



**Governing Council
of the
United Nations
Development Programme**

Distr.
GENERAL

DP/CP/VAN/2
3 April 1986

ORIGINAL: ENGLISH

Thirty-third session
2-27 June 1986, Geneva
Item 5 (b) of the provisional agenda

PROGRAMME PLANNING

Country and intercountry programmes and projects

SECOND COUNTRY PROGRAMME FOR VANUATU*

<u>Programme period</u>	<u>Actual resources programmed</u>	<u>\$</u>
1987-1991	IPF for 1987-1991	1 442 000
	Other resources programmed	<u>175 000</u>
	Total	<u>1 617 000</u>

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Annex: Financial summary

*Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include: (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; (d) planned activities of operational funds and programmes under the authority of the Administrator.

I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

A. Current economic trends

1. Vanuatu has been formally designated as a least developed country. Its estimated 128,000, mostly Melanesian, population inhabits a "Y"-shaped archipelago of some 80 islands, geographically dispersed in the Pacific Ocean between Fiji and the Solomon Islands, with a land area of about 12,000 km². The length of the archipelago is approximately 850 km with climates varying from tropical in the north to subtropical in the south. The land is the nation's main natural resource, 45 per cent of it being arable, the rest mainly mountainous. However, only about 17 per cent of the total land is at present utilized. The soil is, by and large, volcanic and fertile. Rainfall, amounting to some 2,350 mm annually, is abundant, although there are occasional droughts. The territorial waters, covering some 450,000 km² contain significant fishery resources, and there is the potential for finding ocean-bed mineral deposits. Vanuatu, however, has only a small fishing industry with little tradition of commercial fishing in the islands. The known land-based minerals are limited in range and include manganese, pozzolana and limestone. There are also prospects for developing hydropower and geothermal resources on some of the islands. While the official languages are French and English, with Bislama (a form of Pidgin English) spoken throughout the islands, there are some 100 other languages spoken by the settlement communities. Superimposed on this complex social structure were three Western forms of government at the time of independence (1980): a British, a French and a joint British-French (Condominium) administration. Typical of many plantation economies, Vanuatu, at independence, displayed an expatriate-dominated, export-oriented plantation sector, highly integrated into the global economy, existing simultaneously with a domestic smallholder subsistence sector, poorly articulated, underproductive, undercapitalized and with few internal linkages. This structure, combined with the narrow productive base, primarily dependent on earnings from copra production and a high dependence on foreign trade, rendered the economy particularly vulnerable to the vicissitudes of world commodity prices in particular and global economic trends in general.

2. The economy of Vanuatu is, as a result, highly dualistic. Agriculture accounts for about 20 per cent of gross domestic product (GDP), of which 40 per cent is subsistence agriculture even though 80 per cent of the population is principally engaged in this sector. Government and other services make up another 50 per cent of GDP, including a substantial proportion financed by foreign grants (about one third by budget support from the ex-Condominium Powers). At independence Vanuatu experienced a sharp drop in real GDP of almost 12 per cent as a result of economic and social disruption. Nevertheless, the economy has recovered rapidly in subsequent years. GDP during 1984 is estimated to have grown by approximately 5 per cent in real terms compared with 3 per cent in 1983 and 2 per cent in both 1981 and 1982. The improvement in growth during the period is primarily attributable to a recovery in copra production and higher export prices. However, while per capita income in the modern sector is in the range of \$640 per annum, it is about \$200 per annum, in the traditional sectors. Nevertheless, as a result of cyclones "Eric" and "Nigel" in early 1985 and consequent relief and reconstruction programmes

that needed to be undertaken, economic activity has been severely affected, and this is expected to result in a lower growth rate this year.

3. While copra exports still account for an average of 74 per cent of net foreign exchange earnings (1979-1983), important steps have been taken to reduce this level of dependence through the implementation of forestry, beef, coffee and cocoa development projects. However, these programmes are unlikely to have any significant impact on national economic growth until the latter part of the 1980s. Although export earnings are expected to drop (as the real price of copra is falling, coupled with the extensive cyclone damage) and imports are continuously growing (mainly for machinery, transport equipment, construction materials and consumer goods), the current net overall balance of payments is likely to maintain itself thanks to a high level of positive net services and transfers. However, the trend - particularly for grants from the ex-Condominium Powers - is for these to decrease although the Government is still dependent on financing a significant part of its recurrent budget from funds provided by the ex-Condominium Powers. This will have a two-fold effect: an increasing burden on the balance of payments and additional difficulties for the Government in carrying out its development plans.

4. Thus, while the economy has performed very creditably in comparison to what was inherited at independence, there remains a number of formidable development difficulties. These include a limited economic base; declining budgetary aid when the local potential for revenue-generation is still limited; a continuing and heavy dependence on external resources and external trade; and a continuing shortage of skilled manpower.

B. National development strategies

5. Vanuatu's first five-year plan, covering the period 1982-1986, identified specific objectives and strategies for achieving economic self-reliance. These remain substantially unchanged and are likely to be very much the same for the second plan (1987-1991), currently under preparation. Vanuatu's overall strategy is to strengthen the economic base and generate development designed to fill three main gaps: the fiscal gap - where the Government's recurrent receipts are not sufficient to meet recurrent expenditures; the savings gap - where domestic savings are too small to finance development expenditures; and the trade gap - where imports far exceed exports. Therefore, its main aims are to consolidate current productive activities and further broaden the economic base by encouraging/diversifying agricultural production and improving yields; to promote the export sector by improving its infrastructure, encouraging foreign investment and obtaining concessionary loans to finance key development projects; and to reduce the level of dependence on external budgetary support by widening and increasing domestic resource mobilization. As indicated in the World Bank's Country Economic Memorandum (July 1983), crucial to the success of this strategy will be the expansion of absorptive capacity and the ability to develop, manage and administer development programmes effectively. These strategies will enable the Government to achieve the following broad objectives:

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(a) Balanced regional and rural growth. The current pattern of development in Vanuatu is uneven with the main economic activities being located in the two main cities of Port Vila and Luganville. This has resulted in an uneven distribution of economic benefits and hence the Government's aim is to decentralize these economic activities throughout the islands so as to promote a more even pattern of development. This will promote increased participation by the local population in the development process and encourage, generate and sustain viable development projects under local control.

(b) Increasing natural resource utilization. The Government's aim is to maximize the use of natural resources - land, timber, mineral and marine resources. Investment in these resources will be supported by the Government to increase production and income.

(c) Realization of the nation's human resource potential. The Government wishes to ensure that an appropriate educational system is developed, one that not only generates the skills necessary for the modern sector, but also that provides sound technical and vocational training for rural life. Other social programmes directed towards the improvement of the quality of life will also be carried out.

(d) Private sector contribution. The Government, in recognizing the importance of the contribution that the private sector can make, will support potential national entrepreneurs. Where appropriate, it will provide facilities and services to assist these entrepreneurs to achieve their development aims. Investment in certain key development areas by foreign entrepreneurs will be encouraged, providing that there is full participation by Vanuatu nationals and that these investments are in line with national objectives.

(e) Preservation of cultural and environmental heritage. Because it is recognized that economic development brings about change, the Government will try to ensure that adverse social and environmental aspects are explicitly considered at the planning stage.

C. Technical co-operation priorities

6. The Vanuatu Government's Development Fund (as opposed to the Revenue Fund which includes recurrent budget provisions from the ex-Condominium Powers) consists of resources provided by donor Governments and institutions for the purpose of funding development projects. Total estimated contributions from foreign donors for 1984 and 1985 amounted to about 1,132 million and 1,241 million vatu (\$US 10.8 million and \$US 11.8 million) respectively. However, given its heavy dualistic structure, its historical legacy, its demographical fragmentation and its geographic isolation, it is clear that resources so far made available are very much less than what is needed to generate and sustain viable social and economic development as a means towards long-term self-reliance.

7. As indicated in the special economic assistance programme report (August 1984), prepared by the inter-agency mission sent to Vanuatu by the Secretary-General of the United Nations (A/39/388), in the past there had only

been two donors, i.e. the Condominium Powers. The Government continues to receive support from these two Powers, as well as significant bilateral assistance from a number of other countries. The current list of donors includes:

(a) Australia, which provides a comprehensive programme of commodity aid as well as technical and capital assistance covering a wide spectrum of activities including training and education, rural water supply, agricultural development (crops and livestock), transport infrastructure and development planning;

(b) The United Kingdom, which provides budgetary aid (due to be phased out by 1988) as well as capital and technical assistance in various fields with special emphasis on education, health, agriculture (crops, forestry, fisheries) and the development of transport and communication infrastructures;

(c) France, which provides budgetary support (also to be phased out) mainly directed towards recurrent expenditures in the education and health sectors, as well as capital and technical assistance, particularly for education, agricultural research and civil aviation/meteorology;

(d) New Zealand, which provides technical assistance in the form of expertise, training and other support in a variety of fields with special emphasis on education, water supply and forestry;

(e) Japan, which provides capital and technical assistance mainly in the fisheries sector;

(f) Canada, which provides technical assistance mainly in support of rural vocational training and rural water supply;

(g) China, which provides technical assistance in agriculture and construction.

8. The Government has also been receiving assistance from a number of voluntary and non-governmental agencies.

9. As for the United Nations system, in addition to UNDP, a number of United Nations organizations: the World Health Organization (WHO), the Food and Agriculture Organization of the United Nations (FAO), the International Telecommunication Union (ITU), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Children's Fund (UNICEF), the United Nations Industrial Development Organization (UNIDO), the International Labour Organisation (ILO), the United Nations Fund for Population Activities (UNFPA), the World Bank, the International Monetary Fund (IMF), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the Universal Postal Union (UPU) and the International Maritime Organization (IMO); currently have programmes in a variety of different sectors and activities. Furthermore, multilateral assistance also comes from Asian Development Bank (AsDB), the European Economic Community (EEC) and the Commonwealth Fund for Technical Co-operation (CFTC). While the assistance being provided by the United Nations system is small, estimated to be about 5 per cent of the total foreign assistance

being received from the larger donors mentioned above, the Government of Vanuatu has found it extremely useful because of its unique capacity to provide untied, high quality inputs and would like to have increasing access to these resources. In this regard, UNDP in its co-ordination role has a particularly important part to play. The Government has lacked the resources to undertake a comprehensive assessment and identification of overall technical assistance needs. However, it is clear that there is a severe shortage of qualified skilled and middle-level manpower, and the outcome of the World Bank study of the education sector has confirmed that the provision of technical assistance and training opportunities will be a crucial factor in enabling the Government of Vanuatu to develop the necessary absorptive capacity to implement its development projects and achieve social and economic self-reliance.

10. The Government is currently preparing for the second national development plan, which is to be presented to Parliament in November 1986. As part of this exercise, the Government is planning to convene a donor conference, with the assistance of the United Nations system, including expertise provided by UNDP to the National Planning and Statistics Office, and the Asian Development Bank, with a view to identifying where best each donor can assist Vanuatu to achieve its development goals. In this connection, aforementioned report of the Secretary-General, prepared in June 1984 and which catalogued a list of urgent (mainly capital) projects for which financing is required, will be an important reference document.

II. THE COUNTRY PROGRAMME

A. Assessment of current country programme

11. The first country programme for Vanuatu covering the period 1983-1986 was approved by the Governing Council in June 1983 and was designed to assist the Government in achieving the objectives set out in its first national development plan. The funds available for UNDP assistance under the first country programme were \$1,911,000 (which includes a borrowing from the fourth programming cycle indicative planning figure (IPF) of \$170,000, \$50,000 from the Special Measures Fund for the Least Developed Countries and \$325,000 from UNDP's special programme resources for reconstruction and rehabilitation).

12. UNDP has provided assistance in numerous sectors including agriculture, forestry and fisheries, industry, public administration, humanitarian aid and relief and planning and finance with very positive effect. For example, under its former operational assistance (OPAS) UNDP provided the Chief Planning Officer, the Chief Industry Officer and the Chief Fisheries Officer, who helped establish these respective departments.

13. Through such assistance, the Fisheries Department has been considerably strengthened, fisheries legislation and a national fisheries development act passed, and various income-generating activities started. Moreover, these successes led to additional resources being dedicated to this sector by other external donors. Small- and medium-scale enterprise promotion has been furthered through the establishment of an Office for the Development and Promotion of

Vanuatu Enterprises, which ultimately materialized into the current Department of Industry. Rural vocational training was provided in rattan and cane furniture production, woodworking and metalworking on the island of Malekula, as well as training in a variety of crafts in rural areas, with a view to the creation of income-earning opportunities. Because of the success achieved, the Government will extend these activities even further. In the field of public administration, assistance to the Language Services Department enabled the Government to cope with its unique requirement for bilingualism resulting from its political heritage, while other assistance strengthened its legal service capabilities and established the Auditor General's office. Still other aid is assisting the Government to carry out its important planning functions and establish the basis for the self-financing of a social security system. The Commodities Marketing Board, which was also set up through UNDP assistance, allows the Government to cope better with the complexities of international commodities marketing. However, while these successes loom large, it is clear that the UNDP programme has been hampered by a severe shortage of funds. Indeed at a level of only some \$US300,000 annually (itself only made possible by borrowing significantly from fourth cycle funds, thus putting off but not solving the problem) UNDP funds may be said to be well below the "critical mass" required.

14. In order to cope with the problem, various modalities of project implementation were adopted which allowed the limited funds to be stretched. For example, emphasis was placed on the use of United Nations Volunteers for intermediate level expertise (a level for which they were found to be well suited) and government-executed projects wherever suitable individuals could be readily identified. Moreover, the Government was able to utilize judiciously assistance from projects under the regional IPF, each providing a different kind of input. Thus, these projects enabled the Government to advance its programmes for primary health care, telecommunications training, energy, development of marine mineral potential, engaging youth in development, plant protection, skills development, industry and entrepreneurship promotion and fisheries development.

B. New programme proposal

15. The second country programme will coincide with the period of Vanuatu's second national development plan (1987-1991). The IPF is \$US1.612 million of which it is anticipated that \$170,000 will have been advanced for the priority needs of the first country programme by the end of 1986, leaving \$US1.442 million for programming. In view of the extremely limited IPF funds available to the Government of Vanuatu, UNDP assistance will be concentrated in a few crucial sectors with a view to helping Vanuatu to strengthen its planning and plan implementation capacity and to facilitate decentralization to the rural and provincial sectors. However, it is clear that, even with this concentration, UNDP funds will not be sufficient to assist effectively in the areas the Government has chosen. Therefore, additional funds from other sources will be needed to supplement what is available under the country IPF. In this regard, the Government hopes to utilize additional funds that will be available to it through its new status as a least developed country, particularly from the Special Measures Fund, and the United Nations Capital Development Fund (UNCDF).

Furthermore, the Government will also itself attempt, wherever possible, to make some allocation under its own budget to meet requirements. In addition, the Government intends to use resources available to it under the regional IPF (especially for consultants and training opportunities) to complement and supplement available national resources. To the extent required, the Government will also attempt to mobilize other donors' resources in support of, or in collaboration with, activities to be carried out under this programme. At the same time, the Government is aware that, with the exception of the IPF resources which have already been allocated to it, all of the above-mentioned funding possibilities are still only at the planning or proposal stage. Therefore, for the first part of the programme period, the Government will have to concentrate on completing those activities begun under the first country programme and shifting them over to other resources as quickly as possible so that the evolving priority needs which it wishes UNDP to address in the future can be undertaken without deleterious delay to Vanuatu's development.

16. General development issues, policies and planning. As identified by the World Bank in its Economic Memorandum on Vanuatu (July 1983), the country's capacity to absorb investment resources is limited by several factors including: (a) institutional constraints on land transfers; (b) scarcity of labour in the rural economy aggravated by its being spread over a widely dispersed land mass; (c) weak project planning capacity owing to shortages of trained manpower; and (d) relatively limited organizational capacity in government administration. The Government of Vanuatu, in view of the importance of planning and plan implementation and bearing in mind the advantages of multilateral assistance in this field, has decided that UNDP should assist it in this area. In this connection, in order to ensure that the benefits of development are also spread to the rural areas and to involve them fully in the development process, 11 new local government councils have been established and, in order to strengthen their planning capabilities, UNDP is being asked to provide project planning and management expertise at the local level for a period of two years, co-ordinated from and linked to the National Planning and Statistical Office (NPSO) and the local government department of the Ministry of Home Affairs. In addition to this assistance, the ongoing project VAN/85/003 - Planning Adviser, is expected to continue. This is not only crucial to the formulation of the second development plan but also to its effective implementation over the second plan period (1987-1991). While it is hoped to identify Vanuatu nationals eventually to undertake fully this crucial task, until such time as this is possible the services of a planning adviser to the National Planning and Statistical Office under the country programme remain of utmost importance. For the long-term, it is planned to build into this project on-the-job training for a Vanuatu national to enable the post to be localized by the end of the second plan period.

17. Industry. The Government believes that the development of economic self-reliance will strongly depend on the private sector's contribution and on the development of indigenous entrepreneurship. Therefore, it sees a continuing and vital role for the services being provided by the project VAN/85/002 - Small- and Medium-Scale Industries Development well into the second country programme period. As originally designed, this project was foreseen to have the additional

inputs of United Nations volunteers to act in an extension capacity. However, as a result of the funding constraints during the first country programme, these inputs were not able to be provided and therefore the project's activities have been hampered. In this context, although the Government will continue to try to obtain other resources to fund the volunteers, it considers it prudent, in the first instance, to provide in this programme for the funding of these positions. An important complementary role will also be expected from the regional project RAS/83/017 - Industry and Entrepreneurship, to provide additional inputs to assist the Government to meet objectives in this field.

18. Health. The health system in Vanuatu, much like the education system, is an amalgam of the two former colonial systems. While substantial progress has been made in recent years, in improving health conditions (partly as a result of the large increases in health expenditures), much still remains to be done, especially if one looks at how health conditions vary between the regions and takes into consideration that the health sector is the second largest item of public expenditure in the economy. The Ministry of Health is the government body that has responsibility for achieving the goal of health for all throughout Vanuatu, through the provision of adequate and relevant health care systems. As indicated in the mid-term review document of the first national development plan (December 1984), the major problems and constraints experienced by the Ministry in the provision of such health service systems in Vanuatu are weak communications and limited accessibility to health care services owing to the geographical isolation of the population; limited availability of usable health manpower statistics; personnel shortages at all levels, particularly senior professionals, such as medical practitioners and health administrators; inadequate infrastructure, such as hospitals, dispensaries, clinics and medical equipment; and, most importantly, weak planning and management capability. In this regard, a more equitable and rational costing and financial planning mechanism is urgently needed. Therefore, the Government of Vanuatu is requesting UNDP to assist it in strengthening its planning capabilities by providing the necessary expertise to the Ministry of Health.

19. Education. As explained in the World Bank sector study on education (February 1985), the educational system of Vanuatu is atypical in the Pacific in that it is an amalgam of two former colonial systems that co-existed within the country. Differences between the two systems were not only language-based, but also included: (a) diverse religious affiliations; (b) varying costs of instruction; (c) differing curricula; and (d) differential access to post-secondary educational opportunities. This dual system has had a divisive effect on the country and, since independence, the Government has emphasized the need to unify the system and remove the existing inequities in order to increase educational access by the population. Much has obviously been achieved in this direction. However, aspects of the administration of the system require strengthening, including its planning, monitoring and evaluation functions. Therefore, the Government of Vanuatu would like to establish, as a matter of top priority, an educational planning unit attached to the office of the Director-General of Education, and UNDP is being asked to provide the necessary expertise to help develop and strengthen such a unit.

20. Employment. In order to develop indigenous entrepreneurial capacity and in line with the Government's strategy of increasing employment opportunities, vocational training activities will play an important role. Therefore, the ongoing project VAN/79/009 - Vocational Training, which complements VAN/85/002 - Small- and Medium-Scale Industries Development, will be continued into the second country programme in order to consolidate and build upon present achievements. Should funding allow, it is hoped to recruit additional expertise for this purpose. In addition, initial discussions are under way to explore possibilities of joint co-operation with the Asian Development Bank, which is considering funding the construction of a Vocational Training Centre in Santo.

21. Humanitarian aid and relief. It is well known that the South Pacific is subject to significant natural disasters in the form of cyclones. In response to the recent disaster in January 1985, caused by cyclones "Eric" and "Nigel", UNDP has been requested to assist the Government of Vanuatu in its reconstruction and rehabilitation needs by providing funds from its Special Programme Resources for this purpose. It is intended that, among other things, expertise will be provided to oversee the reconstruction of numerous Government buildings all over the country with hurricane-resistant designs.

22. Several additional important needs (listed below) remain, for which it is hoped that, subject to funding availability, UNDP would provide assistance and commence related activities at the earliest possible date. For these purposes, a programmed reserve of about 28 per cent of available IPF resources is being made available, details of which are to be worked out and specified at a later date, for energy sector planning, rural management development, fisheries development, language services, environmental legislation and development and rural sanitation.

C. Unprogrammed reserve

23. In order to ensure that the country programme remains responsive to unforeseen needs and other contingencies, an unprogrammed reserve of \$144,000 has been provided.

Annex

FINANCIAL SUMMARY

I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

A. UNDP administered sources

	\$	\$
Third cycle IPF balance	(170 000)	
Fourth cycle IPF	1 612 000	
Subtotal IPF		1 442 000
Special Measures Fund for Least Developed Countries	<u>a/</u>	
Special programme resources	-	
Government cost-sharing	-	
Third-party cost-sharing	-	
Operational funds under the authority of the Administrator	<u>b/</u>	
UNDP special trust funds	-	
Subtotal, UNDP non-IPF funds		175 000 ^{c/}

B. Other sources

Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise	-	
Parallel financing from non-United Nations sources	-	
Subtotal, other sources		-
TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		<u><u>1 617 000</u></u>

II. USE OF RESOURCES

Ongoing projects	480 000	
New project proposals	585 000	
Programmed reserve	408 000	
Subtotal, programmed resources		1 473 000
Unprogrammed reserve		<u>144 000</u>
TOTAL USE OF RESOURCES		<u><u>1 617 000</u></u>

^{a/} SMF allocations will be made on a project-by-project basis, subject to the availability of funds.

^{b/} UNCDF is prepared to consider project requests from Vanuatu as a newly designated Least Developed Country.

^{c/} Of the \$500,000 SMF allocated for longer term rehabilitation following the destruction of the 1985 cyclones "Eric" and "Nigel" \$175,000 is expected to carry-over into the fourth cycle period.

