



**The Country Strategy & National Indicative Programme  
VANUATU**

**10<sup>th</sup> EDF Programme of the European Commission  
(2008 – 2013)**

## General Provisions

The Government of Vanuatu and the European Commission hereby agrees as follows:

- (1) The Government of Vanuatu (represented by the Minister of Foreign Affairs and National Authorizing Officer -the Honourable Sato Kilman, followed by the Honourable George Wells), and the European Commission, represented by Mr Aldo Dell'Ariceia, Head of Commission Delegation to Vanuatu, hereinafter referred to as the Parties, held discussions from March 2006 until August 2007 with a view to determining the general orientations for cooperation for the period 2008- 2013.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Vanuatu were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000 as revised in Luxembourg on 25 June 2005. These discussions complete the programming process in Vanuatu.

The Country Strategy Paper and the Indicative Programme are annexed to this document.

- (2) As regards the indicative programmable financial resources which the Community plans to make available to Vanuatu for the period 2008-2013, an amount of € 21,6 million is scheduled for the allocation referred to in Article 3.2 (a) of Annex IV to the ACP-EC Partnership Agreement (A-allocation) and of €1,6 million for the allocation referred to in Article 3.2 (b) (B-allocation. These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV to the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The Indicative Programme under Part 2 concerns the resources of the A-allocation. It also takes into consideration financing from which Vanuatu benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and therefore does not yet constitute a part of the National Indicative Programme.
- (5) Resources can be committed within the framework of this Country Strategy Paper and Indicative Programme upon the entry into force of the 10<sup>th</sup> EDF Multi-annual Financial Framework for the Period 2008-2013 of the revised ACP-EC Partnership but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Vanuatu within the limits of the A- and B-allocations referred to in this document. Financing decisions can also be taken on the basis of Article 15(4) in conjunction with Article 4(1)(d) of Annex IV to the APC-EC

Partnership Agreement for support to non-State actors or on the basis of Article 72(6) to the ACP-EC Partnership Agreement for humanitarian and emergency assistance funded from the B-allocations. Financing decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10<sup>th</sup> EDF and on the financial regulation applicable to the 10<sup>th</sup> EDF and in Annex IV to the ACP-EC Partnership Agreement.

- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Paragraphs 2(c) and 3 of Annex Ib to the ACP-EC Partnership Agreement regarding the 10<sup>th</sup> EDF multi-annual financial framework for the period 2008-2013.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertaken a mid-term review an and end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of needs and performance at the time.

The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in the light of needs and performance at the time.

Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased according to Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.

- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10<sup>th</sup> EDF Multi-annual Financial Framework for the Period 2018–2013, will be regarded as definitive within eight weeks of the date of the signature, unless wither party communicates the contrary before the end of this period.

Signatures

For the Government of Vanuatu

For the Commission

## EXECUTIVE SUMMARY

The Country Strategy Paper 2008-2013 was formulated in close consultation with development partners and various stakeholders (the government, non-state actors, the donor community). It is based on the principles governing the Cotonou Partnership Agreement and on the government's own **Prioritised Action Agenda 2006**, which sets out the framework for development in Vanuatu. The PAA Performance Indicators and Outcome Monitoring Plan have become the reference for coordinating development aid and for making financial inputs to address the country's development priorities.

The concentration of aid recommended in the PAA, together with improved aid coordination, leads the EC to base its future action in Vanuatu on the areas in which it has gained experience (public finance management, agriculture, tourism, and education) as an effective way of helping the country to progress towards the MDG. Consequently the 10<sup>th</sup> EDF programme will concentrate on **one main focal sector**, identified as “*support to Economic Growth and the creation of employment, including Human Resources Development (vocational training and capacity building)*”.

**Activities** are envisaged in the fields of (i) institutional support, (ii) fostering economically sound and sustainable user-based management systems for natural resources, (iii) emphasising the development of rural areas by extending public services and improving basic infrastructures, (iv) matching HDR and market-led demand by way of demand-driven and tailor-made training and skills programmes, and (v) trade facilitation (in areas not covered by regional cooperation).

The main policy measures to be taken by the government as its contribution to implementing the response strategy are: (i) developing long-term sector policies in agriculture and tourism, (ii) providing better support services to business, with the emphasis on rural areas, (iii) removing obstacles to commodity exports, and (iv) facilitating long-term secure access to land.

The other main component of the NIP will be the use of **General Budget Support**. The EC is recognised as having valuable experience in this field. The specific objective will be to “*strengthen the links between government policies (in particular those oriented to poverty reduction) and budget and to improve its Public Finance Management (PFM)*”. Special attention will be given to implementing of the Sector-Wide Approach in Education.

The 10<sup>th</sup> EDF provides for an **indicative base allocation of € 21.6 million** of programmable funds (A-envelope) and € 1.6 million for unforeseen needs (B-envelope) to Vanuatu. Some 45% of the A-envelope would be used to support economic growth and HRD development, while about 40% would go to macro-economic support, and the remaining 15% would be spent on support to non-focal areas, including initiatives run by non-state actors and capacity building, and support to the NAO (including a technical cooperation facility) programme fostering a coherent approach to aid coordination and to help implement the government's development strategy (PAA) and the NIP.

All activities will mainstream and promote good governance, gender equality, environmental sustainability and prevention of HIV/AIDS. Political dialogue with the government and with civil society should pinpoint initiatives for funding to encourage practical progress in these key horizontal issues.

## SYNTHÈSE

Le document de stratégie 2008-2013 pour le Vanuatu est le fruit d'une concertation étroite entre la Commission européenne, les acteurs étatiques, les acteurs non étatiques (société civile, ONG, secteur privé) et la communauté des bailleurs. Il est basé sur les principes fondamentaux de l'accord de Cotonou, ainsi que sur l'agenda d'actions prioritaires (AAP, revu en 2006) du gouvernement du Vanuatu, qui définit le cadre du développement national. Ce document, et les indicateurs qui y sont identifiés, constituent la référence incontournable en matière de coordination de l'aide au développement au Vanuatu.

Sur la base de cette stratégie nationale, et en vertu du principe de concentration de l'aide recommandé dans l'AAP, la CE entend focaliser ses actions futures sur les secteurs dans lesquels elle a démontré son expérience et son savoir-faire, c.-à-d. l'appui à la gestion des finances publiques, les secteurs de l'agriculture et du tourisme, la formation et l'éducation. Il a donc été décidé de se concentrer sur **un secteur focal** identifié comme étant *«l'appui à la croissance économique et à la création d'emplois, y compris le développement des ressources humaines (la formation professionnelle et technique et le renforcement des capacités)»*.

Les principales activités envisagées dans le cadre du PIN concerneront plus spécialement (i) le soutien institutionnel, (ii) la promotion de systèmes de gestion des ressources économiquement et écologiquement viables, (iii) le développement des zones rurales par l'extension des services et l'amélioration des infrastructures, (iv) des programmes de formation répondant aux exigences du marché et, (v) l'appui au commerce extérieur (dans les domaines non couverts par la coopération régionale).

Le gouvernement s'engage de son côté à mettre en place les politiques sectorielles adéquates notamment (i) en développant des stratégies à long terme dans les secteurs de l'agriculture et du tourisme, (ii) en améliorant l'accès des entreprises aux services, surtout en zones rurales, (iii) en levant les obstacles aux exportations de matières premières et (iv) en clarifiant le régime foncier et en facilitant l'accès à la terre.

L'autre composante principale du PIN sera le recours à **l'appui budgétaire**. La CE est reconnue pour son expérience dans ce domaine, notamment au Vanuatu. L'objectif spécifique sera de *«renforcer les liens entre les politiques du gouvernement (notamment celles visant la réduction de la pauvreté) et les ressources disponibles dans le budget et améliorer la gestion des finances publiques»*. Une attention spéciale sera accordée à la mise en œuvre de l'approche sectorielle dans le domaine de l'éducation.

**Les allocations indicatives** de base des fonds sont de 21,6 millions d'euros (enveloppe A, programmables) et de 1,6 million d'euros (enveloppe B, non programmables) pour le Vanuatu au titre du 10e FED. Il est prévu que **45%** de l'enveloppe A seront utilisés dans le secteur focal pour le soutien à la croissance économique et au développement des ressources humaines, environ **40%** pour le soutien macro-économique et **15%** dans le secteur hors concentration, comprenant un projet spécifique d'appui à la société civile et aux acteurs non étatiques, ainsi qu'une enveloppe pour un programme de renforcement des capacités et d'appui à l'ON (y compris une facilité de coopération technique) en soutien à la mise en œuvre du PIN et à la promotion d'une approche cohérente pour la coordination de l'aide.

Dans toutes les activités, il sera tenu compte des impératifs de bonne gouvernance, d'égalité des chances, de respect de l'environnement et de prévention du sida. Un dialogue permanent avec le gouvernement et avec la société civile permettra d'identifier des initiatives stimulant les progrès dans ces thématiques transversales.

## CONTENTS

<b>PART 1: COUNTRY STRATEGY PAPER</b> .....	<b>1</b>
<b>CHAPTER 1: THE FRAMEWORK OF RELATIONS BETWEEN THE DONOR AND THE PARTNER COUNTRY</b> .....	<b>1</b>
I.1.1. General Objectives of the EC's external policy .....	1
I.1.2. Strategic objectives of cooperation with the partner country.....	1
The mainstreaming approach will be strengthened for four crosscutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.	2
I.1.3. Main bilateral agreements .....	2
<b>CHAPTER II: COUNTRY DIAGNOSIS</b> .....	<b>3</b>
II.1. Analysis of the political, economic, social and environmental situation in the recipient country .....	3
II.1.1 Political and institutional situation .....	3
II.1.2 Economic and commercial situation .....	6
II.1.3 Social situation, including decent work and employment .....	12
II.1.4 Environmental situation.....	15
II.1.5 The country in the international context.....	16
II.2. The recipient country's development strategy.....	17
II.3. Analysis of the viability of current policies and the medium-term challenges .....	18
<b>CHAPTER III: OVERVIEW OF PAST AND PRESENT EC COOPERATION,         COMPLEMENTARITY AND CONSISTENCY</b> .....	<b>20</b>
<b>III.1 Overview of past and present EC cooperation (lessons learned)</b> .....	<b>20</b>
III.1.1 Focal sectors .....	20
III.1.2 Projects and programmes outside focal sectors .....	21
III.1.3 Utilisation of Envelope B .....	21
III.1.4 Other instruments.....	22
III.2 Information on the programmes of the Member States and other donors (complementarity) .....	23
III.3 Other EC policies.....	23
III.4 Description of the political dialogue with the partner country.....	24
III.5 Description of the state of the partnership with the recipient country and progress towards harmonisation.....	24
<b>CHAPTER IV: RESPONSE STRATEGY</b> .....	<b>25</b>
<b>ANNEX 1. "COUNTRY AT A GLANCE" TABLE</b> .....	<b>28</b>
<b>ANNEX 2. DONOR MATRIX</b> .....	<b>32</b>
<b>ANNEX 3. EXECUTIVE SUMMARY OF THE COUNTRY ENVIRONMENTAL PROFILE</b> .....	<b>35</b>
<b>ANNEX 4. COUNTRY MIGRATION PROFILE</b> .....	<b>36</b>
<b>ANNEX 5. CSP DRAFTING PROCESS</b> .....	<b>37</b>
<b>ANNEX 6. THE HARMONISATION ROAD MAP</b> .....	<b>41</b>
<b>ANNEX 7. THE 2006 PEFA ASSESSMENT</b> .....	<b>43</b>
Description of budgetary outcomes .....	46
<i>Fiscal performance</i> .....	46
<i>Allocation of resources</i> .....	47
<i>Overall government reform program</i> .....	48
<i>Rationale for PFM reforms</i> .....	48
<i>The legal framework for PFM</i> .....	49
<i>The institutional framework for PFM</i> .....	50

<i>The key features of the PFM system</i> .....	51
<b>PART 2: NATIONAL INDICATIVE PROGRAMME</b> .....	<b>1</b>
<b>1 National Indicative Programme</b> .....	<b>1</b>
1.1 Introduction .....	1
1.2 Financial instruments .....	1
1.2.1 10 <sup>TH</sup> EDF, A Envelope .....	1
1.2.2 10 <sup>TH</sup> EDF, B Envelope .....	1
1.2.3 Investment Facility: .....	2
1.2.4 10th EDF regional indicative programme, .....	2
1.3 Focal sector(s).....	3
1.3.1 General budget support:.....	5
1.3.2 Cross-cutting issues .....	7
1.4 Non focal activities .....	7
1.5 Information on implementation arrangements.....	9
1.6 Intervention framework.....	10
1.6.1 Focal Sector - Support to economic growth and the creation of employment, including HRD (vocational training and capacity building) .....	10
1.6.2 Focal Sector - General budget support .....	12
1.7 Indicative timetable for indicative commitments and disbursements.....	13
1.7.1 Indicative timetable of global commitments .....	13
1.7.2 Indicative timetable of disbursements .....	14
1.8 Schedule of activities .....	15
1.9 List of Government's commitments - Vanuatu .....	16

## Acronyms

ACP	African, Caribbean and Pacific Countries
ADB	Asian Development Bank
AFD	Agence Française de Développement
CEDAW	Convention on the Elimination of all forms of Discrimination Against Women
CEP	Country Environment Profile
COM	Council of Ministers
CRC	Convention on the Rights of the Child
CRP	Comprehensive Reform Program
CSO	Civil Society Organisations
CSP	Country Strategy Paper
DCO	Development Committee of Officials
DESP	Department of Economic and Sector Planning
DG	Director General
DPA	Disabled People Association
DSM	Department of Strategic Management
DTIS	Diagnostic Trade Integration Study
DWA	Department of Women's Affairs
EC	European Commission
EDF	European Development Fund
EIA	Environmental Impact Assessment
EMC	Environmental Management and Conservation
EPA	Economic Partnership Agreements
EU	European Union
FATF	Financial Action Task Force
FLEX	Fluctuations in Export Earnings
FMIS	Financial Management Information
GIP	Government Investment Program
IF	Integrated Framework
ILO	International Labour Organisation
LDC	Least Developed Country
MBC	Ministerial Budget Committee
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MDGNC	MDG National Committee
MFEM	Ministry of Finance and Economic Management
MSG	Melanesian Spearhead Group
MTEF	Medium Term Expenditure Framework
NCD	Non Communicable Diseases
NIP	National Indicative Programme
NPA	National Plan of Action (Convention on the rights of the child)
NSA	Non State Actor
NSO	National Statistical Office
PAA	Prioritised Action Agenda



PEFA	Public Expenditure & Financial Accountability
PFM	Public Financial Management
PICTA	Pacific Island Countries Trade Agreement
PSC	Public Service Commission
REDI	Rural Economic Development Initiative
REPO	Central bank repurchase facility
RSP	Regional Strategy Paper
RTCS	Rural Technical Centres
SERP	Support to Economic Reform Programme
SWAP	Sector Wide Approach
SD	Vanuatu's Sustainable Development Policy
SIDS	Small Island Developing States
TCF	Technical Cooperation Facility
UNEP	UN Environmental Program
VESS	Vanuatu's Education Sector Strategy
VEU	Vanuatu Environment Unit
VSDP	Vanuatu Society for Disabled People
WTO	World Trade Organisation

# PART 1: COUNTRY STRATEGY PAPER

## CHAPTER 1: THE FRAMEWORK OF RELATIONS BETWEEN THE DONOR AND THE PARTNER COUNTRY

### I.1.1. General Objectives of the EC's external policy

In accordance with Article 177 of the Treaty establishing the European Community, Community policy in the sphere of development co-operation is to foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy;
- the campaign against poverty in the developing countries.

Europe should project a coherent role **as a global partner**, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security.

The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc).

EU external action, including the Common Foreign and Security policy, common trade policy and cooperation with third countries, provides a framework both for integrating all EU instruments and for gradually developing a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has entrusted EU with even greater responsibilities, as regional leader and as global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its neighbourhood and through its multilateral and bilateral policies, which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, contributing thereby to global security and prosperity.

### I.1.2. Strategic objectives of cooperation with the partner country

The Treaty objectives are confirmed in Article 1 of the *ACP-EU Partnership Agreement*, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the *Cotonou Agreement* is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Vanuatu is to pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element as defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, the recently adopted *European Consensus on Development* sets the general policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the

international agenda, and with particular attention to the Millennium Development Goals (MDGs). Human rights and good governance are recognised as other important objectives.

In May 2006 the European Commission issued a Communication to the Council, the European Parliament and the European Economic and Social Committee on **”EU Relations with the Pacific Islands – A Strategy for a Strengthened Partnership.”** The Council adopted this Communication in July 2006. The Strategy consists of three components: (i) a strengthened relationship between the EU and the Pacific region to allow for a broad political dialogue; (ii) more focused development cooperation with a central theme relating to the sustainable management of natural resources, and (iii) more efficient aid delivery.

Better aid effectiveness is essential to achieving poverty eradication. Therefore the EU will advance coordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries' strategies and processes, common implementation mechanisms, joint donor wide missions, and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and will capitalise on new Member States' experience to strengthen their role as donors.

Policy coherence for development will advance in a number of areas. The aim is that all EU non-aid policies should make a positive contribution to developing countries' efforts to attain the MDGs.

The principle of concentration will guide the Community country, regional and intra-ACP programming. This means selecting a limited number of priority areas of action, through the dialogue with partner countries, rather than spreading efforts over too many sectors. In this context the Community will be primarily active in the following nine areas, taking into account its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

The mainstreaming approach will be strengthened for four crosscutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

### **I.1.3. Main bilateral agreements**

The EU and Vanuatu can look back on 25 years of cooperation in the context of the EU-ACP partnership. This long-standing relationship is based on the legacy of a shared history, common values, economic and trade cooperation. Moreover, 2005 and 2006 brought renewed impetus towards cooperation in the Pacific region, with the adoption of the Pacific Plan by all 16 member countries of the Pacific Islands Forum and the EU strategy for a strengthened partnership with the Pacific Islands.

On the EU side, the revised Cotonou Agreement and the European Consensus on Development – a tripartite policy statement jointly adopted by the European Parliament, the Council and the Commission – provide a new basis and impetus for EU-Pacific relations. The Cotonou Agreement strengthens the political dimension of EU-ACP cooperation, allowing an improved political dialogue with partners, while the European Consensus identifies poverty eradication in the context of sustainable development as the core, primary

objective, taking into account the importance of ensuring policy coherence for development and generating synergies between different policies, both internal and external, and the objectives of EU external action. The Paris Declaration on Aid Effectiveness adopted in March 2005 reaffirms the commitments to harmonise and align aid policy and sets specific targets for 2010.

Article 1 of the Cotonou Partnership Agreement puts the main emphasis on reducing and eventually eradicating poverty. Co-operation between the EC and Vanuatu will pursue this objective, taking into account fundamental principles laid down in Article 2 of the Partnership Agreement – especially the principle of encouraging the development strategies of the country concerned – and essential and fundamental elements as defined in Article 9 – respect for human rights, democratic principles and the rule of law.

## **CHAPTER II: COUNTRY DIAGNOSIS**

### **II.1. Analysis of the political, economic, social and environmental situation in the recipient country**

#### **II.1.1 Political and institutional situation**

The 1980 Constitution, amended in 1988, provides the basis for legislation in Vanuatu and for the protection of people's fundamental rights.

The Republic of Vanuatu is a parliamentary democracy with executive power vested in the Prime Minister and a Council of a maximum of thirteen Ministers. Vanuatu became independent in 1980.

Since 1994, the country has been divided into six provinces:

- TORBA (Torres and Banks)
- SANMA (Santo and Malo)
- PENAMA (Pentecost, Ambae and Maewo)
- MALAMPA (Malekula, Ambrym and Paama)
- SHEFA (Shepherds and Efate)
- TAFEA (Tanna, Aniwa, Futuna, Erromango and Aneityum)

Each province hosts a provincial government that delivers services to the inhabitants.

The President is elected for a five-year term by an electoral college consisting of Parliament and the presidents of the regional councils (or provinces). The last election for president was held on 16 August 2004, when Mr Kalkot Matas KELEKELE was elected president, with 49 votes out of 56, after several ballots.

General elections for Members of Parliament are held every four years. Following legislative elections, the leader of the majority party or majority coalition is usually elected prime minister by Parliament from among its members. Parliament elections were last held on 6 July 2004 (next to be held in 2008). Vanuatu's parliament is a unicameral 52 member body including a Speaker of Parliament. MPs are elected by universal adult suffrage (minimum age 18) for a period of four years.

In addition to the above Vanuatu has a “National Council of Chiefs” (Malvatumauri) representing traditional leaders who advise on matters of culture and language.

Executive authority is established in the Office of the Prime Minister, who is responsible for the day to day running of government affairs. The Prime Minister is elected by Parliament from amongst its members and appoints/dismisses other Ministers. The Council of Ministers can vary in size but must not exceed  $\frac{1}{4}$  of the Parliament. Currently it comprises 12 Ministers.

The Judiciary is constitutionally independent of the other two branches of government. It includes magistrate’s courts, the Supreme Court, Court of Appeal and various other specialised courts. The Chief Justice of the Supreme Court is appointed by the President after consultation with the Prime Minister and the leader of the opposition; three other justices are appointed by the president on the advice of the Judicial Service Commission.

Despite an initial period of relative political stability there had been a number of changes of government between elections over the period 1992-2004. Political changes led to frequent changes in policy direction, disruptions in government services and a general lack of application of good governance principles. The political situation has remained stable since December 2004 with a coalition of political parties led by Mr Ham LINI.

The Comprehensive Reform Programme (CRP) was developed in 1997 to restore separation of powers (which the Constitution had created) and to ensure that the various institutions of governance developed the powers and capabilities necessary to fulfil their intended roles. Parliamentary reform included changes in legislation and workshops to clarify the roles of parliamentarians. The Government executive was reorganised with the aim of promoting more effective management of government activities. However the continuing changes in government limited the impact on accountability and transparency or improved understanding of these issues within Parliament. Abuses of power and of public office clearly indicate the continuous need to improve the laws to prevent such behaviour.

Other measures adopted enhance the independence and effectiveness of the Judiciary, the Auditor-General’s Office and the Ombudsman’s Office. The Ombudsman rules on matters of transparency and accountability, but only for government abuses. There is a need for the Ombudsman Act of 1998 to be given further legal provisions for prosecution. Furthermore, the police force is weak, many court cases are overdue, there is a lack of appropriate laws to protect women and children, and inadequate staffing within the Public Prosecutor’s and Public Solicitor’s Offices.

Among the visible signs of progress in government’s management is a clearer distinction, since 1997, between elected officials and civil service managers and directors of departments. Parliament’s assent to Government Act No. 5 of 1998 specifies the functions of the Executive and the employment, function and responsibilities of political advisers. It also established a technical committee, the Development Committee of Officials (DCO), comprising all Directors General (DGs), to review the Council of Ministers submissions. The Public Service Act No. 11 of 1998 promotes an independent Public Service that is efficient and effective in serving the Government, the Parliament and the Public. It also provides a legal framework for the effective and fair employment, management and leadership of employees, and establishes the rights and obligations of employees.

Despite the legal changes, the Public Service is still weak, slow and cumbersome. Attitudes need to change to focus on quality and timely delivery of services. The Public Service

Commission (PSC) has developed a legal framework, meant to improve the neutrality and effectiveness of the public service and to guard against political intervention. However, this has yet to be effectively implemented. Timely and effective response from the Public Service Commission to other agencies and the wider community also needs improvement.

Traditional chiefs, although not formally legislated, play an important role in maintaining peace, law and order, mainly in rural communities but also in urban areas. It is normal for members of a particular island community living in urban areas to refer to their 'chosen' elder to solve disputes and conflicts. This is considered an alternative to taking the matter to the police, a process which is often costly and administratively cumbersome. Legislative and constitutional issues relating to the role of chiefs should certainly be formalised and integrated into the government sphere so the chiefs have clear and recognised roles, especially in remote rural villages and communities where government intervention may not be readily available.

- *Civil Society*

Vanuatu's civil society is comprised of various groupings, citizens of ni-Vanuatu ancestry or not, and non-citizens. Tribe and community of origin still play an important role in binding people together, providing a sense of belonging and a strong form of social capital. Religion has been added during the last two centuries. However, despite the impact of religion in Vanuatu, some people continue to follow 'custom' as their faith. Interviews undertaken for the 1999 National Housing and Population Census show that only 1% of Vanuatu's population does not belong to any religion, 2% chose not to answer, and the rest belong to a 'particular' religion.

The number of NGOs operating in Vanuatu has expanded in response to a demand in the community for increased attention to be given to issues such as human rights, environmental protection, health and education. However, there is scope for improving collaboration among NGOs as sometimes they work independently when more integrated arrangements with either the Government or other NGOs might be beneficial. In that regard, the Government could take the lead by more systematically including NGO representatives in some key decision-making meetings and ensuring that NGOs are consulted when new programme ideas or national policies are being formulated. Assistance by donor partners to help NGOs strengthen their management capacity has addressed shortcomings and enables them to play a stronger development role in providing quality, appropriate and sustainable programmes.

- *Human Rights*

As with most Pacific Island countries, there are numerous situations in Vanuatu where people cannot exercise their fundamental human rights, either because they do not know or because the government has not recognised them or because they are not citizens of ni-Vanuatu ancestry. Some leaders are also prone to treat ideas of human rights and democratic values as contradictory to traditional principles and beliefs. This impinges particularly on the rights of women and children. The nature and distribution of islands can cause some rural communities to be more disadvantaged than others. On a provincial basis Torba (in the North) and remote islands of Tafea Province (in the South) are considered the less advantaged, with significant transport and trade problems and very poor social services.

Traditional and cultural factors also contribute to disadvantage. Many islands have quite diverse cultural and linguistic traditions. Some tensions still exist between cultural groups.

Practical arrangements for the implementation of the Decentralised Act of 1994 have not yet been found.

The death penalty although not formally abolished has never been applied.

Vanuatu's Government has signed and ratified the Convention on the Rights of the Child (CRC) and the Convention on Elimination of All Forms of Discrimination Against Women (CEDAW). Vanuatu ratified both the Optional Protocol to CEDAW and the Optional Protocol to the Convention on the Rights of the Child concerning the sale of children, child prostitution and child pornography on 17 May 2007 and has also signed but not ratified the Optional Protocol to the CRC concerning children in armed conflict. However, Vanuatu has neither signed nor ratified the remaining major human rights conventions, namely the International Covenant on Civil and Political Rights (1966), the International Covenant on Economic, Social and Cultural Rights (1966), the International Convention on the Elimination of Racial Discrimination (1965), the Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (1984) and the Convention on the Protection of the Rights of All Migrant Workers and Members of their Families.

The government of Vanuatu has not signed and ratified the Statute of the International Criminal Court. Nor has it signed bilateral immunity agreements with third countries.

Ratification of international human rights instruments should be afforded a high priority.

## **II.1.2 Economic and commercial situation**

### ***Economic situation, structure and performance***

- *Overview*

Vanuatu was admitted to the group of Least Developed Countries (LDC) in 1985. Today it is still part of this group although its per-capita GDP exceeds the LDC threshold. This situation is due to the adjustment based on the 'vulnerability index', which takes into account the vulnerability of Vanuatu's economy to natural disasters (earthquakes, cyclones, tsunamis). The UN review of LDC in 2006 indicated that even if Vanuatu was able to meet the required ratios it would be at least 2009 before it could be officially recommended for graduation.

Vanuatu's economy is highly dualistic. There is clearly an urban economy in Port Vila and Luganville and a rural economy for the rest of the country.

Vanuatu had a per-capita GDP of 1 291 EUR in 2006 (DESP estimate). The official statistics are believed to understate the level of total production in Vanuatu, particularly from agriculture, forestry and fishing, and subsistence activities. The DESP estimates that in 2006 the agricultural sector accounted for 17.4% of total GDP; Industry's share was 9.2%; and Service sector activities accounted for the remaining 73.4% of national production. A Household Income Survey and an Agricultural Census were launched at the end of 2005 (the latter co-funded by the EC). Results will update social and economic information on Vanuatu's population and will help to strengthen the basic economic data available to policy makers.

Four commodities (copra, beef, cocoa and kava) made up the bulk of domestic exports. The kava (*Piper methysticum*) trade declined dramatically following a ban on kava products put in place in importing countries. The fisheries sector contributes minimally, with only 1.0% of GDP.

Tourism represents 40% of GDP and is concentrated around the two main urban centres. This activity is expected to gain in importance with the establishment of additional airlines on the routes between Australia, New Zealand, New Caledonia and Vanuatu.

Other than tourism, and the wholesale and retail trade, the other significant service industries are the government and the off-shore sector. Activities in the off-shore sector include the provision of off-shore financial and administrative services.

- *Recent Economic Performance*

The most recent data estimates suggest that economic growth has been strong and at levels above population growth for the first time in nearly a decade (tables in Annex 1).

Much of the growth has been driven by increased foreign investment and also increased tourism. Some of the growth has also been speculative in nature: The growth in real estate and to a certain extent land speculation is a result of similar practices and also large price differentials with neighbouring economies such as Australia and New Zealand.

However, much of the recent growth has been stable and due to a variety of institutional factors such as Vanuatu's past macroeconomic stability and also some of the policies implemented in the last few years (i.e. the open skies policy, the more open trade environment (via the reduction in tariffs) and also the strong fiscal controls imposed by the Ministry of Finance).

The ability of foreign investors to buy and sell long term land leases has also helped economic growth. This suggests that the land tenure issues affecting Vanuatu are slightly different (whilst equally pressing) to those facing its neighbouring pacific countries. Land tenure in Vanuatu is limited to leasehold by the constitution. Recent developments in this area include a review of the land rent system, a revaluation of land as well as the introduction of strata title legislation. 2006 saw the first "Land Summit" which intended to further examine the constraints and issues with regard to land management and tenure in Vanuatu.

Other important policy initiatives attracting investment include the fact that Vanuatu has recently adopted legislation that covers all of the main OECD Financial Action Task Force (FATF) recommendations including the setting up of a Finance Intelligence Unit.

Vanuatu's financial sector includes four licensed banks (that carry on domestic and offshore business) and one credit union, all of which are regulated by the Reserve Bank of Vanuatu. Since the passage of the International Banking Act of 2005, the Reserve Bank of Vanuatu regulates the offshore sector that includes seven banks and approximately 4 750 "international companies" (i.e., international business companies or IBCs), as well as offshore trusts and captive insurance companies<sup>1</sup>. These institutions were once regulated by the Financial Services Commission.

Steps are also being taken to develop e-commerce regulation. Advances in technology combined with Vanuatu's fiscal regime mean that the service sector has a great deal of potential to develop. Recently this sector has begun to show signs of increased maturity with the provision of more sophisticated services. The adoption of high quality regulations is also beginning to lead to interest from more 'blue chip' companies.

---

<sup>1</sup> Data according to the US Department of State, as for March 2006



The main concern in terms of the economy has been that the growth in agriculture remains erratic. This is mainly due to the combined effect of natural disasters such as cyclones and also the considerable policy instability in the sector, which is seen as adding further inefficiencies to an already difficult sector. Given that this is where the majority of the population of Vanuatu live, the data would also suggest that recent economic growth has increased income inequality since, in general, rural incomes are lower than urban ones.

In summary, much of the recent growth is a result of the stable macroeconomic environment combined with an increase in private sector credit to the economy, and monetary expansion in conjunction with a speculative boom in land sales.

- *Inflation, Monetary Policy, interest rates and balance of payments*

Inflation as measured by the CPI has been extremely subdued in recent years. Figures for 2004 and 2005 suggest that inflation may be as low as 1.4% and 1.2% annually. Vanuatu has traditionally presented very low inflation figures and this does not entirely correspond to other economic data such as the implicit price deflator for the GDP, the nominal money supply or the exchange rate. The data as presented suggest that there has been a decline in domestic prices that has more than offset other factor increases such as the price of fuel.

For monetary policy, the Reserve Bank of Vanuatu continues to put high emphasis on an indirect or market based monetary management system. The Bank implements monetary policy by fine-tuning the level of balances within the financial system. In so doing the Bank indirectly influences short-term market interest rates and thus regulates monetary conditions.

The main objectives of monetary policy are:

1. maintaining price stability or keeping a low and sustainable level of inflation; and
2. maintaining a healthy and viable balance of payment position.

The Reserve Bank of Vanuatu has been successful, with reserves in 2006 rising to over seven months of import cover from lows of four months in 2003.

Interest rates in Vanuatu are determined by the market. Commercial banks in Vanuatu set interest rates based on a number of factors ranging from the demand and supply of funds, cost of funds, shareholders' expectations, the level of risks (sovereign and personal) etc.

The current account deficit improved in 2004 from the 2003 level, but deteriorated in 2005: The current account is expected to have deteriorated by 22 percent in 2005. Improvement in the services sector, inflows of investment income, and official transfers in the next two years should help improve this situation.

The traditional merchandise trade deficit is projected to continue to deteriorate in 2006 and the coming years, reflecting high oil prices, and high demand for both consumption and capital project goods. Exports have shown marginal growth in 2005 in major export commodities: this is expected to develop moderately in the coming years. In addition, there are a number of proposed agriculture-based projects that can contribute to export growth in 2006 and beyond.

- *Medium Term Economic Outlook*

Government services are beginning to increase as revenue recovers in line with economic growth. However, given the large liquidity injections from donor funds and FDI government might be expected to counter this by running a prudent or even conservative fiscal policy in order to reduce the upward pressure on interest rates and thereby maintain macroeconomic stability. However, increases in public service salaries and a move towards a more expansionary fiscal policy may cause the same type of macroeconomic imbalance last seen in 1996-1999 – a period with high growth but also high interest rates and low macroeconomic stability.

On the other hand, inflows associated with tourism activity should follow the rising trend seen in some of the other Pacific countries due to improvement in airline capacities and airfares and others (like insecurity in traditional destinations, the impact of “bird flu” and natural disasters in Asia).

Reserves should remain comfortable but this outlook obviously depends on the level of official transfers, that have been high in the past, and if there is no adverse shift in world commodity prices for copra and coconut oil in particular, and further rises in world petroleum prices. The outlook also depends on continuing high tourism inflows, FDI and aid flows.

The forecast data for the national accounts and the money supply are inconsistent with the forecasts made by the Department of Economic and Sector Planning and as a result there are worrying inconsistencies in the key macroeconomic forecasts. Therefore, there is an urgent need for a review of the overall macroeconomic framework in order to ensure that Vanuatu continues to maintain its good track record of macroeconomic stability.

### ***Structure and management of public finances***

In 2006 the European Union funded a PEFA assessment of Vanuatu’s public finances. The executive summary of the report is presented in annex 6. The main findings were that budget credibility and management were of the highest standard in Vanuatu (scoring all As) because of strong central control and the new FMIS. However weaknesses in Vanuatu relate to: i) the lack of up to date information on state enterprises; ii) the poor link between the budget and policy; iii) lack of effective external scrutiny and audit and availability of information for public scrutiny; and iv) inadequate information on the totality of donor resources.

Limited scrutiny by external audit, the legislature and public were also highlighted as they can impact adversely on both strategic resource allocation and efficient service delivery. In particular, lack of scrutiny may result in a situation where the government is not held accountable for the allocation and execution of the budget in line with its stated policy.

However, the recent improvement in financial management has led to many donors examining the possibility of utilising direct budget support as a part of their aid programme. This is a credit to the government systems but also implies that the need to address some of the above issues is pressing. Main donors working in PFM (AusAid, NZAid and the EC) have already agreed to concentrate their Technical Assistance inside the MFEM in these identified fields from late 2006.

### *Assessment of the reform process*

The most important activities undertaken by the Government of Vanuatu in recent years have been the Comprehensive Reform Programme (CRP) that was approved in 1997 and the recent work involved in the update of the Prioritised Action Agenda (PAA).

The CRP, which began implementation in mid-1998, was supported directly by the ADB through a USD20 million CRP loan. It has also been integrated into the assistance provided to Vanuatu by a number of donors, with activities designed to support particular aspects of the reform process. Key elements of the CRP were:

- renewal and rehabilitation of the institutions of good governance including the offices of the Ombudsman, Attorney General, the Auditor-General and the Judiciary, that collectively ensure accountability in government;
- a refined role for the public sector revolving around the core functions of law and policy design and regulation; and
- improvement in public sector efficiencies.

These actions together were seen to be mutually leading to increased private sector activity and delivering more equitable growth. The Department of Economic and Sector Planning hosted an Economic Policy Forum in November 2002. Representatives of key stakeholders included the government, NGOs, church groups, private sector and civil society. Based on this consultation, the first Priorities and Action Agenda (PAA) was developed in 2003 to complement the CRP. The CRP Summit in 2007 helped clarify needs and evaluate performance to date.

The PAA is an integration and prioritisation of actions contained in national and provincial programmes, including the CRP, Business Forum Outcomes and the Rural Economic Development Initiatives Plans. The overall objective is to link policy and planning with the limited resources the government controls in order to ensure that the most urgent and important outcomes of these programmes are achievable in the medium term. In 2005 DESP began a revision of the PAA that was completed and presented to donors in November 2006.

### ***Trade policy and external environment, in particular regional cooperation agreements and EPAs***

Following tariff reforms and the introduction of VAT and excise in the late 1990s, Vanuatu has fostered a relatively open trade and investment environment. Although it has reduced its reliance on tariffs as a source of revenue, duties still account for close to one-third of recurrent revenue. In 2001 Vanuatu was on the brink of acceding to the World Trade Organisation, although a new government decided to reject the accession package at the last minute, principally because of the high level of commitments in some services sectors.

The Government of Vanuatu shows a strong interest in regional integration. Efforts have so far been concentrated on the Melanesian Spearhead Group (MSG) Free Trade Agreement, which was extended in 2005 to cover virtually all products and will lead to free trade in goods between Fiji, Papua New Guinea, Solomon Islands and Vanuatu in 2013. Vanuatu has also ratified the Pacific Island Countries Trade Agreement (PICTA), although the start-date for tariff reductions has been delayed again, until 2007 for developing countries and 2009 for LDC and Small Island States.

The government acknowledges the importance of the Cotonou Agreement as the general framework for Vanuatu – EC relations. In this sense, Economic Partnership Agreement (EPA), political dialogue and development assistance should be linked and be mutually reinforcing. With a signed EPA, Vanuatu’s economy, far from the two bigger economies in the region – Papua New Guinea and Fiji – will better integrate into regional and global markets through the removal of supply-side constraints to international competitiveness; improvements to international and regional trade policy; and trade capacity building.

The EPA negotiation process has identified a comprehensive set of trade policy and related reforms that would address the most important, and most achievable of economic and trade-related challenges facing Vanuatu:

- Domestic inter-island trade is limited.
- Infrastructure is generally weak.
- Exports remain undiversified.
- Geographical isolation and the consequent distance from major markets hampers international trade, adding to pressure on the trade deficit.
- Vanuatu’s small size and geographical dispersion limits the scope for economies of scale.
- A lack of competition contributes to high prices. Telecoms in particular are amongst the most costly in the world.
- A lack of access to credit contributes to the difficulties faced by small-scale indigenous enterprises.
- Difficulties with land tenure create problems for foreign investors as well as local businesses. The key issue is not the form of land ownership – land cannot be bought freehold and is instead leased on a 75-year basis – but the problem of competing claims among custom owners.

The areas of regulation, standards, consumer protection and competition policy are all relatively undeveloped in Vanuatu, which limits the scope for consumers to feel the benefits of more open trade of goods and services. Under the Pacific Plan a model for regional integration is developing in some of these areas, whereby regional support mechanisms complement national authorities and legislation – although much of the latter would still need to be developed in Vanuatu.

Vanuatu has qualified for funding under the UN Integrated Framework for LDC, with a Diagnostic Trade Integrated Study as the first result (the EC will act as the local IF donor facilitator in Vanuatu). The Department of Trade has also already produced a number of background policy documents including a Baseline Study of the Trade Environment and a Trade Needs Assessment. A “Gap Analysis” and “Impact Assessment” of a potential PACER agreement, as well as an EPA Social Impact Assessment are being conducted. These documents will provide a solid foundation for a coherent trade policy and its integration within national development planning. The Integrated Framework recommendations may constitute the basic intervention of the Trade Related measures during the 10<sup>th</sup> EDF period.

### **II.1.3 Social situation, including decent work and employment**

- *Population, Life expectancy, Poverty, Gender*

According to the 2006 Agricultural census preliminary results, Vanuatu has a population of 209 920, with a population growth rate of around 2.6% and life expectancy at birth at 68.4.

There is no timely information available on hunger and the prevalence of underweight children, with the National Food and Nutrition Policy Plan of Action in 1999 being the most recent source of information.

Over 48% of Vanuatu's people are women. Family arrangements are changing and traditional arrangements no longer adequately protect women and children. There are a growing and significant number of women-headed households. At the same time certain jobs as well as access to property, land, skills and other economic resources are in effect only open to men. This places many ni-Vanuatu women in a precarious situation: they may materially be supported by their families as they do not have resources or entitlements to address their own needs adequately, or those of their families.

The number of cases (domestic violence, child maintenance, rape, child abuse and others) dealt with by the Vanuatu Women's Centre has increased dramatically over the last 10 years at an average annual increase of 25% (DWA, 2001), although some of this increase may reflect improvements in getting the issue more openly discussed. Vanuatu does not have a Human Rights Act, a Bill of Rights Act or a Family Law Act. It is within such Acts that discrimination is defined and grounds identified on which people cannot be discriminated against. This situation contravenes both the Constitution of Vanuatu and the Convention on the Elimination of all Discrimination Against Women.

Women in Vanuatu are also under-represented in higher-level politics and administration. This, together with their limited access to information and knowledge, effectively reduces their options and choices.

The population structure of Vanuatu is young, with 43% under the age of 15. In situations of limited resources, especially in rural areas, girls are more likely than boys to suffer from limited access to education. But basic education is widely accepted and distributed all over the country and overall enrolment is high. The pattern is similar in higher education, but still with significant differences between the two genders.

The pressing issues affecting young people today involve identity and self-expression, uncertainty about their future, unemployment and underemployment, and education. Many school leavers do not have adequate or appropriate skills to secure one of the few waged jobs available or the skills needed for agricultural work or alternative livelihood options. Approximately 81 % of youth commencing a life of subsistence farming have only reached as far as primary school, with little opportunity to upgrade skills.

Youth problems in Port Vila and Luganville are increasing. Youth migration to Port Vila is high from Tongoa and other Shepherd islands as well as Tanna and Paama. This is due to land pressure and the desire/hope to find employment. Pressure on housing in the outskirts of Port Vila and Luganville is rising. Theft is increasing as a result of unemployment and youth related disorders. of every 10 pregnancies, five concern teenagers.

Access to good health care is the major national issue for children, closely followed by access to good quality education. Vanuatu has been a leading campaigner for children's rights since 1990 when it participated in the United Nation's World Summit for Children. In 1993

Vanuatu ratified the Convention of the Rights of the Child. A National Plan of Action (NPA) was formalised in September 1995. Unfortunately, little has been done to review or maintain the currency of the Plan or for ensuring that the NPA is effective and that Vanuatu's children are properly protected. The poorest services for children are in rural areas, where children are more vulnerable and susceptible to diseases due to inadequate health facilities and relative poverty. Deaths before one year of age result mainly from neonatal conditions, respiratory infections, followed by diseases of the nervous system (such as meningitis, paraplegia and epilepsy) and infectious/parasitic diseases. For children 1-4 years old, the most common causes of death are infections and parasitic diseases, though these are also common in children aged 5-14 years (UNICEF, 1998). In education, only 22% of children attend secondary school each year, which means that 78% drop out of school without sufficient livelihood or vocational training (UNICEF, 2000). Growing numbers of ni-Vanuatu children born to unmarried parents are in danger of becoming landless (World Bank, 2000).

The Vanuatu Society for Disabled People (VSDP) tries to address the needs of the disabled. VSDP has a constitution, policies and a long-term plan. The ultimate aim is to facilitate the fullest possible integration of, and participation of, people with disabilities in all aspects of the life of their communities. In 1986 it set up a school in Port Vila for the disabled throughout Vanuatu. It has very limited resources but it operates as a resource and planning centre staffed by a director and eight others. VSDP requires better training of field workers and a curriculum for extension activities. There is a need for consistent support from the government. Funding comes from aid donors and through fundraising. Since 2006 the VSDP has received direct grant funding from the Government of Vanuatu. The recently established Disabled People Association (DPA), though very small, stresses the need for legislation that addresses the needs of the disabled. Developing a National Disability Act is the immediate aim of the DPA.

HIV prevalence among Vanuatu's society is not well assessed. Only two cases have been officially reported (a reported third case died in August 2006 – a member of the Police Force who had served on a UN Mission overseas). Statistics from the Ministry of Health and/or WHO office in Port Vila are inexistent. It is a commonly held view among Vanuatu's civil society that religious factors, geographical dispersion and strong community ties are blocking HIV in Vanuatu. These are also some of the factors that contribute to ignorance and lack of awareness of HIV. Experiences from other countries with a high prevalence of HIV/AIDS (i.e. PNG) show that the level of risk is underestimated when women experience significant discrimination in traditional communities, together with very high levels of sexual violence. As in PNG, in Vanuatu there is a great deal of unprotected sexual activity, combined with high levels of sexually transmitted infections (the use of condoms or other contraception methods is still subordinate to traditional practices).

The National AIDS Committee (NAC) is the national co-ordinating body for HIV in Vanuatu. Ideally it should involve a broad representation of people from across the country and from a variety of sectors. This is in fact being worked on at the moment by the NAC, which is reviewing its terms of reference and membership. As a result it should be feasible for the Government of Vanuatu (Ministry of Health in particular) to meet this objective within 2007.

- *Millennium Development Goals (MDG)*

In-country MDG activities in Vanuatu began in 2003 with MDG material included in workshops for government and Civil Society Organisations (CSO). The Secretariat of the Pacific Community (SPC) and the United Nations Population Fund (UNFPA) conducted a workshop in August 2003 with discussions with key sectors (health, education, statistics, environment and finance) to review the MDGs and derive MDG indicators for Vanuatu; it

also identified custom targets and indicators as well as key information gaps and the requisite strategies to address these.

Vanuatu's MDG National Committee (MDG NC) was created in mid 2004. The MDG NC, chaired by the Director General of the Prime Minister's Office, has members representing planning (DESP), statistics, education, health, environment, women, global partnerships (Foreign Affairs), agriculture and VANGO, the national umbrella NGO organisation. Members of the MDG NC were then tasked with establishing sector working groups comprising all 'stakeholders' in the sector and drafting the chapters for a report.

The working groups were tasked with designing public awareness activities for their sectors, facilitating a series of awareness raising workshops at the provincial level in the first quarter of 2005, the feedback from which will be included in a five-year MDG report.

The government remains committed to achieving the MDG. Its National Vision "An Educated, Healthy and Wealthy Vanuatu 2006-2015" (which is an integral part of its Development Policy, the PAA) mentions MDG as the final result and therefore includes MDG targets and indicators as Performance Indicators in its outcome monitoring plan.

- *Employment*

Around 3 500 school leavers enter the workforce each year. These include newly trained teachers and nurses, many of whom are currently unemployed due to the financial constraints of the government. Should the formal sector absorb these new entrants, employment would have to grow at more than 10% per year. Most new entrants to the workforce are therefore only likely to find work in the subsistence or informal sectors.

Official data from the Annual Business Survey conducted by the National Statistics Office in 2001 showed that women accounted for 37% of employees in the formal sector. Women were particularly prominent in Wholesale and Retail trade and Hotels and Restaurants, with 2 022 persons, accounting for 54% of female employment. Fields in which women were particularly under-represented include Construction (8%) and Electricity, Gas and Water (13%). Males account for 63% in the formal sector. Males are concentrated in Manufacturing, Construction and the Transport and Communication industries.

It is expected that in the medium term there will be an increase in employment in the tourism and the services industry as more tourism activities are taking place, especially with the building of new tourist resorts and hotels.

- *Data*

Data collection and the quality of this data continue to be problematic. Vanuatu's geographic dispersion and low population densities also mean that obtaining social data is prohibitively expensive.

The Vanuatu national statistical system is working to address weaknesses in the quality, timeliness and coverage of data while trying to meet existing and emerging demands for information, in particular for MDG indicators. Government's institutional capacity for analysing statistical and other information is weak but improving. Suitably skilled people are in limited supply and capacities of statistical sections in government ministries and departments are stretched. In 1999 the National Population and Housing Census was fully funded by government, illustrating the importance given to key information about the population of Vanuatu. However, the majority of activities to improve statistical information systems are nowadays funded by donors and have yet to be entrenched in the ongoing

operation of government. Examples include recent improvements to management information systems for health, customs and education, which were all donor funded. The Household and Income survey together with the Agriculture Census are being conducted in 2006 and 2007.

Financial data collection is quite strong and has improved since the introduction of the new Financial Management Information System (FMIS) in 2002. However, the systems in both the NSO and the FMIS, both crucial to policy analysis, remain critically sensitive to personnel change and resource allocation.

#### **II.1.4 Environmental situation**

Vanuatu's national sustainable development policies involve three government departments: the Department of Forestry, which is responsible for the sustainable management of Vanuatu's forest resources; the Environment Unit, which is responsible for researching, providing awareness, formulating and implementing government policies; and the Energy Unit, tasked with identification, implementation, management and evaluation of energy projects, as well as monitoring petroleum and electrification activities in Vanuatu. Government has clearly recognised the importance of sustainable development and the importance of environmental resources but the process of integration is a major challenge.

The Vanuatu Environment Unit (VEU) of the Ministry of Lands, Geology and Mines is the major body dealing with all aspects pertinent to protection and preservation of the environment. On 9 March 2003 the Environmental Management and Conservation (EMC) Act No 12 of 2002 entered into force. The stated objective of this Act is *"to provide for the conservation, sustainable development and management of the environment of Vanuatu and the regulation of related activities"*. It represents the only legislation governing environmental protection of all natural resources in Vanuatu. The Act covers four main categories of regulatory provisions: production and keeping of instruments (documents), environmental impact assessment (EIA), bio prospecting and community conservation areas. The EMC Act is implemented by the VEU, headed by the Head of Environment.

Although the Act makes provision for the VEU to become fully independent from the Department of Environment this has not happened yet and the VEU is still largely understaffed with only two persons.

The most visible impact of the implementation of the EMC Act is the requirement for environmental impact assessments. These are now routinely carried out prior to all major projects whether donor funded or private. However transparency on the entire process of EIA needs to be improved, and results from these EIA should be publicised to enhance public scrutiny. Furthermore, effective enforcement of a decision not to proceed for a project which would be environmentally unfriendly still remains to be tested.

An EC-funded Country Environment Profile (CEP) was formulated in 2004 and published in December 2005 with an initial edition of 500 copies. Twelve priority actions (PA) have been determined in the CEP. The first three PA are: 1. Fully implement the EMC Act 2002, 2. Consolidate knowledge of Vanuatu's biodiversity and its traditional use/management and 3. Involve traditional land owners in environment management.

Another area where the government is currently taking a more pro-active approach, as demonstrated by the recent application to the ACP-EC Energy Facility, is in the encouragement of renewable/local energy sources, especially in areas where access to traditional forms of energy, such as diesel, are limited. Similarly the government, via the Department of Public Works, is also working to improve water quality and sanitation through its programmes which will try and utilise EU funds available in this area.



Vanuatu is highly susceptible to cyclones, coastal flooding, river flooding, earthquakes, landslides, tsunamis and volcanic eruption and is ranked alongside Solomon Islands as the most disaster prone nation in the region. In 2006, the largest earthquake located in the vicinity of Port Vila reaching 6.3 on the Richter scale. In August 2007, an earthquake in Espiritu Santo reached 7.2 on the Richter scale. However, reported damage was limited and no human casualties. Other recent seismic events back in 2002 reached also up to 7.2 on the Richter scale and generated substantial structural damage.

The events surrounding an increase in activity of the Manaro volcano in Ambae (November 2005 – January 2006) have been widely publicised. This volcano is particularly dangerous due to the fact that the 5 km wide caldera of this volcano hosts a 2 km wide lake: Lake Vouli. In the event of a large eruption there is a major risk of lahars (mudslide).

This increase in the activity of the Manaro volcano has been used to assess the reactivity and the abilities of the Penama Provincial Disaster Management Committee to manage/monitor emergency operations through its Central Committee. The results have been excellent and set out clearly in a Completion Report on the Manaro – Vouli Disaster. The people living in the affected areas were evacuated by the Vanuatu government to safer sites and some to the nearby islands. The sum of over Vt50 million was used to evacuate and provide necessary food supplies and transport arrangements.

Vanuatu became the first Pacific ACP country to produce a National Action Plan for disaster risk reduction and disaster management in September 2006. The plan provides for a range of actions which require coordinated efforts within government, private and civil society, not only to respond to disaster but to mitigate the worst effects.

Vanuatu has substantial and important biodiversity, which, however, remains insufficiently studied, and therefore poorly known. An environmental profile for Vanuatu was established in 2004, financed by the EC. Vanuatu's Government indicates in its 2006-2015 "Priorities and Action Agenda" (PAA) that Vanuatu's biodiversity is threatened by a number of introduced species of plants and animals and over harvesting of some reef and lagoon fish.

Vanuatu is already highly vulnerable to a range of natural disasters, many of which will be exacerbated by climate change. The Government puts emphasis on disaster mitigation and preparedness, including renewal of traditional knowledge and coping skills.

### **II.1.5 The country in the international context**

Vanuatu ratified the Pacific Island Countries Trade Agreement (PICTA) in July 2005. Vanuatu is also a member of the Melanesian Spearhead Group (MSG) whose Free Trade Agreement entered a second phase, involving tariff cuts for key traded products. Work has now begun to extend both the MSG and PICTA to cover services, which has the potential to increase competition and investment in important sectors.

Vanuatu will host the MSG headquarters in Port Vila. New premises open in 2007.

On the other two major regional trade agreements currently facing the Pacific – the Economic Partnership Agreements (EPA) with the EU and a potential new agreement with Australia and New Zealand (PACER) – Vanuatu continues to maintain an open stance, based on a judgment of the economic costs and benefits.

Vanuatu is a participating partner in the OECD Global Forum on Taxation, aimed at establishing a level playing field for the global economy by implementing agreed principles of transparency and exchange of information for tax purposes. It participated in the last meeting

held in Melbourne on 15-16 November 2005, notably by contributing to the factual assessment of its tax system.

As a WTO observer, Vanuatu has been able to play a limited but active role in the Doha Round, both in Geneva and Hong Kong. The government is currently assessing whether to restart negotiations on accession to WTO.

Migration into and out of the country does not reach significant levels. In terms of social composition of society, besides the citizens of ni-Vanuatu origin, small (but influential) communities of Australian, New Zealand or Indian Fijians recently came in addition to ni-Vanuatu citizens of Polynesian, South-Asian or European origin from the Condominium period (1906-1980).

## **II.2. The recipient country's development strategy**

The updated Prioritised Action Agenda provides an overview of the development path that Vanuatu would like to follow for the next ten years and reflects the people's expressed wishes for: (i) more employment and economic opportunities through which to earn income, (ii) better health and education, (iii) the provision of basic infrastructure for themselves and especially for their children, and (iiii) social stability.

- *National Strategic Priorities*

From the PAA, a set of overarching national strategic priorities has been identified for the allocation of development resources, policy initiatives and practical measures. The key priority areas are:

- Private Sector Development and Employment Creation;
- Macroeconomic Stability and Equitable Growth;
- Good Governance and Public Sector Reform;
- Primary Sector Development (natural resources and the environment);
- Provision of Better Basic Services; especially in rural areas;
- Education and Human Resource Development;
- Economic Infrastructure and Support Services.

The main priority is to create an environment for private sector led economic growth, including activities in the primary sectors of agriculture, forestry and fisheries, as well as in tourism. This embraces public sector reform and good governance, improving the investment, operating and regulatory environment for the private sector, and providing the necessary infrastructure and support services, particularly in rural areas.

At the next level of priority is human resource development. As the economy begins to grow, an increasing number of economic and employment opportunities will be created for both men and women. This will require a skilled, educated and motivated gender-balanced labour force. Appropriate resources need to be provided to ensure that education and training is provided for all people, across all levels of ability, to enable everyone to realise his or her full potential.

Health is at the same level of overall priority as the education side of human resource development. A healthy community – physically, mentally, socially and environmentally – is a happy and productive community. Good health is therefore essential for the realisation of educational potential and the ability to take advantage of opportunities.

- *Implementation*

Implementation of the PAA is the responsibility of Ministers and their ministries. Each aspect of government needs to have its own, more detailed, sector plans and strategies. Some already exist, but most ministries still need to develop formal sector plans.

In terms of resourcing, the financing needs to come within overall government plans – a medium term expenditure framework (MTEF) and the Government Investment Programme (GIP). The MTEF needs to be completed and a new, more strategic approach taken for the GIP. Translating the policies into funded activities, programmes and projects involves the preparation/updating of the Budget strategy to determine how much can be allocated in a particular year – from the government’s own budget and with the support of aid donors.

- *Sub-national development plans*

Over the past years all Provincial Governments have developed their own Rural Economic Development Initiatives (REDI). These are provincial level development plans based on local consultations. Recently, the government has agreed to incorporate these into its national plans and to try and align government resource allocations with the REDI’s. A central unit has been set up within the Ministry of Internal Affairs to co-ordinate this. Several donors have also contributed to a resource pool (in addition to the funding provided by the government to the provinces) to help fund some of the REDI initiatives.

### ***Regional Initiatives***

There are many regional economic initiatives which Vanuatu is actively involved in, including the PICTA, PACER and EPA. All of these focus on improving the trade environment. In terms of development the Government of Vanuatu has also endorsed the “Pacific Plan” developed by the Forum Secretariat as a guiding document for regional development. Vanuatu has also been an active contributor to the Pacific 2020 document which was written for the Pacific Islands Forum and is based on the study of nine growth topics. This study is similar in focus to the PAA in that it identifies four growth factors (investment, labour, land & political governance) and five productive sectors (agriculture, fisheries, forestry, mining & petroleum and tourism) as the key to growth.

### **II.3. Analysis of the viability of current policies and the medium-term challenges**

The government has embarked on a programme to focus its resources via the development of a medium term expenditure plan and a medium term strategic framework that is slightly more focused and output oriented than the PAA.

At the moment there is little coherent medium term policy analysis and implementation in the sense that these things usually stem from a coherent macroeconomic policy. The potential policy inconsistency could become problematic, especially in the areas of trade, the budget and donor coordination. It is hoped that the medium term framework will resolve some of those issues – but the framework is still being developed and so in the meantime there is a need for support in the area of policy analysis.

Given the recent uneven growth (in terms of urban relative to rural) there is a risk of increasing inequality, which may further exacerbate the already large urban drift.

The PAA highlights the need for improvements in public service efficiency. There is also a need to improve the outreach of these services into the more remote and economically disadvantaged parts of the country.

The EU has funded a comparative advantage analysis which has many implications for future policy directions. However, the results of this analysis have yet to be incorporated into national policy. Similarly, a lot of analyses have been done by the Trade Department in the light of the ongoing EPA negotiations, the WTO and also the PICTA and PACER arrangements – these will also need to be incorporated better into the national policy.

The distance to major markets and Vanuatu's relatively small size are factors that cannot be overcome. Consequently there is a need for future action to look at improving the efficiency of the structures that already exist.

Part of the inefficiency of the private sector in Vanuatu is due to policy inefficiencies such as regulatory and fiscal uncertainty. The fiscal and regulatory regime should be enhanced to provide greater encouragement for both domestic and overseas investment. Confirmation of Vanuatu's willingness to implement recognised international principles on transparency and effective exchange of information for tax purposes, in line with its commitment to the OECD, would be welcome and would show its availability to contribute to international cooperation. Enabling international cooperation, notably through transparent tax systems and the availability of effective exchange of information, plays a vital role in the efforts made at global level to counter terrorism, its financing, tax evasion, tax avoidance and corruption. It is particularly relevant for small and open economies that have developed an offshore financial sector.

Access to land is a definite issue in Vanuatu. The specific challenges are however different to those in other LDC. Land tenure in Vanuatu is based on a leasehold system normally of 75 years tenure (the Constitution bans freehold tenure). The oldest leases started at the time of independence and therefore have about 50 years left. Problems of lease cessation experienced in countries like Fiji have not yet surfaced. Also, access to land does not seem a major problem. However, the system of land purchase, lease management and also taxation is highly inefficient, and certain parts of the process are open to corruption. Since this is such an emotive issue, getting reform in this area has been difficult.

Social capital represents an asset in Vanuatu. Community organisations and particularly customary organisations such as the Council of Chiefs play an important role in maintaining social stability. Custom may contribute to employment and economic growth and potentially sustainable use of natural resources. The private sector and the economic and social partners and community organisations play an important role in providing services in the rural areas which administration programmes cannot generally reach. They have become key interlocutors for development implementation since independence. This collaboration has gone beyond specific arrangements with NGOs. The continuous dialogue recognises the impact of their actions and reinforces the role of private initiative.

## **CHAPTER III: OVERVIEW OF PAST AND PRESENT EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY**

### **III.1 Overview of past and present EC cooperation (lessons learned)**

Vanuatu joined the ACP group in 1981 and has benefited since then from many of the instruments available within the Lomé Conventions and (since 2000) Cotonou. Rural development and infrastructure were priorities initially, although education took the primary focus of EC contributions in Vanuatu with effect from the 6<sup>th</sup> EDF. In the first years, EC development actions targeted primary education. In the 8<sup>th</sup> EDF the emphasis was on improving access to junior secondary schools. Under the 9<sup>th</sup> EDF, projects focus on human resources development, through an education and training support programme. At the same time, Vanuatu fulfilled the criteria to receive assistance through Budgetary Support; it is noteworthy that Vanuatu is the only Pacific ACP country which benefited from this aid delivery method.

The EC has set up tools for the monitoring of on-going operations which comprise internal follow-up by the Delegation in the country and external assistance for reporting on monitoring.

Vanuatu has been very efficient in committing and using the funds at its disposal through the National Indicative Programme 9<sup>th</sup> EDF, as was noted in the mid-term and end-of-term reviews which increased the initial € 12 million envelope A by € 5 million and € 3 million respectively. However, the main lesson learned from the implementation of the 9<sup>th</sup> EDF is that the lack of an integrated approach to the development priorities of the government has decreased the effectiveness of our aid. When talking about a small Pacific Island State, it seems more beneficial to integrate different actions under the umbrella of an integrated programme (encouraging coordination between Departments and Institutions inside the government) rather than work separately with individual Ministries (Agriculture, Education, PWD, etc).

The rural economy (Agriculture and Services, with Tourism as the sub-sector with the largest capacity for growth) appears to be receiving insufficient incentives. The integration of activities and their full integration into the existing market economy structures in Vanuatu may ensure that different groups and communities benefit from the development policies of the government and that they can help growth in all the major economic sectors –agriculture, industry and services. At government level, strengthening of policies and the budget was identified as a priority in the PEFA report produced under the Budgetary Support project.

#### **III.1.1 Focal sectors**

Improving access to education after 6 years of primary school and improving the quality of education are the purposes of the **Education and Training Programme (EDUTRAIN)**. The activities cover actions from government level to community level with 5 main objectives: i) develop the curricula of post-primary general education; ii) improve the qualification of teachers; iii) extend primary school facilities; iv) improve the management of education by establishing an Education Management Information System (EMIS); and v) improve quality assessment by further training of advisers and inspectors.

To contribute to poverty reduction and the sustainable development of the national economy, some essential inputs to the vital tourism industry are provided through a **Tourism Education and Training Project (VATET)**. The purpose is to upgrade capacities and services within the Tourism and Hospitality industry of Vanuatu to international standards. The main components are the construction and operation of the new Tourism and Hospitality Training Centre and a rural tourism development programme. Both assist in the provision of skilled human resources. Following the end-of-term review, a new intervention **Vanuatu Tourism and Economic Growth** was designed to continue and expand VATET intervention for the period 2007-2010.

The country is not favoured by its geography and by the deterioration of its existing infrastructure. Major investments are needed to assure means of transport for both population and commodities. The **Public Works Maintenance Training** programme aims at improving capacity in project programming, planning, implementing and monitoring to PWD teams, in particular in Malampa and Tafea provinces.

### **III.1.2 Projects and programmes outside focal sectors**

Agriculture is very important to the economy of Vanuatu, contributing some 17% of GDP. Agriculture production by small farmers is hampered by high structural costs, lack of reliable and sustainable credit systems, dispersion of producers and lack of viable associative producers' organisations, high transport costs, lack of infrastructure (storage facilities, processing equipment, transport etc), lack of market information and integration in market structures, and lack of management. The **Producers Organisations** Programme, co-funded by the EC and France, has assisted in creating viable associative producers' organisations, facilitating access to credit and developing skills on market information.

The **Non State Actors** project aims at encouraging capacity building for dialogue at national level by promoting the full participation and contribution of non-State Actors as partners in development. The project aims as well at promoting the inclusion of rural populations, in particular rural women's associations, in the development process by fostering the participation of grassroots/community based organisations.

### **III.1.3 Utilisation of Envelope B**

Three Financing Decisions have already committed a total of € 3.3 million of Vanuatu's B-envelope:

**Reconstruction of the Lycée Antoine de Bougainville:** This EDF intervention aims at rebuilding the structures of this important secondary school in Port Vila that were severely damaged by the strong earthquake (7.2 on the Richter Scale) in January 2002. € 1 350 000 was allocated for these works.

Vanuatu's economy is fragile, with high dependency on a narrow range of foreign exchange earners (tourism, copra and beef), and is highly sensitive to shocks from changes in primary commodity prices and natural disasters. Despite instability at the beginning of the 21<sup>st</sup> century, the economy of Vanuatu has stabilised since 2003 with growth estimates averaging some 3% annually. The special mechanism under the envelope B to compensate Fluctuations in Export Earnings (FLEX) was mobilized in 2003 which resulted in the intervention **Support to Economic Reform Programme I** (2004-2006) (SERP I). SERP I enabled reform efforts in Vanuatu to continue. The operation involves budget support to reduce the structural deficit and technical assistance to improve capacity in public financial management. Three exercises linked to SERP 2004-2006 have recently been led by the EC: Assessment for the release of

the second tranche of the budgetary support, IT Audit of the Smart Stream Financial System, and Public Expenditures Financial Accountability (PEFA). Each of these exercises has been another occasion to coordinate with both the government and other donors and to gain valuable experience for future intervention in this field. **SERP II** (2007-2010) -under the increased envelope A following the end-of-term review- will continue actions under SERP I with a special emphasis on the links between government policies (in particular its development policies) and budget implementation.

**Emergency school repairs:** Following the destructive passage, in February 2004, of cyclone IVY, it was decided to allocate the remaining B-envelope funds of € 250 000 for the urgent repair of damaged schools. The expected result is that around 20 schools in rural districts will be repaired/rehabilitated or see their natural disaster preparedness improve, with close participation of communities and grassroots Non-state Actors.

It should be noted as regards disaster preparedness that all current and future programmes should include reinforcement of the national capacity to respond to disasters and should encourage countries to propose their own strategies.

### **III.1.4 Other instruments**

#### **STABEX**

Work on the last rehabilitation project under this facility, i.e. the Eton Bridge Reconstruction, was completed in December 2004. The final STABEX report was sent to HQs in March 2006.

#### **Regional Cooperation**

Vanuatu is benefiting from a number of projects funded under the Pacific Regional Fund. These are handled by the Forum Secretariat in Fiji and the EC Delegation to Fiji. Consultants involved in these projects contact the EC Delegation in Port Vila whenever they are on mission to Vanuatu but there still is room for improvement to take maximum advantage of complementarities and visibility with other EC actions at national level. Effective participation of Vanuatu in co-operation at regional level continues therefore to be a challenge.

#### **Intra-ACP Cooperation**

Vanuatu was allocated 4 projects under the intra-ACP funded Energy Facility in 2007. These initiatives will have a significant impact in extending rural electrification services to outer islands and will show a good partnership between provincial governments, the national government and the private sector. All actions will use renewable energies (bio fuel and wind power).

#### **European Investment Bank**

A €5 million loan for the upgrading of Bauerfield Airport in Port Vila was signed in 1999 by the Bank with the Government of Vanuatu and subsequently fully disbursed under three tranches. The government's policy of not conducting loans for development projects has inevitably affected adversely Vanuatu's cooperation with EIB.

## **Budget Lines**

### *B-6261 Tropical Forest*

The €268 000 “Landowner Extension and Awareness of Reforestation Naturally” project came to an end in July 2005. Reports from the field indicate that good public awareness, of school populations as well as communities in the project areas, has been raised.

### *B7-6002 Decentralised Cooperation*

The € 316 521 VANPID Project was being run by VANGO, Vanuatu’s umbrella NGO organisation, until November 2005. The main aim was to improve the capacity of NGOs, and Provincial Administrations, so that development projects could be effectively implemented by them. With a view to enhancing the impact of the VANPID project, the idea is that VANGO will be the implementing agency for a new NSA project to be carried out from mid-2006 at national level (see Chapter 4).

## **III.2 Information on the programmes of the Member States and other donors (complementarity)**

The major external donors in Vanuatu are the European Commission, Australia, New Zealand, the USA (via the Millennium Challenge Corporation) and France. China and Japan also make significant contributions through infrastructure, aid-in-kind and/or volunteers.

France is the only MS present in Vanuatu. The *Document cadre de coopération 2006-2010* recently approved targeted two focal sectors: Education and Agriculture/Food Security. Coordination and synergies in both sectors with the EC response strategy have been discussed and negotiated: in Education for the SWAP under preparation, and in agriculture under the economic growth and job creation strategy (and following lessons learnt from the **Producers Organisations** Programme co-funded since 2003).

There are also a range of large NGOs active in the country, including VSO and Peace Corps, and also small representative groups from regional organisations such as the UN and WHO. Multilateral agencies such as the IMF, World Bank and Asian Development Bank generally play a minor role via the provision of specific technical assistance.

By far the majority of the financial support is from the major donors, and their programmes are detailed in annex 2.

All the major donor partners (except for France) are planning some form of direct budgetary inputs in the near future: The 10<sup>th</sup> EDF programme should have a budget support line, if conditions are fulfilled. Australia and New Zealand are committed to channelling more of their aid through the government budget and it is expected that part of this will be through “sector wide approach” plans such as the one currently under development in Education.

All donors also run a wide variety of projects across a range of sectors, although Education, Governance and Economic Growth are core themes in most programmes. The main exception to this is the US MCC, which is focused solely on the infrastructure sector.

## **III.3 Other EC policies**

In line with the EC Communication on “Policy Coherence for Development” and “Speeding up progress towards the MDGs”, some of the EU non aid policies are of particular relevance



to Vanuatu's context: development responses to Vanuatu can gain from lessons and knowledge of other EU general policies, in particular Trade, Taxation and Environment.

Regional integration and **trade** central to sustainable economic growth, social gains and diversification, in particular in a small, geographically-dispersed economy like Vanuatu. Vanuatu's Prioritized Action Agenda addresses the challenges of increasing efficiency, productivity and competitiveness both in the public and the private sectors. Synergies between its CSP, the RSP, and the EU trade policies and agreements (in particular EPAs) need to be maximised. Assistance can be provided to identify national priorities and needs, training and capacity building, for trade facilitation (simplification of customs procedures, reduction of transaction costs, reinforcement of supply-side capacity) to undertake domestic reforms, etc. These measures should accompany main actions during the 10<sup>th</sup> EDF as a twofold effort to gradually integrate Vanuatu's economy into the world economy and to minimize the social impact of this.

In the field of **taxation**, EU dialogue and support to countries for the compliance with OECD good governance standards will continue be complemented by 10<sup>th</sup> EDF actions. In general terms, the Government of Vanuatu should pursue its ongoing efforts in the area of exchange of information and transparency standards as defined by the OECD global forum on taxation.

Vanuatu's main development policies recognise the importance of the sustainable management of natural resources as a guarantee for future generations. In view of close relationship between **environment**, poverty reduction and sustainable economic development, natural resources utilisation for economic diversification is of particular importance to Vanuatu and the regulatory context is conducive to environmental conservation. Beyond the environment impact studies of 10<sup>th</sup> EDF actions, legislation reforms, research, awareness and evaluation activities should be encouraged and promoted following lessons from EU expertise, in particular with the implementation of the recently approved Disaster Risk Reduction and Disaster Management Plan. Vanuatu needs to improve implementation of regional and international environmental commitments, and efforts must be made to maximise benefits from various mechanisms offered by the EC and other donors to facilitate implementation of the various multilateral environmental agreements to which Vanuatu is a signatory.

#### **III.4 Description of the political dialogue with the partner country**

Political dialogue with the Government of Vanuatu is comprehensive and balanced, in line with Article 8 of Cotonou. Discussions about the political commitments from the government accompanying the 10<sup>th</sup> EDF, the identification of improvements in governance with cooperation gains, have acted as a stimulus to political, economic and social dialogue. Human rights, governance and rule of law issues absorb most of discussions.

#### **III.5 Description of the state of the partnership with the recipient country and progress towards harmonisation**

Some efforts are under way to define a harmonisation road map before the end of 2006, possibly including stronger Sector Coordination (as already exists in Education and Public Finances Management), establishment of Codes of Conduct, review of Coordination mechanisms and adoption of a 3-year Donor Intervention Matrix. Discussions with donor partners, in particular France, New Zealand and Australia, have also been continuous in this

regard to help ensure that aid flows through the procedures set out in the Government Investment Programme (GIP).

The government is supportive of the Paris Declaration and is working with its donor partners to help them achieve the objectives agreed by the OECD as stated in Annex 6. The EC has distributed the four additional EC indicators on aid effectiveness (Annex 6).

#### **CHAPTER IV: RESPONSE STRATEGY**

The Government of Vanuatu is working with its donor partners and civil society to implement its development policy, the Prioritised Action Agenda 2006. PAA's Performance Indicators and Outcome Monitoring Plan have become the reference for coordinating development aid and making financial inputs to address development priorities of the country. In this context it has been decided to concentrate donor support and to utilise the skills and experiences of the donors in specific sectors.

The donor community has organised partner groups about Education and PFM, the main sector of aid intervention in Vanuatu. The first is working closely with the Ministry of Education in the definition of a Vanuatu Education Sector Strategy (VESS), which will lead to a SWAP in Education. The second is coordinating technical assistance to the Ministry of Finance.

The EC is currently identified as the donor with highest expertise in Public Finance Management (PFM) and very valuable inputs in Agriculture, Tourism and Education. The EC has successfully assisted Vanuatu in the past in such areas and has a good track record of intervention in this regard. The concentration of aid together with improved aid coordination leads the EC to base its future action in Vanuatu around these fields as an effective way to help the country to progress towards the MDG. The idea is to look at ways of improving conditions for private sector trade development as well as ways of providing the productive sectors with the skills they require. They are both key areas covered by the PAA.

Consequently the 10<sup>th</sup> EDF programme will concentrate on one main focal area which would be *“support to Economic Growth and the creation of employment, including Human Resources Development (vocational training and capacity building)”*.

The following specific objective will be pursued: **“Assist in the development of an environment conducive to economic growth through improved delivery of and access to services and means of production for key productive sectors.”** The expected result will be to facilitate income generation in order to reduce poverty and inequality, through private sector led economic growth and creation of employment.

This will also encompass trade-related activities, following EPA and support to the public service, in order to help create better service provision in rural areas. Additionally, findings from the ongoing Diagnostic Trade Integration Study (DTIS) of the IF will be used to formulate activities in this field.

The main actions proposed are:

- Institutional support: assisting the government in fostering an environment conducive to economic growth by way, for instance, of coordinated policy and public

expenditure, the removal of barriers and inefficiencies, strengthening government's capacity for monitoring and analysis of productive sector performance.

- Adding value to agricultural, livestock and tourist products: improving quality (standards, certification), processing (including new technologies), and marketing (with emphasis on niche markets and fair trade).
- Fostering economically sound and sustainable user-based management systems for natural resources, including improved, sustainable farming practices.
- Emphasising the development of rural areas by extending public services, improving basic infrastructures and promoting specific market niches.
- Matching HDR and market demand through demand-driven and tailor-made training and skills programmes.
- Trade-in-goods related activities derived from the EPA negotiations and the creation of an enabling environment for private sector development (not covered at regional or all-ACP level).

The main sectoral policy measures to be taken by the government are:

1. Developing long-term sector policies in Agricultural and Tourism
2. Providing better support services to business: improving access to rural financial services – saving and credit – and lower transaction costs
3. Ensuring an environment conducive to increased commodity exports
4. Facilitating long-term secure access to land

There will be a clear commitment to carry out a Strategic Environment Assessment in the formulation of the intervention and Environmental Impact Assessments of all actions including in it.

The other main component of the NIP will be the use of General Budget Support. The government and other donor partners recognise the EC's expertise in providing this type of support in Vanuatu. The overall objective of interventions in this area will be to support the Government of Vanuatu's efforts to reduce poverty through the implementation of its Priority Action Agenda (PAA). The PAA identifies private sector development as its primary objective. The PAA also identifies that improved public service delivery will be pursued, providing the basic physical and human capital required to underpin a more sustained growth path over the medium term. In this way, close links will be retained with the sector policy support (SWAP) to education.

The main results expected are the increased poverty focus of budget allocations, improved public financial management, and improved public service delivery.

Vanuatu's eligibility criteria for Budget Support will be kept under continuous review: in particular the commitment by the government to the implementation of the PAA, macroeconomic stability, and progress in implementing the public financial management reform programme. If conditions are not fulfilled, the EC may consider the use of programmed resources in this area to reinforce activities in other focal sectors.

Finally, it is envisaged that funds will be provided to **NSA, and Capacity Building, including Support to the NAO and a Technical Cooperation Facility**. They will both build on the successes of the programmes in the 9<sup>th</sup> EDF.

Efforts will also be made in support of Vanuatu's Financial Service Commission to improve its compliance with the OECD/EU good governance standards. It is envisaged that Vanuatu will agree to sign DTC (Double Taxation Convention) or TIEA (Tax Information Exchange Agreements) on exchange of information for tax purposes with any countries requesting them.

All activities will mainstream and promote good governance, gender equality, environmental sustainability (including Disaster Risk Reduction and Disaster Management) and prevention of HIV/AIDS. Political dialogue with the government and civil society should single out initiatives for funding (like the integration of women at higher levels of politics and administration, the ratification of international treaties in the field of human rights and good governance, improvements in environment legislation and in the transparency of political party funding, and social awareness in the fight against HIV/AIDS) to encourage practical progress in these key horizontal issues.

The EC will strengthen the Delegation's monitoring of ongoing operations, including thematic budget lines. External reports on monitoring will also be required.

These proposed actions will be coordinated with activities carried out under the umbrella of EC regional cooperation, all-ACP cooperation and the funding possibilities of EC thematic budget lines. There is a natural link between the efforts in favour of "regionalisation" and private sector development leading to economic growth. Trade-related activities, HRD, the fisheries sector, certification and marketing, sustainable management of natural resources, etc. should not be developed without considering the regional or horizontal (all-ACP, thematic budget lines) perspective and their actions and possibilities for funding.

## ANNEX 1. "COUNTRY AT A GLANCE" TABLE

These tables provide basic information on the country.

**Table 1: Drivers of Economic Growth 2003 - 2006**

Real GDP Growth 1983 Prices year-on-year % change				
	2003	2004	2005	2006
<b>AGRICULTURE, FISHING &amp; FORESTRY</b>	<b>6.6</b>	<b>7.2</b>	<b>-4.4</b>	<b>2.4</b>
<i>Export crops</i>	14.5	17.6	-20.7	6.5
<b>INDUSTRY</b>	<b>3.5</b>	<b>5.4</b>	<b>7.1</b>	<b>7.0</b>
<i>Manufacturing</i>	4.6	5.0	6.1	1.6
<i>Electricity</i>	-1.0	3.4	4.1	2.8
<i>Construction</i>	6.7	8.4	10.5	15.7
<b>SERVICES</b>	<b>2.3</b>	<b>5.1</b>	<b>9.4</b>	<b>8.4</b>
<i>Wholesale &amp; Retail Trade</i>	0.1	-1.7	11.4	12.4
<i>Hotels &amp; Restaurants</i>	-8.8	13.5	6.1	11.0
<i>Transport &amp; Communication</i>	3.6	15.5	13.8	7.7
<i>Finance &amp; Insurance</i>	9.0	6.3	19.6	8.4
<i>Real Estate &amp; Other Services</i>	12.3	17.6	9.7	11.2
<b>GROSS DOMESTIC PRODUCT (GDP)</b>	<b>3.2</b>	<b>5.5</b>	<b>6.5</b>	<b>7.2</b>

Source: National Statistics Office, August 2007

**Table 2: Macroeconomic indicators**

	2000	2001	2002	2003	2004	2005	2006	2007
<b>Basic data</b>								
1 Population (in 1000)	192	197	202	207	212	218	223	229
- annual change in %	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
2a Nominal GDP (in millions €)	263	276	249	240	256	269	288	310
2b Nominal GDP per capita (in €)	1,368	1,402	1,231	1,159	1,208	1,234	1,291	1,353
2c - annual change in %	3%	3%	-12%	-6%	4%	2%	5%	5%
3 Real GDP (annual change in %)	4%	1%	-11%	-4%	4%	3%	4%	4%
4 Gross fixed capital formation (in % of GDP)		20%	21%	20%	22%	23%	24%	26%
<b>International transactions</b>								
5 Exports of goods and services (in % of GDP)	9%	7%	6%	8%	9%	8%	8%	8%
- of which the most important: ... (in % of GDP)								
6 Trade balance (in % of GDP)	-23%	-25%	-25%	-23%	-23%	-26%	-25%	-24%
7 Current account balance (in % of GDP)	4%	-1%	-8%	-10%	-5%	-7%	-4%	-4%

8	Net inflows of foreign direct investment (in % of GDP)	5%	6%	5%	6%	7%	7%	8%	8%
9	External debt (in % of GDP)	23%	24%	24%	27%	25%	22%	20%	18%
10	Service of external debt (in % of exports of goods and non-factor services)								
11	Foreign exchange reserves (in months of imports of Goods and non-factor services)	5.7	5.1	5.0	4.5	5.6	6.0	7.0	7.0
<b>Government</b>									
12	Revenues (in % of GDP)	22.0%	22.0%	21.0%	21.0%	24.0%	22.1%	22.8%	22.2%
	- of which: grants (in % of GDP)	1.0%	2.0%	1.0%	1.0%	2.0%	2.0%	2.0%	2.0%
13	Expenditure (in % of GDP)	29.0%	25.0%	26.0%	22.0%	22.0%	24.0%	24.1%	22.6%
	- of which: capital expenditure (in % of GDP)	8.0%	3.0%	2.0%	1.0%	1.0%	1.0%	1.0%	1.0%
14a	Deficit (in % of GDP) including grants	-3.1%	-1.0%	-2.3%	0.5%	0.9%	-3.0%	-1.0%	0.7%
14b	Deficit (in % of GDP) excluding grants	-2.1%	1.0%	-1.3%	1.5%	2.9%	-1.0%	1.0%	2.7%
15	Debt (in % of GDP)	30.4%	31.8%	34.9%	38.5%	35.4%	31.0%	28.6%	26.1%
	- of which: external (in % of total public debt)	76.3%	74.3%	70.2%	70.1%	69.5%	71.7%	71.3%	70.7%
<b>Other</b>									
16	Consumer price inflation (annual average change in %)	1.9%	2.3%	2.0%	3.0%	1.4%	1.2%	2.5%	2.5%
17	Interest rate (for money, annual rate in %)*	6.5%	6.5%	6.5%	6.5%	6.5%	6.3%	6.0%	6.0%
	Est. average interest rate **	13.5%	13.4%	11.6%	11.7%	11.6%			
18	Exchange rate (annual average of national currency per 1 €)	0.78	0.81	0.76	0.71	0.71	0.71	0.71	
19	Unemployment (in % of labour force, ILO definition)	2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
20	Employment in agriculture (in % of total employment)	73%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: DESP, 1999 Census, 2000 Labour Market Survey

\* RBV REPO rate

\*\* RBV estimates

note: 2005 onwards are estimates by DESP in 2006 budget

Table 3: Statement of Government Operations

	2005 Actual	2006 Prelim	2007 Budget	2007 Prelim Jan to June
<b>Statement of Government Operations</b>				
<b>Total Revenue and Grants</b>	<b>9,230.5</b>	<b>10,013.6</b>	<b>13,577.8</b>	<b>5,487.6</b>
<b>Recurrent Revenue</b>	<b>7,991.7</b>	<b>9,155.4</b>	<b>10,527.7</b>	<b>5,169.1</b>
<b>Tax Revenue</b>	<b>7,095.0</b>	<b>8,120.9</b>	<b>9,393.9</b>	<b>4,740.0</b>
<i>Taxes on consumption</i>	4,526.0	5,227.2	5,447.9	2,909.9
<i>Taxes on international trade</i>	2,414.6	2,681.8	3,386.0	1,517.6
<i>Taxes on property</i>	154.5	211.9	560.0	312.5
<b>Non-tax revenue</b>	<b>896.7</b>	<b>1,034.5</b>	<b>1,133.8</b>	<b>429.1</b>
<b>Grants</b>	<b>1,189.3</b>	<b>853.0</b>	<b>3,039.7</b>	<b>315.2</b>
<i>Project grants</i>	384.5	761.7	2,915.2	315.2
<i>Budget support</i>	804.8	91.3	124.5	0.0
<b>Sale of fixed capital assets</b>	<b>49.5</b>	<b>5.3</b>	<b>10.5</b>	<b>3.3</b>
<b>Total Expenditure and Net Lending</b>	<b>7,943.2</b>	<b>9,778.8</b>	<b>13,617.0</b>	<b>5,219.5</b>
<b>Recurrent Expenditure</b>	<b>7,575.6</b>	<b>8,658.6</b>	<b>10,701.8</b>	<b>5,077.1</b>
<b>Goods and Services</b>	<b>5,976.2</b>	<b>7,013.6</b>	<b>9,091.7</b>	<b>4,238.4</b>
<i>Salary and Wages</i>	4,230.7	5,161.8	6,626.4	3,078.0
<i>Other Contributions</i>	251.9	239.0	249.8	155.7
<i>Other Goods and Services</i>	1,493.5	1,612.8	2,215.5	1,004.7
<b>Interest Payments</b>	<b>349.4</b>	<b>337.9</b>	<b>366.8</b>	<b>152.1</b>
<b>Subsidies and Other Transfers</b>	<b>893.6</b>	<b>1,059.3</b>	<b>1,101.7</b>	<b>557.2</b>
<i>Transfers to GoVT Bodies</i>	463.5	639.4	621.1	336.8
<i>Transfers to Provinces and Municipalities</i>	200.6	190.2	206.8	94.2
<i>Transfers to Households</i>	81.0	133.8	218.7	96.5
<i>Transfers Abroad</i>	148.6	95.9	55.2	29.6
<b>Acquisition of Fixed Capital Assets</b>	<b>356.4</b>	<b>247.8</b>	<b>141.6</b>	<b>129.4</b>
<b>Non-recurrent Transfer to GoVT Bodies</b>	<b>0.0</b>	<b>335.8</b>	<b>0.0</b>	<b>0.0</b>
<b>Expenditure on Development Budget</b>	<b>367.6</b>	<b>784.4</b>	<b>2,915.2</b>	<b>142.4</b>
<b>Net Operating Balance</b>	<b>416.1</b>	<b>496.8</b>	<b>-174.2</b>	<b>92.0</b>
<u>Other Fiscal Measures</u>				
Changes in Balances	610.6	-183.3	-319.6	148.1
Net Incurrence of Liabilities	-676.7	-418.2	-280.4	-120.0
Gross Borrowing	320.0	320.0	620.0	200.0
<i>Domestic</i>	320.0	320.0	620.0	200.0
<i>External</i>	0.0	0.0	0.0	0.0
Amortisation	996.7	738.2	900.4	320.0
<i>Domestic</i>	476.1	545.0	620.0	320.0
<i>External</i>	520.6	193.2	280.4	0.0
<b>Primary Fiscal Balance</b>	<b>765.5</b>	<b>834.7</b>	<b>192.6</b>	<b>244.1</b>
<b>Overall Balance</b>	<b>1,287.3</b>	<b>234.9</b>	<b>-39.2</b>	<b>268.1</b>
<b>Overall Balance Net of External Support</b>	<b>465.6</b>	<b>166.3</b>	<b>-163.7</b>	<b>95.2</b>

Source: Ministry of Finance and Economic Management, August 2007

**Table 4: Indicators for the MDGs**

	<b>Indicator</b>	<b>1991</b>	<b>2000</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2013</b>	<b>2015</b>	
Impact	1. Proportion of population living on less than USD 1 per day*	N/A										
	2. Prevalence of underweight children (under-five years of age)	20%	23%	23%	22%	21%	20%	19%	18%	14%	12%	
	3. Under-five mortality rate	70/1000	44/1000	41/1000	39/1000	37/1000	35/1000	33/1000	31/1000	23/1000	21/1000	
Outputs	4. Net enrolment ratio in primary education (and %)	24,952	35,083 (65.3%)	38,960 (73%)	39,739 (74%)	40,500 (75.5%)	41,300 (77%)	42,500 (79%)	43,750 (81.5%)	46,750 (87%)	48,279 (90%)	
	5. Primary Completion Rate	90%	70%	67%	68%	69%	70%	71%	72%	78%	80%	
	6. Ratio of girls to boys in: - primary education- secondary education- tertiary education	47:53, 43:57	48:52, 48:52, 66:34	49:51, 50:50, 60:40	49:51, 50:50, 60:40	49:51, 50:50, 60:40	49:51, 50:50, 60:40	50:50, 50:50, 58:42	50:50, 50:50, 57:43	50:50, 50:50, 56:44	50:50, 50:50, 52:48	50:50, 50:50, 50:50
	7. Proportion of births attended by skilled medical personnel	79%	88%	88%	89%	90%	90%	90%	90%	90%	90%	
	8. Proportion of one year old children immunised against measles	66%	75%	80%	82%	84%	86%	88%	90%	93%	95%	
	9. HIV prevalence among 15 to 24 year old pregnant women*	N/A										
	10. Proportion of population with sustainable access to an improved water source	68%	73%	78%	80%	82%	84%	86%	88%	92%	95%	

**Source: MDG task force follow-up office, Ministry of Education and Department of Statistics (MFEM)**

\*The lack of household income and consumption data for the rural areas in Vanuatu mean that there is currently no reliable information on the proportion of the population living on less than USD 1 per day. There is also no data on HIV prevalence due to the lack of testing facilities throughout Vanuatu although by 2006 there were 2 identified cases.



## ANNEX 2. DONOR MATRIX

This matrix summarises the known interventions of other donors, including the Member States and multilateral donors.

Recent & ongoing programmes	ADB	Australia	China	EU	France	Japan
<i>General public services</i>		Public Sector Reform Project Legal Sector Reform Program National Statistics Office Institutional strengthening. Repair of MFEM Building	Support to restructure VBTC	TA to Aid management	TA to Aid management Parallel codification into French and English of Vanuatu Laws	TA to Aid management
<i>Defence</i>						
<i>Public Order and Safety</i>		Police Capacity Building Program	Purchase 2 vehicles for Police Force VMF Police projects (provision of uniforms, 28-seater Toyota bus, 3 double cabin Hilux			
<i>Economic Affairs</i>	Medium Term Strategic Framework  Secured Transactions Reform  Rural and Microfinance Outreach	Ministry of Finance Strengthening  Support to REDI  Support to AVL  Capacity Building in Forestry	Ni-Vanuatu micro finance scheme  Cooperative Development Fund Construction of Agricultural College  Debt Forgiveness Farm tools and plants Fish Aggregating Devices Biogas Technical Cooperation Two boats  Various tools for FWD	Support to AVL (EIB)  Public Works Support Program  Air Traffic Controllers Training  Producers Organisation Support  Program (POPACA)  Budgetary Support	Support to AVL  Extension of rural telephony Secondary Airfields Development Electrification of Malekula and Tanna Producers Organisation Support Program (POPACA) Support to Chamber of Commerce Support to VARTC	Infrastructure development via  Sarakata fund Project for Promotion of the Grace of  the Sea in Coastal Villages Expert for Road Maintenance Mngt Provision of Waste Disposal Equipment for Port Vila Municipality Multiple water supply programs
<i>Environmental Protection</i>						
<i>Housing and Community Amenities</i>		PSABV Water project Health Sector Planning Support Medical Equipment Maintenance Strengthening of village health worker program Provision of medical professionals PAH non communicable disease program Strengthening village health workers	Provision of dentists and doctors		Upgrade of Erakor Dispensary  Nurses Training Project  Rehabilitation of Northern District  Hospital	Renovation of Emau dispensary Pango Village dispensary Provision of equipment for EPI (WHO & UNICEF) Japanese support to the Pacific Immunization Program Strengthening Rehabilitation for Vaemall Health Centre Construction for Nutrition Training Facility at Port Vila
<i>Recreation, Culture and Religion</i>			Table Tennis Support			
<i>Education</i>		Scholarship support Senior Secondary School Program VIT strengthening project Rural preschool development program Support to maritime college Vanuatu Women's Crisis Centre Support Support to Youth Drop In Centre Community Partnership for Youth Project		Tourism and Hospitality Training Support Education and training program for extension of primary Junior Secondary Schools Project Support to Maritime College Rehabilitation of Lycee TA to Internal Audit TA to DG	CSF - Lycee Support to SFEB Support to Maritime College PAGEV project (FEV) Training of teachers & subsidies Support to teachers college Support to secondary education	Programme Officer Construction of Classrooms (Tanna 6 schools) Construction of Classroom for Ekipe & Ekonak Primary Construction of Classroom for Kamewa English, Eamewa French, Saint Therese, Santo East, Luganville East, Sarakata Primary
<i>Social Protection</i>				NSA support program		

Recent & ongoing programmes	MCC	NZ	Other donors	Other NGO	UN	WHO
<i>General public services</i>		Support to Court Rules Program Support to Municipal Council				
<i>Defence</i>		Support to VBTC Equipment Support to Police				
<i>Public Order and Safety</i>		Support to Judiciary - Supreme Court				
<i>Economic Affairs</i>	Efale Ring Road (upgrade 90 km) Santo East Coast road (upgrade 70km from Luganville to Port Olly) Santo South Coast Road Bridges (15 km) Malekula Norsup Lakatoro LitsLits Road (reconstruct 111km) Malekula South West Bay Airstrip Pentecost Lolitong Wharf & N-S road (8 km) Tanna Whitesands Road Epi Lamen bay Wharf Ambae Road Creek Crossings (for 50 km) Malo Road upgrade drainage & coral surfacing (15km) Warehouses (5 incl Lakatoro, Lenakel) Institutional Strengthening PWD	VAT Audit and compliance support  Revenue Adviser  Support to REDI  Support to Island Bungalows  Training for air traffic controllers  Economic Opportunity Initiative	Support to Utility Regulation (World Bank)  Multiple hand pump projects  (Canada) Community Based  Fishing (FFA) Institutional strengthening (RED) (VSO)  Peace Corps - Youth Agriculture and Environment (YAE) Project Various environmental management plans (SPREP) Urban Squatter Settlement Survey (Escap)	WWV - Tafea Community Dvt Project  improve access to health and  education services  WWV - Comm-based business  opportunity (Farm products processing & Marketing) Santo	Capacity building Vanwoods          UNDP(Landholders Initiative Project- Biodiversity conservation (Tanna, Gaua, Santo)	
<i>Environmental Protection</i>						
<i>Housing and Community Amenities</i>						
<i>Health</i>		Support to Ambulance Service		Operation Mosquito (Rotary) Maternity Ward Extension (Rotary) Support to HIV program (VSO) VFHA Family Health - reproductive health in all provinces Peace Corps -Memorandum w MoH for Public Health (Shefa) VFHA Reprod health & Youth Devt with fishing (Pentecost, Gaua, Malekula, Ambrym, Toka) WWV - HIV/AIDS Rotary - construction of TORBA hospital (22 beds)	UNFFPA - Reproductive Health (Strengthening RH Information & Service) UNICEF - Integrated Mgmt of Child Illness UNICEF - Breast Feeding Hospital Initiative (PV, Lenakel (Tafea)) UNICEF - Nutrition Education Tafea & Malampa	Northern District Hospital Development Plan Malaria, other vector-borne and parasitic diseases Stop TB and Leprosy elimination Communicable diseases surveillance and response Health Sys devt & financing Blood safety & clinical technology Human Resources for health Others: Non-communicable diseases control, Mental Health, Health Insurance, Gender & Women's health, emerging health issues, etc
<i>Recreation, Culture and Religion</i>		Support to Customary Land Tribunals			Support to Cultural Centre UNESCO-Cultural centre (Pentecost)	
<i>Education</i>		Scholarship support  Education Assistance Program (Primary and Junior Secondary)  PSABV Capacity Building Project  Business Management Training Support to Wan Smol Bag	Education Support (World Bank)  Peace Corps - Formal education  (2ndary) Math, Science, Business studies  Peace Corps -Rural Training Centres FSP/VSO Pacific Skills Link project to strengthen NGOs (VSO)	VRDTCA Support  WWV - Functional Literacy in Tafea &  Sanma (South Santo, Fanafo, Canaf) WSB youth community centres  WWV - Community based disaster preparedness project in Sanma, Tafea, Torba	UNESCO-Indigenous Language Revitalisation & Preservation UNICEF - Advocacy & Protection for Children (CRC & CEDAW) UNICEF - Disability Awareness in Tafea UNICEF - Early Childhood Education (PSABV Pre-skul Assn) Tanna UNDP - Non formal education strengthening project (M1 3.7m) Population policy development UNDP - VANWODS Microfinance for women UNESCO- Traditional Money Banks w Vanuatu Credit Union League, Revaluate & use traditional form of money	
<i>Social Protection</i>		Tafea Women's Arts and Crafts  Sanma Counselling Centre	Voices & Choices, Community level  good governance research (VSO)			

**Declared Donor Financial Interventions (millions of vatu)**

	Australia			France			MCA			New Zealand		
	2005 / 2006	2007	2008	2005 / 2006	2007	2008	2005 / 2006	2007	2008	2005 / 2006	2007	2008
<b>HR Development</b>				282	282	-				265	375	669
Service delivery	912	719	658	-	-	-				-	-	-
<b>Economic Development</b>	298	263	228	-	423	1,056	2,955	1,477	1,477	145	202	323
	-	-	-	-	-	-				-	-	-
<b>Governance</b>	605	1,140	1,342	-	11	11				175	347	290
	-	-	-	-	-	-				-	-	-
<b>Other</b>	61	70	70	-	211	211				84	77	77
<b>Total</b>	<b>1,877</b>	<b>2,193</b>	<b>2,298</b>	<b>282</b>	<b>926</b>	<b>1,278</b>	<b>2,955</b>	<b>1,477</b>	<b>1,477</b>	<b>669</b>	<b>1,000</b>	<b>1,359</b>
<i>Exch rate</i>	87.72			140.85			113.64			80.65		

This table is not inclusive of all from aid from these donors. Some programs have yet to be designed and so the final figure will be higher.

A breakdown of donor programs from Japan and China, who are also major donors, was not available at the time of writing the report.

## **ANNEX 3. EXECUTIVE SUMMARY OF THE COUNTRY ENVIRONMENTAL PROFILE**

As part of the mid-term review of the implementation of the indicative programmes for Vanuatu the European Commission required a Country Environmental Profile.

The objective of this study was to provide decision makers in the European Commission and other partner countries with sufficient information to identify European Commission cooperation activities with specific environmental objectives and to establish environmental safeguards for other activities.

Vanuatu is a Western South Pacific Island nation constituted of approximately 80 islands of volcanic origin. Although biodiversity is often rated as low in comparison with neighbouring countries such as New Caledonia, Papua New Guinea and even the Solomon Islands, it is of paramount importance to ni-Vanuatu.

A country where cultural diversity is represented by the number of vernacular languages (105), Vanuatu is united through a sense of identification to the land. One of the major reforms following the country's independence in 1980 was related to land tenure.

Vanuatu is a signatory of many major international conventions relating to the environment such as the Rio Declaration on Environment and Development and the provision of Agenda 21, UN Convention on Biological Diversity, and UN Convention on Climate Change.

In March 2003 an important Environmental Act was implemented: the Environment Management and Conservation Act No. 12 2002. Under this Act it is now compulsory to provide an Environmental Impact Assessment with every new development project that could interfere with the environment. Compliance with all aspects of this Act is mandatory and monitored by the Vanuatu Environment Unit. Non-compliance may result in financial penalties or even a jail term. This legislation is starting to be enforced fully but effective enforcement of the Act could be a problem as it is in other legal areas. A recent review of environmental legislation has identified overlaps, gaps and conflicts between the various Acts. Harmonisation with other legal environmental provisions will therefore be required.

To fully achieve implementation of the EMC act it is necessary to consolidate the knowledge of Vanuatu biodiversity and to document the Traditional Environment Management methods employed for centuries by the various communities in Vanuatu. Effective sustainable development will not be achieved without involving the custom landowners in the management processes.

Although traditional environment management systems are still in use on most islands, environmental awareness is low in Vanuatu. Raising environmental awareness at various levels from political to individual is still on the agenda of the Vanuatu Environment Unit.

Some endemic species, and some important areas have been identified as threatened and urgent action is needed to ensure that they will be protected. Forestry activities that represent an important source of revenues for the country need to be strengthened towards sustainability. Vanuatu, in accordance with the international conventions that were signed, will take steps to regulate the potential sources of pollution. Lastly and importantly, a matter of real concern in developing urban Vanuatu is the management of both solid and liquid wastes.

## **ANNEX 4. COUNTRY MIGRATION PROFILE**

Vanuatu operates similar policies to other Melanesian countries that require or encourage the employment of local staff over foreign nationals. These measures include:

- “Economic Needs Tests”, whereby work permits are only issued when companies can show that they have advertised positions locally and that no local applicant was suitably qualified.
- Localisation programs and requirements which are aimed at encouraging companies to train local staff to fill positions held by foreign nationals.
- The need to apply for a work permit from abroad, or have a contract before departing.
- High fees for work permits and/or residency permits add another barrier to expatriate employment.

Vanuatu does not currently receive any preference over other foreign nationals with regard to employment in third countries. As a result remittances are very low, especially by pacific or LDC standards.

The real effect of current policies is, therefore, to limit movement of labour. Mode four negotiations with European Union may potentially assist the situation and labour mobility is currently a regionally debated issue.

## **ANNEX 5. CSP DRAFTING PROCESS**

### ***Introduction***

The CSP was drafted by the two key Ministries of Foreign Affairs and Finance within the Vanuatu Government. The Aid Coordination Unit within the Ministry of Foreign Affairs and the Department of Economic and Sector Planning were the key agencies tasked to compile this report.

These agencies were supported for a short period by some technical assistance funded under the Technical Cooperation Facility (TCF).

Other than wide ranging internal consultation within Government, consultation was also sought with other donor partners and most importantly with the non state actors.

### ***Involvement of Non State Actors and local authorities***

The need to involve non state actors (NSA) was recognized by the Government in light of its commitments under Cotonou.

In Vanuatu recent projects that have targeted NSA have identified Vango as the umbrella body that has been chosen by the NSA to help coordinate their activities.

The Vanuatu Government has also signed a Memorandum of Understanding with the NSA through Vango.

In light of these developments Vango was selected as being the most appropriate vehicle to utilize when trying to ensure NSA involvement in the CSP drafting process.

On July 5, 2006 Vango organized a workshop for the key NSA to have the Government explain the drafting process of the 10<sup>th</sup> EDF and to also pass on and incorporate their views into the CSP.

The workshop comprised of a large representation of different civil society views and opinions. The views expressed covered the analysis, response strategies as well as the future involvement of NSA's in the process of implementation and monitoring.

A list of the NSA's in attendance:

<b>NSA</b>
National Labour Union
Malvatumauri – National Council of Chiefs
Vanuatu Chamber of Commerce
CUSO
VSO
Peace Corps
Oxfam
Wan Smol Bag Theatre

Vanuatu National Council of Women
Vanuatu Society of People with Disabilities
DPA
Red Cross Society
VASANOC
Vanrepa – Vanuatu Renewable Energy Association
FSP Vanuatu – Federation for the Peoples of the South Pacific
Vanuatu Youth Challenge
Vanuatu Habitat for Humanity
Representative of Turaga Development

A summary of the views expressed at the workshop are provided below:

Core themes expressed by all NSA:

- NSA should be involved throughout the NIP where they have the capacity and ability to do so. In many cases NSA have a comparative advantage in policy design and also implementation and monitoring due to their close links with civil society.
- In order to assist NSA capacity building should be complimented by core funding.

Specific views expressed:

- The CSP should address the needs of the rural community. This is because this is where the majority of the population lives. This is also where there is the least service delivery but the greatest need.
- The CSP should reflect the findings of the national summit on self reliance.
- The CSP should consider the lessons learnt from the Turaga economic development model which are;
  - Jointly initiate a dialogue with the Turaga Development Model during 2007 as the Vanuatu National Year of Traditional Economy on the numeration criteria to be used to value the indigenous economic assets and currencies of 80% rural majority population for inclusion in the economic index to enable the release of modern currency for use by the rural communities;
  - Recognise the need for diversion of more ODA capital funding into integrated rural community based initiated economic development programmes that have proved sustainable in assisting the rural population to ensure that ODA funding benefits the 80% rural population who are subsistence farmers;
  - Recognise the indigenous concept of ‘economy for peace’ as development foundation and not to push foreign development concepts and values that destabilizes community cohesiveness, harmony and peaceful coexistence;

- Recognise the indigenous community governance system and make budget allocation to strengthen the nakamal administrative capacity for people-centred community development;
  - Monitor the use of ODA funding injected to ensure that it is targeted towards programmes that will assist Vanuatu graduate from the LDC status;
  - Monitor the exercise of good governance principles in the ODA partners, Vanuatu central governments and ready to finance any political reforms that will lead to sustainable political stability.
- The CSP must highlight the promotion and preservation of custom in so far as they contribute to employment and economic growth.
  - The country should be compensated for the impact and transition costs associated with the various trade agreements, especially the EPA. The funding of this should be additional to the NIP.
  - The CSP should reflect the need for the Government to ratify and also implement key conventions.
  - The NIP should look to helping civil society fund activities such as the promotion of fair trade.
  - There is a need to support the salaries of trainers and managers of the rural training centres. This is a low cost activity as RTC are mainly staffed by volunteers but this would have a high impact on rural service delivery.
  - In addition the RTC need to be equipped with the relevant tools and equipment in order to enable them to function properly.
  - Assist in improving the technical skills of the RTC trainers and look at ways of introducing formal qualifications.
  - Assist the RTC programme to support girls who cannot afford to attend RTCS (RTCS scholarship).
  - Assist the RTC Home care programme to provide improved training programmes for girls and women in rural areas.
  - Improve the communications network in the rural areas to enable RTCS and other rural service providers to better coordinate their activities.
  - Support the development of life skills, trade skills and non-formal education for the majority of people living in rural areas.
  - There is a need for reviews of the curriculum to greater reflect the needs of the rural sector.
  - There is a need to improve the role of civil society in the design and implementation of the national budget.



- There is a need for a centralized source of information.

These views were incorporated into the main text of the CSP and that text was given to VANGO for review before finalisation.

This exercise was deemed a success by all parties as it has helped demonstrate the ability of the NSA, particularly VANGO to both the donor community and the Government. It has hopefully improved the trust and level of cooperation between these groups. In that sense it is hoped that the workshop achieved its core aim which was to make sure the CSP is reflective of the views of NSA in Vanuatu and has increased ownership of this program across a wide spectrum of civil society.

#### ***Consultation with donor partners***

A consultative workshop was held with all donors partners on 13 July 2006. This was preceded by individual one on one briefing with the major donor partners. No specific comments were submitted by the donor partners – however most donor partners contributed to the “donor matrix” included as part of the CSP.

#### ***Internal consultations within Government***

Internal consultations were held with all the major Government agencies including the Ministry of Foreign Affairs, the Ministry of Finance the Ministry of Trade and also the Ministry of Education. The Directors General of all these Ministries were consulted on a one to one and joint basis as well as most of the senior Directors within the various Ministries.

Briefings were also held with the Ministers of Foreign Affairs and the Minister of Finance.

The major contributors to the report were the Ministry’s of Foreign Affairs, Finance and Trade. The collation of views and the final drafting of the CSP was done jointly by the Department of Foreign Affairs and the Department of Economic and Sector Planning. This should ensure that the CSP is in line with Vanuatu’s overall development framework.

## **ANNEX 6. THE HARMONISATION ROAD MAP**

With reference to the Paris Declaration, major donors in Vanuatu intent to support the drafting of a « road map » at national level, listing measures to be taken to enhance harmonisation between donors procedures, leading to a coordinated approach to development assistance to the beneficiary country, and aiming, eventually, at joint programming.

### **The expected results of this exercise will be:**

- A practical, action-orientated roadmap (timeframe, milestones, assumptions) to the targets of the Paris Declaration by 2010, and therefore the quality of aid and its impact on development is drafted and measurable, in particular the use of country systems and multi-donor arrangements.
- A donors code of conduct is drafted, based on the Paris Declaration
- A protocol for the mapping of technical assistance is developed.

.....

The Government is supportive of the Paris Declaration and is working with its donor partners to help them achieve the objectives agreed by the OECD as stated below. Stronger leadership by the government in aid coordination would be beneficial

Additional Indicators on Aid effectiveness agreed by the EC should be incorporated in discussions with the government and donors:

- 1- To provide all capacity building assistance through coordinated programmes with an increasing use of multi-donor arrangements;
- 2- To channel 50% of government-to-government assistance through country systems, including by increasing the percentage of EC assistance provided through budget support or SWAP arrangements;
- 3- To avoid the establishment of any new PIUs;
- 4- To reduce the number of un-coordinated missions by 50%.

I NDICATORS		T ARGETS F O R 2010	
1	Partners have operational development strategies	<b>At least 75% of partner countries</b> have operational development strategies.	
2a	Reliable public financial management (PFM) systems	<b>Half of partner countries</b> move up at least one measure (i.e., 0.5 points) on the PFM/ CPIA (Country Policy and Institutional Assessment) scale of performance.	
2b	Reliable procurement systems	<b>One-third of partner countries</b> move up at least one measure (i.e., from D to C, C to B or B to A) on the four-point scale used to assess performance for this indicator.	
3	Aid flows are aligned on national priorities	<b>Halve the gap</b> – halve the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget).	
4	Strengthen capacity by co-ordinated support	<b>50% of technical co-operation flows</b> are implemented through co-ordinated programmes consistent with national development strategies.	
5a	Use of country public financial management systems	For partner countries with a <b>score of 5 or Above</b> on the PFM/CPIA scale of performance (see Indicator 2a).	<b>All donors</b> use partner countries' PFM systems; and <b>Reduce the gap by two-thirds</b> – A two-thirds reduction in the % of aid to the public sector not using partner countries' PFM systems.
		For partner countries with a <b>score between 3.5 and 4.5</b> on the PFM/CPIA scale of performance (see Indicator 2a).	<b>90% of donors</b> use partner countries' PFM systems; and <b>Reduce the gap by one-third</b> – A one-third reduction in the % of aid to the public sector not using partner countries' PFM systems.
5b	Use of country procurement systems	For partner countries with a <b>score of 'A'</b> on the Procurement scale of performance (see Indicator 2b).	<b>All donors</b> use partner countries' procurement systems; and <b>Reduce the gap by two-thirds</b> – A two-thirds reduction in the % of aid to the public sector not using partner countries' procurement systems.
		For partner countries with a <b>score of 'B'</b> on the Procurement scale of performance (see Indicator 2b).	<b>90% of donors</b> use partner countries' procurement systems; and <b>Reduce the gap by one-third</b> – A one-third reduction in the % of aid to the public sector not using partner countries' procurement systems.
6	Avoiding parallel PIUs	<b>Reduce by two-thirds</b> the stock of parallel project implementation units (PIUs).	
7	Aid is more predictable	<b>Halve the gap</b> – halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.	
8	Aid is untied	<b>Continued progress over time.</b>	
9	Use of common arrangements or procedures	<b>66% of aid flows</b> are provided in the context of programme-based approaches.	
10a	Missions to the field	<b>40% of donor missions</b> to the field are joint.	
10b	Country analytic work	<b>66% of country analytic work is joint.</b>	
11	Results-oriented frameworks	<b>Reduce the gap by one-third</b> – Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.	
12	Mutual accountability	<b>All partner countries</b> have mutual assessment reviews in place.	

## ANNEX 7. THE 2006 PEFA ASSESSMENT

Below is the executive summary and the description of country economic situation of the PEFA assessment carried out by the European Union in 2006.

- *State of Public Finances*

In recent years the Government has achieved its priority aggregate budgetary objectives to move away from persistent fiscal deficits and to support macroeconomic stability by providing greater fiscal control of the budget.

The Government ran a surplus in 2004 and 2005 and is predicted to achieve the same in 2006. Much of that surplus has gone into retiring liabilities incurred during the earlier period of fiscal instability in the mid nineties. Therefore, much effort has gone into retiring debt, restocking the supply of cash (or removing the Government overdraft) and also replenishing the trust accounts with the adequate funds.

The Government reports using both IPSAS standards and IMF GFS 86 standards. The type of budgeting is programmatic, which was introduced in 1998. The use of program budget has increased the transparency and coverage of the budget.

In 2006 the EU conducted a PEFA study of the public finances in Vanuatu which found that whilst budget execution and reporting were of the highest standards, audit, planning and transparency issues needed some further improvement.

- *Credibility of the budget.*

During the period under review, budget credibility both at an aggregate level and in terms of expenditure composition was considered by the PEFA team to be good. Actual revenue was greater than budgeted revenue. It is generally recognised however that the reliability of the GDP figures is poor and therefore revenue targets (budgets) may be understated. The Government has a centralised payments system and commitment control system and the level of outstanding arrears is not material. The Government also has a number of other measures in place to minimise the potential generation of arrears in central government including prepaid telephone accounts.

- *Comprehensiveness and transparency*

In terms of comprehensiveness and transparency, the Government's ability to oversee fiscal risk remains a concern to the GoV as many of the State Enterprises and Statutory Bodies have not submitted accounts for several years. In order to address this problem, a first draft of a Public Enterprise Accountability Bill has been prepared and assistance in finalising the Bill is to be provided by the Asian Development Bank (ADB). Decentralisation to the Provinces is in its infancy and although charged with the legal responsibility, activities at the sub national level are relatively small. There is no Freedom of Information Act in Vanuatu and public access to information on public financial management is limited. Demand for government accountability by the public in Vanuatu is also not well developed.

- *Policy-based budgeting*

The GoV has a clear budget calendar which is broadly followed. The Executive (through the Ministerial Budget Committee) is actively involved in the process and the legislature has generally approved the budget in a timely manner. Unfortunately, the multi year perspective for financial planning and budgeting is weak; similarly links between national and sector policies and the budget remain under developed.

- *Predictability and control in budget execution*

Currently tax revenues constitute approximately 90% of Government of Vanuatu (GoV) overall domestic revenues. Legislation for VAT is relatively clear; exemptions in relation to import duties do allow a degree of discretion and are being reviewed. For import duties, GoV has implemented Ayscuda software and major importers have access to the system. For VAT and other rates and taxes, a separate customs and taxes system is maintained. In addition to the VAT audit section, the Customs and Inland Revenue Department has an Investigations and Legal Section to follow up on defaulting taxpayers and to check compliance. The Department recognises that revenue is not being maximised particularly on the outlying islands, although capacity constraints are a limiting factor. Other measures are being considered to improve tax revenue collection rates e.g. introduction of large taxpayer unit and introduction of a single Tax Identification Number.

Non tax revenues represent about 10% of domestic revenue. Penalties for non compliance are insufficient and outstanding arrears are a major problem e.g. port and wharfage, land rents. GoV is considering a number of measures to redress the problem e.g. private debt collectors. The GoV is determined to follow a prudent approach to financial management; consequently the MFEM still operates a monthly warrant system. However, in the period under review, 2003 – 2005 amounts warranted were in accordance with individual ministry cash flows.

Debt administration in Vanuatu should be fairly straightforward with relatively few external loans and domestic debts, there is however a recognised need to be more proactive in overall debt management and establish a more precise debt management policy for all public sector loans and guarantees.

Payroll accounting procedures are fairly robust, but are undermined by delays at the Service Commissions (e.g. Police and Teachers) to process recruitments and terminations. Procurements in excess of VT5million have to go out to tender and be approved by the Council of Ministers on the basis of recommendations from the Tender Board. However, maintenance of adequate records to assess the use of open competition and justification for non-use is weak. There also does not appear to be a process of actively using this information to improve procurement processes.

The centralised payments system facilitates improved commitment control and financial regulations/circulars and manuals exist to guide sound financial management. Areas of weakness have been identified and are to be addressed in the amendments to the PFEM Act. There are some concerns about the level of compliance, particularly at the ministry/department level and the role of internal audit in assuring management that systems are working and highlighting areas of non-compliance is being developed in response.

- *Accounting, recording and reporting*

The GoV operates a centralised payments and payroll system using SmartStream financial software. Line ministries and some provincial offices in Santo have direct access to the system through a Wide Area Network. Bank account reconciliations for the key Treasury managed bank accounts are done on a regular basis<sup>2</sup>. Comprehensive and detailed in year budget execution reports can be extracted as required by all users and financial accounts are now being prepared on an accrual basis and in accordance with the majority of International Public Sector Accounting Standards.

- *External scrutiny and audit*

Although the formal committee structure for the review of estimates has not been operational, general procedures for the timely review of the budget by Parliament have been followed. The basic legal framework for external scrutiny and audit is in place, although there are some concerns over true independence of the audit function. However, the key concerns are in relation to the capacity of the National Audit Office to meet its legal reporting obligations. No audit reports have been tabled with Parliament since 2000 and the Public Accounts Committee has not met since 2003.

Some progress to address the backlog is being made and the Auditor General is in the process of finalising the financial audit of the 1998- 2001 accounts and the newly formatted 2002-2004 accounts. A Public Accounts Committee is in place and is due to start work in the next Parliamentary session in June 2006.

- *Donor practices*

Currently there is no donor co-ordination strategy in place<sup>3</sup>. Budget support in Vanuatu is in its infancy. In the period under review, only two donors provided general support to the budget. EC's support has been based on loosely defined conditions. Chinese contributions to GoV's budget did not follow the formal planning process. The GoV has not therefore been able to budget for this type of support with any degree of confidence.

Bilateral and multilateral programme and project assistance by most traditional donors is in support of projects incorporated in the Government Investment Programme (GIP), although a few donors do appear to respond to ad hoc requests from line ministries. However, Vanuatu is also recipient of funds from a number of global and regional funds which tend to fall outside the budgetary process. The GIP process (and databases held by the Department of Economic and Sector Planning and the Ministry of Foreign Affairs) is being reviewed with assistance from the ADB.

Some donors provide information on forecast assistance to a project only at the initiation of the project. Subsequent changes in forecast cash flows are therefore not incorporated into the planning process. Actual disbursements for all types of assistance are requested by the Reserve Bank of Vanuatu on a quarterly basis for balance of payments purposes. Most donors provide some information, although the completeness and accuracy of the information is unclear. This information is now being shared with the MFEM, but does not meet the requirements of the MFEM for management, planning or budgeting purposes.

---

<sup>2</sup> Transactions in Vila are reconciled with the cash book on a weekly basis; transactions from Santo are reconciled on a monthly basis.

<sup>3</sup> Assistance has been provided by ADB which has reviewed aid co-ordination and made recommendations for improvement.

## Description of budgetary outcomes

### *Fiscal performance*

The fiscal policy objective for the last three years was, and remains, to sustain fiscal discipline. The Government has announced a policy of achieving an overall fiscal surplus for the medium-term that will be used to retire domestic debt outstanding. In the same context, the policy is to increase development expenditure.

The fiscal deficit has decreased over the last three years from -1.7% of GDP in 2003 to a surplus of about 1% (based on preliminary figures) in 2005. The primary deficit has reduced from -2.7% in 2003 to less than -1% of GDP in 2004, and further improved in 2005. In terms of tax revenue as a percentage of GDP, Vanuatu tax burden is in line with those of the similar-income countries.<sup>4</sup> During the last three years the wage bill represented around 11.5% of GDP.

### Central government budget (in percent of GDP)

	2003	2004	2005
Total revenue	20.9%	23.2%	23.3%
- <i>Own revenue</i>	19.8%	20.8%	21.7%
- <i>Grants</i>	1.1%	2.4%	1.6%
Total expenditure	22.6%	22.3%	22.3%
- <i>Wages and salaries</i>	12.1%	11.5%	11.5%
- <i>Capital expenditure</i>	1.3%	1.6%	1.8%
Aggregate deficit (incl. grants)	-1.7%	0.9%	1.0%
Primary deficit (excl. interest payments)	-2.7%	-0.1%	0.0%
Net financing	1.7%	-0.9%	-1.0%
- <i>external</i>	-0.3%	-0.5%	-0.3%
- <i>domestic</i>	2.0%	-0.4%	-0.7%

Source: MFEM, Budget Section, Un-audited consolidated financial accounts for 2003-2004; and preliminary financial accounts for 2005.

In 2003, the delayed receipt of the EU Budget Support made the management of government cash resources harder and contributed to the budget deficit. In 2004, the significant surplus of revenues over expenditure, with the subsequent increase in cash reserves, was due to improved revenue collections as well as to the receipt of almost double the amount of budgeted grants. In 2005 the government has used its cash surplus to retire one domestic bond and eliminate its overdraft at the RBV, thus using its savings to reduce its debt burden.

From 2004 the government debt has accounted for about 36% of GDP, from which 25% is external debt and 11% domestic debt. In the medium-term, it is expected that external debt service will rise sharply, for principal and interest. The increase in external debt service is due to loans from the ADB, mainly connected with the CRP and Urban Infrastructure upgrading. In terms of domestic debt, it is understood that

<sup>4</sup> (IMF, Article IV Consultation Report, March 2005).

the rollover of domestic debt could represent a significant fiscal risk since the capital market in Vanuatu is rather shallow.

#### *Allocation of resources*

The PAA is the government's strategic document, which underlines policy priorities for the medium-term. Sectoral budget allocations tend generally to reflect the overall priorities of the government, however as discussed in PI 12 the link between the budget and more detailed sectoral policy is poor.<sup>5</sup>

Budget allocations (for recurrent expenditure) over the last three years are shown in **Error! Reference source not found.** In terms of budgeted figures for 2005, the share of recurrent resources to health and education was reduced slightly, preliminary actual figures indicate a similar trend.

Actual and original budget allocations by sectors (as a percentage of total recurrent expenditures)

	Budget			Actual		Prel.
	2003	2004	2005	2003	2004	2005
Constitutionals	8%	9%	10%	8%	9%	10%
Prime Minister	2%	1%	1%	2%	2%	2%
Ministry of Comprehensive Reform Program	0%	0%	0%	0%	0%	0%
Ministry of Foreign Affairs	2%	2%	2%	2%	2%	2%
Ministry of Internal Affairs	13%	14%	14%	14%	14%	15%
Ministry of Finance and Economic Management	15%	12%	16%	11%	11%	13%
Ministry of Industry and Commerce	1%	1%	1%	1%	1%	1%
Ministry of Ni Vanuatu Business	0%	1%	1%	0%	1%	1%
Ministry of Health	14%	14%	13%	14%	14%	13%
Ministry of Education	29%	29%	26%	31%	30%	26%
Ministry of Youth and Sports	0%	0%	1%	0%	0%	1%
Ministry of Agriculture, Forestry and Fisheries	4%	4%	4%	4%	4%	4%
Ministry of Lands, Geology, Mines, Water Resources	2%	3%	3%	2%	3%	3%
Ministry of Infrastructure and Public Utilities	8%	9%	9%	9%	9%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: MFEM Financial statements, 2002-2004 and preliminary data from the Budget Section spread-sheet.

Note: The calculations are based on consolidated data from Financial Statements and it covers only recurrent expenditure.

Budget allocation by economic classification is shown in the table below. The budgeted and actual share of wages and salaries, responsible for the biggest part of the

<sup>5</sup> A public expenditure review has not been carried out in Vanuatu so more detailed analysis was not available.



expenditures, has been declining in the last three years, which underscores the government efforts to control the unplanned growth of this element of the budget.

Actual and budget allocations by economic classification (as percentage of total expenditures)

	Budget			Actual		Prel.
	2003	2004	2005	2003	2004	2005
Recurrent expenditures	95.1 %	94.9 %	95.4 %	94.3 %	92.6 %	92.0 %
- Goods and services	76.4 %	78.7 %	76.3 %	73.9 %	71.1 %	72.5 %
incl. salary and wages	53.6 %	55.4 %	52.6 %	53.4 %	51.8 %	51.3 %
- Interest payments	4.1%	5.5%	5.0%	4.6%	4.8%	4.2%
- Subsidies and other transfers	14.1 %	10.1 %	9.9%	14.6 %	14.7 %	10.9 %
- Acquisition of fixed capital assets	0.5%	0.5%	4.2%	1.1%	2.1%	4.3%
Non-recurrent expenditures	4.9%	5.1%	4.6%	5.7%	7.4%	8.0%
- Non-recurrent transfers to Government bodies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Development Budget	4.9%	5.1%	4.6%	5.7%	7.4%	8.0%

Source: MFEM Financial statements, 2002-2004 and preliminary data from the Budget Section spread-sheet.

An increase in salaries and wages was recommended by the Government Remuneration Tribunal (GRT) after the Appropriation Act for 2006 was passed. The MFEM is currently holding discussions with the GRT as to the precise financial implications of the proposed award. The increase will not be universally applied and will depend upon achievement of certain criteria (not yet in place).

#### *Overall government reform program*

The Comprehensive Reform Programme (CRP) began in 1997 with support from a US\$20 million loan from the ADB and technical assistance and grant funding from other donors. The reform programmes focused on two inter linked areas: i) public sector reform and; ii) financial and economic reform. The CRP document contained an exhaustive list of reform measures. Limited resources and capacity constraints meant however that a number of the objectives of the CRP were not being achieved. In 2003, a Priorities and Action Agenda was prepared to set out the government's priorities for the medium term.

This PAA has recently (May 2006) been revised and updated. It is to be presented to the Council of Ministers (CoM) for approval on the 1<sup>st</sup> June and then presented to the donor community.

#### *Rationale for PFM reforms*

The impetus for PFM reforms stemmed from the need to restore macro-economic prudence including the correction of the structural deficits. The main objective of the CRP in terms of PFM was to develop a legal and regulatory framework that was

accountable, free of political interference and incorporating independent oversight and regulatory bodies.

The implementation of the legal and regulatory framework<sup>6</sup> has been carried forward in the PAA 2003 and draft PAA 2006.

### *The legal framework for PFM*

#### Constitution

The 1980 Constitution amended in 1988 provides the basis for sound PFM in Vanuatu. Section 25 sets out the provisions in relation to public finance including the appointment and function of the Auditor General.

#### Public Finance and Economic Management Act 1998 (amended 2000)

The PFEM Act is designed to: i) ensure effective economic, fiscal, and financial management and responsibility by Government; ii) provide accompanying accountability arrangements, together with compliance with those requirements; and iii) requires the Government to produce a variety of financial and economic statements. A set of additional amendments have been formulated and these are due to be debated by Parliament in November 2006. In the interim the mandate for the internal audit unit has been formalised through a change in financial regulations.

#### Expenditure Review and Audit Act 1998 (amended 2000)

This Act provides for a committee to review public expenditure and sets out the objectives, functions and powers of the Office of the Auditor General. In particular it sets out reporting requirements of the Auditor General and the role of the Public Accounts Committee (PAC) in scrutinising public finances. Although the revised Act requires the submission of an annual report, it does not specify a particular timescale.

#### Government Contracts and Tender Act 1998 (amended 2001)

The Government Contracts and Tenders Act (as amended) and its associated regulations sets out the process of procurement. All contracts in excess of VT 5 million<sup>7</sup> must be considered by the Tender Board and be by open and competitive bidding unless another process is approved by that Board. The Tender Board reports to and is responsible to the Council of Ministers, who can accept or reject a Tender Board approval. The Chairman of the Board is appointed from the private sector.

#### Other

The Customs Act, Import Duties Act (as amended) and the Value Added Tax (as amended) set out the mandate of the Customs department and the administration of import duties and VAT respectively. Other Acts e.g. Shipping Act set out other licensing/charging requirements.

---

<sup>6</sup> The legal and regulatory framework is based on New Zealand legislation.

<sup>7</sup> Approximately €35,000 or US\$50,000

There is no Freedom of Information Act. The Leadership Code Act 1998 makes it a criminal offence for a Leader<sup>8</sup> to fail to disclose a personal interest in the awarding of a government contract. The Ombudsman, a Constitutional body with powers set out in the Ombudsman Act 1998 is charged with administering the Leadership Code. However, amendments to the Ombudsman's Act have reduced the power of the Ombudsman by removing the Office's ability to prosecute.

The Archives Act (1992) provides the basic requirements for management and storage of key documents. In support of the various Acts, there are a number of sets of regulations (financial and tender), financial circulars, procedures manuals (e.g. accounting) and operational manuals e.g. payroll.

### *The institutional framework for PFM*

#### Legislative

The head of the Republic is the President who is elected for a period of 5 years by an electoral college consisting of Parliament and Regional Councils. Vanuatu's parliament is a unicameral 52 member body plus a Speaker of Parliament. MPs are elected by universal adult suffrage for a period of four years. There is one standing committee, the Public Accounts Committee, responsible for public financial matters. The Chairperson is a member of the Opposition and the committee comprises of an equal number of government and opposition members (maximum 6 members).

#### Executive

Executive authority is established in the office of the Prime Minister, who is responsible for the day to day running of government affairs. The Prime Minister is elected by Parliament from amongst its members and appoints/dismisses other Ministers. The Council of Ministers can vary in size but must not exceed ¼ of the Parliament. Currently it comprises of 12 Ministers.

#### Judiciary

The judiciary is constitutionally independent from the other two branches of government. It includes magistrates' courts, the supreme court, court of appeal and various other specialised courts.

#### Auditor General

The Office of the Auditor General is a constitutional body with its powers, scope and nature of its activities derived from the Expenditure Review and Audit Act (amended 2000). In addition to its audit duties, it is currently charged with the additional responsibility of acting as the secretariat for the PAC<sup>9</sup>. The Constitution provides a degree of independence for its operations but budgetary and operational independence is potentially undermined by its reliance on allocation of funds by the government and appointment of personnel (including the Auditor General) by the Public Services Commission.

---

<sup>8</sup> As defined by the Act

<sup>9</sup> This could be viewed as a potential conflict of interest.

## Ministry of Finance and Economic Management

The Minister of Finance is responsible to the Council of Ministers and Parliament for ensuring compliance by the MFEM with its responsibilities under the Act. These include the formulation of sound and effective national economic policies and managing and co-ordinating the distribution of the Government's financial resources.

## Line Ministries

Director Generals of individual ministries are appointed as the administrative head of a Ministry under the Public Service Act (1998). This assigns specific responsibilities including compliance with the PFEM Act as well as sound economic and expenditure management of the Ministry's affairs.

### *The key features of the PFM system*

The financial year for central and provincial government in Vanuatu is from January to December<sup>10</sup>. Vanuatu has a centralised payments and payroll system located in the MFEM. In 2002, it implemented a financial management information system (FMIS). The FMIS is the package software SmartStream. It includes modules for general ledger, funds control, accounts payable, accounts receivable, purchasing, payroll human resources, and assets register. Access to the system by line ministries is provided by a wide area network that covers all ministry headquarters in Port Vila and a number of provincial offices located in Luganville on the Island of Santo.

Financial reporting is facilitated through FRX an off the shelf ledger reporting tool and bank reconciliation is done using Excel. A new reporting tool is to be implemented in 2006.

The geography of Vanuatu poses particular difficulties for efficient and effective financial management. Whilst all main islands have branches of the National Bank of Vanuatu, distances and accessibility of these branches for officials posted to particular service delivery units e.g. schools, health centres is problematic. Infrastructure and communications are poor which pose particular difficulties in ensuring effective service delivery and sound financial management.

---

<sup>10</sup> The municipal councils in Luganville and Port Vila have a July to June financial year.

## **PART 2: NATIONAL INDICATIVE PROGRAMME**

## 1 National Indicative Programme

### 1.1 Introduction

On the basis of the cooperation strategy presented in Part One and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the intervention framework for each sector, the financial programming timetable and a detailed schedule of activities for all listed programmes over a rolling three-year period.

Amounts mentioned in this chapter indicate the overall breakdown of funds between the focal sector(s), macro-economic support and other programmes. The breakdown may be adjusted in the light of the operational annual, mid-term, final or ad hoc reviews. However, for any adjustment resulting in a substantial change to the structure of the response strategy, a formal decision in the form of an addendum to the strategy document will be required.

### 1.2 Financial instruments

#### 1.2.1 10<sup>TH</sup> EDF, A Envelope

10th EDF, A envelope, € 21.6 million: this envelope will cover long-term programmable development operations under the strategy, and in particular “*support to economic growth and the creation of employment, including Human Resources Development (vocational training and capacity building)*”.

<i>Focal sector</i>	<i>amount</i>	<i>% of total</i>	<i>financial instrument</i>
<i>Support to economic growth</i>	€ 10 mill	45%	<i>project support</i>
<i>General budget support</i>	<i>amount</i>	<i>% of total</i>	
<i>General budget support</i>	€ 8.6 mill	40%	
<i>Other programmes</i>	<i>amount</i>	<i>% of total</i>	<i>financial instrument</i>
<i>Support to initiatives of non-state actors</i>	€ 1.6 mill	8%	<i>project support</i>
<i>Capacity Building and support to the NAO (including Technical Cooperation Facility)</i>	€ 1.4 mill	7%	<i>project support</i>

#### 1.2.2 10<sup>TH</sup> EDF, B Envelope

10th EDF, B envelope, € 1.6 million: this envelope will cover unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings.

In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or ad hoc reviews.

### **1.2.3 Investment Facility:**

In addition to the financial instruments mentioned above, of which the A envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP.

Some specific activities may be supported by the **Centre for the Development of Enterprise** (CDE) and the Centre for the Development of Agriculture (CTA).

### **1.2.4 10th EDF regional indicative programme,**

This allocation will cover long term programmable development operations under the regional strategy for the Pacific. The allocation is not part of the Indicative Programme but may have repercussions at national level depending on the participation of Vanuatu in the programmes proposed under the regional framework. NIP resources may be used to complement resources under the regional Indicative Programme, in particular in the field of trade and sustainable management of natural resources.

### **1.2.5. Other financial instruments:**

Specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007-2013 subject to special procedure and availability of funds, and out of the own resources of the EIB. Actions funded by the general budget include, among others, programmes funded under the Development Cooperation Instrument such as the thematic programmes “investing in people”, “non state actors in development”, “migration and asylum”, “environment and sustainable management of natural resources” and “food security”, as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

### **1.2.6. Monitoring and evaluation**

Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement prepared to implement this CSP.

The results and impact of the Community’s cooperation with Vanuatu implemented through the NIP and through other external actions funded by the general budget of the European Community, will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

### **1.3 Focal sector(s)**

Support to economic growth and the creation of employment, including Human Resources Development (HRD) (vocational training and capacity building)

The following specific objective will be pursued:

**“Assist in the development of an environment conducive to economic growth through improved delivery of and access to services and means of production for key productive sectors.”**

As an indicative amount, € 10 million will initially be set aside for this field.

#### **Rationale**

The need for economic growth to be private sector led is widely accepted. When the private sector grows, jobs are created, people enjoy higher living standards and tax revenue is available for better education, health and other social services. Most people work in the private sector in Vanuatu, either in a domestic or foreign-owned business or as semi-subsistence farmers obtaining cash income from agriculture. Recent studies however have demonstrated that economic growth in Vanuatu is hampered by several constraints, some unavoidable like the geography, some related to inefficiency at institutional level.

The Prioritised Action Agenda of the government also points out the need for improvements in public service efficiency. There is a need to extend public services to the entire country and to ensure that these services adapt to evolving requirements on the part of the private sector and civil society.

In addition, policies and strategies should try to create a more even economic growth pattern, in order to reduce income disparities.

#### **Sector Context**

The distance to major markets and Vanuatu's relatively small size are factors that cannot be overcome. Therefore, there is a need for actions that look at improving the efficiency of the structures that already exist. The integration of Vanuatu into the regional and the world economy means emphasising export-oriented trade practices rather than importing substitution. A more competitive domestic market will reduce the cost of many goods and services and provide the basis for more competitive exports.

The private sector in Vanuatu is not efficient, with a high incidence of market failure. This has been compounded in the past by policy inefficiencies such as regulatory and fiscal uncertainty. The fiscal and regulatory regime needs to be enhanced to provide greater encouragement for both domestic and overseas investment.

Vanuatu is gradually shifting from a traditional subsistence-based agriculture to a market-oriented production system. This change is generating new demand for services (agricultural support services, access to inputs, and access to credit) which are prerequisites for economic growth as well.

With a population growth rate of around 2.6% it is estimated that the number of young people entering the labour market averages around 3 500 each year. Private sector development and employment creation, including in tourism, agriculture and



manufacturing and services, is therefore the top priority for the government. This means creating an environment in which economic opportunities can be generated. Failing to meet this social and economic challenge, an accelerated urban drift and a widening gap between Port Vila and Luganville and the rest of the country should be expected.

**The expected result** will be to facilitate income generation in order to reduce poverty and inequality through private sector led economic growth and the creation of employment.

**The main actions proposed are:**

- Institutional support: assisting the government in fostering an environment conducive to economic growth through such things as coordinated policy and public expenditure, the removal of barriers and inefficiencies, the strengthening of government's capacity for monitoring and analysis of productive sector performance.
- Adding value to agricultural, livestock and tourist products: improving quality (standards, certification), processing (including new technologies), and marketing (with emphasis on niche markets and fair trade).
- Fostering economically sound and sustainable user-based management systems for natural resources, including improved, sustainable farming practices.
- Emphasising the development of rural areas by extending public services, improving basic infrastructures and promoting specific market niches.
- Matching HDR and market demand through demand-driven and tailor-made training and skills programmes.
- Trade-in-goods related activities derived from the EPA negotiations and the creation of an enabling environment to private sector development (not covered at regional or all-ACP level).

**The main sectoral policy measures to be taken by the government as a contribution to the implementation of the response strategy in this field are:**

1. Developing long-term sector policies in Agricultural and Tourism
2. Providing better support services to business: improving access to rural financial services – saving and credit – and lower transaction costs
3. Ensuring a conducive environment for increased commodity exports
4. Facilitating long-term secure access to land

**The impact of policy implementation will be measured by the following indicators:**

*Overall*

- Numbers of active employee accounts at VNPF;
- Level of credit to private sector borrowers through the commercial banking system, including growth in micro-credit; and
- Contribution of the private sector to GDP.

Gender equality:

- Access to rural financing services and small scale niche market opportunities for women;
- Women representation in committees and boards.

#### Tourism:

- Growth in visitor arrivals, number of bed-nights sold and overall tourist expenditure
- Growth in number of Ni-Vanuatu nationals employed in tourism related activities and “quality” of the employment.

#### Agriculture and livestock

- Overall export of agricultural and livestock products
- Amount of high value certified agricultural and livestock products exported (e.g. Eco-label, Fair Trade ...)

#### Economically viable and sustainable management of natural resources

- Forestry : eco-certification of lumber
- Management plans established for coastal resources

### **1.3.1 General budget support:**

The overall objective of the programme is to support the Government of Vanuatu's efforts to reduce poverty through the implementation of its Priority Action Agenda (PAA). The PAA identifies private sector development as its primary objective. The PAA also identifies that improved public service delivery will be pursued, providing the basic physical and human capital required to underpin a more sustained growth path over the medium term.

The GBS programme will therefore focus on three inter-related specific objectives: (i) the rationalisation of public expenditure in line with PAA priorities; (ii) refining the regulatory environment for private sector development; and (iii) improving the efficiency and effectiveness of social sector service delivery. In this context close participation by the EC in the education SWAP may also be possible.

As an indicative amount, approximately € 8.6 million will be set aside for this field. Budget support will be delivered in the form of multi-annual programmes. Funds will be disbursed on an annual basis.

Non-disbursed amount at the end of a programme should be de-committed, credited to the NIP, and may be reprogrammed either for budget support or for one of the other cooperation programmes of the NIP.

Vanuatu's eligibility criteria for Budget Support will be kept under continuous review. In this context, the government is committed to the following accompanying measures in order to ensure the efficient implementation of the GBS programme:

- Adherence to a stability-oriented macroeconomic framework. This will be based on the IMF Article IV report and periodic updates of the macroeconomic assessment to be prepared by the European Commission in close collaboration with the Government of Vanuatu and other budget support donors;
- Elaboration of an Annual Development Report assessing progress in implementing the PAA;
- Elaboration of a credible PFM reform with clear evidence of progress in its implementation.

### **Rationale**

The PAA builds on earlier reform strategies to develop a wide ranging and ambitious agenda for reform. The PAA recognises that a period of sustained growth in per capita incomes will be necessary to make a lasting impact on poverty and improving livelihoods of the population. Against this background, the PAA sets as its main priority the improvement of the environment for private sector development. This in turn implies an ambitious agenda of regulatory and public sector reform in order to establish the conditions for increased investment and more profitable and secure private sector economic activity. As highlighted in the most recent IMF Article IV Report, progress in this area has been slow and should be accelerated if the favourable outlook for aid flows is to be used effectively. In addition, the PAA recognises that improved public service delivery will also be required to provide the basic physical and human capital required to underpin a more sustained growth path over the medium term.

The PAA also acknowledges that a key failing of previous strategies has been the inability to translate key priorities into budgetary allocations. The PAA therefore emphasises the importance of revising the budget preparation process, focusing on a medium term perspective, underpinned by sectoral strategies and closer attention to costing issues.

Following the PEFA exercise the Government and development partners have begun to work closely together in order to address key weaknesses identified by the assessment. While the numerous donor interventions and initiatives are making a positive contribution, the lack of co-ordination and prioritisation has, however, resulted in less than optimal results. This suggests a greater attention should be given to sequencing issues and a more strategic approach to PFM reform may be necessary.

Ongoing dialogue with Government and development partners on PFM reform suggests that the prospects for establishing a credible PFM reform strategy are good.

### **Performance will be assessed on the basis of progress in the following indicative areas:**

- Budget outcomes (recurrent and overall deficit, revenue and expenditure ratios to GDP);
- General government / budget expenditure shares for poverty-related spending;

- Private sector development indicators in line with PAA priorities and relating to the regulatory and business environment;
- Indicators derived from the PFM reform strategy.

### 1.3.2 Cross-cutting issues

**The main commitments by the Government to ensure mainstreaming of the crosscutting issues and that will be considered in both main activities inside the focal sectors are:**

1. Good governance, children's rights and the rights of indigenous people:
  - a. Effective oversight of customs and rights of indigenous people in changes of regulation;
  - b. Promote effective access for children to complete primary education by abolishing barriers like school fees, quality and attendance of teachers and proximity of premises;
  - c. Establish a Human Rights Commissioner
2. Gender equality:
  - a. Pass and enforce the Family Protection Bill;
  - b. Actively promote gender equality in secondary and tertiary education and the share of women in employment;
  - c. Eliminate gender gaps in wages;
  - d. Increase proportion of seats held by women in national parliament, government and provincial governments
3. Environmental sustainability
  - a. User-based management systems of natural resources
  - b. All project intervention to incorporate an environmental assessment (SEA or EIA);
  - c. Implement the Disaster Risk Reduction and Disaster Management Plan
4. HIV / AIDS:
  - a. Extend health services to rural areas with particular attention to HIV/AIDS awareness

### 1.4 *Non focal activities*

An indicative amount of € 3 million is set aside for the following actions:

- **Support for Non-State Actors** covers Non-State Actors eligible for funding as defined in Article 6 of the Cotonou Agreement and Article 4(1)(d) of Annex IV to the revised Agreement. Depending on their mandate, support to Non-State Actors may cover such activities as capacity building, advocacy, research, awareness raising, monitoring and delivery of services to the population. In supporting Non-

State Actors, the EC may make use of Article 15(4), which allows it to be the Contracting Authority. An amount of € 1.6 million can be made available for this purpose.

### **Rationale**

Although NSA are identified as a priority development sector in the PAA of the Government of Vanuatu, the sector remains partially un-coordinated and without a unified voice. The main representative body, Vanuatu Association of Non-Governmental Organisations (VANGO), signed a Memorandum of Understanding (MOU) with the government in December 2005 and is now launching Sectoral Working Groups (SWG) to consolidate opinion within the sector.

The private sector is partly represented by the Chamber of Commerce and Industry, although this organisation – which is partly funded by the government – seems to be more interested in agricultural extension (root crops programme) than in playing an active role as a lobbyist for the private sector. Overall, wider NSA interests (particularly the business sector) are not represented at present other than as individual entities.

The NSAs are being supported by recent interventions from the EU under the 9<sup>th</sup> EDF, and this will continue to reinforce the ability of the sector to co-ordinate its activities and make representations to government.

In line with the objectives of the 10<sup>th</sup> EDF the aim will then be to further empower more of the rural community organisations and NGOs, particularly those that provide public services to the most disadvantaged and poor areas.

### **General context**

There will be a need to provide training, equipment and also core funding to some of the more remote community associations and non-state actors. The purpose will be to enable them to carry out their roles in the community in a more efficient and organised manner and with more resources.

### **Impact**

- Number of Sectoral Working Groups meeting at least quarterly with government counterparts;
  - Number of community based projects implemented from islands other than Efate and Santo;
  - Percentage of implemented projects led by women groups or women associations.
- 
- **Capacity Building and Support to the NAO (including the Technical Cooperation Facility);**

### **Rationale**

The Aid Coordination Unit has moved from the Ministry of Finance to Foreign Affairs. Whilst this has been successful in some regards, particularly in terms of strengthening the Ministry of Foreign Affairs, there are resultant weaknesses in the Department of Economic and Sector Management of the Ministry of Finance in terms of the management and support of donor co-ordination and support. There is a need for the government to fix internal institutional arrangements for aid coordination and to lead the entire process (from planning to monitoring and evaluation) in line with

Vanuatu's commitments in the Paris Declaration.

### **General Context**

The project will help implement the government's development strategy (PAA) through targeted support to measures funded by the European Commission, and to fostering a coherent and informed approach to development and trade issues amongst decision-makers and stakeholders in Vanuatu. The ultimate aim is to produce a long term impact on institutional capacity in the management of public resources in Vanuatu.

The project purpose is (i) to further strengthen the capability of the NAO office (the Development Cooperation Division within the Dept. of Foreign Affairs) to identify and successfully implement of actions under the NIP and other EDF funds, and by extension, their ability to manage and monitor other donors' projects, (ii) to develop capacity analysis on cross-sectoral issues (gender equity, indigenous people, human rights/good governance – in particular Vanuatu's compliance with OECD requirements and including environment and climate changes) throughout the project cycle, and (iii) to improve awareness among key actors in the country (including Non State Actors) of general development and trade issues and of EU policies in these areas.

### **Impact**

- All initial EDF 10 programmable funds are committed before mid 2010.
- EDF procedures and mechanisms are better understood and applied at the level of projects and line ministries.
- The overall aid management capacity of DCD is enhanced, in particular its capacity for analysis on cross-sectoral issues.

### ***1.5 Information on implementation arrangements***

The overall responsibility for the implementation of programmes and projects lies with the National Authorising Officer, who may request the Commission to negotiate, draw up, conclude and implement service contracts directly on its behalf under Article 23.6 of Annex IV to the Cotonou Agreement. With the exception of budget support (which is centrally managed) programmes and projects will generally be implemented through decentralised management (either direct or public indirect), and in accordance with the EC guidelines on management of direct labour in force at the time of adoption of the corresponding Financing Agreements. All contracts will be awarded in accordance with standard EDF procurement procedures.

## 1.6 Intervention framework

### Intervention Framework & Performance Indicators

#### 1.6.1 Focal Sector - Support to economic growth and the creation of employment, including HRD (vocational training and capacity building)

	<b>Intervention Framework</b>	<b>Objectively Verifiable Indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
<b>Overall objective</b>	Support the economic growth and the creation of employment in Vanuatu, including Human Resources Development	-Reduction of poverty and inequality		Good governance, Gender equality, environment sustainability, HIV/AIDS
<b>Project Purpose</b>	Assist in the development of an environment conducive to economic growth through improved delivery of and access to services and means of production for key productive sectors.	-Social sectors indicators inside government MDGs' commitments; -Business climate indicators.	Annual Development Report	-The government develops long-term policies in Agriculture and Tourism -The government provides better support services to business -The government ensures a conducive environment for increased commodity exports -The government facilitates secure access to land -The development policy of the government (PAA) is environmentally sustainable (a SEA is conducted with coordinated efforts from government and donors)
<b>Result</b>	Private sector led economic growth and creation of employment	-Increase between 2007 and 2012 by 25% the number of visitors to islands other than EFATE - Increase between 2007 and 2012 by 15% the number of	-Annual accounts of VNPF -Monetary survey of the RBV - National Statistics Office publications	

		VNPF employee accounts - Increase between 2007 and 2012 by 50% the value of overall exports	- NSO tourism survey	
<b>Activities</b>	<p>Institutional support assisting the GoV.</p> <p>Adding value to agricultural, livestock and tourism products.</p> <p>Fostering economically sound and sustainable user-based management systems for natural resources.</p> <p>Emphasising the development of rural areas through the extension of public services, the improvement of basic infrastructures and the promotion of specific market niches.</p> <p>Matching HDR and market demand</p> <p>Trade facilitation (not covered in regional cooperation)</p>			

<b>Results</b>	Private sector led economic growth and creation of employment		2007	2008	2009	2010	2011	2012	2013
		-Increase between 2007 and 2012 by 25% the number of visitors to islands other than Efate	12350					15500	
		-Increase between 2007 and 2012 by 15% the number of VNPF active employee accounts	27922 *					32110 **	
		-Increase between 2007 and 2012 by 50% the value of overall exports	4400 mill VUV					6600 mill VUV ***	

\* December 2006, \*\* December 2011, \*\*\* ppp 2007



### 1.6.2 Focal Sector - General budget support

	<b>Intervention Logic</b>	<b>Objectively Verifiable Indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
<b>Overall Objective</b>	Raise the general welfare of the total population; reduce poverty; and achieve the Millennium Development Goals in conjunction with civil society and international donors.	-Reduction of poverty and inequality		Good governance, gender equality, environment sustainability, HIV/AIDS
<b>Programme Purpose</b>	To Strengthen the links between policies (in particular those oriented to poverty reduction) and budget of the government and to improve its Public Finance Management (PFM).	-Budget outcomes (recurrent and overall deficit, revenue and expenditure ratios to GDP); -Expenditure shares for development, salaries, key social services.	<ul style="list-style-type: none"> <li>• Annual audited accounts of Government</li> <li>• Annual National Budget documents</li> <li>• IMF Article IV reports</li> </ul>	<ul style="list-style-type: none"> <li>• Government / donor alignment in implementing the Prioritised Action Agenda (PAA)</li> </ul>
<b>Results</b>	(i) the rationalisation of public expenditure in line with PAA priorities; (ii) refining the regulatory environment for private sector development; and (iii) improving the efficiency and effectiveness of social sector service delivery.	<ul style="list-style-type: none"> <li>• Key MDG indicators;</li> <li>• Key private sector development indicators</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Development Report</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Development Report produced on a regular basis</li> </ul>

*1.7 Indicative timetable for indicative commitments and disbursements*

**1.7.1 Indicative timetable of global commitments**

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
<b>1e FOCAL SECTOR – Support to economic growth and the creation of employment, including HRD (vocational training and capacity building)</b>	<b>10 M€</b>	10M 100%					
- Budget Support	<b>8.6 M€</b>					8.6M 100%	
<b>NON FOCAL SECTORS</b>							
- Institutional support for non state actors.	<b>1.6 M€</b>				1.6M 100%		
- Capacity Building and Support to the NAO (including the Technical Cooperation Facility)	<b>1.4 M€</b>	1.4 M 100%					
<b>Total Commitments:</b>	<b>21.6 M€</b>						
<b>Total Cumulative Commitments :</b>		<b>11.4M</b>			<b>13M</b>	<b>21.6M</b>	

### 1.7.2 Indicative timetable of disbursements

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
<b>FOCAL SECTOR – Support to economic growth and the creation of employment, including HRD (vocational training and capacity building)</b>	<b>10 M€</b>		3M (30%)		3M (30%)		4M (40%)
<b>Budget Support</b>	<b>8.6 M€</b>					1.15M (20%)	
<b>NON FOCAL SECTORS</b>							
- Institutional support for non state actors.	<b>1.6 M€</b>				0.53M (33%)		1.07M (66%)
- Capacity Building and Support to the NAO (including the Technical Cooperation Facility)	<b>1.4 M€</b>		0.35M (25%)		0.35M (25%)		0.35M (25%)
<b>Total Commitments :</b>	<b>21.6 M€</b>						
<b>Total Cumulative Commitments :</b>	<b>M€</b>		<b>3.35M (16%)</b>		<b>7.23M (34%)</b>	<b>8.38M (39%)</b>	<b>13.8M (64%)</b>

## 1.8 Schedule of activities

1 <sup>st</sup> FOCAL AREA (18.6 M €)	Indicative allocation	2007				2008				2009→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-Economic Growth	10 M €	FS			AF		FD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
-Budget Support	8.6 M €								FS				AF
NON FOCAL AREAS (3 M €)		2007				2008				2009→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Institutional support for non state actors.	1.6 M €							FS			AF		FD
- Capacity Building and Support to the NAO (including the Technical Cooperation Facility)	1.4 M €				AF		FD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

AF: Action Fiche

FS: Feasibility Study

FD: Financing decision

: Project implementation

**1.9** *List of Government's commitments - Vanuatu*

	<b>Governance area</b>	<b>Prospective commitments</b>
<b>1.</b>	<b>Political democratic governance</b>	
	- Human rights	<ul style="list-style-type: none"> <li>- Pass and enforce the Family Protection Bill</li> <li>- Establish a HR Commissioner</li> <li>- Ratify the Statute of the ICC, ratify and transpose the ICCPR, ICESCR, CAT and UNCAC to domestic law, transpose the complete CEDAW and CRC to domestic law</li> </ul>
	- Fundamental freedoms	<ul style="list-style-type: none"> <li>- Review the Representation of People Act or set up voluntary party quotas with a view to assure larger representation of women in the general elections in 2008 (Indicative indicator: at least 1 woman MP in constituencies with 4 or more MPs)</li> </ul>
	- Electoral process	<ul style="list-style-type: none"> <li>- Introduce and computerise unified voter registry before general elections in 2008 (gradually linked to civil registration and census).</li> </ul>
		<ul style="list-style-type: none"> <li>- Review and amend the electoral rules to enforce transparency in political party funding before the end of 2008</li> </ul>
	- Principles of constitutional democracy	
<b>2.</b>	<b>Political governance - rule of law</b>	
	- Judicial and law enforcement system	<ul style="list-style-type: none"> <li>- Amend the Constitution to remove the upper limit of number of judges that can be appointed to the Supreme Court</li> <li>- Establish a victim's support unit</li> <li>- Multiply by 3 (compared to 2006 budget) by 2010 budget of the Public Solicitor's Office and the Public Prosecutor's Office. Fairer balance of origin of judges.</li> </ul>
<b>3.</b>	<b>Control of corruption</b>	
		<ul style="list-style-type: none"> <li>- Reviewing legislation on leasing of land to increase transparency in decision-making: Implementation of resolution taken in 2006 Land Summit: 1) Endorsement by the Government of Land Summit's resolutions before end of 2007; 2) Endorsement by the Government of the creation of a Steering Committee to monitor the implementation of Land Summit's resolutions before the end of 2007; 3) Implement the "Short Term</li> </ul>

		Reforms/Initiatives" inside the Review of National Land Legislation, Policy and Land Administration report, including Audit of Land Leases Act, before 30 June 2009; 4) A new National Land Law approved before end of 2009.
<b>4. Government effectiveness</b>		
- Institutional capacity		- VFSC needs assessment ended by mid-2007 and assistance identified inside EDF 10
- Public finance management		- Efforts will continue to improve Vanuatu's compliance with OECD/EU good governance standards. This will include the acceptance to sign Double Taxation Convention (DTC) or Tax Information Exchange Agreements (TIEA) on exchange of information for tax purposes to those countries requesting them: 1- Negotiate and sign TIEA before 2010 with the only OECD country having already requested it; 2- During the period 2008-2013, negotiate and sign TIEA with all OECD and/or EU MS during the two years following the request.
<b>5. Economic governance</b>		
- Private sector/market friendly policies		- Clear the role of VCMB giving stability to exports
- Management of natural resources		1) (From Unit to Department) Creation of a Department of Environment and Conservation (as defined in the Environmental Management and Conservation Act) before end of 2008 representing at least double human and financial resources compared to 2006; 2) Waste Management Legislation drafted before end 2008; 3) Human and financial resources inside the Department of Environment and Conservation represents at least 3 times compared to 2006 by the end of 2010.
<b>6. Internal and external security</b>		
- Internal stability / conflict		
- External threats and global security		

<b>7.</b>	<b>Social governance</b>	- National Aids coordination body, composed of various departments and civil society organisations fixes an implementation calendar of actions by 2007
<b>8.</b>	<b>International and regional context</b>	
	- Regional integration	- Vanuatu takes the lead to reach EPA agreement by the end of 2007 under development advantages
	- Involvement in regional peer review mechanisms (e.g. APRM)	
	- Migration	
<b>9</b>	<b>Quality of partnership</b>	
	-Political dialogue	
	-Programming dialogue	- Reduce the number of uncoordinated missions by 50% and approved a road map for implementing the Paris Declaration
	-Non state actors	