
DRAFT

Government of the Republic of Vanuatu

**Priorities and Action Agenda
2006 - 2015**

“An Educated, Healthy and Wealthy Vanuatu”

Department of Economic and Sector Planning
Ministry of Finance and Economic Management

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Foreword

The goal of the present Government is to raise the welfare of the people of Vanuatu. The Government believes that the goal will be achieved through the following strategies. Firstly through achieving higher and sustainable economic growth to create jobs and raise incomes while conserving resources for future generations. Secondly, by ensuring macroeconomic stability to create a stable investment climate. And thirdly, by raising standards of service delivery particularly to the rural and outer regions to improve access to basic health and primary education services while lowering costs of internal trade.

With a rapidly growing population, economic growth has to be higher than population growth if people are to be better off. This has not been achieved and incomes, measured in terms of spending power, have declined. There is still substantial hardship and poverty and increasing unemployment, especially among young people.

The Government embarked on the Comprehensive Reform Program (CRP) in 1997 as a long-term framework to achieve the goal of raising welfare. The Department of Economic and Sector Planning hosted an Economic Policy Forum in November 2002. Representatives of key stakeholders to the workshop included the government, NGOs, church groups, private sector and the civil society. Based on this consultation, the first Priorities and Action Agenda (PAA) was developed in 2003 to complement the CRP.

The PAA is an integration and prioritisation of the action agendas contained in the already accepted and ongoing national and provincial programs including the CRP, Business Forum Outcomes and the Rural Economic Development Initiatives (REDI) Plans. The overall objective is to link policy and planning with the limited resources the government controls. This will ensure that the most urgent and important outcomes of these programs are achievable in the medium term.

It is now time to update the 2003 PAA and this new PAA builds on experience since the first was developed. It also builds in the Millennium Development Goals. The main agendas for action include growing the productive sector, especially agriculture and tourism; maintaining macroeconomic balance, raising public service performance, cutting costs associated with transport and utilities, and improving access to basic services such as health and education.

It will be a great challenge if the outcomes of the PAA are to be realised. With concerted effort, will and commitment at all levels of leadership within Vanuatu, as well as the commitment and support of our Development Partners, I strongly believe that Vanuatu will be a nation where peace, stability and security prevail and where the benefits of reform and development will be equitably distributed.

I would like to thank all those who have contributed to this document.

May God Bless the Whole Nation of Vanuatu.

Hon. Ham Lini Vanuaroroa
Prime Minister

Hon. Willie Jimmy Tapangararua, MP
Minister of Finance and Economic Management

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Abbreviations

AVL	Airports Vanuatu Limited
CEDAW	Convention for the Elimination of Discrimination Against Women
COM	Council of Ministers
CRP	Comprehensive Reform Program
DBV	Development Bank of Vanuatu
DCO	Development Committee of Officials
DLQ	Department of Livestock and Quarantine
EFA	Education for All
GDP	Gross Domestic Product
IMF	International Monetary Fund
MAQFF	Ministry of Agriculture, Quarantine, Forestry and Fisheries
MDG	Millennium Development Goals
MSG	Melanesian Spearhead Group
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NBV	National Bank of Vanuatu
NCD	Non-communicable disease
NGO	Non-Government Organisations
NTDO	National Tourism Development Office
PAA	Priorities and Action Agenda, Government of Vanuatu, 2006
PAA 2003	Prioritised Action Agenda, Government of Vanuatu, 2003
PACER	Pacific Agreement on Closer Economic Relations
PICTA	Pacific Island Countries Trade Agreement
PWD	Public Works Department
REDI	Rural Economic Development Initiative
SOE	State Owned Enterprise
STI	Sexually Transmitted Infection
TVET	Technical and Vocational Education and Training
USP	University of the South Pacific
VAT	Value Added Tax
VCMB	Vanuatu Commodities Marketing Board
VIPA	Vanuatu Investment Promotion Authority
VIT	Vanuatu Institute of Technology
VITE	Vanuatu Institute of Teachers Education
VNTC	Vanuatu National Training Council
VTO	Vanuatu Tourism Office
WTO	World Trade Organization

Executive Summary

National Vision

Government policy is to raise the welfare of the people of Vanuatu. Achieving this requires formal development planning. Vanuatu has been working on this since 1997 when the Comprehensive Reform Program was initiated. There was a summit in 2002 during which the Prime Minister announced five priorities. This was followed in 2003 by a Prioritised Action Agenda (PAA) which built upon these five priorities. This document is an update of the PAA, building on the experience of the past, taking account of what has been achieved and the challenges that remain.

Chapter 1 sets out the National Vision for Vanuatu and provides an overview of development. With a rapidly growing population, economic growth has to be higher than population growth if people are to be better off. This has not been achieved and incomes, measured in terms of spending power, have declined. There is still substantial hardship and poverty and increasing unemployment, especially among young people.

The Vision is based on the recognition of the need for economic growth, that this growth must be led by the private sector and that Government's role is to create an enabling environment for both domestic and foreign investors whilst ensuring that development is sustainable.

The Vision reflects the people's expressed wishes for more employment and economic opportunities through which to earn income, for better health and education, the provision of basic infrastructure for themselves and especially for their children, and a wish for social stability.

National Vision

“An Educated, Healthy and Wealthy Vanuatu”

By 2015 Vanuatu will have achieved a significant increase in real per capita incomes, along with steady growth in levels of employment. Within the region, Vanuatu will be among the leading countries in achieving the Millennium Development Goals in education, health, environmental management, and other key social indicators. Public sector reforms will have raised standards of governance, levels of productivity in the civil service, and will have resulted in higher standards of services and managerial accountability. Through continuing structural reform, Vanuatu will have established an effective enabling environment to sustain the significant private sector growth, which it aims to achieve in output and employment.

National Strategic Priorities

From the Vision, a set of overarching national strategic priorities can be identified for the allocation of development resources, as well as policy initiatives and implementation action. This is the basis for the PAA. The overall approach is set out in chapter 2, especially the key priority areas:

- 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, for the primary sectors and tourism as well as in the urban centres.

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. Adequate

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 achieve their own highest levels of 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.

Chapters 4 – 9 deal with each of the seven strategic priorities in turn. Each discusses the key issues and challenges, the policy objectives, priorities and strategies, and the performance indicators that will be used to measure progress.

Implementation

The PAA is a high level set of priorities and strategies with a 10 year time horizon. Implementation of the strategies 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. At an even more detailed level, there should be corporate plans for each ministry with programs and development projects.

In terms of resourcing, the financing needs to come within overall government plans – a medium term expenditure framework (MTEF) and the Government Investment Program (GIP). The MTEF needs to be completed and a new, more strategic approach taken for the GIP.

To translate the policies into funded activities, programs and projects involves the preparation/ updating of the Budget strategy to determine how much resource can be allocated in a particular year – from the government’s own budget and with the support of aid donors.

Chapter 1: National Vision and Development Overview

1.1 Introduction

Current Government policies for national development were summarised in the Priorities and Action Agenda (PAA 2003) published in 2003. These policies are based on the Comprehensive Reform Program (CRP), which was initiated in 1997. As implementation of the CRP policies proceeded in the late 1990s, refinements were introduced through the deliberations of National Summits and the National Business Forum. In addition, Provinces have prepared Rural Economic Development Initiatives (REDI) Plans to identify key needs in the Provinces and outer islands.

The PAA 2003 summarised the refined national development policies, which was endorsed by the Council of Ministers (COM) and the Development Committee of Officials (DCO). The Prime Minister during the CRP summit of November 2002 announced Government's commitments to the following priorities:

- 1. Improving governance and public service delivery by providing policy stability & fiscal sustainability via a strengthened law-enforcement and macroeconomic management capacity and a small, efficient, and accountable government;**
- 2. Improving the lives of the people in rural areas by improving service delivery, expanding market access to rural produce, lowering costs of credit and transportation, and ensuring sustainable use of natural resources;**
- 3. Raising private investment by lowering obstacles to growth of private enterprise including lowering costs of doing business, facilitating long-term secure access to land, and providing better support services to business;**
- 4. Enabling greater stakeholder participation in policy formulation by institutionalising the role of chiefs, non-governmental organisations, and civil society in decision-making at all levels of government; and,**
- 5. Increasing equity in access to income and economic opportunity by all members of the community. Specific areas of focus include: enabling universal access to primary education by school-age children, universal access to basic health services, and inducing increased employment opportunity for those seeking work.**

Much has happened both in Vanuatu and in the global economic environment during the past three years and it is therefore timely to review and update the PAA. However whilst much has changed, many of the key issues and challenges facing Vanuatu still need to be addressed. Equally many opportunities remain unrealised.

This revision and update of the PAA reaffirms the core priorities of the first PAA and also provides an emphasis on policy implementation and policy monitoring through a Medium Term Strategic Framework. This framework will allow the progress in policy implementation to be monitored by Performance Indicators and allow the involvement of all stakeholders in this process.

This chapter provides an overview of development, highlights the key constraints and challenges to faster development and states our National Vision for the future. Chapter 2 describes the Medium Term Strategic Framework and the Strategic Priorities needed to achieve the National Vision. The subsequent chapters describe the key issues, policies and performance indicators in the Strategic Priority areas of private sector development and employment creation; good governance; primary sector development; provision of basic services and strengthening social development; human resource development; and the support services of infrastructure and utilities.

1.2 Development Overview

In recent years Vanuatu has not been able to realise its full development potential despite the substantial reforms and restructuring that have occurred since 1997. There have been many reasons for this relatively poor performance. Chief amongst these has been that generally poor standards of governance remain at all levels of the public service, despite the improvements that have been made

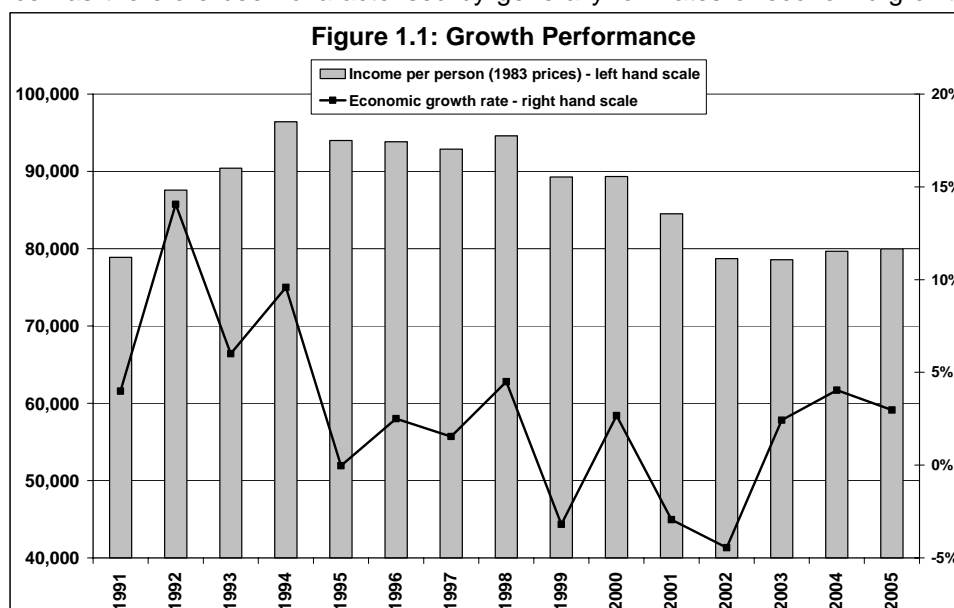
since the CRP. Weak institutions and poor standards of governance have been widely recognised within Vanuatu as critical factors in constraining development.

Progress with reform has been hampered by the many changes of Government and the consequent lack of political stability has led to frequent policy shifts and inconsistency in policy analysis, formulation and application. The consequent lack of clear leadership and direction has itself resulted in a lack of discipline and commitment to adhere to the generally sound institutional processes, which exist throughout government.

This has led to a perceived decline in standards of public service delivery, especially in rural areas. Despite additional financial resources being allocated to the education and health sectors there have been disappointingly small improvements in overall levels of education attainment or in standards being achieved. Moreover rural health services often seem to lack resources and capacity to deal with the health problems and needs of the people. Transport services continue to be constrained by lack of adequate infrastructure and maintenance problems.

Beyond these governance issues the country is experiencing a rapidly increasing population, especially in the urban centres of Port Vila and Luganville. The increasing monetisation of the Vanuatu economy, and the lack of economic opportunities in the rural areas are amongst the main causes of the urban drift. Moreover the increasing urbanisation is itself putting pressure on urban infrastructure and is causing deterioration in the urban environment.

Economic performance has therefore been characterised by generally low rates of economic growth (see Figure 1.1), although there has been an upturn in the last three years, and by a relatively weak fiscal situation; although like growth there has been an improvement in the fiscal performance in the last three years. Prospects for moving to a higher and sustained level of growth and fiscal stability are



however constrained by Vanuatu's high-cost business environment and the often non-transparent and inconsistent regulatory and investment environment.

The consequence has been little *productive* investment with few new economic opportunities being created, especially in rural areas. Slow economic growth with rapid population growth means there has been little improvement in Income per Person (per capita income). Income per Person in real terms (excluding inflation) has declined by 18% between 1994 and 2003 before rising slightly since 2004 (see Figure 1.1). Unemployment appears to be increasing, especially amongst young people. This is leading to increasing social concerns as well as increasing levels of hardship and poverty.

1.3 Development Constraints and Challenges

The principal development constraints facing Vanuatu, highlighted in Figure 1.2, are mostly physical or external and beyond government's immediate ability to influence. But through appropriate policies and international cooperation, government can help to alleviate the adverse impact of many of these constraints.

The structural weaknesses, Figure 1.3, are issues over which the government can exercise some policy control and guidance. These weaknesses are all amenable to change through government intervention.

Although Vanuatu is a relatively small, open economy with many development and structural constraints, the nation also possesses some important advantages:

- Strong traditional culture which promotes social stability and family welfare;
- Fertile land, natural resources and unspoilt environment.

1.3.1 Globalisation

However, even though the country is fortunate to have these advantages, it must nevertheless continue to strengthen its links in the global community. The continuing process of liberalisation, deregulation and globalisation in the international economy offers both opportunities and challenges that Vanuatu can ill afford to ignore.

To believe that changes in the international economy can be ignored will result in the economy becoming left behind. It would mean the loss of opportunities for economic growth, which if properly and carefully harnessed, could contribute significantly to the kind of development that is desired. Equally, Vanuatu should not embrace these developments without careful consideration of the likely consequences on the country's economy and natural environment.

1.3.2 Policy Stability and Service Delivery

To achieve sustainable economic growth and development Vanuatu must adopt an innovative policy making process. It must also be open to a continuing adoption of the economic and structural reforms needed to overcome the weaknesses in its economy. Outward looking, private sector focused strategies that will both broaden and deepen the economic base of the nation must continue to be embraced. Governance standards need to be raised and a more service and customer-oriented approach needs to be adopted by the public service to its dealings with the public and particularly with potential investors.

There is also a heavy reliance on outside development assistance, which although not necessarily an issue in itself, requires careful management and coordination if the best use is to be made of these resources.

1.4 National Vision

The objective of the PAA is to identify and implement policies to take us forward to a shared Vision of the future. Without this it will be difficult to succeed in bringing about the social and cultural improvements and the higher standard of living, which are the aim of Government and the people.

Figure 1.2: Key Development Constraints

- Widely scattered and mountainous island geography;
- Vulnerability to natural disasters;
- Small domestic market with little potential for economies of scale;
- Increasingly competitive international markets for tourism and investment;
- Social and cultural system with limited understanding and experience with business concepts and practices.

Figure 1.3: Principal Structural Weaknesses in the Vanuatu Economy

- Public sector characterized by low productivity and lack of customer service focus;
- High cost domestic business environment;
- Expensive international connections in both airfares and communications;
- Investment approval process that can be non-transparent and burdensome for investors;
- Underdeveloped financial system especially in the rural areas;
- Increasing urbanisation and rising urban unemployment;
- Labour force lacking technical and managerial education and job skills needed to support economic development;
- Land and capital market development constrained by social values and traditions.

The Vision is based on the recognition of the need for economic growth, that this growth must be led by the private sector and that Government's role is to create an enabling environment for both domestic and foreign investors whilst ensuring that development is sustainable.

The Vision reflects the people's expressed wishes for more employment and economic opportunities through which to earn income, for better health and education, and the provision of basic infrastructure for themselves and especially for their children, and a wish for social stability.

People are also concerned about the cross-cutting issues of increasing urbanisation; slow growth in rural agriculture and weakening national food security; increasing youth unemployment; declining standards of nutrition and increasing incidence of non-communicable disease (NCDs); the growing threat of HIV/AIDS and the increasing incidence of hardship and poverty being experienced by a growing number of families.

Standards of governance and the efficiency of the public service need to be improved if people's concerns are to be addressed. More cost-effective and better service delivery, together with a more customer oriented approach to dealings with the public, and particularly with potential investors, needs to be institutionalised in the public service. Education needs to be targeted towards providing young people with the technical and vocational skills needed to meet the demands of private enterprises. Health services need to be able to meet the challenges of increasing incidence of NCDs and HIV/AIDS. Welfare services need to be able to provide for the needs of youth, the elderly and the otherwise disadvantaged. These form the core of future strategies.

1.4.1 International Commitments

Vanuatu is a member of the international community. As such it has made commitments at both regional and international levels in the areas of trade, regional co-operation, and national development. Government will pursue these commitments in the interest of Vanuatu and its citizens. Of particular importance is the commitment of Government to the United Nations Millennium Declaration that was adopted by the UN General Assembly in 2000. The Declaration establishes eight goals to which the international community will commit its resources. The Millennium Development Goals (MDG) are:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a Global Partnership for Development

Government is committed to achieving these Goals and the MDG targets and indicators have been included as Performance Indicators in relevant sections of the PAA.

Figure 1.4: National Vision
“An Educated, Healthy and Wealthy Vanuatu”

By 2015 Vanuatu will have achieved a significant increase in real per capita incomes, along with steady growth in levels of employment. Within the region, Vanuatu will be among the leading countries in achieving the Millennium Development Goals in education, health, environmental management, and other key social indicators. Public sector reforms will have raised standards of governance, levels of productivity in the civil service, and will have resulted in higher standards of services and managerial accountability. Through continuing structural reform, Vanuatu will have established an effective enabling environment to sustain the significant private sector growth, which it aims to achieve in output and employment.

Chapter 2: Medium Term Strategic Framework

2.1 Introduction

The Medium Term Strategic Framework (MTSF) is based on the National Vision. From the Vision, a set of overarching national strategic priorities can be identified for the allocation of development resources, in terms of physical and financial resources, as well as policy initiatives and implementation action as the basis for the PAA.

The primary 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, for the primary sectors and tourism as well as in the urban centres.

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. Adequate 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 achieve their own highest levels of 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.

The following section discusses each of these overarching strategic priorities in greater detail and illustrates how they are all interlinked. The Priorities are clearly set, the Action Agenda flows from these into the Policy Objectives and the Sector Priorities and Strategies which form the basis for developing specific projects and programs.

2.2 Strategic Priorities

To accomplish the broad goals, or development outcomes, outlined in the National Vision, Strategic Priorities need to be set for the medium-term to provide intermediate milestones against which progress can be measured. The Strategic Priorities provide policy direction at the overall national (macroeconomic) level. Strategic Priorities focus on key results or changes that must be achieved in the society and economy in order to take us towards the Vision.

Although the seven Strategic Priorities (see Figure 2.1) are divided into seven separate sectors they are all inter-linked, some in complementary ways, some in ways, which may cause conflict. All require resources, human, physical and financial. The challenge is to allocate scarce domestic development resources, complemented by external development assistance to achieve the development outcomes in the Vision.

Figure 2.1: Strategic Priorities

- Private Sector Development and Employment Creation (Chapter 3);
- Macroeconomic Stability and Equitable Growth (Chapter 4);
- Good Governance and Public Sector Reform (Chapter 5);
- Primary Sector Development (Chapter 6);
- Provision of Better Basic Services, especially in rural areas (Chapter 7);
- Education and Human Resource Development (Chapter 8);
- Economic Infrastructure and Support Services (Chapter 9).

2.2.1 Private Sector Development and Employment Creation

With a population growth rate of around 2.6% it is estimated that the number of young people entering the labour force averages around 3,500 each year. Private sector development and employment creation, including in tourism, agriculture and fisheries is therefore the top priority. This means creating an environment in which economic opportunities can be generated and is at the core of the

national development strategy. Good education and good health, important as they might be, are not ends in themselves; they provide individuals with the skills, knowledge and physical ability to contribute to the creation of economic wealth and social welfare through employment and economic activity in both the formal and informal sectors.

The rural areas have always been regarded as the heart of the nation, however in the last decade the heart has become weaker as production in the traditional subsistence economy has failed to keep pace with developments in the formal economy. There needs to be renewed emphasis on strengthening the rural economy.

The era of globalisation means that the emphasis in trade must shift from an emphasis on import substitution to an export orientation. A more competitive domestic market will reduce the cost of many goods and services and provide the basis for more competitive exports.

**Figure 2.2: Policy Objectives
Private Sector Development and Employment
Creation**

Lowering obstacles to growth of private enterprise including:

1. Lowering costs of doing business;
2. Improving access to rural financial services – saving and credit;
3. Facilitating long-term secure access to land;
4. Providing better support services to business;
5. Ensuring a conducive environment for increased commodity exports .

2.2.2 Macroeconomic Stability and Equitable Growth

Sound monetary and economic management, strong institutions and fiscal discipline are essential to underpin private sector development. Without the right economic policy environment (fiscal, monetary and regulatory), strong and well-managed institutions and a high standard of governance providing a cost-effective, efficient and customer oriented public sector, none of the sector priorities can be successfully addressed.

Vanuatu has a good record in maintaining macroeconomic stability in terms of achieving sustainable fiscal balances and a healthy balance of payments position, stable currency and low inflation. However, economic growth has been low and erratic with not enough of the benefits of growth flowing to the outer islands and grass roots. The result has been high levels of hardship and poverty in many parts of the country.

**Figure 2.3: Policy Objectives
Macroeconomic stability and Equitable Growth**

1. Maintain sustainable fiscal balances while re-prioritising expenditures, reducing debt and minimising the subsidies paid to public enterprises;
2. Keep inflation at low and stable levels;
3. Maintain a sustainable external position including a stable currency;
4. Strengthen supervision and oversight of the financial sector including offshore financial services;
5. Promote equitable and sustainable economic growth through the implementation of PAA policies to improve basic services, infrastructure and the environment for private sector development.

2.2.3 Good Governance and Public Sector Reform

Good governance, which includes inspired leadership and sound management, as well as honesty, transparency and consistency in the rule of law is a pre-requisite for all other strategies to be implemented effectively.

Providing policy stability is essential in order to provide wide and continuing support to the policies needed to achieve the National Vision. This will be assisted by having clear and agreed directions for public expenditure through the development of a Medium Term Expenditure Framework (MTEF). This

**Figure 2.4: Policy Objectives
Good Governance and Public Sector Reform**

1. Providing policy stability;
2. Providing stable institutions; and
3. Developing a productive public sector.

will necessitate ministries focusing more sharply on the outputs they produce and the services they deliver. Policy stability will also be improved through improved cooperation and consultation between government and the non-government and private sectors. Such cooperation can be expected to result in wider support for development policies. In addition there are benefits to be gained from strengthening the role of NGO's in the provision of services to many parts of the community. This may require targeting those in the most disadvantaged categories where numbers may be small and the costs of service provision are high. This becomes an increasingly important issue as government's budget becomes more focused on core activities.

Stable institutions are critical for success in policy implementation. But there is also a need to ensure that the organisation of government ministries and departments is efficiently and effectively contributing to national development according to the policies of this PAA. Of particular importance in providing stable institutions is to ensure that weaknesses in the legal sector are addressed and that oversight institutions such as the Auditor-General and Ombudsman's office are working effectively.

Government has been implementing a comprehensive public sector reform program since 1997. For Vanuatu to be successful in achieving a more productive public sector there will need to be a continuing high level of commitment on the part of political leaders and government administrators to implementing the program, including the continuing reform of State Owned Enterprises (SOEs).

2.2.4 Primary Sector Development and Environmental Management

The traditional structure of Vanuatu society and its subsistence-based rural economy have been built on the sustainable use of the nation's valuable natural resources and the conservation and careful exploitation of the fragile rural eco-systems. In some areas these are now under threat from changing attitudes in society and from the increasing monetisation of the economy. However, there is also a need to expand traditional subsistence production both for domestic consumption and export. The challenge is to reconcile these conflicting factors to enable sustainable growth and rising rural incomes.

There is considerable potential for greater output and niche-market production for export. Also there is considerable scope for increased production for the domestic market to both strengthen national food security and reduce dependence on food imports.

Figure 2.5: Policy Objectives

Primary Production:

1. Sustainably raise incomes from agriculture, fishing and forestry resources for domestic and export markets;
2. Improve and strengthen regulatory and sustainable management arrangements for the sector;
3. Involve all stakeholders in the development of sector strategies and their implementation.

Environmental and Disaster Management:

1. Promote sound and sustainable environmental management practices;
2. Ensure sustainable management and conservation of Vanuatu's biodiversity;
3. Integrate Hazard and Risk Management concerns into policies in order to reduce environmental risk;
4. Promote traditional and cultural disaster management know-how and self-help within the community.

2.2.5 Provision of Better Basic Services and Strengthening Social Development

Health and social welfare, including issues of nutrition, youth, gender, age and other special needs, must be addressed to ensure a stable social environment. HIV/AIDS, NCDs and hardship and poverty are emerging issues and need to be considered as potential threats to the achievement of the Vision.

An efficient and focused health care system is also important for human

Figure 2.6: Policy Objectives

Basic Services and Social Development

Health:

1. Improve the health status of the people;
2. Improve access to services;
3. Improve the quality of services delivered;
4. Make more effective use of resources.

Gender:

1. Promote gender equality and empower women.

resources development. Quality of medical services and health care is a major contributor to an improved quality of life. Improvements in the health care system have already led to longer life expectancy and a generally healthier community and workforce. With longer life expectancy (partly the result of progress in lowering infant and child mortality rates), the growth rate in population has risen.

Health services must continue to emphasise the primary health care approach that has proven to be more cost-effective. Although high priority will be given to preventive health programs, including immunisation, improved nutrition and the promotion of healthy lifestyles, curative services will be maintained. Reproductive health has also been designated a high priority program. Reproductive health encompasses maternal and child (pre-and post-natal) care, family planning (birth control options), and prevention and control of sexually transmitted diseases. In particular the threat posed by the HIV/AIDS virus will be fully assessed.

Sustained growth and development is achievable only through the participation and involvement of all sections of society. Unfortunately, women, in almost all sectors of their lives, are disadvantaged, when compared to men. Progress has been made since Independence in recognising the important role of women however, there is still a long way to go in recognising women as a valuable resource to foster sustainable development.

2.2.6 Education and Human Resource Development

Education, training and human resource development are essential to the achievement of each individual's own potential and aspirations and are also central to the nation's ability to achieve sustainable development. Education and training must be targeted at meeting the skill and workforce demands in the different sectors of the economy.

Education and training are the key to developing the single largest resource – the people of Vanuatu, and particularly the youth. For Vanuatu to achieve its Vision, education and training institutions have to become more efficient and effective in delivering a higher standard of education and training to meet the needs of the people and the economy as a whole. Identifying occupational skills and education standards that are most critically needed in the private sector, as well as in government is a major task that must be addressed on an ongoing basis. Priority will be given to the development and implementation of a National HRD Plan.

**Figure 2.7: Policy Objectives
Education and Human Resource Development**

1. Improve access to education and ensure gender balance;
2. Raise the quality and relevance of education;
3. Improve planning, fiscal and financial management in the sector;
4. Develop and implement a national HRD plan.

The gradual achievement of MDG targets for literacy and gender balance in education will result in greater numbers of youth entering the labour force with a higher level of educational attainment than in the past. However, Vanuatu's education system was established as an academic system and needs to be re-balanced with more vocational outcomes. There is a critical need to strengthen the entrepreneurial skills training and vocational-technical program in secondary schools to better prepare school leavers to undertake post-secondary training.

Formal employment is the primary aspiration of almost all school leavers. However, given that a large proportion of school leavers will not be able to obtain formal jobs, there needs to be an increased emphasis on basic education and technical and vocational training. This will help them become more productive in the village economy (agriculture, fishing and forestry), and in other types of income earning activities, particularly those activities involving the ownership and operation of small businesses.

Formal employment is the primary aspiration of almost all school leavers. However, given that a large proportion of school leavers will not be able to obtain formal jobs, there needs to be an increased emphasis on basic education, life skills, enterprise skills, technical and vocational training, and skills for rural development. This will help them become more productive in the village economy

(agriculture, fishing and forestry), and in other types of income earning activities, particularly those activities involving the ownership and operation of small businesses.

The major focus in the sector is to provide “Education for All (EFA)”. The EFA goals are consistent with MDG 1, 2 and 3. There is also an emphasis on adult literacy because of the impact that this has on learning attainment of children. The main policy objectives concern improving access, quality and the relevance of education and training, improving management of the sector with a view to reducing costs, and developing and implementing a National HRD Plan.

2.2.7 Support Services: Infrastructure and Utilities

Reliable and competitively priced economic infrastructure and utilities are an essential requirement for sustainable development. Without these supporting services it will be impossible to attract investment, create employment and generate additional wealth and opportunities for the people.

The constraints and challenges in providing adequate and efficient infrastructure, utilities and supporting services are both physical and structural. The country is widely scattered and the island geography is often rugged. The costs of providing infrastructure, transport, power and communications services in such circumstances are high and the economies of scale are small. Vanuatu is also highly vulnerable to natural disasters arising from its climate and geology, which can lead to serious disruptions to supplies and services. In addition, the high rate of population growth and the continued increase in urbanisation is having an increasingly severe and adverse impact on urban infrastructure and urban services.

The policy objectives covering these services centre on the need to provide transport and utility services, which provide the people with a satisfactory quality of service at a reasonable price.

Figure 2.8: Policy Objectives Infrastructure & Utilities

1. Ensure the provision of competitively priced, quality infrastructure, utilities and services, either through public enterprises or through private sector partnerships and competition;
2. Encourage the development of competitive private sector involvement in utilities and services;
3. Minimize subsidies for public utilities;
4. Ensure economic infrastructure and support services are available to other sectors.

2.3 Policy Implementation and Monitoring

Achieving the Vision of an Educated, Healthy and Wealthy Vanuatu by 2015 requires that resources of both Government and development partners are used efficiently and wisely. A Medium Term Strategic Framework is proposed that will guide priorities and the development of policy as well as implementation of policies and the monitoring of development outcomes.

The Framework, based on the Vision and Strategic Priorities in this PAA, describes how policies are developed and subsequently implemented through the annual budget and through aid donor programs. The Framework also proposes how policy implementation can be monitored and the impact that policy implementation is having on development outcomes.

2.3.1 Policy Development and Implementation

The Policy Development and Implementation part of the Framework is illustrated in Figure 2.9 (next page). The Vision and the Strategic Priorities (the first two boxes) are included in this PAA. The PAA also includes priorities in key sectors. The Vision and Strategic Priorities have been developed from the first PAA published in 2003. The first PAA was based on the CRP and the CRP matrix, the Business Forum matrix and the REDI plans.

2.3.1.1 Sector strategies

The Vision and Strategic Priorities then guide the content and overall direction of sector strategies or plans. Some major sectors already have sector strategies. Other sectors need to develop strategies as part of this Medium Term Strategic Framework.

Sector Strategies are the detailed road maps for each sector. The policy objectives and priorities in each sector strategy provide more detail of the actions and activities necessary to achieve the Strategic Priorities.

Sector strategies cannot be formulated or achieved in isolation; each sector is linked to every other, either by requiring support from it, or providing support to it. There must therefore be coordination and consistency; one sector must reinforce the achievements of the others. Sector strategies need to be consistent with each other and with the macroeconomic framework.

Sector Strategies must be based on sound information and data. The macroeconomic framework and MTEF will identify the fiscal parameters e.g. budget resources, development assistance, levels of debt. These are likely to be the primary constraints on the implementation of both the Strategic Priorities and sector strategies. Background information and data need to be compiled for each sector. The Agricultural Census and Household Income and Expenditure Survey planned for 2006 will provide valuable data for sector strategies. Sector policies based on poor data and without supporting information and analysis are just guesswork. They will result in poor implementation and achievement.

2.3.1.2 Resource allocation

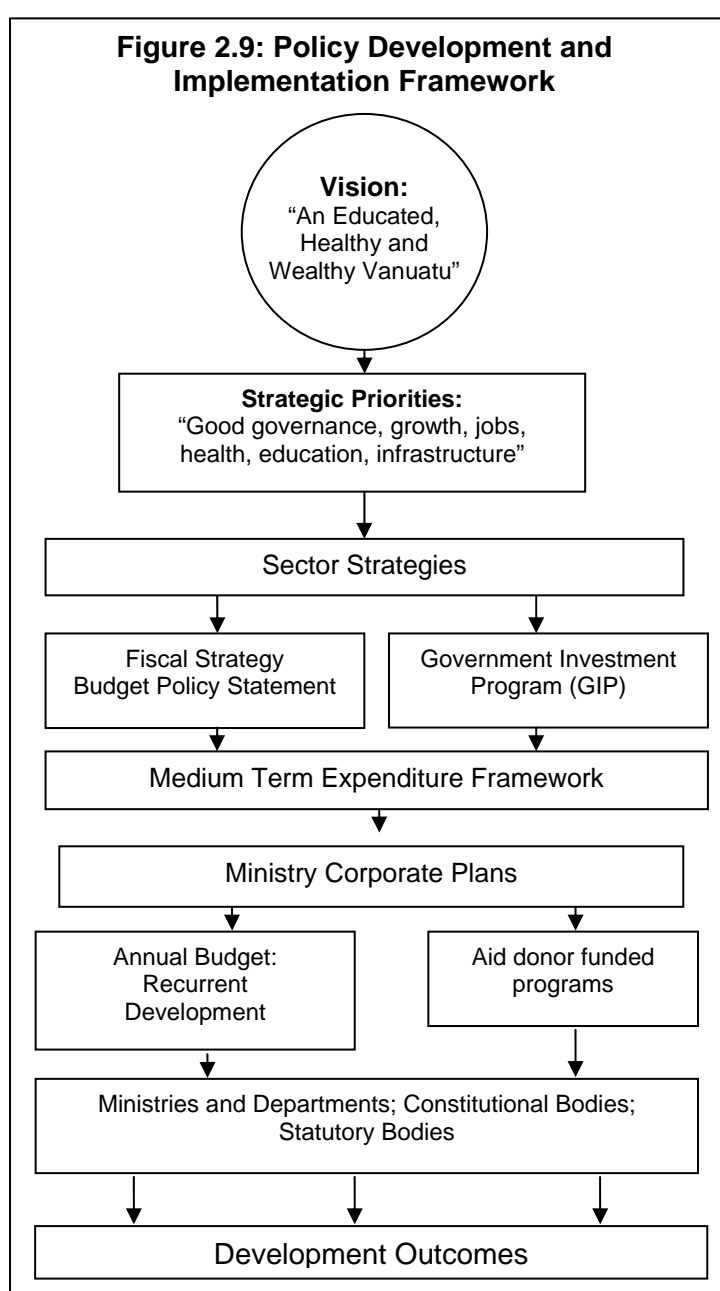
The PAA policies and the sector strategies are the policies that Government are going to implement. However, implementation can only proceed as fast as resources are available. The next part of the Medium Term Strategic Framework is how to translate the policies into funded activities, programs and projects. This involves the preparation/updating of the Fiscal Strategy to determine how much resources can be allocated in a particular year.

Similarly the Government Investment Program process selects priority projects for implementation. Each development project must be clearly linked to, and be analysed/appraised in the context of the sector strategy and the Strategic Priorities and Vision.

The next step is to allocate resources to particular government programs and activities and projects. This will be based on an agreed Medium Term Expenditure Framework which is not yet prepared. This Expenditure Framework will guide the allocation of resources to priority sectors.

2.3.1.3 Corporate Plans

Based on the resources earmarked for each ministry and department, corporate plans are prepared or updated to show what outputs or services can be provided under each ministry program. The Annual Budget, including aid donor programs, provides the funding for this.



A Corporate Plan is a short-term operational plan for a ministry or department, normally covering a period of two or three years. Each ministry/department should have a clear Mission Statement in its corporate plan. This will describe what the ministry/department stands for, and what it intends to do in order to achieve the objectives in the Sector Strategy.

2.3.1.4 Implementation

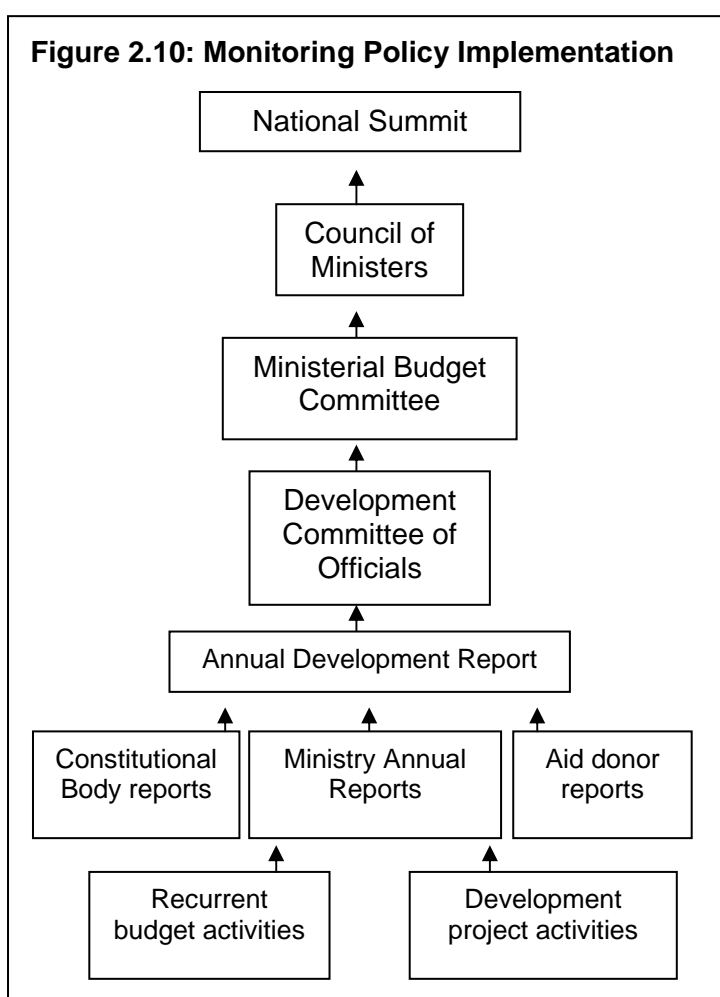
At the implementation level, ministries and departments, constitutional bodies, statutory bodies, SOEs, provincial governments and municipalities and NGOs carry out activities and projects. The end result is provision of services to the people and improvements in Development Outcomes such as improved health, better education, more reliable infrastructure, and more jobs.

2.3.2 Monitoring Policy Implementation

The Framework for Monitoring progress in implementing policies and programs is mostly in existence already. A National Summit has been held on several occasions to monitor CRP implementation progress. A Business Forum has also been held several times giving a valuable opportunity for Government to hear private sector views. In addition, Ministries and SOEs are required to make annual reports on their activities and report on the implementation of outputs/programs in their corporate plans. Aid donors also make regular reports on their activities for their own purposes as well as to inform Government. Budget reports, including economic aggregates, are made on an annual basis (see Figure 2.10).

2.3.2.1 Annual Development Report

It is proposed that an Annual Development Report is prepared as a summary of progress in implementing the policies in this PAA. The Report would describe the progress made in the Strategic Priorities and sector priorities using the Performance Indicators that are specified in later chapters. Inputs to the Report would come from Ministry Annual Reports and reports by some constitutional bodies, such as the Auditor-General. The Department of Economic and Sector Planning would coordinate the preparation of the Annual Development Report. The Report would then be considered by senior Government officials in the DCO followed by tabling in the Council of Ministers. The Report, together with any recommended changes of policy or strategy, could then go to an annual, or once every two years, National Summit.



Chapter 3: Private Sector Development and Employment Creation

3.1 Sector Overview

The need for economic growth to be **Private Sector led** was widely accepted during the time of the Comprehensive Reform Program (CRP) in 1997/98. Greater understanding of the need to provide a favourable business environment for the private sector has come about with the discussions made possible by the Business Forum.

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 raising cash income from agriculture.

3.1.1 Foreign Direct Investment

Expansion of all business requires investment funds. Funds for investment are available from savings but the level of savings in the local economy is very low. Therefore, sustaining growth in the economy will only be achieved if significant levels of foreign investment can be attracted to the country. Foreign investors bring investment funds, technical expertise and provide jobs.

Promotional efforts to attract foreign direct investment (FDI) are the responsibility of the Vanuatu Investment Promotion Authority (VIPA), established under the VIPA Act of 1998. VIPA also considers foreign investment proposals and issues approvals.

Foreign investment in real estate has been increasing rapidly in recent years. This has raised many issues relating to land use.

3.1.2 Manufacturing

The development of manufacturing industries has been, and still is, geared mainly towards producing products for the domestic market. Manufacturing and processing plants were established mainly to produce food, beverages and wood products and other fabricated metals. These industries, particularly food, beverages and metal products, source many inputs from overseas.

The development of the manufacturing sector is, in large part, a result of the previous policy of import substitution. This involved imposing high tariffs or in some cases, import licensing arrangements on some products, and often duty exemptions on capital equipment and raw materials. This makes domestic production of the item profitable. However, there is a very high cost to the consumer who has to pay prices well above those of comparable imported items. There is also a substantial loss in tax revenue. The gain in terms of employment, value-added and the development of the industrial base must be weighted very carefully against these costs.

In recent years the growth of the manufacturing sector has slowed, after reaching a peak in 1991. The rapid growth of the 1980s is unlikely to be repeated as most opportunities for supplying the domestic market have been exhausted.

Most manufacturing activities are undertaken by foreign investors although there is a growing number of ni-Vanuatu becoming involved in small-scale manufacturing activities. The establishment of the Vanuatu Chamber of Commerce has been a positive step in assisting small ni-Vanuatu entrepreneurs.

3.1.3 Ni-Vanuatu Business Development

Foreign investment is necessary for the economy to grow, but of equal importance is the promotion of ni-Vanuatu in business. Achieving greater local participation in the formal sector of the economic is essential for sustained growth. The Department of Co-operatives and Rural Development, as well as the Ni-Vanuatu Business Development Centre, were purposely set up to facilitate and promote greater participation of ni-Vanuatu in business. The merging of these two agencies will result in a more focused effort in this area.

The establishment of the Chamber of Commerce and Industry in 1995, funded from a portion of business licence fees, has spearheaded the promotion of ni-Vanuatu in business.

3.1.4 Tourism

Vanuatu's beauty is extraordinary, with its scenic beaches, spectacular volcanoes, smiling people and culture; it has all the natural ingredients to be a world premiere tourist destination.

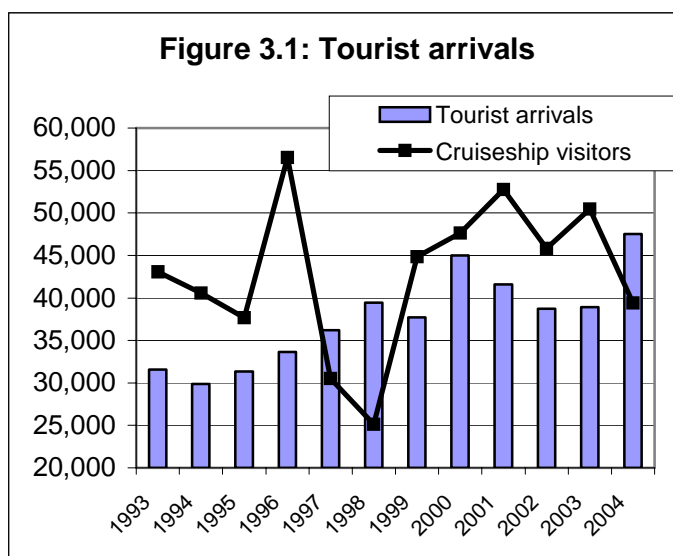
Tourism is one of the most promising economic sectors for Vanuatu's future development. It offers great potential as a source of foreign exchange as well as creating employment and fostering development of the outer islands. Growth in the tourism sector is now underpinning growth in the economy as it accounts for around 40% of GDP.

Principally driven by the private sector, the industry has grown substantially in the past few years. An estimated 6,200 people are employed in the tourism industry, most of these in the Port Vila area.

Tourist numbers have been erratic over the years. After an initial decrease immediately following independence, tourism returned to pre-independence levels by the mid-1980s. During the latter half of the 1980s, however, a series of adverse events, including the contraction of air travel to the country occasioned by the pull out of Ansett, a major cyclone in 1987 that destroyed a number of tourism facilities and political turmoil in 1988 greatly reduced the number of tourists travelling to Vanuatu. Tourism arrivals are in Figure 3.1.

The decision in late 2003 to adopt an "open sky policy" encouraged the introduction of Pacific Blue into the Vanuatu market in late 2004. This has boosted visitor numbers and provided healthy competition to Air Vanuatu.

Australia is the largest provider of visitors accounting for 59% of total arrivals in 2004; 14% of visitors came from New Zealand and about 11% from New Caledonia. The remaining visitors came from the other pacific island countries, Europe and North America. Tourism activities have expanded to the outer islands in recent years assisted by the Vanuatu Bungalows Association.



International cruise ships visiting Vanuatu has fluctuated in recent years as a result of P&O's announcement to increase the number of its cruise to Vanuatu. Despite the announcement the number of visitors by cruise ship fell considerably in 2004. However, cruise ship arrivals have increased during 2005 and are expected to grow further in 2006. Cruise ships have also extended their trips to other islands such as Walarano and Pentecost.

Government supports the development of tourism through the National Tourism Development Office (NTDO), which coordinates investment and development planning and promotes high standards of tourism products. Government also supports private sector marketing efforts through a grant to the Vanuatu Tourism Office (VTO). The tourism master plan has been revised and was adopted at the beginning of 2005.

3.1.5 Trade & Commerce

Income from agricultural exports is the main source of cash in rural areas. Vanuatu has made several policy changes as part of the CRP to promote international trade and a greater export orientation. Import duties were reduced in 1998 to bands within zero to 30 percent and simplified to a total of eight categories. Custom services charge of 5 percent for imports as well as export taxes and duties were also abolished. Restrictions imposed on exports of kava by only licensed dealers were lifted in April

1999 although VCMB policies have now changed. Many of these policy changes are necessary as part of Vanuatu's accession process leading to membership of the World Trade Organisation (WTO).

Vanuatu, since 2003, is also a party to the Melanesian Free Trade Agreement between the Melanesian countries. The free trade agreement amongst the Forum Island Countries, the Pacific Island Countries Trade Agreement (PICTA), and the Pacific Agreement on Closer Relations (PACER) have been endorsed. Discussions on a new bilateral trade agreement with New Caledonia are still in progress.

3.2 Key Issues and Challenges

Sustained growth in the economy for all sectors is constrained by a very high cost structure. Electricity, telecommunications, indirect taxes and transport costs are all very high compared to other countries in the region. Wages are not high, but, because productivity is low, the effective cost of labour is very high. These high costs constrain local as well as foreign investors and affect tourism, manufacturing and agricultural producers. Secure access to land for development also remains an obstacle.

3.2.1 Foreign Direct Investment

There remains a lack of awareness of Vanuatu as a Foreign Investment destination and more efforts are needed in promotion. Awareness of the various investment opportunities is low. The administrative barriers to investment approvals have been addressed in recent years but administrative delays and uncertainties remain.

3.2.2 Ni-Vanuatu Business Development

Obstacles preventing ni-Vanuatu business-people from realising their full potential include most of the obstacles faced by other business-people. Additional obstacles include access to investment funds and inability to use land as collateral, lack of business skills, and small market size and poor transport infrastructure which affect ni-Vanuatu business-people in rural areas and the outer islands.

3.2.3 Tourism

Tourism has great potential for further development but faces some serious constraints. These include:

- The inadequacy of existing accommodation in terms of quality, size of units and limited distribution around the country including a lack of boutique resorts to attract high income tourists;
- Lack of adequate infrastructure for international air passengers and cruise ship passengers as well as poor roads on the main resort islands and air services between the islands;
- International and domestic air services are underdeveloped and unnecessarily expensive;
- The land on beachfronts for building tourist facilities is insecure;
- Lack of effective and targeted marketing and promotion of Vanuatu and its unique tourist attractions particularly in niche markets such as adventure, diving, game fishing, nature tourist and other special activities;
- Lack of community awareness of tourism developments and the benefits that can accrue to the local community;
- Absence of a systematic training program for tourism personnel at all levels.

Many of these issues and challenges are being addressed. A new airline is serving Vanuatu, more cruise ship arrivals are scheduled, and some new accommodation is coming on the market. In addition, key infrastructure, such as the road around Efate and the Port Vila wharf, will be rehabilitated and upgraded through the Millennium Challenge program. Training in hotel and catering subjects is available. International airports have been upgraded.

Regardless of the impediments, tourism growth in Vanuatu looks promising, but for tourism to provide sufficient jobs for a growing population, concerted efforts need to be made to address the constraints to faster growth.

3.2.4 Trade, Commerce and Manufacturing

Vanuatu's position in recent years to open up its fragile economy to regional and international competition has put a lot of pressure on its infant local manufacturers to either compete on the open market or close down. This reflects the shift in policy away from import substitution to an export orientation. A need for export incentives has been identified as necessary to promote the new policy of export orientation. At the same time, it is necessary to take measures to counter the negative impact of MSG and other free trade agreements. The issue of Infant Industries has to be looked at closely as there is a need to provide proper policy direction to cater for them. For exporting to many countries there is a need to conform to international standards in labelling, packaging and quarantine. Meeting international standards would improve the image of locally manufactured products as well as agricultural export commodities.

Potential niche markets for agricultural exports exist but supplying these markets needs good coordination with producers. There is also a need to clarify the role of the private sector, government and statutory bodies to ensure a conducive environment for increased commodity exports.

3.3 Policy Objectives

The policy objectives for private sector development and employment creation are grouped around:

1. Lowering costs of doing business;
2. Improving access to rural financial services – saving and credit;
3. Facilitating long-term secure access to land;
4. Providing better support services to business;
5. Ensuring a conducive environment for increased commodity exports.

3.4 Priorities and Strategies

Priorities are based on the above Policy Objectives. These are to:

1. Lower costs of doing business through;
 - a. Effective oversight and regulation of utilities (covered in chapter 9);
 - b. Improved public service productivity to reduce delays (covered in chapter 5);
 - c. Promoting more competitive domestic markets and exports by reviewing and expanding existing tax base to make it more attractive to investment, including an Export Incentive Scheme;
 - d. Better transport services and infrastructure (covered in chapter 9);
2. Improving access to rural financial services – saving and credit - through;
 - a. Developing micro-credit schemes further;
 - b. Implementing the registration of movable assets as collateral;
3. Facilitating long-term secure access to land through;
 - a. Reviewing and updating legislation on leasing of land to provide greater guarantee and security to investment in land-based projects;
4. Providing better support services to business through;
 - a. Support to the Chamber of Commerce, ni-Vanuatu Business Centre and NGOs in providing support services to small and micro enterprises including encouraging the development of small scale niche market activities in the rural areas;
 - b. Improved marketing of Vanuatu investment opportunities and products including tourism;
 - c. Reducing administrative barriers to Foreign Direct Investment.
6. Ensuring a conducive environment for increased commodity exports through;
 - a. Clarifying the role of the private sector in commodity trading by reviewing the role of the VCMB;
 - b. Maintaining and improving quarantine and other trade facilitation services.
7. Specific priorities and strategies to improve tourism are contained in the Tourism Master Plan and include:
 - a. Increased tourist arrivals through better marketing and improved air links;
 - b. Increased tourism facilities and product range in both rural and urban centres;
 - c. Promoting and improving tourism development in the outer islands;
 - d. Targeting high income tourists and niche tourist markets;
 - e. Improved quality of tourism services through accreditation, and awareness and training programs.

3.5 Performance Indicators

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

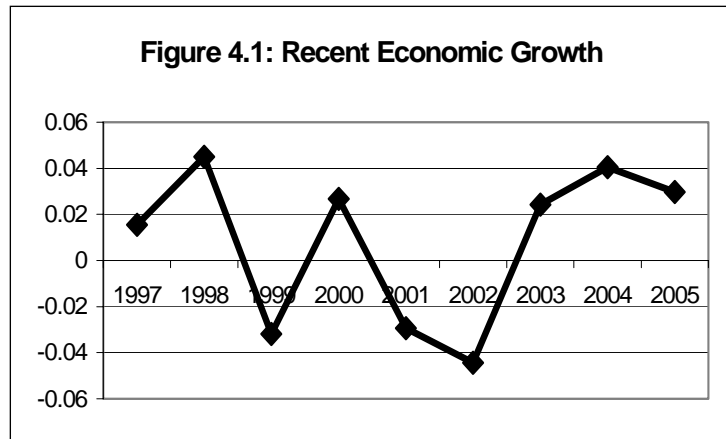
- Growth in visitor arrivals, cruise ship arrivals and tourist expenditure;
- Manufactured output and exports;
- Commodity exports;
- Levels of foreign direct investment;
- Numbers of active employee accounts at VPF;
- Level of credit to private sector borrowers through the commercial banking system, including growth in micro-credit; and
- Contribution of the private sector to GDP.

Chapter 4: Macroeconomic Stability and Equitable Growth

4.1 Recent Economic Performance

Vanuatu achieved positive economic growth in 2003, 2004 and 2005, after two years of decline, driven by growth in agriculture, tourism and real estate (see Figure 4.1). However, despite reforms, which addressed weaknesses in the economy, economic growth over the medium to long term has been slower than population growth of 2.6% per year.

This means that there has been a long-term decline, or at least stagnation, in National Income per person, which is a rough measure of the average standard of living in a country. Accurate statistics on the extent of hardship and poverty are not available. However, recent data suggests that some 26% of households had incomes of less than US\$1 per day, which is a commonly used measure of poverty and is one of the Millennium Development Goals indicators. The data also suggests that 40% of households have a monthly income below the poverty line, implying that these households regularly struggle to find cash or produce subsistence goods to satisfy basic needs (such as food, schools costs and transport fees). Achieving higher and more equitable growth is clearly needed to improve living conditions.



Macroeconomic stability has been maintained and improved with stronger fiscal (government budget) balances and subdued inflation. International reserves have increased to a comfortable level of 5.6 months of imports as of December 2005. The current account balance of payments has improved and the currency has remained stable.

4.1.1 Reforms

Major fiscal reforms took place as part of the CRP including strengthening of the revenue base by introducing the 12.5% VAT, reducing various tax exemptions and strengthening tax compliance, which has involved the restructuring of Customs and Inland Revenue departments. A new Public Finance and Economic Management Act to reform the budgetary process and establish greater transparency in fiscal management has been implemented and fiscal discipline has been greatly increased. These reforms were complemented by a new Public Service Act and a Government Act, which strengthened the independence of the public service and clarified the role of political advisors.

A major part of the CRP involved financial sector reforms and these were generally successful in terms of rehabilitating the National Bank of Vanuatu, winding down the Development Bank of Vanuatu (DBV), and providing more transparent management of the Vanuatu National Provident Fund (VNPF).

Bank supervision and oversight has also been improved, especially for offshore banks. The initiative to combat money laundering, the enactment of recent Anti Money Laundering legislation and the establishment of a Financial Intelligence Unit under the Financial Transactions Reporting Act 2000, have also strengthened the policy framework in the financial sector.

4.2 Key Issues and Challenges

Several reports, including those of the IMF, have concluded that the outlook for faster economic growth needed to raise living standards is not bright without reinvigorated commitment to the implementation of deeper policy reform.

Government spending is still not well prioritised and capital expenditure is low when compared to the development needs of the country. Additional reform such as restructuring public enterprises and

improving infrastructure remain crucial for establishing the sound private sector environment needed to raise economic growth over the medium term.

A change in expenditure priorities would support medium-term growth and development objectives, while at the same continuing to reduce the debt burden. Challenges include the annual expenditure by central government on personnel emoluments, which has increased rapidly over the last 5 years due largely to the rising cost of various allowances.

Debt servicing has become a major item of expenditure in the budget. Growth in debt servicing will far outpace growth in revenues causing increasing problems for the recurrent budget. There is need for formulation of a clear debt management strategy geared at improving net worth of the state while keeping cash flows manageable.

Public enterprises finances are poor overall, in part reflecting the absence of market-based management. There is a critical need to re-evaluate the financial status of the public entities and to consider the options of introducing competition, privatisation or dismantling them. In light of the poor dividend collection from public enterprises there is a critical need to review their governance and cost structures.

Limited information on household incomes and the level of agricultural production make it difficult to prepare accurate estimates of economic growth and to determine the extent of hardship and poverty. This information is essential in order to direct resources to those most in need.

4.3 Policy Objectives

The main policy objectives for maintaining macroeconomic stability and promoting equitable economic growth are to:

1. Maintain sustainable fiscal balances while re-prioritising expenditures, reducing debt and minimising the subsidies paid to public enterprises;
2. Keep inflation at low and stable levels;
3. Maintain a sustainable external position including a stable currency;
4. Strengthen supervision and oversight of the financial sector including offshore financial services;
5. Promote equitable and sustainable economic growth through the implementation of PAA policies to improve basic services, infrastructure and the environment for private sector development.

4.4 Priorities and Strategies

The particular priorities and strategies for promoting growth are contained throughout this PAA. The priorities and strategies for maintaining macroeconomic stability, which is a pre-requisite for economic growth, are to:

1. Conduct monetary policy to maintain a healthy foreign reserve position, a competitive real exchange rate and low inflation;
2. Achieve responsible recurrent and overall budget outcomes;
3. Prepare and implement a debt management strategy to gradually reduce domestic debt;
4. Re-prioritise expenditure towards development and non-salary expenditures;
5. Explore other tax options and improve compliance to raise revenue;
6. Continue to privatise public enterprises and rigorously enforce commercial management and operational practices;
7. Ensure that Household Income and Expenditure Surveys and other key surveys, such as the Agricultural Census are conducted.

4.5 Performance Indicators

Performance indicators for the priorities and strategies and policy objectives are:

- Economic growth;
- Poverty indicators;
- Inflation rate;
- Real exchange rate;
- Months of import cover;

-
- Budget outcomes (recurrent and overall deficit, revenue and expenditure ratios to GDP);
 - Public debt levels and ratio to GDP;
 - Expenditure shares for development, salaries, key social services;
 - Public enterprise performance.

Chapter 5: Good Governance and Public Sector Reform

5.1 Overview

Strengthening governance is recognised as a key challenge by all levels of government, civil society organisations and the private sector. Good Governance principles of accountability, transparency and predictability, and the rule of law are critical, but so is the participation of all sections of the community and stakeholders in policy formulation and development and policy implementation. The main initiatives to improve governance will involve sound public expenditure management, a stable policy direction, public sector reform, and ensuring that Vanuatu citizens can live in peace under the rule of law through strengthening of the legal sector institutions.

Existing reform efforts need to be deepened. This includes the Public Service Commission playing its independent role under the Constitution, acting impartially and transparently in managing the overall Public Service and carrying out Government decisions efficiently. It also includes strengthening accountability in managing the use of public funds in compliance with laws and regulations, and providing for a free flow of information on government programs and services to Members of Parliament, citizens, civil society and development partners. The free flow of information about government and its operations serves to increase accountability of leaders and government institutions.

Efforts to improve internal and external auditing of government accounts will continue to be pursued. Government will adequately resource the Auditor General's Office using internationally recognised standards to effectively undertake its designated role to independently evaluate public service performance. Making sure that the leaders are accountable will be achieved through the implementation of the Leadership Code and proper resourcing of the Ombudsman's office.

The strengthening of the Legal, Police and Prisons sectors will continue to be addressed through policies and effective strategies and resource allocation through a sector-wide approach that will foster local ownership. The newly established Prisons & Probation Department will contribute to this. The independence of the judiciary also needs to be strengthened.

5.2 Policy Objectives

Policy objectives for Good Governance are to:

1. Provide policy stability;
2. Provide stable institutions; and
3. Develop a productive public sector.

5.3 Providing Policy Stability

Providing policy stability involves managing public finances to improve service delivery and to reorient Government expenditure and aid donor resources to the priorities in this Plan, and to involve stakeholders in policy development and implementation.

The policies in this PAA are based on the CRP policies, the CRP matrix, the Business Forum matrix, and the Provincial REDI plans as well as the PAA prepared in 2003. These will be used to prepare Government's Budget policies and Fiscal Strategy and will provide the overarching policy objectives for sector strategies and plans and ministry corporate plans.

The intention is that the Strategic Priorities, and the policies to achieve them, will be widely accepted so that priorities and policies remain in place despite changes in leadership. This would assist in decoupling political instability from policy stability. There is also a need to ensure that ownership of reforms spelt out in this document receive wide support in the community. This will be helped by continuing to engage all stakeholders in reform efforts including the Chamber of Commerce, civil society, and the use of the REDI as a model for community participation at a local level. This will include working towards a formal relationship with NGOs to work in partnership with Government to provide services.

In order to provide an implementation framework for the policies in this revised PAA, Government will prepare a Medium Term Expenditure Framework (MTEF). This will ensure effective linkages between policy and resource allocation. The MTEF will be based on a review of the Government's expenditure by program and activity. To match the plan, resources will be allocated on a minimal 3-year time frame based on policy priorities in this Plan as well as other established plans such as the REDI Plans.

5.3.1 Priorities and Strategies

The priorities to secure policy stability are to:

1. Develop and adhere to a Medium Term Expenditure Framework to guide government expenditure and allocation of aid donor resources;
2. Review progress in implementation of the policies of this PAA at three yearly intervals and update the policies as necessary;
3. Engage stakeholders in policy formulation and implementation;
4. Formalise a partnership agreement between Government and NGOs concerning service delivery.

5.3.2 Performance Indicators

Performance in improving policy stability will be measured by monitoring service delivery in health and education; and monitoring the development and adherence to the MTEF.

5.4 Providing Stable Institutions

Stable institutions are crucial for successful policy implementation. Two issues are important. First, the alignment of Government ministries and departments to ensure that all are contributing to the role of the ministry and to national development policies. Ministries where roles and programs need to be revised include the Ministry of Trade, Ministry of Co-operative & Ni-Vanuatu Business, Ministry of Health, Ministry of Education, and Ministry of CRP.

The second issue is to continue to build capacity to provide institutions with better policy focus, structure, operating procedures, planning, budgeting and human resource capacity. Many Ministries and Constitutional Bodies have received generous funding assistance through Institutional Strengthening Projects (ISPs). Institutional strengthening of this nature will need to continue for the foreseeable future.

Of particular importance is to address the weaknesses that have been identified in the legal sector. Actions will be focused on the judiciary, the role of the Ombudsman's Office and the three public legal offices of the Public Prosecutors office, the State Law Office and the Public Solicitors Office.

It is a priority for the Government to ensure that all Vanuatu citizens can exercise their fundamental rights and freedoms, and confidently participate in nation building. All citizens of Vanuatu will be guaranteed their political and social rights through various inter-linked mutually supportive policies, strategies and programs in this Plan.

5.4.1 Priorities and Strategies

The priorities to provide stable institutions are to:

1. Continue to strengthen the legal sectors with the support of external assistance;
2. Adequately resource the Auditor-General's and Ombudsman's office and other Constitutional Bodies to enable them to carry out their constitutional duties;
3. Strengthen the judiciary system by having adequate staff both locally and overseas such as international judges, to reduce the court backlog and contribute to the credibility of the courts;
4. Examine the options for the creation of a dispute settlement outside the current court system;
5. Strengthen the relationship between the Ombudsman, the Police and the Public Prosecutor's Office;
6. Adjust legislation to allow for court prosecution relating to Ombudsman's Reports;

5.4.2 Performance Indicators

Measuring the performance of achieving stable institutions is difficult. Indicators suggested are the timely production and examination of Auditor-Generals reports; reduced backlog of court cases; average length of service of legal officers.

5.5 Developing a Productive Public Sector

A healthy and committed Public Service working according to the principles of good governance is essential. This is to ensure all players in delivery of services are accountable, transparent with their actions and at the same time rewarded according to the level of their respective capacities and abilities.

The rationale for public sector reforms was highlighted in the CRP document:

“The public sector needs to be adaptable to changing priorities and the changing expectations of the community...Performing these roles successfully will require that the public sector is prepared to transform itself. Political interference and frequent changes in staff in departments has been such that the morale of the Public Service has been seriously undermined. The lingering aftermath of the 1993 strike has further eroded public servants’ confidence and willingness to exercise leadership. The productivity of the service is generally poor. The people achieve little in their jobs. Rules and procedures are often not applied. The public service need to develop a service oriented culture.”

In response to these problems legislative changes were made to ensure the independence of the public service, to clarify the roles of ministers and officials, and an ambitious Management Improvement Program was initiated across the public service. Reform of some state owned enterprises has been undertaken and some commercial activities have been corporatised.

A generic concern for all of the public service has been recruitment and retention of appropriate skills for effective delivery of services. Notwithstanding the current budgetary problems, some of these concerns could be addressed by making the incentive structure of the public service more compatible with that of the marketplace.

The performance of the public service could be improved through better enforcement of existing disciplinary measures including a move towards more effective performance measurement.

5.5.1 Priorities and Strategies

Priorities for developing a productive public sector are to:

1. Continue to implement public service wide reforms including:
 - a. Implementation of decisions of the Remuneration Tribunal;
 - b. Better enforcement of disciplinary measures for non-performance throughout the public sector;
2. Continue to corporatise State Owned Enterprises and rigorously enforce commercial management and operational practices.

5.5.2 Performance Indicators

Indicators of achievement of the priorities will be remuneration levels of key skilled personnel in the public service; timely disciplinary action within the public service; SOE performance and privatisation.

Chapter 6: Primary Sector Development and the Environment

6.1 Primary Sector – Agriculture, Forestry, Fisheries

6.1.1 Sector Overview

The Agriculture, Forestry and Fishing sector accounts for around 15% of total GDP and for almost all merchandise exports. It is important to note also that statistical measurement of productive activities is believed to be understated.

Vanuatu is still an agriculture-based economy with copra, cocoa, kava and cattle continuing to dominate the sector. Real GDP per capita is still lower than in the early 1980s, due largely to the lack of significant long-term growth in agriculture and fisheries.

However, since 2003, the agriculture sector has grown at an annual rate of 3.3 percent compared to 2.8 percent growth for the economy and an average population growth rate of 2.6 percent per annum.

Despite some limited successes, commercialisation of smallholder agriculture has been slow in developing, while many of the former colonial plantations were broken up at independence.

Vanuatu is an island nation with a relatively small land area and population. Only one third of the total cultivable land is presently farmed. Transport services, both inter-island and intra-island, are a major constraint to marketing and thus to increasing productivity and the volume of production.

The domestic market for agricultural products is quite limited. While at least 80 percent of the population reside in the rural areas and depend on agriculture for their livelihood, productivity, particularly in the traditional crops sector, is quite low. The export of high value specialty commodities, particularly those that are organically grown, represents great potential. In order to increase the penetration of premium niche markets by these commodities, however, the volume of production must be increased. The challenge in agriculture is to increase production and productivity and improve marketing systems and market access for both traditional food crops and high value specialty commodities.

The fisheries resources are not being properly exploited. The reef fisheries are over-fished in some areas, notably in the vicinity of Efate, but are generally under-exploited near the outer islands. The deep water snapper resource has the potential for some further exploitation but there appear to be definite limits. The Fisheries Department does not have the resources to properly monitor the tuna catch in Vanuatu waters. The water temperatures, however, are such that it appears unlikely that massive numbers of tuna frequent the area. Improvements in catching, handling and marketing systems and commercialisation of the domestic fishing industry are badly needed, but the fisheries resources are probably not sufficient to supply a larger proportion of the protein needs of a rapidly growing population from local fish stocks and to sustain the limited fisheries resources.

Vanuatu possesses soils and climate that are conducive to timber production. The challenges for this sector will include ensuring replanting of trees at a rate at least equal to the volume being harvested; to foster utilisation of additional species; and to develop additional value-added processing. Developing a sustainable forestry sector will depend on attracting investors for developing larger commercial timber plantations. A parallel opportunity for development lies in organising and empowering mobile sawmill operators to expand into value adding wood products processing.

6.1.2 Key Issues and Challenges

A wide variety of taxes, policies and regulation, including high trade taxes, lack of competition in markets for credit, shipping, utilities and other inputs and inefficient and loss-making state farming and marketing bodies, have seriously hindered development of the agriculture, forestry and fisheries sectors in Vanuatu.

Many of the key issues and constraints that affect the sector are common to agriculture, livestock, forestry and fisheries development. The high cost of doing business affects primary production as much as it does other sectors. The sector is particularly constrained by the unreliability and expense of land, air and sea transport. In addition, domestic markets are small and distant export markets difficult to penetrate and expensive to reach.

These constraints are exacerbated by the high incidence of cyclones and periodic droughts, and the problems in accessing land for agriculture due to the poor management of the traditional land tenure system. This includes the management of coastal fishery rights.

Lack of access to credit for agribusiness, smallholders and fishers hinders the ability of commercial agribusiness to expand their operations and move to value-added processing and deprives the smallholder of the capital necessary to institute measures to increase productivity and to improve market access. High interest rates are an impediment, but the main problem relates to a lack of collateral.

The lack of markets and marketing facilities is another important constraint, particularly to the development of a viable commercial agriculture and fisheries sector with smallholder participation.

Investment returns in agriculture and fisheries, including projects sponsored by aid agencies, have been disappointing. Project benefits from large investments in rural fisheries in the past have not been sustained. Government's policies therefore emphasise that growth in the sector must be private sector led. The Government is progressively withdrawing from production and marketing activities and focusing on facilitating sustainable private sector development through policy and regulatory reforms.

The institutional capacity of the Ministry of Agriculture, Quarantine, Forestry and Fisheries (MAQFF) and its component divisions has been sharply reduced, first by the civil service strike in 1993 and again by the CRP "right-sizing" exercise that sharply reduced staff and budgets.

- The capacity of the extension services under the Department of Agriculture has been severely reduced due to funding constraints.
- The Fisheries Department does not have sufficient staff to enforce regulations or to prevent over-fishing.
- The Forestry and Quarantine Departments, by contrast, are well-focused and generally effective in the performance of their core duties, although Forestry needs to expand its regulatory staff to ensure compliance with the new Code of Forest Practices (CFP).

Vanuatu's agriculture and fisheries sector lack a national policy to serve as a "road map" to guide public and private sector stakeholders towards agreed development objectives. Sustainable growth in agriculture, fisheries and forestry will require the Government and private sector to work in close partnership toward common development goals and objectives.

6.1.2.1 Agriculture

Constraints that particularly affect agriculture and livestock development include low smallholder productivity, which holds back the commercialisation of agriculture. Most smallholders use little of the inputs that could raise productivity such as fertiliser, pesticides or more sophisticated farm tools. Plus there is little knowledge about the use and handling of these inputs.

The sector is also vulnerable to shifts in world prices, especially to changes in copra and cocoa prices. Copra, which has been the main source of rural cash income, has been declining in real terms for the past two decades. Indications are that the economic importance of the copra export industry will continue to decline, due to the downward trend in real world prices. Incomes from cocoa, coffee and kava exports have also fluctuated because of changes in price, ability to meet quality standards and health concerns over kava in European markets.

Soil degradation is an increasingly important issue affecting agriculture. The traditional practice of shifting cultivation that allowed the soil to go through a process of regeneration by being left idle for extended periods ranging from 5 to 10 years is no longer possible. The fallow periods are being shortened as population pressure on land grows. This has contributed to a significant rise in soil degradation. This has been addressed through pilot projects on various islands through dissemination of information on crop varieties and appropriate farming practices.

Agro-forestry is also being promoted, although only in a limited way, with the use of intercropping to reduce soil degradation.

The lack of research into agricultural crops is an issue. However research has been carried out on yams, sweet potato and taro with the aim of improving yield and quality.

There is also no effective extension service. Lack of effective dissemination of information to farmers is therefore a problem. This includes livestock information e.g. on pig and poultry feed, and lack of access to knowledge about improved varieties resulting from research.

The potential for agricultural expansion is great. Vanuatu has favourable climatic conditions for a variety of high value crops and livestock, an absence of most economically significant pests and diseases, and a “natural” environment for producing organically grown food products. There is also good potential for organically grown cocoa, coffee and kava.

Figure 6.1: Agricultural Priorities

Increased productivity through:

- Better research on traditional food crops;
- More effective extension services;
- Dissemination of improved planting material;
- Strengthening Department management;
- Conducting an agricultural census;
- Improving access to credit;
- Increased ni-Vanuatu participation in agri-business.

Improved marketing through:

- Improving quarantine services;
- Encouraging private sector development of marketing and post harvest handling;
- Identification of markets in collaboration with private sector.

6.1.2.2 Livestock

Vanuatu has one of the most conducive environments in the world for raising beef cattle. Domestically the production of beef, pork, poultry and sheep/goat for local consumption forms an essential part of the rural economy. Any improvement in the capacity of farmers and their communities to produce, process and sell these animals and products would have a positive effect upon rural farmers incomes, and offer opportunities to promote rural enterprises such as butcheries. Improvements in domestic livestock production and processing would also improve the level of food security and safety in rural communities, while promoting the substitution of local meat for imported products.

Although beef exports have increased in recent years there remain many capacity issues hindering such growth. Cattle production is limited by poor transport, a lack of credit for rural farmers, and limited government extension programs. Processing for export is hindered by high utility and freight costs compounded by the relatively small-scale level of processing throughput. Vanuatu’s ability to gain access for its beef to potential high-value markets such as the European Union is hindered by limited government and industry capacity to meet overseas import requirements. Improving the returns for export beef by selling to higher value markets, and improving the economics of processing through improved cattle production and increased processing throughput, would have a significant positive affect upon export revenues, and encourage further positive growth within the cattle industry.

Figure 6.2: Livestock Priorities

Increased exports through:

- Improved DLQ capacity of to meet overseas country requirements;
- Improved capacity of export processors to meet overseas country requirements;
- Gaining market access for beef to higher value export markets such as the European Union.
- A marketing and branding strategy for Vanuatu beef exports.

Improved incomes for farmers through:

- Improved market structures for the transport and sale of cattle;
- More butcheries in rural areas.

Improved livestock production through

- Improved extension services to livestock;
- Better access for smallholder farmers to credit;
- A program of breeding improvement.

Expand other livestock through:

- Promoting the use of goats as a food animal;
- Development of locally produced feed rations for poultry and pigs.

6.1.2.3 Forestry

Vanuatu faces a natural constraint to large increases in production of forestry products, as even though some 36% of the country is forested, a large part of this is unsuitable for commercial logging due to the poor quality of timber and inaccessibility to sites.

Even so, lack of sustainable management of the resource is a concern, given that harvest rates are greater than replanting and the fact that forests are a vital part of the country's cultural heritage and contribute to the welfare and economic development of the people.

However, impressive progress toward the development of a system for sustainable development of Vanuatu's forest resources has been made. This will greatly facilitate the realisation of opportunities for further growth and development of the sector. These opportunities include the establishment of commercial tree plantations, expansion of agro-forestry, greater utilisation of timber species other than the two most commonly harvested, increased use of non-wood forest products and downstream processing for value added.

The traditional land tenure system remains a large constraint. Disputes between forestry leaseholders and custom landowners are the rule rather than the exception. No land use system is in place therefore no mechanism is available for identifying conservation and timber production areas.

6.1.2.4 Marine resources

Past efforts at raising rural income from fishing has had mixed success. Lack of adequate storage facilities, inadequate access to markets, and high cost of credit have been identified as factors inhibiting growth of the industry. As a result exports have been small and stagnant with domestic demand increasingly met by imports, particularly of canned fish.

Access rights to near shore and reef fishery are complicated by traditional land and reef ownership arrangements. Moreover, Provinces have little capacity for the management of coastal fisheries, which is their responsibility. Therefore there is irregular enforcement of regulations by the provinces.

Greater emphasis should be placed on the management of coastal fisheries on which the majority of the rural population rely to some extent and which can make a greater contribution to rural incomes, nutrition and self-reliance than the commercial fishing sector. Co-management with local communities through fishery wardens and the like is essential for the sustainable management and conservation of the resources and the maintenance of biodiversity, particularly for over exploited and endangered species. There is a need for capacity building for education, awareness building, monitoring and reporting to allow them to meet their obligations. NGOs should be encouraged to take over some of the responsibilities for promoting the conservation and sustainable exploitation of the resources and to build capacity in the custodial communities.

Figure 6.3: Marine Priorities

Improved fisheries management through:

- Preparing a sector strategy;
- Implementing the tuna management plan;
- Revision of fisheries legislation;
- Institutional capacity building within the fisheries Department;
- Strengthening Provincial capacity for coastal fishery management.

Sustainable coastal and reef management through:

- Mobilising communities to manage their coastal and reef fishery resources;
- Facilitating the marketing of reef fish;
- Improving stakeholder involvement in the sector;
- Mobilising local communities to arrange their own fish aggregating devices;
- Assessment of the sustainable management of the live reef fish trade.

Sustainable offshore management through

- Effective monitoring of catches and enforcement of Total Allowable Catch limits;
- Maximising the resource rental from the oceanic tuna;
- Promoting local investment in value-adding activities and fish exports.

Expand employment of seafarers through:

- Seafarer training.

Poor institutional capacity of the Department of Fisheries has eroded its efforts at managing and monitoring the commercial offshore fishery. Attempts to develop significant local participation in commercial fishing have been disappointing. The lack of a sector strategy, and lack of stakeholder involvement in the sector, also constrains development.

6.1.3 Policy Objectives

Many of the policy objectives to promote Private Sector Development and Employment Creation apply also to the Primary Production sector. These include the need to reduce the cost of doing business; to improve access to credit, land and business support services; and to ensure a conducive environment for commodity exports. Action in these areas, as well as actions to improve transport services (see chapter 9), will provide the basis for growth in primary production.

Specific Primary Production sector policies stress the need for sustainable management of crop and livestock production, forestry resources, and marine resources; and creating the necessary conditions for private sector led growth and exports.

Recognising that most of the population is involved in this sector, policy objectives for the whole of the Primary Production sector are to:

1. Revitalise access to expert advice on good agricultural practices;
2. Sustainably raise incomes from production of crops, livestock, fishing and forestry resources for the domestic and export markets;
3. Increase the volume, and value, of beef exports to an increasing number of higher value overseas markets; and improve the production of livestock to meet the increasing supply and demand for domestic and export markets, while developing and promoting new uses of livestock in integrated farming systems.
4. Improve and strengthen regulatory and sustainable management arrangements for the sustainable development of the sector;
5. Involve all stakeholders in the development of sector strategies and their implementation.

6.1.4 Priorities and Strategies

The main priority for the Primary Production sector is to direct more funding to strengthening the institutional capacity of the MAQFF and its associated departments. The policy objectives and specific priorities and strategies cannot be achieved without considerable attention to improving institutional capacity.

6.1.4.1 Agriculture

1. Increase productivity in traditional root crops, livestock and high value crop production;
2. Improve the marketing arrangements (domestic and export) for traditional food crops and high-value speciality niche products;
3. Prepare a national agricultural sector strategy with the involvement of all stakeholders.

6.1.4.2 Livestock

1. Increase the volume and value of beef exports to an increasing number of higher value overseas markets.
2. Improve the incomes of rural farmers through the facilitation of increased sales of livestock and livestock products.
3. Improve the production of livestock to supply the increasing demand of domestic and export markets;
4. Develop and promote other livestock such as goats, pigs and poultry.

6.1.4.3 Forestry

1. Maintain and improve the regulatory and management framework for the sustainable development of the sector through:
 - a. Improved institutional capacity in the Department of Forestry;
 - b. Preparation of a Forest inventory update and sector plan update;
 - c. Effective enforcement of the Code of Logging.
2. Development of effective method of dealing with the traditional land tenure system;
3. Facilitate sustainable investment in timber plantations in collaboration with the private sector.

6.1.4.4 Marine resources

1. Improve fisheries policy and management;
2. Sustainably manage coastal and reef resources;
3. Sustainably manage offshore fisheries;
4. Expand employment of seamen through development of the Vanuatu Maritime College to provide training for international seafarers and encouraging Vanuatu registered vessels to employ ni-Vanuatu seafarers.

6.1.5 Performance Indicators

Performance in achieving the policy objectives will be monitored using the following indicators:

- Income growth as measured by 5 yearly Household Income and Expenditure Surveys;
- Output growth in agriculture, livestock, fisheries including subsistence;
- Share of the sector and sub-sectors in GDP;
- Export growth of primary production products;
- Development of sector strategies;
- Government and donor resource allocations for the sector.

6.2 Environment and Disaster Management

6.2.1 Sector Overview

Vanuatu has a wide range of natural resources. The development of these natural resources will be the main way of raising incomes and creating employment. It is therefore critical to ensure that that environment is protected. In addition, land and the environment are central to ni-Vanuatu culture. Preservation of the environment is therefore of great importance.

Environmental concerns featured prominently in the CRP with an emphasis on strengthening existing customary measures to sustain environments. The history of environmental protection has been marked by some notable successes. Round log exports are banned; conservation measures for sandalwood have been taken; and numerous protected areas have been developed.

Environmental management is the responsibility of the Environment Unit, although other departments including Agriculture and Forestry also have responsibilities in relation to environmental issues. A few NGOs are also active in the environment sector.

Modern legislation has been introduced for environmental management. The Environmental Management and Conservation Act was passed in 2002 and provides for the conduct of environmental impact assessments and for biodiversity and protected areas.

6.2.2 Key Issues and Challenges

Vanuatu's biodiversity is threatened by a number of introduced species of plants and animals and over harvesting of some reef and lagoon fish. However, quarantine protocols have been developed to prevent the import of weeds, pests and diseases. As a result, Vanuatu is largely free of animal diseases and parasites, which has allowed the cattle industry to flourish.

With Vanuatu's population growing at 2.6% per year and urban areas growing faster, there is increasing pressure on both urban infrastructure and the environment in Port Vila and Luganville. Water pollution in Port Vila harbour and the lagoons is serious. The probable cause of the high pollution is the lack of a sewerage system and poor management of many individual septic tank systems. The urban environment of Port Vila is particularly important for sustaining the growth of

tourism. A new Port Vila development plan would assist in defining how public amenity can be maintained or improved and the attractiveness of the town enhanced for both residents and tourists.

The safe disposal of solid waste is a significant problem for many communities. Assessing solid waste disposal issues is a moderately high priority for many islands.

The effects of global warming on climate are hard to predict, but it is likely that storms will become more severe and that climactic zones will shift, affecting rainfall patterns and drought. Sea level rise would have an impact in the future especially as many roads and settlements are close to the coast.

Lack of resources is constraining the full implementation of the Environmental Management and Conservation Act.

Vanuatu is highly vulnerable to a range of natural disasters including cyclones, coastal flooding, river flooding, earthquakes, landslides, tsunamis and volcanic eruptions. The emphasis in disaster management has been on making communities aware of the need for preparedness and promoting the renewal of traditional knowledge of mitigation and preparedness.

The National Disaster Management Office with the assistance of the National Disaster Committee is mandated to develop strategies for the prevention of, preparation for, response to, and recovery from, disasters.

6.2.3 Policy Objectives, Priorities and Strategies

Priorities and strategies are to:

1. Implement the Environmental Management and Conservation Act and the regulation of related activities;
2. Encourage the development of protected areas;
3. Improve sewage treatment and reduce pollution in the harbours and lagoons near urban centres;
4. Conduct a solid waste disposal study;
5. Encourage eco-tourism, where feasible, as a means to protect the environment;
6. Conduct community awareness of the need to protect the environment including through reduction of risks from natural hazards;
7. Develop and implement risk reduction programs in communities;
8. Prepare a Port Vila development plan to define how public amenity can be maintained or improved and the attractiveness of the town enhanced for both residents and tourists.

6.2.4 Performance Indicators

Little data is available to measure performance in achieving the objectives. Progress will be measured by monitoring the Priorities and Strategies.

Chapter 7: Provision of Basic Services and Strengthening Social Development

7.1 Overview

Improving the provision of basic services, especially to rural areas, and strengthening the involvement of all parts of society in development, especially women and youth, is recognised as essential to achieving the Vision of an Educated, Healthy and Wealthy Vanuatu.

The lack of basic services of health and education is a major cause of hardship and poverty in the country. Government is committed to improving basic service delivery especially in rural areas and outer islands. The key to improving these services is in raising public service productivity so that improved and expanded services can be provided within the limited resources available. Achievement of policy objectives in this Strategic Priority is therefore highly dependant on good progress in public sector reform.

The spread of the cash economy and the weakening of traditional forms of social cohesion have particularly affected women. Domestic violence, high teenage pregnancy, high youth unemployment and lack of self-employment opportunities are emerging social problems that need to be addressed.

This chapter covers policies to improve health services and policies to address gender and development. Education policies are covered in chapter 8.

7.2 Health

7.2.1 Sector Overview

A nation's health is a key parameter in determining long-term economic performance and development.

Life expectancy is currently 69 years for females and 66 for males (1999 Census). There has been progressive improvement in key health indicators over the years. Under 5 mortality has reduced from 58 per 1,000 live births in 1989 to 33 in 1999 and similarly infant mortality has declined from 45 per 1,000 live births in 1989 to 27 in 1995 (see Figure 7.1). The proportion of 1 year olds who have been immunized against measles has varied and was at a low of 66% in 2003.

Comprehensive maternal mortality rates are not available but the proportion of births attended by skilled health personnel is around 88%.

HIV/AIDS is an emerging threat to health but its prevalence is not routinely monitored at present so that the actual extent of HIV infection is not known. Consistent use of condoms substantially reduces the risk of sexual HIV transmission as well as STI transmission. Both the Ministry of Health and NGOs have awareness programs on HIV/AIDS, STIs and on the use of condoms. The contraceptive prevalence rate was estimated at 15% in 1991 rising to 28% in 1999.

Figure 7.1: Key Health Indicators		
	Baseline	Latest
Under-five mortality rate per 1,000 live births	58 (1989)	33 (1999)
Infant mortality rate per 1,000 live births	45 (1989)	27 (1995)
Proportion of 1 year-old children immunised against measles	66% (1990)	75% (2001) 66% (2003)
Proportion of births attended by skilled health personnel	79% (1990-1995)	88% (1999)
The contraceptive prevalence rate	15% (1991)	28% (1999)
Prevalence of underweight children under 5 years of age	23% (1983)	12% (1996)

Malaria continues to be a major disease threat despite programs to increase access to treated bed nets.

Malnutrition is also a concern, and has a serious impact on the ability of children to achieve educational standards. The most readily available data on malnutrition are from the MOH (1996),

which concluded that 12% of children were underweight (low weight for age) and 20% stunted (low height for age) with 6% showing wasting (low weight for height). The total proportion showing (possible) nutritional problems was in the order of 25% - a high level.

The general health situation in Vanuatu is in a period of transition, with communicable diseases still accounting for a large proportion of illness and death but with a rising incidence of non-communicable diseases (NCDs), or "life-style" diseases.

With a changing lifestyle and increasing urbanisation it is anticipated that there will be an increase in risk factors associated with NCD. In 2003 7% of admissions to the hospital in Port Vila were NCD related; 29% of which were admissions for hypertension and 23% for diabetes. Problems will be most pronounced in urban areas where obesity is more common and exercise rates lower than in rural areas. A 1998 NCD survey found that 52% of females and 46% of males were overweight or obese.

The health system design supports access to primary care services for local communities at 180 aid posts, 74 active dispensaries, 27 health centres, 3 provincial hospitals and 2 major referral hospitals in Luganville and Port Vila. The level of referrals through the system is based on clinical needs to patients, with the aim of retaining patients closest to their homes.

Considerable investment has been made in health infrastructure, mainly by development partners, and in improving the management of the Ministry of Health and its facilities. A Master Health Services Plan was prepared in 2004 and covers the period 2004 to 2009. A Health information system has been developed which allows identification of causes of illness and health service visits from hospital data, out patient diagnosis and public health statistics. However, information is not currently being collected in a systematic manner.

7.2.2 Key Issues and Challenges

Access to health care remains a key challenge in the sector in part due to the geography of the country. A large proportion of the population has to travel by boat, canoe or truck to reach the nearest aid post. In some cases this can involve up to 2 days travel. For many, the delay will exacerbate their health status.

Up-to-date information on disease incidence and patient numbers and locations is essential for a measured response to health problems. There is a need to revitalise the Health Information System to ensure better-informed planning of health services. Improved coordination is also needed between Government, civil society and donors in health care delivery.

The health workforce is lower per capita than most Pacific Island Countries and is also unevenly distributed across the country. Expatriates are required to supplement the ni-Vanuatu medical workforce and to provide the necessary specialist services both for services and for training of interns within Vanuatu. Budgeting problems combined with recruitment bottlenecks has meant that some health professionals are working as temporary employees. There are also difficulties in retaining key professional staff and in retaining experienced nurses in the more remote areas.

Financing of health services, where private sector providers are few, is an ongoing challenge to Government. In the future, expenses are likely to rise faster than population growth as NCDs such as diabetes and heart disease increase. These conditions are expensive to treat and it makes sense to expand health promotion measures in order to prevent increases in NCDs. With user fees contributing little to overall costs, it is essential that resources are managed carefully.

7.2.3 Policy Objectives

Government has established a mission for the Ministry of Health: to protect and promote the health of all people living in Vanuatu, with the vision of having an integrated and decentralised health system to promote effective, efficient and equitable development and services for the well being of all people across Vanuatu. Recognising that Vanuatu has adopted the overarching philosophy of a primary health care approach, policy objectives for the health sector are to:

1. Improve the health status of the people;
2. Improve access to services;
3. Improve the quality of services delivered;

-
4. Make more effective use of resources.

7.2.4 Priorities and strategies

1. Base the delivery of health services on a Primary Health Care (PHC) approach to ensure access to sustainable provincial services including strong links with provincial governments.
2. Improve the health status of the people through:
 - a. Reducing illness and deaths in children under 5;
 - b. Promoting child spacing and reducing teenage pregnancy;
 - c. Reducing disability and deaths amongst productive adults.
3. Improve access to services through;
 - a. Adoption of the role delineation tool to distribute resources more fairly based on community health needs;
 - b. Implementation of mechanisms to evaluate tertiary services and provide guidance for their access both within Vanuatu and beyond;
 - c. Develop an integrated primary health care and public health care strategy for Vanuatu;
 - d. Giving a higher priority to improving transportation and communication to improve access for patients and reduce the isolation of health workers and improve and strengthened partnership and ownership of health programs developments through the coordination of donors, NGO's and other sectors of government, chiefs, churches etc, with regards to facilitating the implementation of the Health Sector Plan.
4. Improve the quality of services delivered through:
 - a. Implementing a comprehensive Hospital and Health Service Quality and Safety Standards program;
 - b. Recognizing the potential for the key role to be played by health professionals in providing leadership and ensure there is continued skill base development and retention in the workforce;
5. Make more effective use of resources through:
 - a. Improving the collection of data to enable the monitoring of health status and support health planning and management;
 - b. Adopting only health initiatives, which are cost effective and proven in the South Pacific; and continue to roll out the planning process to include high priority services and new programs.

7.2.5 Performance Indicators

The Ministry of Health Master Services Plan contains strategies and targets, and performance indicators, to measure progress in the priority areas. Performance Indicators to reflect overall progress in the sector include:

- Infant/child mortality;
- maternal mortality;
- births attended;
- immunization coverage;
- contraceptive prevalence rate;
- malaria, TB, NCD incidence;
- availability of timely and accurate health statistics.

Many of these indicators are also contained in the Millennium Development Goals – see Figure 7.2.

Figure 7.2: Millennium Development Goals for Health

- Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
- Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate
- Have halted by 2015 and begun to reverse the spread of HIV/AIDS
- Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

7.3 Gender and development

Sustained growth and development is achievable only through the participation and involvement of all sections of society. Unfortunately, women, in almost all sectors of their lives, are disadvantaged, when compared to men. Creating an environment through the development of legislation and positive economic and social policies for the full development of women is necessary for the achievement of equality, development and peace.

Progress has been made since Independence in recognising the important role of women and enhancing the status of women. However, there is still a long way to go in achieving an equal partnership between men and women in the pursuit of development. This lack of recognition of women as a valuable economic resource to foster development is based on what some people consider as traditional norms and expectations of a woman's rightful role in society as homemakers.

It is however important also that progress and development is managed such that it does not erode away traditional systems and practices that support and protect women and children.

7.3.1 Key Issues and Challenges

Both health and education are important aspects of human development. Eliminating gender disparity at all levels of education would help to increase the status and capabilities of women. Female education is also an important determinant of economic development. Focussing on women's health not only helps women but also helps to improve the health of the whole family. Health issues are covered earlier in this chapter.

The MDG goal for gender and equality is to "Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015". The male-female differential in education has been

closing very rapidly. The ratio of girls to boys in primary was 88% in 1991 rising to 92% in 2002 with much better progress in secondary education (see Figure 7.3). However, significantly fewer women attend tertiary education than men. In 2003 for every 100 men enrolled in University of the South Pacific (USP) enrolments either on campus (Fiji Islands, Samoa and Vanuatu) or through the in country USP centres there were only 60 women. In 1999 there were 50 women (115) for every 100 men (232) awarded scholarships for study through the Ministry of Education (see Figure 7.3).

The share of women in wage employment in the non-agricultural sector measures the degree to which labour markets are open to women in industry and service sectors, which not only affects equal employment opportunity for women but also economic efficiency through flexibility of the labour market and therefore the economy's ability to adapt to change.

Women are under-represented as employees in both the public and private (formal) sectors. The public sector is a significant employer in Vanuatu, employment in the public sector at 4,475 compared with formal private sector employment at 9,797 (business registered for Value Added Tax (VAT)). Within the public sector women make up 35% of employees; approximately the same as the private sector (32%). In 2000 basically one in three employees in the formal sector was female. In 2003 the public sector employed 1,781 women, representing 38% of employees.

Figure 7.3: Indicators for Gender and Development

Indicator	Baseline	Most Recent
Ratios of girls to boys in primary, secondary and tertiary education (tertiary: USP enrolments)	Primary 88 (1991) Secondary 84 (1994) Tertiary 40 (1995)	Primary 92 (2002) Secondary 99 (2002) Tertiary 60 (2003)
Ratio of girls to boys in pre-school education	103 (1995)	95 (2001)
Ratio of women to men receiving tertiary scholarships	50 (1999)	
Share of women in wage employment in the non-agricultural sector	23% (1989)	40% (1999)
Proportion of seats held by women in national parliament	2% (2002) 1 female 52 total	4% (2004) 2 females 52 total
Proportion of departments or ministries headed by women	18% (2003) 56 positions 10 female heads	

However, women in wage employment are increasingly employed outside the agriculture sector. According to the 1999 Census 40% of women with paid jobs (working for wages, salaries or profit) work outside the agriculture sector compared to 23% in 1989 (see Figure 7.3).

As noted under Article 4 in the Vanuatu CEDAW report, while government has set its goal to improve the proportion of women in decision-making bodies, the government has not reached its target to have 30% of parliamentary seats held by women by 2006. Only 4% of seats were held by females in 2004. In addition only 18% of senior public servants are female.

7.3.2 Policy Objective

The policy objective is to “Promote gender equality and empower women”.

7.3.3 Priorities and Strategies

The main priorities are to:

1. Improve the gender balance in primary, secondary and tertiary education;
2. Increase the number of women in wage employment in the non-agricultural sector;
3. Increase the number of women in decision-making roles in government.

7.3.4 Performance Indicators

- The ratios of girls to boys in primary, secondary and tertiary education (tertiary is University of the South Pacific enrolments);
- The share of women in wage employment in the non-agricultural sector;
- Proportion of seats held by women in national parliament;
- Proportion of departments or ministries headed by women;
- Percentage of women on Boards and other Government committees.

Chapter 8: Education and Human Resource Development

8.1 Sector Overview

The education system aims to empower future generations to become self-reliant in managing their own life and careers as individual members of their community, society and the nation as a whole. Across the world, education sectors are working towards Education for All (EFA). The international EFA initiative has six goals:

1. Expand and improve early childhood care and education, especially for the disadvantaged;
2. By 2015 all children (especially girls, minorities, the disadvantaged) have good quality, free, complete, compulsory primary education;
3. All young people and adults have equitable access to learning and life skills;
4. A 50% improvement in adult literacy (especially for women) by 2015 and equitable access to basic and continuing education for all adults;
5. Improved quality and excellence, especially so that targets are met in literacy, numeracy, and essential life skills;
6. Elimination of gender disparities in education.

In the medium term, the education sector is concentrating on the Millennium Development Goals of achieving universal primary education, gender equality in education, and education which contributes to the alleviation of poverty.

The environment in which these goals must be achieved is unique, including more than 105 vernaculars, two official languages and one national language; schools scattered over more than 60 islands; a high rate of population growth, and rapid urban drift. The growing population (and increasing enrolment and retention rates) puts considerable pressure on the education system and places increasing demands on the national budget. In addition there is growing support for recognising traditional skills and valuing custom and culture as part of the Vanuatu National Self-Reliance Strategy. The Ministry is currently embarking on a major restructure to decentralise school administration and support to the provincial level, strengthen planning monitoring and auditing at the national level, and consult school communities and stakeholders as part of planning for an Education Sector Wide Approach (SWAp) to strengthen the system.

In 2004 some 39,000 students were enrolled and completed primary school, up by 11% since 2000. Junior and senior secondary enrolments have also increased with 10,600 students enrolled in 2004. Student teacher ratios in the 441 primary schools was 20:1, while in the 74 secondary schools the ratio was 15:1. Progress towards universal Primary Education has been slower than hoped for. However, figures from the population censuses show that, in 1999, 78% of children in the 6 to 12 year age group were attending primary school. This compares with 74% in 1989. No significant differences in the enrolment of boys and girls was recorded but girls are an increasingly smaller percentage higher up the education system.

High drop out rates still remains a major concern. Some 91% of primary students went on to complete year 5 according to the MDG report, and this appears to have decreased since 2000. Many parents in both rural and urban areas find it difficult to meet the costs of education. The proportion of students passing the year 6 national exam is improving but only about half of the students pass and qualify for secondary level education. Pass rates are considerably worse in rural areas than urban areas. Some 44% of rural males and 49% of rural females passed the year 6 exam in 2003 compared with urban pass rates of 74% for males and 79% for females. International research indicates that countries which have a high proportion of the population living in rural areas are unlikely to achieve the EFA or Millennium Development targets unless additional initiatives are taken in education for rural development.

Many school leavers do not have the necessary skills for productive employment or self-employment. School curriculum will be improved to provide enterprise and rural development skills. Technical Vocational Education and Training (TVET) is undergoing expansion with the extension and improvement of courses offered. Local examples include the Vanuatu Institute of Technology, the ongoing courses offered by Rural Training Centres, the Maritime College, USP, and the Agriculture College.

2006 marks a new era in the Vanuatu education system where the government has agreed to extend basic education from year 6 to year 8, meaning children will be able to spend at least 8 years in basic and primary level before moving on to junior secondary level.

The sector is adopting the Sector Wide Approach (SWAp) and an Education SWAp Forum has been established to develop a strong partnership between the Ministry, key Government agencies, development partners and civil society. During the planning phase, baseline data will be gathered and analysed, MoE planning implementation service delivery and monitoring capacities will be assessed and strengthened. Existing plans and policies will be better aligned with national plans and incorporated into a single Education Sector Strategy.

8.2 Key Issues and Challenges

The major challenge is to continue to expand access to education and to improve quality within available resources.

Education is a major component of the national budget with the education ministry expenditure accounting for an average of 25% of total expenditure annually. In addition to this, parents fund many school costs and development partners have played a major role in financing expansion of the system. However, financing future expansion of the system presents serious challenges. Some 84% of the recurrent education budget is spent on salaries leaving very little for school materials. The scattered nature of the islands, the smallness of communities, the bilingual system of education, and a lack of reliable transport infrastructure, make education costs very high compared to other Pacific Island Countries.

Improved fiscal and financial management of the sector is a useful first step in aiming to improve the cost effectiveness of the whole education system. This includes measures to improve medium term resource planning, improve utilisation of resources at ministerial and educational establishment levels, all of which are also critical to meeting the challenges facing education.

Formal employment is the primary aspiration of almost all school leavers. However, given that a large proportion of school leavers will not be able to obtain formal jobs, there needs to be an increased emphasis on basic education, enterprise skills, rural development skills, and technical and vocational training. This emphasis should be designed to prepare youth to effectively participate in adult education programs, short-term training, and formal and non-formal post-secondary training. This will help them become more productive in the village economy (agriculture, fishing and forestry), and in other types of income earning activities, particularly those activities involving the ownership and operation of small businesses. These could also be focussed in the tourism sector, which would facilitate development of ni-Vanuatu entrepreneurial skills, thereby supporting development of a more robust domestic private sector.

Improving TVET will need to focus on strengthening current TVET providers, which include the Rural Training Centres, Maritime College, Agriculture College, VITE, VIT, and the Chamber of Commerce. There is also a need to strengthen the Vanuatu National Training Council (VNTC) and establish proper certificates of completion for all TVET training according to the level of achievements and to introduce a system of accreditation which promotes pathways with the formal system and credits to other regional providers.

Identifying occupational skills and education standards that are most critically needed in the private sector, as well as in government is a major task that must be addressed on an ongoing basis. This will be addressed by the development of a National Human Resource Development Plan, which will cover the whole range of education and technical training provision.

8.3 Policy Objectives

The major goal in the sector is to provide universal primary education completion and improved access to a quality education and training system that better contributes to economic and social development. The main policy objectives are to:

1. Improve access to education and ensure gender and rural/urban balance;
2. Raise the quality and relevance of education;
3. Improve planning, fiscal and financial management in the sector;

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4. Develop a distinctively ni-Vanuatu education system.

8.4 Priorities and Strategies

Against this background, priorities and strategies in the education and training sector are to:

1. Improve the relevance, quality and accessibility to Pre-school and Special Education for all young children as stipulated within the EFA National Plans and the Millennium Development Goals Indicators;
2. Achieve relevant and quality universal Primary Education up to Year 8 (EFA and MDG target);
3. Increase accessibility and improve relevance and quality in junior and senior secondary level of education;
4. Improve quality and accessibility for tertiary studies in both the francophone and anglophone schools;
5. Increase accessibility and improve the relevance and quality of teacher education;
6. Promote gender equality throughout all levels of education and training;
7. Expand relevant and quality Technical Vocational Education and Training (TVET);
8. Implement the Education National Human Resource Development Plan for the Education Sector that links to scholarships opportunities, manpower planning, curriculum development, and career and course advice;
9. Improve fiscal and financial management within the education sector, develop a medium term expenditure framework for education and ensure there is effective and efficient resource allocation in the education sector;
10. Finalise planning and implementation of the sector-wide approach to educational planning.

8.5 Performance Indicators

Performance milestones in achieving the above priorities and strategies are contained in Ministry of Education strategic and corporate planning documents. Outcome Indicators for the education sector as a whole are related to the EFA, MDG, and poverty reduction indicators. The indicators will be refined as part of the SWAp planning as targets are prioritised and costed. Currently the indicators are:

- Net enrolments of males and females, rural and urban children in pre-school, primary (MDG), secondary and tertiary education and training institutions;
- Drop out and repeat rates including the proportion of students starting year 1 who reach year 5 (MDG);
- Units costs for primary, secondary and tertiary education;
- Proportion of Government funds allocated to education and the proportion of these funds which goes to delivery;
- Measurement of the proportion of students with access to qualified teachers, quality classrooms, and quality learning materials.
- Weekly and annual minimum instructional hours, particularly in language and numeracy;
- Ranking of student achievements against regional and international standards at key milestone levels.

Chapter 9: Support Services: Infrastructure and Utilities

9.1 Sector Overview

Reliable and competitively priced economic infrastructure and utilities are essential services needed to support national development. Without such services new productive investment will be difficult to attract, and the objectives of creating additional employment and other income-earning opportunities for the people will not be achieved.

Poor transport and communication services, their high costs, and poor maintenance of infrastructure assets, particularly (but not only) in the rural areas, have been identified as major constraints to development by communities, especially rural communities, Government and aid donors. Vanuatu has a high incidence of destructive cyclones and periodic droughts. There is also increased climate variability, as part of worldwide trends for climate change. While the weather cannot be controlled, accurate forecasts and forewarning of potential disasters are important for safety as well as economic development such as agriculture and marine activities, including fishing.

Private sector monopolies operate most electricity, water supply, domestic gas and telecommunication services while Government and public enterprises play a major role in the transport sector. In comparison to many neighbouring Pacific Island countries the quality of urban power, water and communications utilities in Vanuatu are of a high technical standard. But the costs to the consumer are also very high to the extent that these are generally believed to be hampering growth of enterprises, and constraining the development of tourism. Effective regulation and monitoring of concession agreements in electricity, water and telecommunications are seen as essential to improving services and reducing costs.

Reform of Government activities in the sector has been undertaken with the separation of regulatory and operational functions in the marine and aviation transport sectors and the corporatisation of commercial activities with Airports Vanuatu Limited and Post Vanuatu Limited. There are also plans to establish a Land Transport Authority as a separate regulatory authority for land transport; and also a need to establish a Transport Planning Committee within the ministry of Infrastructure and Public Utilities.

Efforts have also been made to improve the operations and efficiency of public enterprises in general with the design of a divestiture program to increase private sector participation in the operation and maintenance of services. However, this has met with limited success and continuing subsidies have been a substantial drain on government's budget. This lack of progress is reflected in the high level of subsidies and transfers to public enterprises, which were equivalent to 6% of GDP in 2004. This reduces the funds available for priority sectors such as health and education. There is therefore still much to be done to improve the performance of both infrastructure and utilities service providers. The government is in the process of setting up a Regulatory Authority.

9.1.1 Meteorological Services

Over the last two decades the Vanuatu Meteorological Service has suffered a steady decline in resources. This is affecting the service's ability to provide accurate forecasts and forewarning.

9.1.2 Power

Less than 20% of the total households enumerated in the 1999 National Census reported having access to electricity. The remaining households indicated other sources of light such as gas, kerosene, wood, etc. The information suggested that excluding the two municipality areas, Lakatoro, Lenakel and other privately operated sources of power supply, more than 80% of the population of the country living in rural areas do not have access to electricity and are still using traditional means for their sources of light.

The Port Vila and Luganville municipal electricity networks are operated and maintained by UNELCO through concession contracts that extend to 2031 and 2010, respectively. There are presently just under 5,000 customers on the Port Vila network and nearly 1,000 customers on the Luganville network. The Public Works Department had, until recently, the responsibility for operations of the provincial town electricity supplies at Luganville, Isangel on Tanna and Norsup/Lakatoro on Malekula but these are now operated and maintained by UNELCO. Power to Luganville is largely supplied by

the Sarakata hydro-electric scheme funded by the Japanese in 1994. Consumers in Luganville pay similar prices as in Port Vila where electricity is exclusively provided by diesel generators. Savings on fuel costs from the hydro-generation have been used to extend the electricity reticulation on Santo and used to provide solar powered systems in rural villages. There is a need for enhanced oversight of the Sarakata "Fund" to improve the transparency.

Government, through its Energy Unit of the Ministry of Land and National Resources, undertakes the electrification of the smaller village communities. Around 500 solar powered systems are operating for rural health clinics, schools and private homes. These systems were financed through the Sarakata Fund and through donor assistance but are maintained by the Energy Unit. The Energy Unit is also involved in the identification of other means of electricity generation and is promoting a number of mini hydro schemes as well as geothermal power for Efate and other Islands.

9.1.3 Telecommunications

Tele-density (defined as telephone lines per 100 people) is a key indicator of access to telecommunication services. Vanuatu has about 12 connections per 100 people according to the 1999 Population Census. This compares with Fiji and Palau which both have twenty connections (fixed and mobile connections) per 100 people. Tele-density in rural areas of Vanuatu is much lower. The MDG goal for communications is "In conjunction with the private sector, make available the benefits of new technologies, especially information and communications."

Despite the low access, Vanuatu has a modern telecommunications system serving all urban areas and most rural areas. Telecom Vanuatu Limited (TVL), partly owned by Government, has exclusive rights under a concession contract to operate domestic and international services (including Internet) to the year 2012. There are currently 6,944 fixed lines but with the introduction of mobile phones (particularly prepaid mobile phones) there has been a quantum leap in the number of phones – some 15,400 as of January 2006. Although Internet charges are comparatively high, TVL does provide a free service to schools that have computers and electricity supply to operate them.

9.1.4 Transport

9.1.4.1 Air Transport

Air transport plays an important role in both domestic and international transport, therefore a regime of primary legislation and operating rules conducive to sustainable air transport operations is of paramount importance. Whilst marine transport provides the basis for domestic freight and passenger traffic domestic air services provide vital links for many people on a more regular basis, for the development of tourism and enterprise activities and for emergency services. Competitively priced international services are critical for the promotion of the nation's tourism industry. Maintaining both international and domestic air-services is therefore of vital importance.

Stability of the operating environment for the national carrier Air Vanuatu and for operation of domestic air services is critical for the long-term financial health of the aviation sector. New international competition from low cost carriers has raised the number of tourists but creates a challenging competitive environment for Air Vanuatu.

Airports Vanuatu Limited operates the three main airports at White Grass - Tanna, Bauefield – Efate and Pekoa – Santo while the remaining 26 outer island airstrips are maintained and managed by the Public Works Department through a contracting arrangement.

As with all infrastructure the maintenance of aviation assets is a critical issue, especially as safety and security concerns are paramount. The location and local climate of many rural airstrips make maintenance very difficult and costly.

9.1.4.2 Land Transport

Public Works Department has a National Road Inventory with a recorded 1,766km that is the responsibility of PWD and 225km that is the responsibility of provincial Government. The condition of the road network is poor due to inadequate funds and machinery for maintenance.

Limited institutional capacity in terms of staffing, budget and machinery at both national and provincial level has hindered planning and the development and maintenance of the road network. The new

program for roads and infrastructure being developed under the Millennium Challenge Account will have a major impact on the nation's road network. This will add considerably to the importance of developing a sound and adequately resourced road-asset maintenance program.

The proposal to establish a Land Transport Authority within the Ministry of Internal Affairs to regulate licensing and safety is under active consideration by Government. The proposal to establish a transport Planning Committee within the Ministry of Infrastructure and Public utilities is also under active consideration by the Government.

9.1.4.3 Marine Transport

Vanuatu relies heavily on marine transportation for its trade and domestic travel between islands. It is also the main means of bringing export crops and produce from the rural and outer islands to markets. Many have likened it to the backbone of domestic freight transport in Vanuatu, and considerable attention has been given over the years to the importance of improving the efficiency of inter-island shipping to reduce internal transport costs. This has included expenditure on port facilities to consolidate freight handling and reduce shipping costs¹. In 1999 the Coastal Trading Act was abolished and the VIPA Act amended to allow for foreign ownership of vessels over 80 tonnes. As a result a number of foreign owned vessels now ply Vanuatu's waters and shipping services have significantly improved.

There are a total of 22 public ports and wharves in Vanuatu though the two most important are at Port Vila and Luganville. Five main agencies/ groups are involved in the marine infrastructure sector, their roles are summarised in Figure 9.1.

Safety at sea has been a concern and considerable efforts have been undertaken to ensure that Vanuatu ports and shipping safety standards are compliant with international standards. In 2004 a port security plan and port security regulations were introduced to improve management, safety standards and enforcement in the maritime industry and to conform with the new International Ships and Port Facility Security Code (ISPS).

9.1.5 Water Supply

The Port Vila water supply system is owned by the state but operated by UNELCO under a concession contract that runs to 2032. Water supply systems in Luganville, Lakatoro and Isangel are government owned and operated by PWD. Government, through the water section of the Department of Geology and Mines, as well as NGOs, assist with the development of village water supply systems. This assistance includes the provision of training to village dwellers to maintain their own water systems, although this has met with limited success.

Approximately 80% of the population have access to improved water services (reticulated supply and rainwater catchment tanks) and over 80% of the population have access to improved sanitation (reticulated and non-reticulated solutions such as improved pit latrines). The MDG goal for water and sanitation is to "Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation."

Figure 9.1: Institutional Structure for Marine Transport

- Ports and Harbours Department – responsible for operation and management of the main ports at Port Vila and Luganville.
- Vanuatu Maritime Authority – regulatory authority established in 1999 to ensure safety standards, licensing and administration of shipping and maritime and seafaring acts and search and rescue.
- Vanuatu Maritime Training School – situated in Santo provides training for fishermen and local and international seafarers.
- Shipping Industry – which until 1999 was essentially restricted to Ni-Vanuatu operators and now includes around 120 ships (up from about 67 in 1999) capable of inter-island transport as well as an informal sector of smaller boats. This number has increased as the Government has recently introduced two additional vessels donated by the Government of the Peoples Republic of China.
- Provincial Government – responsible for operation and management of designated ports.

¹ For example, the ADB Multi Project in 1989, and prior to that there is evidence of considerable activity in the construction of new wharves and jetties around the time of independence.

9.1.6 Pricing and Regulation

The high cost of electricity, water and telecommunications, due to high cost of operation, contributes to the high cost of doing business in Vanuatu. In the case of electricity and water supply provided by UNELCO, prices are set according to an agreement with Government, under the Ministry of Lands. The price is indexed to a variety of inputs and there is no scope within the agreement and concession contract to take account of increased economies of scale. In the case of telecommunications there are no limits on the prices that can be charged. In the case where utility services are provided by the Public Works Department, revenue generated is generally insufficient to maintain the assets. This is in contrast to those utilities owned or operated by the private sector. The complexity of the issues pertaining to utilities has been discussed at length in various reports. Costs are relatively high for electricity and telecommunications for a variety of reasons.

9.2 Key Issues and Challenges

The constraints and challenges in providing adequate and efficient infrastructure, utilities and supporting services are both physical and structural. The country is widely scattered and the island geography is often rugged. The costs of providing infrastructure, transport, power and communications services in such circumstances are high and the economies of scale are small. Vanuatu is also highly vulnerable to natural disasters arising from its climate and geology, which can lead to serious disruptions to supplies and services.

Land transport is constrained by the poorly maintained road network. In addition road regulations are outdated and there is a need to control road occupation properly and clarify road administrators for respective roads and the roles governing safety, bus and taxi fares and licensing. The amendment of the Public Road Act and establishment of a Land Transport Authority has been proposed to overcome these weaknesses.

Critical issues in marine transport, centre on the lack of access to capital for ni-Vanuatu wishing to start businesses in the shipping industry. Constraints to access to capital arise from the doubtful viability of many inter-island shipping services as a result of the widely scattered geography and the vulnerability of assets, and consequent risks of loss, from natural disasters including cyclones. Operational efficiency of marine transport in Vanuatu is constrained by outdated design and equipment. This problem is compounded by poor maintenance. Port Vila and Luganville wharves serving coastal and inter-island trade are cramped, lack adequate cargo shades and passenger handling facilities and are poorly maintained.

In summary the improvement of telecommunications services will be largely the responsibility of the private sector with government involvement being in setting up the regulatory environment for the private sector supply and competitive pricing.

The challenge for government is therefore to address the structural weaknesses in the management and operation of infrastructure and utilities, and to seek more cost-effective and efficient alternatives where possible. Potential alternative power and energy sources need to be examined, efficiencies maximised, costs minimised and prices set competitively, commensurate with providing satisfactory standards of service to all islands, and providing support to the achievement of strategies in other sectors.

9.3 Policy Objectives

Based on the key issues and challenges, policy objectives are to:

- Ensure the provision of commercial, quality, efficient, and competitively priced infrastructure, utilities and services, either through public enterprises or through private sector partnerships and competition;
- Encourage the development of a competitive private sector involvement in the provision of utilities and services;
- Minimise subsidy requirements for public utilities;
- Ensure economic infrastructure and support services are available to other sectors to enable all stakeholders to achieve their own sector objectives.

9.4 Priorities and Strategies

9.4.1 Air transport

Priorities in **the air transport** sector are to:

1. Provide safe and secure domestic and international air transport operations;
2. Provide efficient and cost effective services to passengers and cargo traffic both domestically and internationally.
3. Ensure adequate maintenance of existing airports and airstrips; and
4. Provide safe and reliable airport services to cater for growth in domestic and international passenger and cargo services.

9.4.2 Land transport

Policies in land transport sector will continue to stress the need to provide and adequately maintain an appropriate land transport system that enhances the social and economic development of the country.

Priorities are to:

1. Properly maintain the road network through more effective management and more funding;
2. Improve road administration by amending the Public Roads Act and the regulation of land transport services through a review of existing land transport legislation and the establishment of a Land Transport Authority;
3. Review Infrastructure Master Plan, prioritise projects and only construct new roads when economic benefits have been demonstrated;
4. Promote the use of bio-fuels and other alternative energy sources where economically feasible.

9.4.3 Marine transport

Government policy for marine transport will concentrate on developing and maintaining Vanuatu's shipping infrastructure so that people, communities and business can effectively participate in national and international trade. Priorities are to:

1. Maintain and upgrade existing infrastructure;
2. Improve management of the sector through improved consultation with ship owners and other stakeholders;
3. Improve operational efficiency in the ports and eliminate subsidies;
4. Improve and maintain safety standards through regulatory measures and seafarers training.

9.4.4 Meteorological services

The service's role is providing timely and accurate meteorological information to meet the needs of all people living in Vanuatu and to incorporate the climate change issues into the national development plans. This requires:

1. Restoring and upgrading the basic infrastructure and operations;
2. Putting in place an appropriate local capacity building program to improve scientific/technical staff resource levels and to upgrade skills;
3. Building climate change Issues into National Development Plans.

9.4.5 Power, water and telecommunications

For the power, water and telecommunications sectors the priorities are to:

1. Reduce the cost of services, particularly of electricity and communications including internet;
2. improve the regulatory framework to more effectively enforce contract conditions, and encourage additional competition in these sectors where possible;
3. Extend the coverage of rural electrification by the most cost efficient means;
4. Promote the use of renewable energy, especially where these can be used effectively in remote locations;
5. Extend communications services to remote areas by using innovative technology options;
6. Extend the coverage of improved water supplies in rural areas;
7. Provide training in maintenance of village water supplies in conjunction with Provincial Governments.

9.5 Performance Indicators

Performance of the sector in meeting its objectives and delivering on the priorities will be measured through:

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- **Air transport:** Nil air traffic accidents per year causing loss of life; passenger movements; airstrip closures; AVL profitability, Air Vanuatu profitability
 - **Land transport:** kms of new roads constructed; kms of roads maintained; bio-fuel use
 - **Meteorological:** accuracy of forewarnings.
 - **Marine transport:** safety record; level of subsidies; port and handling charges
 - **Power:** average price measure; power consumption; access of population to electricity.
 - **Telecommunications:** average price measure; traffic volume; internet usage; tele-density (MDG).
 - **Water:** average price measure; water consumption; access of population to improved water supplies (MDG).

Appendix 1: Key Economic Indicators

Item	2000	2004
1. Economic growth		
GDP growth rate in real terms (annual percentage)	2.7	3.7
GDP growth rate in nominal terms (annual percentage)	3.9	5.2
Consumer prices – rate of change (annual percentage)	2.5	0.8
2. Personal incomes		
Income per person in purchasing power terms (Vatu - 1983 prices)	78,713	79,683
3. External debt		
External debt as a proportion of GDP (percentage)	28.2	26.9
External debt servicing as a proportion of GDP (percentage)	0.9	1.7
4. Exports		
Principal exports as a proportion of GDP (percentage)	9.5	9.3

Note: Data for 2004 is estimated.

Appendix 2: Key Social Indicators

Item	1989	1999	2004
1. Demographic Indicators			
Total Population	142,419	186,678	212,000
Annual Population Growth Rate (% change)	2.6%	2.6%	2.6%
Dependency Ratio (% of dependents to working age)		91.4	N/A
Total Fertility Rate (births per woman)	5.3	4.8	N/A
Ave. Household Size	5.1%	5.1%	N/A
2. Health			
Life Expectancy at Birth (years)			
Male		65.6	65.6
Female		69.0	69.0
Population with Access to Health Services (%)			
Urban			
Rural			
Population per Doctor			
Government Expenditure on Health (million vatu)		872	942
As % of Total Government Spending		15.4	14.1
As % of GDP		2.7	2.7
3. Education			
Adult Literacy Rate (%)		66.0	66.0
Male			
Female			
Combined School Enrolment Ratio			
Male	N/A	N/A	N/A
Female	N/A	N/A	N/A
Primary Enrolment			38,960
Male	N/A	N/A	N/A
Female	N/A	N/A	N/A
Secondary enrolment: Junior enrolment			8,957
Senior enrolment			1,634
Male			N/A
Female			N/A
Student-Teacher Ratio (No. of students per teacher)			
Primary			1:20
Secondary			1:15
Government Expenditure on Education (million vatu)		1,789	1,922
As % of Total Government Spending		31.7	28.8
As % of GDP		5.5	5.4

Note: N/A stand for not available