Road of Efate, funded by EU.

After the 2002 earthquake and the severe damage of the Teouma Bridge, the Japanese Government accepted to reconstruct this bridge and the one on Rentapao River on the Efate Ring Road. Works should start mid 2004.

The PWD Maintenance Training Project is now being implemented under financing by EU. The project includes training of PWD maintenance staff by experts, purchase of equipment and demonstration works on the islands of Malekula and Tanna. The purpose of the project is to improve rural roads condition on the two island of Malekula and Tanna and allow better access to markets, shipping terminals and social facilities to villagers. A memorandum of understanding was signed between the Vanuatu Government and the State of Queensland in Australia to train and assist PWD staff in road asset management. As part of PWD programme for disaster intervention, the Government of New Zealand funded the purchase of 200 m of Bailey bridge which will be used to replace rapidly damaged structure after a natural disaster.

Agriculture

Due to the volcanic nature of many of Vanuatu's islands, soils are rich and fertile, 40% of the land area has conditions favourable to agriculture development, yet less than half of this area is under any form of cultivation. Copra, cocoa, and cattle sectors have potential for development. Kava and forest products had experienced sharp rises in the recent past with the former in serious decline in the past 12 months due to import bans imposed by several industrialised countries. Vanuatu's dependency on few commodity exports renders the country highly vulnerable to shifts in world prices. 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 and coffee exports (especially in the organic niche market). The achievement of quality export standards by the Vanuatu abattoirs, coupled with the fact that the country is one of the few that are globally recognized as being mad cow disease-free and having a 100% organically grown beef, present a promising opportunity for beef exports and a boost to the nation's growing cattle industry.

Increased output from agriculture has the potential to improve the well being of the bulk of the population by improving access to and demand for basic services. The area of agriculture development with the greatest potential to benefit the majority of ni-Vanuatu is the smallholder sector engaged in the production of traditional crops. The expansion of the market for traditional food crops and for high value specialty niche products depends on improving smallholder productivity and domestic marketing. The commercial agribusiness sector, which remains relatively small, has potential for growth. Access to land and competitively priced credit are major impediments for such growth.

The Agricultural Sector Policy comprise (in the medium term):

- Primary emphasis on increasing productivity and developing efficient domestic and export marketing systems. A system within the extension service should be in place where farmers can sell their products locally/externally. Improve market intelligence capacity.

- Propagation and distribution of recommended varieties of root crops will be instituted. This includes food security.
- Information regarding pig and poultry feed formulation will be disseminated to subsistence farmers via agricultural extension services and the media.
- Cattle genetic improvement programme, involving the setting up of breeding farms at locations accessible to cattle farmers so as to improve the national herd in terms of quality and quantity.

Forestry

Like in other larger island countries of the Pacific, forestry development in Vanuatu continues to play a significant role in the national economy by providing income opportunities, infrastructure (roads, bridges, buildings, etc.), and export earnings. In 1997 sawn timber exports earned more than € 4 million and employed an estimated 1000 workers. In addition other income (royalties, development levies, premiums) as well as ancillary business and employment opportunities have been considerable. Following declines in recent years, the forestry sector is expected to experience a growth in 2004 boosted by the establishment of two sandalwood oil processing plants, the opening of a burl industry and the promotion of seed sales. The increase in mobile sawmills will also contribute to this steady growth. 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 € 2.7 million in 2003 represent 13% 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. Monitoring of compliance however is weak. While the sector expects a steady growth, certain factors continue to represent constraints. These include the limited human resources capacity, limited capital finance, insufficient appropriate technologies, limited market opportunities and an imbalance between reforestation and utilisation.

Fisheries

Marine resources have sustained many communities in Vanuatu for generations and comprise an important part of ni-Vanuatu diet. The nation is well endowed with marine resources and has significant potential to increase income on a sustainable basis from this resource. Offshore tuna resources have been licensed to foreign fishing nations, with little downstream processing in the country (see page 16). The fisheries sector contributes about 1% to GDP and makes only 5.5% of total primary production. 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. Export of trochus blank buttons and other trochus processed items remained the dominant product in the fisheries exports. Other fishery products such as giant clams and lobsters are small but they form a significant part of the country's fragile exploited resources. The total revenue collected by the Department of Fisheries in 2002 totalled about € 850,000.

A unique factor of the sector is the operation of an international shipping registry by the Vanuatu government. This registry has created an opportunity for foreign fishing companies to register their vessels under Vanuatu flag, thus making the country the second largest in terms of fishing fleet operating in the eastern Pacific.

The sector faces many constraints, most to do with inappropriate policies and regulations. The development of the sector would require that these constraints be properly addressed.

Tourism

The Vanuatu Tourism Development Plan was updated in 2002. The country's main objectives in the tourism sector comprise:

- promotion of economic growth through the sustainable, and balanced, tourism development
- generation of sustainable foreign earnings, local incomes, and employment from tourism, while paying great attention to environmental issues concerned
- promotion of greater local participation, with special emphasis on the important role played by women in the sector, while sustaining at the same time local culture and customs

Government statistics indicate that tourism has been the only economic sector to show any significant growth over the last six years, (although this growth has tailed off in the last two). Source markets are mainly Australia and New Zealand. Visits by cruise ships are a significant source of tourism revenue. Visitor arrivals have increased steadily since the mid-nineties, reaching the level of 110, 000 visitors for the first time. Political problems in other regional destinations had made Vanuatu attractive and reinforced its image as the 'Friendly Face of the South Pacific'. However the gradual normalization of the situation in Fiji started adversely affecting 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 the 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 to of the proposed upgrading of additional four airports to Dash 8 level (funded by AFD). A regional carrier is actively looking into the possibility of commencing flights to Vanuatu. The year 2004 will mark an increase in the number of cruise ships calling onto different islands.

Port Vila has the potential for more tourists arrivals (estimated at up to 200, 000 tourists per year) but is constraint at present by a lack of quality hotel rooms, lack of skilled human resources, as well as the relatively high prices in Vanuatu. In addition, its main wharf needs renovation. The outer islands have a 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 tourism attractions are currently taking place in Port Vila and Santo. 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 EU. Donors, including the EU, are to support the marketing efforts of the national tourism agencies, and also to substantially strengthen the country's capacity to train adequately the people involved in the industry. An overall improvement in the quality of tourism product, as well as a rationalisation of relevant prices, are pre-requisites for competing effectively in the Pacific.

3.5 External Environment (Regional and International Developments)

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 2002/2003. 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 list of uncooperative jurisdictions. 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. Ensued problems have 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. In fact, Vanuatu is the only nation in the Pacific region to have established a 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. New legislation has assigned to the central bank the task of over viewing all banking activities (including those of the offshore sector).

Following the submission of a commitment letter by the Minister of Finance to the OECD, declaring the Government's willingness to adhere to the principles concerning the Harmful Tax Practices Initiative, Vanuatu has been removed from the relevant list of "uncooperative countries". Whereas this may result, in the short term, to a certain contraction of the offshore sector in Vanuatu, it is expected that, in the long run, it will be to the benefit of the country.

Trade Arrangements

With the domestic political pressures in 2001 leading to the postponement of World Trade Organization (WTO) membership, Vanuatu over the 2003 period, had undertaken a substantial awareness program on the WTO to ensure that the private sector, non-government organizations and the general public at large are well vested with this multilateral trading system. As such it is deemed that the current package will be re-looked at and negotiations resumed in the not too distant future.

Vanuatu ratified the Pacific Island Countries Trade Agreement (PICTA) in July 2003, which is now in its implementation stages in the Pacific Islands. Under Article 6 of the Pacific Agreement on Closer Economic Relations (PACER) between the Pacific Islands, Australia and New Zealand, should a forum country commence formal negotiations for free trade arrangements with a non-Forum country, then it shall also offer to undertake consultations with both Australia and New Zealand. Given this Australia and New Zealand have agreed to assist financially in the Pacific islands trade facilitation program.

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. It is seen that the sectors Vanuatu will be looking at in these EPAs are the fisheries, forestry, agriculture, tourism, and financial sectors. Vanuatu's status as a Least Developed Country (LDC) will also be an option to fall upon.

The SPARTECA agreement between the Pacific islands, Australia and New Zealand provided duty-free access for Vanuatu agricultural products into the Australian and New Zealand markets. However, this has now lapsed and as such Vanuatu currently enjoys this duty-free access under the World Trade Organizations program for more integration of Least Developed Countries. Vanuatu has been able to benefit from this through the exports of its agricultural goods to both Australia and New Zealand.

The Melanesian Spearhead Group Trade Agreement is a non-reciprocal trade agreement under which duty free and unrestricted or concessional access is offered for virtually all products under its schedule. It is likely that a free trade area will take effect in 2004 for Fiji and Papua

New Guinea and 2005 for Solomon Islands 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 (3) years. These products and industries are closely monitored and their progress noted so as to ensure that they are able to compete once this protective period is over. To move towards an MSG Free Trade Area, Vanuatu is currently finalizing its proposed negative list, which will constitute the industries that qualify to be protected. Hence, given the importance of the MSG within the region, Vanuatu was nominated to host the MSG Permanent Secretariat in 1999 and as such progress is taking place to ensure that this Secretariat is set-up.

Vanuatu has also been successful in accessing funds made available by the European Union (DG Trade) to assist in its trade capacity building. The objectives of these funds are to firstly organize awareness programs in all six (6) provinces of the country on the various trade arrangements, its importance and how it will affect the country. Secondly, it is envisaged that the funds will be used to co-ordinate a strategy on the Economic Partnership Agreement between the stakeholders to ensure that the ownership of EPA negotiations are well vested on the people of Vanuatu. Lastly, the funds will be used to accommodate other trade related programs and objectives that fall in-line with the policies of the Government.

Fisheries Agreements

As of 31.12.2002 there existed 9 Bilateral Fishing Agreements (BFA) between foreign fishing entities and the Vanuatu government. All respective parties to these BFAs are foreign based with the exception of one that has a local agent resident in Vanuatu. All the BFAs are based on an appropriate template as contained within the Vanuatu Tuna Management Plan, entailing new license fees and regionally agreed minimum terms and conditions for foreign fishing vessels operating in the Forum Fisheries Agency's (FFA) area which includes Vanuatu.

Fisheries surveillance and enforcement is coordinated by the FFA in cooperation with the French, Australian, and New Zealand air forces. Surface patrols are being carried out by the country's single patrol boat. Some cases of illegal fishing activities during 2003 were detected.

4. OVERVIEW OF PAST AND ON-GOING COOPERATION

Lome Convention I	4 th EDF	€ 1,335,000
Lome Convention II	5 th EDF	€ 4,332,000
Lome Convention III	6 th EDF	€ 5,500,000
Lome Convention IV	7 th EDF	€ 7,500,000
Lomé Convention IV/2	8 th EDF	€ 10,500,000
Cotonou Convention	9 th EDF	€ 15.300,000
Total of NIPs		€ 44,467,000
STABEX		€ 32,000,000
Structural Adjustment		€ 1,600,000

All funds under the 6th EDF have been used and projects closed. A small balance remaining (€1250) was transferred to the 9th EDF. Virtually all funds under the 7th EDF have been used and almost all projects closed. A balance of about €160,000 was transferred to the 9th EDF. Concerning the 8th EDF, most projects have been closed. A balance of about €60,000 was also transferred to the 9th EDF reserves.

The 9th EDF NIP's A-envelope of €12 million has all been committed. Of the two projects envisaged under the €3.3 million of B-envelope, one is under implementation, and the Draft

Financing Proposal for the second one is under appraisal by the European Commission's competent services.

During 2003, a total of €3,433,000 was disbursed, of which €3,350,000 under the NIPs, €35,000 under STABEX, and €48,000 under structural adjustment.

4.1. Focal sectors

In continuation of earlier policies, the education sector constitutes the area of concentration of the EC assistance under the 8th and 9th EDF. This is in line with the EC policy of improving education as a means for achieving sustainable development and fighting poverty. Education has been identified as focal sector of the 9th EDF due also to its crosscutting relevance to other sectors.

4.1.1 8th EDF

European Union/Vanuatu Education Development (EUVED) Programme - €8.3m

a) Results

The EUVED programme has provided, amongst other activities, the upgrading of 18 junior secondary schools as well as the upgrading of the Vanuatu Institute of Teacher Education and of the Examination Center. In addition, the reconstruction of the Ministry of Education headquarters, severely damaged by the strong earthquake of January 2002, was also funded under the project. The programme has also provided in-service training of teachers and maintenance officials, it has established a secondary schools inspectorate, and has also provided textbooks and basic laboratory equipment.

The following table of the **Intervention Framework / Indicators** gives a picture of the relevant achievements:

	1994	2001	2002	2003	2003
	Base Year	Actual	Actual	Actual	Target
Activity					
Total enrolment JSS	4392	7451	8199	8217	8784
Students percentage passing to SSS	43%	50%	50.2%	52.8%	Increased percentage
Teachers in JSS	191	558	591	675	Increased number
Secondary Schools Advisors	Nil	-	27	33	30
Value of textbooks /ref. mat. distributed	-	€8,700	€108,000	€64,500	€41,000
Value of science equipment distributed	-	€500	15,000	€29,000	€29,000
Upgraded JSS	-	6	9	3	3
Maintenance Workshops	-	1	6	2	2

b) Progress in activities

Implementation of the programme started in September 1999 and was completed on time in August 2003. A Project Management Unit, staffed with an expatriate, a Volunteer, and six Local Staff, managed efficiently the implementation of the various activities under the programme. On-the-job training was provided to ensure effective transfer of know-how. Local communities in the vicinity of the schools that benefited from the programme, including also women, have been actively involved through the services of a local sociologist. The works implemented improved the surrounding environment due to the provision of proper drainage, and also due to the fact that technology used is appropriate to local conditions.

Of the global financial commitment of €8,300,000 the amount disbursed reached €8,094,000 i.e. 97.5% of the total of approved funds. The remained balance was transferred to the 8th EDF reserves and then to the 9th EDF. Activities were completed within the timetables that formed part of the relevant Work Programmes. No major problems were encountered during execution. Some minor damages caused by extreme natural phenomena were repaired under the programme.

It is noted that a Mid-Term review was carried out, positively concluding on the relevance of the project. Appropriate conclusions and recommendations of this study were taken into account during the later stages of the project's execution, and most importantly when formulating the follow-up intervention under the 9th EDF.

c) Degree of integration of crosscutting themes

Under the project a balanced support to francophone and anglophone schools has been provided respecting relevant government policies.

A good representation of girls in secondary schools has been achieved. Furthermore, and due to the effective work done in the field by the local sociologist, women have been actively involved when mobilizing communities in the project areas to assist in matters pertaining to the execution of upgrading activities and to the running of these schools.

Attention to environmental matters has been paid during the design and execution of works phases. Local materials and practices have been used. A noticeable benefit to the surrounding grounds of the target schools was due to the provision of adequate drainage facilities.

Institutional aspects have been addressed to a large extent by the provision of training at different levels, by upgrading facilities at the Vanuatu Institute of Teacher Training and the Examination Center, and by establishing the first ever inspectorate of secondary education. Furthermore, capacity building has been achieved by training maintenance officers, and by forming secondary schools advisers.

4.1.2 9th EDF

The education sector continued to be the focal area of concentration of EDF assistance. More than 80% of A-envelope resources (€12m) and more than half of B-envelope ones (€3.3) are being used directly or indirectly on projects concerning education. Together with other donors, a substantial support to the Government's policy of "education for all" is being provided. The relevant sectoral indicators are shown in Annex 7.1.

The 9th EDF support to the focal sector of education comprises five distinct interventions as outlined below:

Education and Training Programme (4.5m)

a) Results

Following extensive consultations between stakeholders concerned, the project was formulated and submitted to the Commission in July. The EDF Committee gave its favorable opinion in October and the relevant Financing Agreement was signed in December. Implementation, envisaged to last 3-4 years, will commence in early 2004.

The table comprising the relevant Intervention Framework / Indicators is shown in Annex 7.2.

b) Progress in activities

With inputs from the Technical Assistant to the Ministry of Education, the selection criteria to determine the schools that will benefit from this programme have been defined. The Ministry has set up a committee that will appraise all requests for assistance that are being received from the provinces. In parallel, the Terms of Reference for the required project management services is in progress. In addition, work is also on going in drafting the Global as well as the First Annual Work Plan, under which the diverse activities of the project will be implemented. The total funding amounts to €4,531,000.

c) Degree of integration of crosscutting issues

On the basis of the valuable experience gained during the 4 years of implementation of the EUVED Programme, and also taking into account appropriate recommendations of the Mid-Term Review of the latter, cross cutting issues of gender/environment/institutional aspects shall be properly addressed.

Training of Air Traffic Controllers (€300,000)

a) Results

This project aims at training to international standards local personnel with a view to replacing the 3 expatriate air traffic controllers. Very recently, two of the local trainees graduated duly and assumed their roles, writing history in the aviation sector of the country and of the region. It is reasonably expected that one more of the trainees will graduate to the same standard, thus achieving the set objectives.

b) Progress in activities

The Airports Vanuatu Limited is implementing the project. First training of 6 recruits commenced in July 2002, and the project as a whole is anticipated to be completed by March 2004. Theoretical training was provided in Vanuatu. Practical one was first provided in Fiji, and then followed in Vanuatu under a collaboration agreement with experts from New Caledonia. Valuable on the job training has been, and it is still being provided by the experienced foreign air traffic controllers currently employed by AVL.

The total amount provided under the project, i.e. €300,000 has been disbursed and virtually expended.

c) Degree of integration of crosscutting themes

It is interesting to note that of the two successful graduates one is a woman.

The implementation of this project's activities provides good opportunities to AVL to upgrade skills and assure an effective transfer of know-how from the various trainers. Indeed the AVL aspires at providing similar training to nationals of other ACP Pacific Islands States.

Tourism education and Training Programme (€2m)

a) Results

The project aims, principally, at expanding the capacity of Vanuatu Institute of Technology's hospitality studies school by building a new facility, at assisting the development of rural tourism, at providing in-service training of personnel in the tourism industry, and also contributing to the marketing efforts of the National Tourism Office. The relevant Financing Agreement was signed in May. Physical implementation is expected to commence in early 2004, and activities completed by mid-2007.

b) Progress in activities

The consultation process for the procurement of the required engineering expertise was launched by mid-year, and a recommendation for the awarding of contract made by year's end. It is expected that the relevant contract would be concluded by end-January 2004, so that work on the designs and tender documents of the envisaged structure commence soon after. In the meantime, the restricted tender dossier for the procurement of the necessary project management services was drafted and sent to the Commission for their consideration. Plans are also underway for constituting the Steering Committee foreseen in the project agreement. A total of €1,999,000 constitutes the available funding under this project.

c) Degree of integration of crosscutting themes

It is expected that women will benefit substantially from this project since they constitute a large proportion of the tourism industry's employees. In addition, women are also employed in significant numbers in the small rural tourism bungalows that are also expected to benefit from the project. Due environmental considerations will form an integral part of the designs of new structures. Concerning institutional aspects, in addition to the VIT whose capacity will greatly be strengthened, capacity building will also be the objective of the envisaged assistance to the National Tourism Office.

Public Works Department Maintenance Project (€ 2m)

a) Results

The project aims at building up the capacity of the PWD at Headquarters level as well as in their branches in two of the main outer islands. The means for achieving this objective comprise the provision of necessary equipment, training of PWD personnel at different levels, and the execution of some demonstration works. The relevant Financing Agreement was signed in November 2003. It is expected that physical implementation will commence in the first half of 2004 and be substantially completed by end-2007.

b) Progress in activities

The dossier for the envisaged open supply tender was drafted and sent to the Commission for their necessary action. The Project Implementation Unit (PIU) was formed in the PWD. The required Global Work Plan, and the First Annual Work Plan have been prepared. It is anticipated that some training activities would commence by March/April, and the supply contracts for the envisaged equipment concluded by mid-2004. Following the delivery of equipment the implementation of the project activities is expected to accelerate. A total of €1,995,000 has been globally committed for this project.

c) Degree of integration of crosscutting themes

Environmental considerations shall be duly taken into account in the design of project works. Concerning institutional aspects, in addition to the capacity building that will be effected through the envisaged training, transfer of know how for project management is also expected

to take place from the Technical Assistant to the PWD, (funded under a separate EDF project), to the Heads of Divisions in the PWD that will constitute the PIU.

Technical Assistance to the NAO (€ 600,000)

a) Results

Following the successful completion of the previous TA to NAO, and due also to shortages of skilled staff in the administration, a continuation of this assistance was considered necessary in order to ensure the smooth collaboration between the EC Office and the NAO's department which is a pre-requisite for the smooth implementation of the EU / Vanuatu cooperation.

Following a restricted tender during the second half of 2002, the new Technical Assistant took up his post in March 2003. Unfortunately, he has proved to be unsuitable for this post, leading thus to the NAO requesting his replacement. A new expert is expected to take up the post of the TA to NAO by February 2004 for the remaining period of the relevant contract, i.e. till mid-2006.

b) Progress in activities

Due to the uncooperative attitude of the expert initially recruited significant delays in some projects activities had been occurred. More importantly, his often ill advice to the NAO led to the deterioration of their working relations with the EC Office. A high level EC delegation visited Vanuatu in November with a view to discussing this serious matter and reaching an agreement on the best way forward. These consultations led to the decision to request his replacement.

Of the total envelope of the global financial commitment of €600,000 the amount of €135,753 (i.e. 22.6%) has been disbursed by the end of the year under review; most of it is in the form of an advance payment.

c) Degree of integration of crosscutting themes

A fully implemented technical assistance contract to the NAO's department, coupled with the provision of necessary informatics equipment, and also complemented by appropriate training, are expected to ensure that an effective transfer of know how will be made by the time of completion of the project.

4.2 Macroeconomic support

Support to Economic Reform Programme

a) Results

The Financing Agreement for a Structural Adjustment Support Programme was signed in 2001 for a total amount of €1,600,000 to be released as a direct budgetary assistance. Funds under this facility were aimed at supporting the education budget, and more specifically to meeting the salaries of additional teachers that were recruited as a direct result of the expansion of schools under the EUVED Programme. An ex-post audit of this project validated the proper use of funds.

b) Progress in activities

A first tranche of €762,500 was released in late 2001. The second disbursement of funds, for the same amount, took place in the third quarter of 2002. The release of the second tranche was only done after a thorough review of the relevant conditions stipulated in the Financing

Agreement. An extension of the validity of this Financing Agreement was obtained at the end of 2002 in order to allow the execution of the required comprehensive audit of the project.

Following appropriate consultations with a number of competent firms the audit contract was concluded in the first quarter of 2003 and carried out during the second quarter. This study has also reviewed the state of the country's public finances and made recommendations for improvements. The latter have been useful when formulating a new budgetary support intervention that may be considered under the 9th EDF.

c) Degree of integration of crosscutting themes

Since female teachers comprise a significant number of employees in the sector, they have benefited directly by this project.

The audit/review study provided a good opportunity for government officials concerned to gain valuable experience through their association with the experts.

4.3 Projects and Programmes outside focal sectors

4.3.1 8th EDF

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, and building works started in the second half of 2002. Good progress was achieved during 2003. By the end of the period under review, all new buildings were completed and put into use. Work also started on the cargo handling training facility. Out of the approved €663,000 the amount of about €650,000 has already been disbursed, i.e. some 98% of the total. The request for raising the project ceiling by making use of available funds was under appraisal by the Commission at the end of 2003. It is anticipated that it would be approved in January 2004, 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 a significant number of female ones, are benefiting from the expanded and improved facilities, thus finding it easier to get a gainful employment.

Technical Assistance to the Public Works Department

This expertise was considered necessary in order to strengthen the capacity of the PWD on matters pertaining to the planning and management of transport projects in general, and in the preparation and monitoring of implementation of European Commission funded projects. The expert took up his assignment in September 2001 for a period of 3 years. He has been instrumental in preparing the relevant 9th EDF project that was approved in September 2003. He is also to be a member of the Project Implementation Unit of the latter.

By the end of the period under review, out of the committed funding of €436,464 the amount of about €283,000 was paid, i.e. 65% of the total.

4.3.2 9th EDF

Producers Organisation Project

This agricultural development project was approved in mid-2002. It is co-financed with France, whereas the Government makes significant contribution in kind. The amount of €1.4 million has been committed by the European Commission, aiming at assisting in the

establishment of viable producers organisations by providing to them expertise, training, and infrastructure facilities as necessary to making them commercially sustainable by the end of 2005. It has commenced its implementation in the last quarter of 2002.

Good progress has been made during 2003 in identifying and helping to establish producers organisations, preparing and launching tenders for the procurement of expertise and equipment, as well as concluding relevant contracts. In fact first deliveries of supplies took place in the second half of 2003. Four volunteers, funded under the French component of the project, have been placed in the four outer islands that form the focal area of support. Their contribution has been valuable, especially because they provide an effective interface between the Project Management Unit based on the main island and the beneficiaries, i.e. the farmers/producers in the outer islands. In the meantime, the Marketing Expert provided under the project took up his post in May and started essential preparatory work.

Current activities are being implemented under the 1st Annual Work Plan that ends on 31.3.2004.

The table of **Intervention Framework Indicators** hereunder gives a picture of this project's objectives and current achievements:

Year	2002	2003	2003	2004	2005
Activity	Actual	Target	Actual	Target	Target
Strengthening Existing POs	7	7	7	7	7
Establishing New Pos		3	9	5	3
Infrastructure Investment		€ 209,500	€ 132,200	€ 200,000	€ 140,500
Expertise Training /	Study contract concluded	Three studies (Coco-fuel, Fishery, Cocoa)	Two studies completed	Two studies	One study
Extension Services	4 French TAs & 1 Extension Officer in place	4 French TAs & 1 Ext. Officer & 4 Field Assist.	4 French TAs & 3 Ext. Officers & 6 Field Asst.	3 French TAs & 3 Ext. Officers & 5 Field Assist.	3 French TAs & 3 Ext. Officer & 8 Field Assist
Revolving Credit Fund		€ 64,000	€ 7,700	€ 80,000	€ 16,000
Marketing Info System /	Tender launched	1 Marketing Expert & 1 Counterpart	1 Marketing Expert	1 Marketing Expert & 1 Counterpart	1 Marketing Expert & 1 Counterpart
Cocoa (tons of wet/dry beans)	65	100	114 / 57	342 / 150	456 / 200
Coffee (tons of dry beans)	9	15	13.5	25	40
Coconut Oil (Its)		600	-	5,000	10,000
Root-crops (tons / flower)		2	0.35	1	1

4.4. Utilisation of resources for non-State Actors (NSA)

The Financing Proposal for the envisaged Support to Non-State Actors programme, of an amount of €600,000 (i.e. 4% of the 9th EDF) was the subject of the appraisal of the Commission during the last quarter of 2002. Its approval was granted in early 2003. Around 25 civil society organisations are being supported by the programme in order to build-up their capacity, and thus be in a better position to be actively involved in the country's development process. The main means of assistance comprise the supply of essential information technology equipment, and training at various levels. Other support consists of the

procurement of specialised expertise, supply of materials, funding of operational costs, and in few cases the construction of basis facilities. A wide-range of cross cutting activities constitute the areas of support, including inter alia women organisations, family health/disabled people associations, education/cultural aims, farmers / credit societies unions, traditional/provincial administrations, the chamber of commerce, etc.

A locally recruited expert under the aegis of a 4-member Steering Committee that includes the EC Office Head is managing implementation. Due to the relatively large number of small-scale interventions, (ranging from € 4,000 to € 36,000), an excellent publicity to the programme is being given by the media. This incites, inevitably, many more non-State Actors to submit requests for similar assistance.

Implementation of the programme commenced in April 2003, and it is scheduled to be completed at around mid-2004. By the end of the period under review the amount committed was €570,000 (i.e. 95% of the global financial commitment), and the disbursements amounted to €517,350 representing some 91% of the committed amount (and 86% of the global financial commitment, i.e. the total project amount).

With a view to enabling some more civil society organisations to benefit from this popular programme, the EC Office and the DNAO agreed to request the European Commission's concurrence for a project ceiling increase of 20%, i.e. an additional amount of €120,000. It is hoped that this much-needed increase of funds would be granted during the first quarter of 2004, necessitating also the prolongation of the validity of the project as a whole to mid-2005.

4.5. Utilisation of envelope B

Of the total of €3,300,000 provided in the 9th EDF NIP, the amount of €250,000 has been put aside by the Commission for any emergency aid that might be needed. The remaining €2,050,000 has been allocated to two projects:

Reconstruction of the Lycee Antoine de Bouganville

This school, being the biggest francophone educational establishment in Vanuatu, was severely damaged by the strong earthquake of January 2002. Responding to the relevant request by the NAO, strongly supported by the EC Office, the European Commission decided on the eligibility of Vanuatu to have recourse to an amount of €1,350,000 from the resources available under the B-envelop in order to meet this pressing need caused by an unforeseen event. The relevant Financing Proposal was appraised around mid-2003, and the funding decision taken in September, leading thus to the signature of the Financing Agreement in November 2003.

By the end of the period under review, base design work had been carried out. The finalisation of these designs, and of the ensuing tender documents, necessitated the procurement of specialized engineering expertise. For the latter, a consultation process amongst local firms led to the appropriate recommendation for the awarding of the relevant contract that is expected to be concluded in early January 2004. It is thus reasonably expected that the tender dossier for the facility to be reconstructed would be ready by April 2004. In the meantime, and following an accelerated tender based on EDF conditions, the contract for the required demolition of the damaged structures was concluded in December 2003, and work started. This work is expected to be completed by March 2004.

At the end of the period under review, out of the global financial commitment of €1,350,000 the amount of individual commitments was €90,000 (i.e. 6.7% of total). The project as a whole is anticipated to be practically completed by end-2005.

Budgetary Support under the FLEX facility

On the basis of the relevant statistical information for the year 2001, the European Commission has assessed positively Vanuatu's eligibility to benefit from the FLEX facility that can be triggered under the country's 9th EDF NIP envelope B. The eligible amount was fixed at €1,700,000.

With the view to determining whether Vanuatu fulfills the requirements for receiving such support in the form of direct budgetary support, the European Commission requested that a review of the country's public finance management be carried out. Indeed, this expertise was mobilized in September/October 2003. The relevant final report concludes, in general, on Vanuatu's eligibility to receive budgetary support. Some shortcomings have however been identified. An assessment of these shortcomings and a review of the involvement of other donors in the relevant sectors helped in defining those that could be addressed by a possible EDF intervention under FLEX.

Consequently, an appropriate Financing Proposal has been drafted after consultations between the EC Office and the Government departments concerned. It provides for a budget support of €1,300,000 and for the necessary technical assistance of €400,000. This project was submitted to the competent Commission services in November for their appraisal. It is hoped that a favorable decision would be taken by April 2004.

4.6. 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 finally completed by mid-2003. A total of around €1,220,000 has been spent for the reconstruction of culverts, bridges, and river crossings that could allow economic activity to resume in the area served by the Big Bay Road in Santo. The poor condition however of the road carriageway compromises the project's viability.

Due to interest earned by the placement of the relevant funds in the local banks, some funds (about €120,000) were generated. Part of these funds, (€20,000), were used for the execution of a comprehensive audit of the STABEX operations, as requested by the Commission.

Concerning the small balance remaining, after consultations between the EC Office and the NAO, it was decided to fund some additional repair works for damages also caused by the same cyclone. Following a local tender exercise a contract for the reconstruction of a culvert in Efate was concluded for the amount of €70,000. Work started in November and it is anticipated to be completed by April 2004. The improvement of another river crossing in Efate was contemplated by making use of the small amount still available.

4.7. Regional Co-operation

Regional Cooperation is handled mainly in Fiji by the FORUM Secretariat and the EC Delegation in Suva. Effective participation of Vanuatu, and ensuing benefits from these regional projects, are not evident, with the exception of the Regional Civil Air Communications Project under which important security and other equipment has been provided for the two main airports of the country.

At the request of the EC Office in Vanuatu, the flow of relevant communication from Fiji has been improved. Whereas it is hoped that Vanuatu will benefit from the forthcoming 9th EDF projects, shortages of skilled staff in the Administration prove to be a formidable constraint.

The forthcoming replacement of the Technical Assistant to the NAO could provide an opportunity to Vanuatu to be better involved in these regional projects.

4.8. Community budget lines B7

B- 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 1st 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, has 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 was being carried out in early 2003. The continuous weakness however of the acting Project Manager has not allowed the project to pick up pace. Furthermore, the financial audit carried out in the third quarter of 2003 has also identified weaknesses and wrongdoings. In December the Commission requested the Forests Department to take promptly corrective action in order to allow the release of scheduled funds and the granting of an extension of time.

B7 – 7020 Human rights and democracy

It 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, and treating 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. Activities are being implemented as per relevant agreement. It is interesting to note that this project’s Coordinator collaborates with the Manager of the NSA programme, thus ensuring complementarity and better impact.

ECHO

On the 1st 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 small scale water supply systems and dispensaries damaged by the November 1999 earthquake. In addition support to primary health care is being provided in the north provinces of the country. Completion of activities is expected by mid-2004. There would be a scope for considering a follow up programme, especially in the northeast province of Vanuatu where the relevant needs are of an acute nature.

4.9. EIB

Under Lomé II, the EIB provided a loan of ECU 2 million to the former Development Bank of Vanuatu. In 1999, using the NIPs of the 6th, 7th and 8th EDF, the EIB provided a loan of € 5

million to upgrade the country's main airport to higher standards (i.e. to accommodate a plane similar to B-767) so as to promote tourism by opening access to new markets. By the middle of the year under review this project was completed. A request to EIB by the Ministry of Finance to defer the repayment of the capital that was due to start in July 2003 was not accepted.

An EIB mission visited Vanuatu in early 2003 in order to discuss with the Government, and the Private Sector, possibilities of funding under the Cotonou Agreement, with special emphasis to the Investment Facility instrument provided therein. As far as a proper EIB intervention is concerned this has not materialized due to the current Ministry of Finance policy to avoid entering into loan agreements for development projects. As for the Investment Facility whereas interest has been shown by the country's Chamber of Commerce and Industry it has to be seen whether any suitable intervention would be formulated.

5. PROGRAMMING PERSPECTIVES

All projects identified for funding under the 9th EDF NIP envelope A have, by the end of the period under review, been approved and their implementation started. Of the two projects, considered eligible for funding under the envelope B, one has been approved and it is being implemented, and for the other the relevant Financing Proposal has been drafted and submitted to the Commission for their consideration. The minor unused balances of the previous funds that have been transferred to the 9th EDF NIP, are being largely used for some required additional funding of on-going successful projects. Consequently, there are currently no funds available that could be the subject of a re-programming consideration.

5.1 Integration of new EC/EU policy initiatives and commitments

It is however reasonably expected that Vanuatu could benefit from an additional financial allocation as a result of the forthcoming Mid-Term Review (MTR) of the EU/Vanuatu Co-operation. In addition, other instruments may also be made available. Of specific interest in this respect is the European Commission's initiative to propose the creation of a new **Water Fund**, under which appropriate water and sanitation projects could be considered for funding. The geographical characteristics of the country, and the weak national economy, make it very difficult for the central government to assist the provincial administrations in implementing much needed water schemes. In fact, some requests for assistance in this field have already been transmitted to the Commission for consideration for funding once the Water Fund would become operational.

Another instrument of potential interest to Vanuatu could be the EIB managed **Investment Facility**. The private sector, under the aegis of the Chamber of Commerce and Industry, and with valuable assistance by the Department of Trade, is expected to explore possibilities for accessing this new facility. The current capacity building intervention in the Department of Trade, funded under the all-ACP special facility in support of the preparation of Economic Partnership Agreements (EPAs), is expected to go a long way in assisting the public and private stakeholders in upgrading their skills in the vital area of trade/investment and development.

It is conceivable that a broad programme of support could be developed that would respect, at the outset, the principle of maintaining a very limited number of sectors, as well as the desired requirement of allocating 35% of resources to social sectors that could comprise direct support to social sectors, macroeconomic support linked to social sectors, and funding for social infrastructure (including water and support to civil society). It is noted that the "Education For All" policy is to be strongly supported by the largest 9th EDF project that starts implementation in early 2004.

5.2 No change of focal sector of the CSP

Although no change is being proposed to the focal sector of the current CSP, it is envisaged, subject to additional funding being granted to Vanuatu, to shift emphasis in the focal sector on Education and Training onto training in the productive sectors of the economy, particularly agriculture and tourism, in response to the Government's priorities as outlined in the Prioritised Action Agenda, supported by all donors. Plans are meanwhile underway for consultations to take place with the Government with a view to agreeing how this can be done with such an additional financial resources. The consultations will involve not only the EC Office in Vanuatu, but also the EU Member States present. They will take due account of the need to strive for the Cotonou Agreement's main objectives of achieving sustainable socio-economic development, fighting poverty, and facilitating the smooth integration of the country in the regional and global trade environments. More specific to the country, these consultations shall draw from the lessons learnt during the past 5 years of the on-going comprehensive structural adjustment (especially the need to improve delivery of services to the rural communities of the outer islands), the useful outcome of September's Donor Coordination Meeting that is represented by the relevant Prioritised Action Agenda document, as well as the economic development initiative papers produced at provincial level. The civil society organisations in the country, that are particularly active, shall be involved in an effective manner. The current EC-funded Programme of Support to the NSAs, as well as other EU and Other Donor funded capacity building activities will ensure the active participation of the civil society in the overall development process of the country.

The Government's new policy of giving increased emphasis to the productive sectors of agriculture and tourism will be taken into account when formulating a coherent proposal for funding. The recent Business Forum, conducted by the Chamber of Commerce and Industry, having brought together the Government and the Private Sector, has indeed culminated in the production of a matrix stipulating targets and possible means in the various sectors of the country's economy. They agreed, during September's Donors Consultative Meeting, to closer monitoring and coordination of donors projects/programmes to ensure better complementarity and optimisation of inputs. A planned reorganisation of the aid coordination management is expected to provide the required leadership in this field, thus ensuring that ownership of the development process remains in the country. In this respect an updated Donor Matrix is annexed hereto as a useful reference.

6. CONCLUSIONS

The excellent performance of Vanuatu in the use of funds made available was maintained during 2003, and that despite difficulties caused by the performance of the ex-Technical Assistant to the NAO. All funds under the A-envelope of the 9th EDF have been globally committed. One of the projects has virtually been completed, and another nearing completion. The implementation of the others is underway. Concerning the B-envelope of the 9th EDF, one project is underway, and the other is under appraisal by the Commission. In the 8th EDF, the focal sector project representing 80% of total resources, had been successfully completed.

The Non State Actors have been well associated with the overall development process. With funding under the NIP, and under direct funding from budget lines, they are benefiting in terms of building up their capacities, thus making them reliable development partners. They have been associated in the implementation of projects, and they are also routinely invited to participate in meetings and reviews.

The structural adjustment process underway in the country since 1997 is continuing. Important progress in terms of improvements in the public finance management has been achieved, as attested by the assessments of multilateral donors (ADB, IMF), bilateral ones (France, Australia, NZ, EC), and by specific evaluations/reviews by experts. It is submitted that the economy as a whole is showing signs of recovery, expected to lead in an improvement of disposable incomes thus reducing the perceived “poverty of opportunity”, since abject poverty does not exist in the country due to its specific socio-cultural structure.

The relevant political stability is expected to entice investments, which in conjunction with other developments (i.e. substantial increase in the number of cruise ships calling into the country, planned flights into the country by a regional carrier, etc) should result in respectable growth rates. Bilateral donors are maintaining their significant development assistance to the country.

Whereas the advance stage of implementation of the 9th EDF interventions does not allow any meaningful re-orientation of the country’s current programme, the realistic prospect of receiving additional funding justifies reflections on the use of such funds. Depending on the size of this additional aid, an appropriate programme of economic infrastructure actions could be envisaged (including support to NSAs) together with a provision of budgetary support.

Since it is a fact that the country’s determination to continue with its structural adjustment implies hardships, in the short term, for the rural population, an attention to their pressing needs is warranted. The feasibility of an appropriate national micro- projects programme that would require the active participation of the rural beneficiaries and under the supervision of NGOs, could be assessed and, if positive, be implemented under the hoped for additional funding. Such an intervention, in which other donors could be associated, would ensure an equitable distribution of aid resources, and it would provide lasting results.

7. ANNEXES

7.1 Sectoral Indicators: Education and Training²

Type	Intervention Logic	Indicators	2000 Base year	2001	2002	2003	2004 Target	2005 Target	Grade	Sources of verification	Assumptions
Impact	Human resources development particularly at post-primary and vocational education, thus increasing the number of educated/ trained human resources and reducing poverty	-General poverty situation in the country -Enrolment in junior secondary schools and technical & vocational training -Adult literacy rate (survey in 2004)	N.A 8278 Est. 60-70	N.A 8217 ...	N.A 10313 ...	N.A 9109 ...	N.A 8789 ...	N.A 4957 ...	sufficient	Specific socio-economic survey and data Ministry of Education and Ministry of Youth Development and Training statistics	Political stability and increase of education's share in national budget allocations Reorientation of the education system to offer 8 years of basic education for all
Outcome	Increased access of rural young people to education Increased access to post-primary education	Net enrolment in primary education Student/ teacher ratio in primary ed. Retention rate in primary education Textbooks/ student ratio primary ed. Textbook/ student ratio junior secondary education Number of students in JSS Enrolment in formal vocational education and training	35083 23:1 63% 8:1 8:1 7255 488	36482 24:1 65% 8:1 8:1 7475 596	37470 24:1 67% 8:1 8:1 9610 703	39500 22:1 64% 8:1 8:1 8217 892	41000 23:1 69% 8:1 8:1 7800 989	41500 24:1 75% 8:1 8:1 3900 1057	Good	Examination Centre Ministry of Education Ministry of Youth Development and Training Curriculum Development Centre	Education policy of improving quantity and quality at all levels maintained Additional support from other donors

² Source: Department of education.

Output	Quality of basic education improved	Number of students taking year 6 exam	4824	5286	4995	5125 ³	5275	860	Sufficient	Ministry of Education	Completion of the envisaged EDF project
		Number of primary school classrooms built	15	x	4	5	10	30			Promotion campaign of education
		Number of teachers qualified									
Input	Annual national budget allocation Support from 9 th EDF programme Other donors' contributions	Percentage of public spending on education EDF disbursements Disbursements by other donors		27%	29%	29%	28%	28%	Good	National statistics OLAS figures Data from other donors	Effective coordination with other donors

³ Termination of year 6 exam and introduction of year 8 exam

7.2. 9th EDF Focal Sector Intervention Framework / Indicators

	Education and Training Programme	Indicator	2003 Actual	2004 Target	2005 Target	2006 Target	2007 Target	Sources of verification	Assumptions
Impact	Human resources development particularly at post-primary and vocational education, has increasing the number of educated / trained people and reducing poverty	General poverty situation in the country Enrolment numbers in secondary schools and in vocational training centres						Specific socio-economic surveys, and data from the Ministry of Education, and from the Ministry of Youth and Vocational Training	Political stability and maintenance of education's high share in national budget allocations. Riorientation of system to offer 8 years of basic education for all
Out-come	Increased access of students to years 7 & 8 -Relevance of education improved - Education Management Information System established	-Number of students enrolled in classes 7 & 8 -Number of students places provided by the project -Student group size in year 8 approaching the standard size of 25 -More students continuing education near their homes -Development and implementation of EMIS %	1427 - 17	1630 60 19	6100 500 21	10400 500 22	10700 240 22	Ministry of Education data Project monitoring / review / evaluation Ministry of Education data Ministry of Education data Specific expertise	Education policy of improving quantity and quality at all levels maintained Additional support by donors forthcoming

Output	<ul style="list-style-type: none"> - School attendance for 8 years basic education increased - Quality of basic education improved -Support to teacher upgrading -Quality of basic education improved - Improved education management system 	<ul style="list-style-type: none"> -Number of students taking year 8 exam -Number of classrooms built -Number of teachers trained -Number of new/revised curricula -Number of provincial education offices rehabilitated -Overall management of education data streamlined -School maintenance policy implemented 			860	4900	5000	<ul style="list-style-type: none"> Examination Center results Project reports Project reports Curriculum Development Center data Project reports Expert's report Project reports 	<ul style="list-style-type: none"> Completion of the envisaged EDF project Promotion campaign of education
Input	<ul style="list-style-type: none"> - Annual budget allocation - 9th EDF programme of support - Other donors' contributions 	<ul style="list-style-type: none"> -Percentage of public spending on education -EDF disbursements Disbursement by other donors 		10%	80%	100%		<ul style="list-style-type: none"> Ministry of Finance data OLAS / Project reports Data from other donors 	<ul style="list-style-type: none"> Effective co-ordination with other donors

7.3 Chronogramme

Title	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
9th EDF : A-envelope												
Focal Sector												
TA to Education	Identification		Proposal		Approval	Contract	Implementation					
Education and Training Project					Identification		Financing Proposal	Financing Agreement	Implementation			
TA to NAO			Tender	Evaluation	Contract	Implementation						
Air Traffic Controllers Training	Proposal	Approval	Implementation									
Tourism Education and Training			Identification	Financing Proposal	Financing Proposal	Financing Agreement		Implementation				
Public Works Maintenance Training			Identification		Financing Proposal	Financing Decision	Financing Agreement	Implementation				
Non-focal area												
Producers Organisation Project	Financing Proposal	Approval	Financing Agreement	Implementation								
Support to Non State Actors	Financing Proposal		Appraisal	Financing Decision	Financing Agreement	Implementation						
9th EDF : B-envelope												
FLEX Support			Submission of Data	Assessment	Order of Service to AIDCO			Financing Proposal	Financing Decision	Financing Agreement	Implementation	
Reconstruction Support			Identification	Assessment	Order of Service	Financing Proposal	Financing Decision	Financing Agreement	Implementation			
Transfers from old EDFs												
VMC Strengthening Project Ceiling Increase							Proposal	Appraisal	Decision	Implementation		
NSA Support Programme Ceiling Increase								Proposal	Appraisal / Decision		Implementation	

7.4 Commitments and expenditure

Title		2002	2003		2004		2005		2006	
		S2	S1	S2	S1	S2	S1	S2	S1	S2
Pr 8 ACP VA 16 Producers Organization Project € 1.400.000	Commitment	40.600	700.000		400.000		200.000	49.400		
	Expenditure	17.033	188.403	179.038	300.000	350.000	300.000	115.526		
Pr 8 ACP VA 18 TA to National Authorising Officer € 600.000	Commitment		600.000							
	Expenditure		117.673	19.567	100.000	90.000	90.000	100.000	82.760	
Pr 8 ACP VA 20 Training of Air Traffic Controllers € 300.000	Commitment	300.000								
	Expenditure	150.000		150.000						
Pr 8 ACP VA 21 Support to Non- State Actors € 600.000	Commitment		570.000		30.000					
	Expenditure		280.053	242.385	75.000	7.647				
Pr 8 ACP VA 22 T A to Ministry of Education € 430.000	Commitment		430.000							
	Expenditure			139.274	100.000	100.000	90.726			
Pr 8 ACP VA 23 Tourism Education and Training Prgm € 1.999.000	Commitment				95.000	600.000	1.200.000		104.000	
	Expenditure				45.000	200.000	500.000	600.000	550.000	104.000

Title		2003			2004		2005		2006	
		S2	S1	S2	S1	S2	S1	S2	S1	S2
Pr 9 ACP VA 01 Reconstruction of LAB € 1.350.000	Commitment			90.000	25.000	1.100.000	110.000	25.000		
	Expenditure				100.000	400.000	500.000	300.000	50.000	
Pr 9 ACP VA 02 PWD Maintenance Training Project € 1.995.000	Commitment				325.000	1.000.000	325.000		260.000	
	Expenditure				160.000	700.000	455.000	165.000	235.000	135.000
Pr 9 ACP VA 03 Education and Training Programme € 4.531.000	Commitment				330.000	450.000	1.250.000		1.250.000	
	Expenditure				50.000	350.000	400.000	500.000	550.000	600.000
Pr 9 ACP VA 04 VMC Strengthening Project (funding increase) € 124.500	Commitment				124.500					
	Expenditure				80.000	64.500				
Pr 9 ACP VA 05 NSA Support Project (funding increase) € 120.000	Commitment				120.000					
	Expenditure				20.000	50.000	50.000			
Pr 9 ACP VA 06 FLEX Support Programme € 1.700.000	Commitment				1.300.000	400.000				
	Expenditure					1.400.000	100.000	100.000	100.000	
TOTAL	Commitment	340.600	2.300.000	90.000	2.749.500	3.550.000	3.085.000	74.400	1.614.000	
	Expenditure	167.033	586.129	730.264	1.030.000	3.712.147	2.485.726	1.880.526	1.567.760	839.000

7.5 Donor Matrix (amounts in EURO for ongoing and planned support excluding regional projects)

DONOR	SECTOR	AMOUNT	DURATION	COMMENTS
Australia	Legal / Justice	3.35 million	2000 - 2005	Technical assistance
	Public Sector Reform	3.55 million	1999 - 2004	Capacity building
	Ministry of Finance	3.35 million	1999 - 2004	Institutional strengthening
	Education	6.35 million	2003 - 2007	Vocational training / Scholarships
	Health	4.20 million	2000 - 2005	Strengthening of the Ministry of Health
	Gender / Youth	2.20 million	2001 - 2006	Capacity building
	Rural Development	0.27 million	2001 - 2004	Institutional strengthening
	Volunteers	0.51 million	Rolling	Placement of volunteers in different postings
	Small Grants	0.30 million	Rolling	Microprojects
European Commission	Education	7.22 million	2002 - 2007	Infrastructure / Training
	Infrastructure	2.50 million	2001 - 2006	Technical assistance / Equipment / Training
	Tourism	2.00 million	2003 - 2006	Infrastructure / TA / Training
	Agriculture	1.67 million	2002 - 2006	Support to Producers Organisations / Reforestation
	TA to NAO	0.60 million	2003 - 2006	Technical Assistance
	Non State Actors	1.53 million	2001 - 2005	Capacity building
	Budget Support	1.70 million	2004 - 2006	Budgetary support / Technical Assistance
France	Private Sector	0.50 million	2004 - 2007	Support to Chamber of Commerce and Industry
	Education	1.95 million	2001 - 2004	Training of Teachers / Subsidies to Institutions
	Health	2.70 million	2004 - 2007	Nurses training / Hospital Rehabilitation
	Agriculture	1.51 million	2003 - 2006	Support to Producers Organisations / TA
	Infrastructure	7.50 million	2004 - 2007	AFD funding of airports rehabilitation
	Cultural	0.37 million	2003 - 2005	Co-funding with New Caledonia
New Zealand	Legal / Justice	2.25 million	2003 - 2006	Strengthening governance
	Ministry of Finance	0.10 million	2003 - 2004	TA for revenue collection
	Education	1.70 million	2002 - 2006	Non formal education / Awards
	Health	0.08 million	Annual	Medical evacuations to New Zealand
	Water	0.21 million	2003 - 2004	Water resources
	Gender	0.07 million	2003 - 2004	CEDAW report
	Rural Development	0.55 million	2003 - 2006	Sustainable livelihoods / TA to provincial administrations
	Small Grants	0.50 million	Annual	Microprojects
Japan	Ministry of Finance		2003 - 2005	Technical Assistance
	Education		2002 - 2004	Technical Assistance
	Infrastructure		2004 - 2006	Bridgeworks / TA
	Volunteers		2001 - 2005	Placement of Volunteers
UK	Small Grants	0.06 million	Annual	Microprojects

7.6 Financial Situation of 6th, 7th, and 8th EDFs

Project		Beginning 2002		End 2002	
No	Title / Assigned Funds	Commitment	Disbursement	Commitment	Disbursement
6th EDF	All projects closed / € 6.698.750				
7th EDF					
7 VA 22	TA to PWD / € 198.181	198.181	128.477	198.181	198.181
8th EDF					
8 VA 03	EUVED Programme / € 8.300.000	7.951.235	6.591.578	8.092.543	8.092.543
8 VA 10	TA to PWD / € 165.000	165.000	-	165.000	15.506
8 VA 11	VMC Strengthening / € 663.000	660.508	292.371	663.000	649.456
8 VA 12	SERP / € 800.000	762.500	762.500	800.000	800.000
8 VA 13	SERP / € 800.000	762.500	762.500	798.996	772.920
8 VA 17	Road Projects Evaluation/ € 116.650	116.650	-	103.357	103.357
9th EDF					
8 VA 16	POP Project / € 1.400.000	40.600	17.033	740.600	384.474
8 VA 18	TA to NAO / € 600.000	600.000	-	600.000	137.240
8 VA 20	Training of Air Traffic Controllers	300.000	150.000	300.000	300.000
8 VA 21	Support to NSAs / € 600.000	-	-	570.000	522.438
8 VA 22	TA to Education / € 430.000	-	-	430.000	139.274
8 VA 23	Tourism Project / € 1.999.000	-	-	-	-

Project		Beginning 2003		End 2003	
No	Title / Assigned Funds	Commitment	Disbursement	Commitment	Disbursement
9th EDF					
9 VA 01	Reconstruction of LAB / € 1.350.000	-	-	90.000	-
9 VA 02	PWD Project / € 1.995.000	-	-	-	-
9 VA 03	Education Project / € 4.531.000	-	-	-	-
9 VA 04	VMC (funding increase) / € 124.500	-	-	-	-

Annex 7.7 Status of 8th & 9th European Development Fund Pacific Regional Indicative Programmes

Project Title and No.	Sector	Budget (Euro)	Implementing Agency	Status
8 ACP RPA 006 Fiji School of Medicine Infrastructure Improvement	Human Resource Development	7,500,000	Fiji School of Medicine	On-going
8 ACP RPA 009 USP/HRD Programme	Human Resource Development	5,000,000	The University of the South Pacific	On-going
8 ACP RPA 007 Reducing Vulnerability of Pacific ACP States	Natural Resources & Environment	7,000,000	South Pacific Applied Geoscience Commission (SOPAC)	On-going
8 ACP RPA 004 Pacific ACP and OCT Regional Oceanic and Coastal Fisheries (PROCFISH)	Natural Resources & Environment	8,100,000	Secretariat of the Pacific Community	On-going
8 ACP RPA 003 Pacific Plant Protection Project	Natural Resource Environment	3,200,000	Secretariat of the Pacific Community	On-going
(8.RPA.005) Economic Partnership Project	Trade/Non-focal	750,000	Pacific Forum Secretariat	On-going
(8 ACP RPA 011) Information Resource Centre and Pacific Environm. Inform. Network	Natural Resources & Environment	560,000	South Pacific Regional Environment Programme	Nearing completion
8 ACP RPA 011 Technical Assistance to SPTO	Tourism/ Non-focal	600,000	South Pacific Tourism Organisation	On-going
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	On-going
Pacific ACP Regional Economic Integration	Human Resources Devel./ Trade	9,200,000	CROPS	Commencing implementation
PRIDE Project	Basic Education	8,000,000	USP	Commencing implementation
DEVFISH Project	Fisheries	2,750,000	FFA / SPC	Appraisal

Annexe 7.8

STABEX OVERVIEW Situation at 31 December 2003

Programme	Initial amount transferred	Commitment	Disbursement	Bank Balance
Stabex 1998/1999				
TOTAL	€1.242.381	VUV 177.277.245	VUV 169.756.770	VUV 12.229.331