

I. Country Chapter: Vanuatu

Table 29. Country Summary

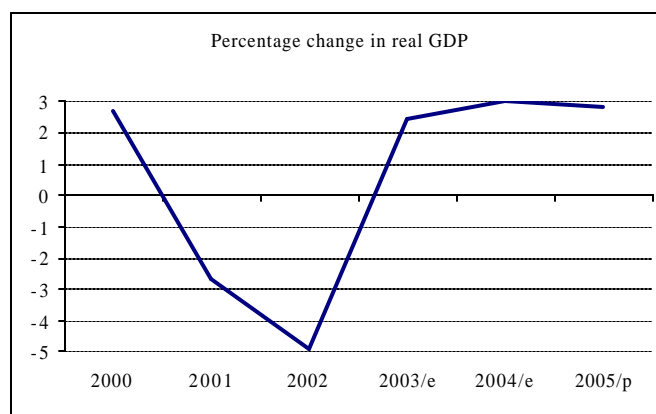
Country	Republic of Vanuatu
Prime Minister	Ham Lini (since December 2004)
Head of State	President Kalkot Matas Kelekele (since June 2004)
Independence	July 30, 1980 (from France and UK)
Government	Unicameral parliament of 52 members, elected for four-year terms on a universal franchise containing an element of proportional representation.
Land area	12,200 sq km; includes more than 80 islands, about 65 of which are inhabited.
Population	214,969 (2004 est.). Population growth is 2.3% (2004 est.).
Cities	Capital: Port-Vila (Efate)
Provinces	Malampa, Penama, Sanma, Shefa, Tafea, and Torba.
Languages	Three official languages: English, French, pidgin (known as Bislama or Bichelama), plus more than 100 local languages.
Natural Hazards	Tropical cyclones or typhoons (January to April); volcanism causes minor earthquakes; and tsunamis.
Natural Resources:	Manganese, hardwood forests, fish.
Major Products	Small-scale agriculture provides a living for 65% of the population. Offshore financial services and tourism are other mainstays of the economy.

1. Economic Overview

177. Vanuatu consists of more than 80 islands stretching for over 800 kilometers in the Melanesian sub-region of the Pacific. Vanuatu receives moderate levels of external assistance (aid per capita averaging US\$179 over 1999-2002).

178. Vanuatu's real GDP rebounded in 2003 after two successive years of contraction, and the recovery is expected to continue, with a growth estimate of 3.0 percent for 2004 (see Figure 13). The growth was driven by improvements in the forestry and beef industries, as well as the services sector. The forecast for growth in 2005 is 2.8 percent.

179. Partly due to a reduction in recurrent expenditures, a small budget surplus was recorded for the first three quarters of 2004, an improvement from a deficit of 2 percent of GDP in 2003. Vanuatu maintains tight controls on its public borrowings and public debt stood at just below the government's debt ceiling of 40 percent of GDP in 2004. Inflation remained below 3 percent in 2004. The discipline of the central bank and Finance Ministry in controlling the inflation rate and fiscal deficits has contributed to Vanuatu's macroeconomic improvement.

Figure 13. Growth in Vanuatu's Real GDP during 2000-05.

180. Due to rising receipts from exports, the current account deficit of 9 percent of GDP in 2003 declined to 4 percent of GDP in 2004. Foreign reserves in 2004 are estimated to stay in the vicinity of four months of imports of goods and services.

181. Agriculture and tourism are the principal productive sectors contributing to Vanuatu's economy. Nearly all domestic exports are primary goods, the main ones being copra and cocoa (26 percent of total exports in 2003) and cocoa (11 percent of total exports in 2003). High prices in the domestic export market contributed to the remarkable performance in copra exports (increased from 7 percent of total exports in 2003 to 12 percent of total exports in 2004). Cocoa exports declined from 7 percent of total exports in 2003 to 3 percent of total exports in 2004, reflecting the damages to tree crops caused by Cyclone Ivy in early 2004.

182. Tourism is an expanding industry in Vanuatu (tourist arrivals increased by 25 percent in 2003 from 1997 levels). The increase in airline capacity in 2004, particularly by Air Vanuatu and Pacific Blue, boosted tourist arrivals by 28 percent in the third quarter of 2004.

183. In May 2004 Vanuatu was one of 16 countries—and the only PIC—selected by the U.S. Millennium Challenge Corporation as eligible to apply for assistance through the Millennium Challenge Account. It is expected that assistance under the Millennium Challenge Account would be closely linked to proposals that support economic growth, policy reform, partnerships, and widespread ownership.

2. Outlook

184. Vanuatu's current relatively healthy economic environment presents an ideal opportunity for the implementation of policies to reduce medium-term risks and to promote sustainable economic growth. In view of high development needs, population growth of around 2.4 percent, and a mounting wage bill, strategic measures need to be considered. These include re-directing spending toward productive infrastructure (including in the outer islands) while maintaining vital social spending, and reducing the size of the public sector. Such measures will be important to

prevent the likelihood of deterioration in the fiscal position, a widening in current account deficits and erosion of foreign reserves.

185. In light of Vanuatu's high costs (in some sectors) relative to its regional comparators, reform to lower the cost structure for business activity, improvements in competition and oversight, and strengthening of the financial sector will be important to fuel private sector activity. A lack of opportunities for younger people and increasing social unrest are at risk when economic growth fails to keep pace with expanding populations, a challenge common to the Bank's other Melanesian client countries. These imperatives provide a strong motivation for Vanuatu and its development partners to work together to address future challenges.

3. Key Issues Shaping the World Bank's Involvement

186. Since joining the World Bank Group in 1981, Vanuatu has received five IDA credits totaling US\$18.9 million (all fully disbursed) in the areas of agricultural extension and training (1983), transportation and education infrastructure (1986), primary and secondary education (1988), affordable housing (1991), and a Learning and Innovation Loan (2001).

187. Vanuatu adopted a *Comprehensive Reform Program (CRP)* in 1997 to pursue improvements in governance and strengthen institutions with ADB support. A Priorities and Action Agenda was subsequently developed to integrate and prioritize actions within the CRP.

188. The World Bank will be seeking to build its relationship with Vanuatu over 2005-08 as the country strives to emerge from a period of high political turnover. Currently the Bank has a modest program of assistance (limited to one grant-financed technical assistance on public utility reform). Vanuatu has experienced several changes in government over recent years, which provides an added challenge to sustaining reform. However, the current government has given positive indications about the directions it intends to take on key governance and reform issues, which suggests the possibility of an expanded demand for Bank services.

189. The Bank will aim to develop a program of assistance which initially targets a few key areas that have the potential to promote growth and job creation. Further dialogue with the government is needed to establish agreed priorities. However, the Bank's initial view is that a focus on two areas may be possible: (a) helping to improve public expenditure management and service delivery outcomes in education, and (b) enhancing the environment for private sector investment. If a solid foundation can be established, the Bank would see scope for building on this to expand its relationship with Vanuatu over the life of this strategy.

190. Vanuatu is eligible for IDA resources. The IDA14 allocation over FY2006-08 is expected to be SDR 5.0 million. This amount is indicative only. The actual amount will depend on (a) the country's own performance, (b) its performance relative to the performance of other IDA recipients, (c) the amount of overall resources available to IDA, and (d) the terms of financial assistance provided (grants versus loans). Subject to further discussions with the government, the allocation may be focused on rural development, infrastructure or public expenditure management priorities. The Bank's program of assistance to Vanuatu is described in Table 32.

Table 32. Summary of World Bank Assistance Program to Vanuatu

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening government capabilities in service delivery.</p> <p>Improving the effectiveness of public expenditures in the social sectors.</p> <p>Improving the public expenditure management of infrastructural assets.</p> <p>Safeguarding service delivery by improving resilience to natural hazards.</p>	<p>Increasing the number of school leavers equipped to gain productive employment (TA). Despite Vanuatu's progress towards achieving universal primary education its education sector outcomes remain disappointing and do not seem to be commensurate with the level of funding provided to the education sector from both the government and donors. The World Bank is looking to help introduce a participatory school quality improvement model and support the government's policy of administrative decentralization in Malampa province. The Bank will also seek to facilitate the establishment of a stronger basis for much-needed donor coordination in the education sector, particularly in cooperation with NZAID and the EU.</p>	<ul style="list-style-type: none"> • Greater transparency through stakeholder participation in decision-making about school quality improvements
<p>Improving the incentives for private sector growth and employment.</p> <p>Reducing the costs of doing business.</p>	<p>Regulatory reform to reduce the costs of doing business (TA). The Bank proposes to facilitate a discussion with the government on its priorities for improving the environment for private sector development, and potential options for the Bank to contribute to this. The recent work on Doing Business indicators will be used to contribute to this, as will FIAS work on the development of Vanuatu's national investment policy statement and possible follow-up.</p> <p>Improving the performance of public utilities - Developing a Multi-sector Utilities Regulatory Body (US\$227,500 PPIAF Grant for TA; approved 12/01/2003). In line with a focus on the business environment, the Bank sees potential for improving the service of key public utilities. Vanuatu has taken significant steps to improve delivery of utility services, approaches which have potential application in other Pacific countries. The Bank has completed an initial analytical assessment focusing on electricity, water and telecommunications, and is willing to work with the government to identify areas where institutional and technical capacity can be strengthened. Subject to further discussions with the government, the Bank will aim to follow up on this work to assist in putting improvements in place. The Bank sees an opportunity to include Vanuatu in its regional focus on telecommunications reform.</p>	<ul style="list-style-type: none"> • Improved dialogue resulting in public-private collaboration to facilitate private sector development • Improved oversight and increased competition in the utility sectors through establishment of a technically capable regulatory body.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening the management and sustainability of the resource-based sectors.</p> <p>Improving access to regional labor markets.</p>	<p>Foreign Investment Promotion (TA). FIAS has been assisting the Vanuatu Investment Promotion Authority with the drafting of a National Investment Policy Statement, and follow-on involvement is expected.</p> <p>Support for small to medium enterprises (TA). The IFC program in Vanuatu will continue to be delivered by the Pacific Enterprise Development Facility (PEDF). PEDF, as in the past, will work on private sector development with a focus on small and medium enterprises (SMEs), the tourism sector and looking to identify opportunities for both IFC investment and advice. From 2006/2008 the program will be extended to include agribusiness and urban poor initiatives reflecting the shift in emphasis by PEDF to Melanesia.</p>	<ul style="list-style-type: none"> • Development of clear guidelines governing the promotion of foreign direct investment. • Targeted assistance to private sector service providers resulting in enhanced quality and efficiency of service delivery.

4. Donor Coordination

191. Table 33 describes the nature of the assistance provided by Vanuatu's other development partners.

Table 33. Activities of Other Development Partners

<i>Development partner</i>	<i>Primary activities</i>
ADB	The Country Strategy and Program Paper 2005-06 (prepared October 2004) identifies four thematic priorities: good governance and economic management; private sector development; infrastructure development; and, social development and the environment. An emergency credit of US\$2.0 million was extended to Vanuatu following a cyclone in 1999 and the project was completed in December 2000. As a result, ADB has no active loans in Vanuatu at present with none identified in the pipeline for FY05-06. Two nonlending products are identified for 2005: Corporatization of the Ports Authority; and Rural Productive Skills Development, with three additional products identified for FY06: Technical Vocational Education and Training (TVET); Preparation of Urban Sanitation and Health Project; and, Strengthening Development policies.
Australia	Bilateral aid of A\$15 million (2003-04) – with a further A\$3.5 million in support from the Policy and Management Reform Fund – has been concentrated on areas including: legal assistance (to strengthen the capacity of the legal sector); Education and training (provision of increased secondary school places, renovation and extension of existing secondary schools, support of the Vanuatu Institute of Technology); Health (provision of Australian health specialists and funds to improve health service delivery, training of local health workers) and; land use planning in rural areas. In addition, Vanuatu has access to a series of other TA/Grant schemes including: the Small Grants Scheme (assisting villages in developing basic infrastructure); the Pacific Technical Assistance Facility (providing Australian specialist technical support) and; the Australian Staffing Assistance Scheme (capacity building for officials in the public service)
European Union	The Country Assistance Paper for Vanuatu identifies human resource development as the development priority for which Euro 20 million has been allocated under the 9 th EDF. In addition, projects totaling Euro 1.0 million financed from the EU budgetlines for Tropical Forests, Human Rights and Democracy, as well as Decentralized Cooperation, are presently under implementation.
Japan	JICA assistance focuses on four priorities: basic education; health systems; rural development. In FY2003 (April 1, 2003 – March 31, 2004) the Japanese Ministry of Foreign Affairs provided US\$0.05 million dollars in grant funds. During this period, Vanuatu made loan repayments of US\$100,000 in respect of its outstanding debts to JBIC.
New Zealand	NZAID is providing NZ\$6.36 million in bilateral assistance to Vanuatu. Funds are directed to the priority areas of: basic education (teacher training, development of curricula); law and order (working with AusAID and the Vanuatu Police Force to improve policing and prevent crime); and, work with civil society (raising awareness amongst communities of issues including human rights, the role of government, access to services and voting rights). In addition, NZAID operates a Small Projects Scheme (focusing on basic health, gender issues, and organizational capacity building), supports the Port Vila Youth Drop-In Center and provides essential medical treatment in New Zealand for patients that cannot be treated in Vanuatu.
Others	The following UN agencies have activities: FAO, ICAD, IMO, ITU, UNCTAD, UNESCO, ILO, UNIDO, UPU, WHO, WMO, WtrO (applicant), UNEP, ITC, UNFPA, UNICEF, UNDP