



Brussels, 10.1.2018
C(2018) 22 final

COMMISSION DECISION

of 10.1.2018

**on the Annual Action Programme 2018 in favour of the Republic of Vanuatu to be
financed from the 11th European Development Fund**

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) No 2015/322 of 2 March 2015 on the implementation of the 11th European Development Fund¹, and in particular Article 9(1) thereof,

Having regard to Council Regulation (EU) No 2015/323 of 2 March 2015 on the financial regulation applicable to the 11th European Development Fund², and in particular Article 26 thereof

Whereas:

- (1) The Commission has adopted the National Multiannual Indicative Programme for Vanuatu for the period 2014 to 2020 which prioritises: 1) Rural development 2) Measures in favor of civil society 3) Support measures.
- (2) The objective pursued by the annual action programme to be financed under the 11th European Development Fund (EDF) Internal Agreement ('Internal Agreement') is to achieve a strong rural economy which creates opportunities, enables the development of rural communities, and increasingly contributes to national prosperity.
- (3) The action entitled Vanuatu Value Chain Programme will specially focus on to strengthening the organisation, production, value addition, safety and quality, and trade in the coconut, beef and fruits and vegetables value chains. This will be achieved through support to the government budget to create fiscal space for Rural Development, and specifically support climate-resilient production, value addition, trade, safety and quality for the target value chains. The component will also support the Government's capacity to channel public funds to the selected value chains. The second component contains complementary support for the productive sector line ministries, notably Ministry of Tourism, Trade, Commerce and Ni-Vanuatu Business (MTTCNVB) and the Ministry of Agriculture, Livestock, Forestry, Fisheries and Bio-security (MALFFB) and the Ministry of Finance and Economic Management (MFEM).
- (4) It is necessary to adopt a financing decision the detailed rules of which are set out in Article 94 of Commission Delegated Regulation (EU) No 1268/2012³, applicable in accordance with Article 2(1) and Article 26 of Regulation (EU) No 2015/323.

¹ OJ L 58, 3.3.2015, p. 1.

² OJ L 58, 3.3.2015, p. 17.

³ Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (OJ L 362, 31.12.2012, p. 1).

- (5) It is necessary to allow the payment of interest due for late payment on the basis of Article 92 of Regulation (EU, Euratom) No 966/2012 and Article 111(4) of Delegated Regulation (EU) No 1268/2012, applicable in accordance with Article 2(1) and Article 29(1) of Regulation (EU) No 2015/323.
- (6) The measure provided for in this Decision is in accordance with the opinion of the EDF Committee established under Article 8 of the Internal Agreement.

HAS DECIDED AS FOLLOWS:

Article 1

Adoption of the programme

The Annual Action Programme 2018 in favour of the Republic of Vanuatu, as set out in the Annex, is adopted.

The programme shall include the following action:

- Annex : Vanuatu Value Chain Programme

Article 2

Financial contribution

The maximum contribution of the European Union for the implementation of the programme referred to in Article 1 is set at EUR 25 000 000 and shall be financed from the 11th European Development Fund.

The financial contribution provided for in the first paragraph may also cover interest due for late payment.

Article 3

Methods of implementation

The elements required by Article 94(2) of Delegated Regulation (EU) No 1268/2012 applicable in accordance with Article 2(1) and Article 26 of Regulation (EU) 2015/323, are set out in the Annexes to this Decision.

Article 4

Non-substantial changes

Increases or decreases of up to EUR 10 000 000 not exceeding 20% of the contribution set in the first paragraph of Article 2, or cumulated changes to the allocations of specific actions not exceeding 20% of that contribution, as well as extensions of the implementation period shall not be considered substantial within the meaning of Article 94(4) of Delegated Regulation (EU) No 1268/2012, applicable in accordance with Article 2(1) and Article 26 of Regulation (EU) No 2015/323, provided that they do not significantly affect the nature and objectives of the actions.

The use of contingencies shall be taken into account in the ceiling set by this Article.

The authorising officer responsible may adopt such non-substantial changes in accordance with the principles of sound financial management and proportionality.

Done at Brussels, 10.1.2018

For the Commission
Neven MIMICA
Member of the Commission

EN



ANNEX

of the Commission Decision on the Annual Action Programme 2018 in favour of the Republic of Vanuatu to be financed from the 11th European Development Fund (EDF11)

ACTION DOCUMENT FOR THE VANUATU VALUE CHAIN PROGRAMME

1. Title/basic act/ CRIS number	Vanuatu Value Chain (VaVaC) Programme CRIS number: FED/2017/039-316 financed under the 11 th European Development Fund			
2. Zone benefiting from the action/location	Vanuatu The Action shall be carried out at the following location: All six provinces, Vanuatu.			
3. Programming document	Vanuatu – European Union National Indicative Programme 2014-2020			
4. Sector of concentration/ thematic area	Rural Development	DEV. Aid: YES		
5. Amounts concerned	Total estimated cost: EUR 25 million of which: <ul style="list-style-type: none">• EUR 20.0 million for Budget Support;• EUR 4.0 million for Complementary Support• EUR 1.0 million for Evaluation, Audit, Communication and Visibility, and Contingencies			
6. Aid modalities and implementation modalities	<ul style="list-style-type: none">• Budget Support – Direct Management, Sector Reform Contract (EUR 20 million)• Project Modality – Direct Management, Procurement of Services for complementary support (EUR 4 million)• Project modality – Direct management, Procurement of Services for Evaluation/audit/communication and visibility (EUR 1.0 million)			
7 a) DAC code(s)	31120 Agricultural Development			
b) Main Delivery Channel	10000 – Public Sector institutions			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance			X
	Aid to environment		X	
	Gender equality (including Women In Development)		X	

	Trade Development			X
	Reproductive, Maternal, New born and child health	X		
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X		
	Combat desertification	X		
	Climate change mitigation	X		
	Climate change adaptation		X	
9. GPGC thematic flagships	Not applicable			
10. SDGs	Main SDG Goal: 2 Secondary SDG Goals: 5, 8, and 13			

SUMMARY

The Vanuatu Value Chain (VaVaC) Programme responds to the needs of Vanuatu as expressed by the economic pillar of the National Sustainable Development Plan (NSDP) 2016-2030, and more specifically by the recommendations of the two sector policies: the Overarching Productive Sector Policy (OPSP) 2012-2017; and the Vanuatu Trade Policy Framework (TPF) 2012. Moreover, this programme aligns with the Recovery Plan titled “Strengthening Ni-Vanuatu Resilience” that the Government of Vanuatu (GoV) launched after Tropical Cyclone (TC) Pam devastated several of its islands in 2015, and for which reason the European Union allocated to this Action additional EUR 10 million from its 11th European Development Fund (EDF) 11 Reserve.

The overall objective of the VaVaC programme is to *achieve a strong rural economy which creates opportunities, enables the climate-resilient development of rural communities, and increasingly contributes to national prosperity*. The specific objective is to *contribute to equitable, broad-based, and sustainable economic growth, recovery, and resilience by promoting organisation, and climate-resilient production, value addition, safety and quality, and trade in the coconut, beef and fruits and vegetables value chains*. These agricultural products contribute significantly to household income and were selected by the Government of Vanuatu (GoV) based on their farm income and employment potential, provincial impact, linkages with tourism and manufacturing, and suitability to satisfy domestic and international demand.

The VaVaC program will include two components. First, support to the government budget to create fiscal space for Rural Development, and specifically support climate-resilient production, value addition, trade, safety and quality for the target value chains. The component will also support the GoV’s capacity to channel public funds to the selected value chains. The second component contains complementary support for the productive sector line ministries, notably Ministry of Tourism, Trade, Commerce and Ni-Vanuatu Business (MTTCNVB) and the Ministry of Agriculture, Livestock, Forestry, Fisheries and Bio-security (MALFFB) and the Ministry of Finance and Economic Management (MFEM). The involvement of the Ministry for Climate Change should be envisaged as well. A third component could be added at a later stage. This component would aim to create a facility (1) improving access to finance for micro, small and medium-sized (MSMEs) enterprises trying to develop business in the selected value chains, (2) safeguarding and strengthening access to EU markets for specific value chain products upon graduation from LDC status, while also building capacity of those MSMEs in crucial areas such as financial literacy

and business development.

The current programme priorities are aligned with the priorities framing the 2030 Sustainable Development Agenda and the new European Consensus for Development as they are centred on people, planet and prosperity. The proposed action is consistent with key priorities of sustainable growth, job creation and climate change. Hence, this is in line with SDG Goal 2 prominently, and SDG Goals 5, 8 and 13 secondarily. The Action aims to promote both public and private investment to achieve progress in the productive sector.

This action falls under the European Union-New Zealand-Vanuatu partnership declaration on Sustainable Agriculture, signed in June 2016 by EU Commissioner Mimica.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

The Republic of Vanuatu is an archipelago of 83 islands and numerous islets in the South Pacific, with a population of approximately 278,000. The total surface area is about 12,200 km². Only one third of the cultivable land is presently farmed. The productive sector has yet to realise its full potential. Vanuatu is a Small Island Developing State (SIDS) and a Least Developed Country (LDC) but is expected to graduate from this status on 9 December 2020¹.

Vanuatu has a highly dualistic (urban/rural) economy and is traditionally an agricultural society. About 70% of its population resides in rural areas and is involved in farming and fishing activities, either for subsistence, livelihood or cash income. Agricultural productivity is generally low, with the primary sector contributing for about 22% the country's GDP.

1.1.1 Public Policy Assessment and EU Policy Framework

The **National Sustainable Development Plan (NSDP) 2016-2030** is the overarching national development policy. It stresses the importance of the primary sector by including "rural development" as one of its four economic goals. Government's top priority for 2017 is to develop the Targets and Indicators (M&E framework), an implementation plan and ensure costing of the NSDP. All existing sectoral policies will be reviewed to ensure their alignment to the NSDP.

The **Vanuatu Climate Change and Disaster Risk Reduction Policy 2016-2030** provides a framework for mainstreaming climate change and disaster risk reduction into sustainable development processes, and seeks to strengthen capacity at national, provincial and area council levels on climate change adaptation and disaster risk reduction.

For the sector reform contract, the sector policy for rural development is crucial. This consists of two parts, the sector policy of the MALFFB and the sector policy of the MTTCNVB.

With support from the EU, the Prime Minister's Office (PMO) coordinated the drafting and the formal endorsement of an **Overarching Productive Sector Policy (OPSP)**. The OPSP confirmed the government's commitment towards primary sector development and allocated leading functions along the primary sector value chain between the MALFFB and the MTTCNVB. The OPSP focuses on eight high-level Development Outcomes (DOs). Four of them jointly define value chain approaches that are conducive to Primary Sector development, namely:

¹ General Assembly resolution A/RES/68/18 adopted on 4 December 2013, decided that Vanuatu will graduate four years after the adoption of the resolution on 4 December 2017. General Assembly resolution A/RES/70/78 adopted on 9 December 2015, decided to extend the preparatory period before graduation for Vanuatu by three years, until 4 December 2020, due to the unique disruption caused to the economic and social progress of Vanuatu by Cyclone Pam.

enhancement of market access (DO1); improvement of quality & safety (DO2); increased productivity (DO3); and value addition and food and products' processing (DO4).

The contours of cooperation between MALFFB and the MTTCNVB were further clarified by the Vanuatu **Trade Policy Framework (TPF)**. By creating consensus on the need to access international markets as the most suitable pathway to sustainable development, the TPF played a crucial role for the identification of priority value chains to be pursued under the 11th EDF. The TPF comprises 31 high-level recommendations aimed at breaking the most binding barriers to trade in the Vanuatu's economy, including in areas that are relevant to rural development. Strategic action plans to achieve the TPF's recommendations were included in the **TPF Implementation Matrix (TPFIM)**.

The OPSP and the TPF jointly represent the **sector's policy papers** for this action. The OPSP and the TPF are fast approaching the end of their life cycle, and their M&E framework is being reviewed. Therefore, the MALFFB and the MTTCNVB saw it proper to develop a Performance Assessment Framework (PAF) for the VaVaC program. The PAF for this action will be incorporated in the M&E frameworks of the updated TPF and OPSP to ensure regular monitoring, alignment with national procedures, and with local accountability mechanisms. The TPF will be updated in 2017 and will include an agricultural/value chain chapter. The indicators and targets of the VaVaC for the three value chains are aligned with the monitoring framework of the new TPF.

A number of sub-sector policies sit under the TPF and the OPSP to further guide the actions of the MALFFB and the MTTCNVB. Key sub-sector policies under MALFFB include: (1) Agriculture Sector Policy 2015; (2) National Livestock Policy 2015-2030; (3) Vanuatu Forest Policy 2013-2023; and (4) Vanuatu Fisheries Policy 2016. The OPSP has guided the formulation of these sub-sector policies which closely align to this overarching policy. It is therefore concluded that pending the update of the OPSP, the subsector policies will provide a sufficiently strong policy framework for the agriculture sector and VaVaC in particular.

Key sub-sector policies under the MTTCNVB include: (1) Vanuatu Strategic Tourism Action Plan 2013-2018; (2) Vanuatu Industry Policy 2011 (under review); and (3) Vanuatu Cooperative Policy 2011-2016 (under review)

The NSDP, the OPSP, and the TPF are considered to be well-defined national/sector strategies which have outlined credible options for the reform of the rural sector. Moreover, both the TPF and the OPSP are targeting the objectives of sustainable and inclusive growth.

The M&E framework of the TPF (TPFIM) highlights a positive trend in overall performance during the period 2013-2016. GDP figures for the period 2014-2014 highlight a positive trend in overall performance for OPSP DO2 (production) and a negative trend for OPSP DO4 (value addition).

The government's fiscal space to autonomously finance implementation of the OPSP and the TPF is extremely limited. Therefore, the MALFFB and the MTTCNVB have extensively relied on donor partners to fund implementation of their policy priorities.

Institutional capacity for implementation of the sector policies has increased over the past few years, especially in the MTTCNVB. The MALFFB is currently undertaking actions to increase its capacity.

The National Trade Development Committee (NTDC), the institutional mechanism established to coordinate Vanuatu's trade policy, provides a very robust platform to enhance cooperation between MALFFB and MTTCNVB on policy and project development along the directions identified by the OPSP and the TPF. A Bill for the Trade Governance Act (TGA) is

being drafted to further strengthen the effectiveness of the NTDC. Establishment of Public Private Working groups (e.g. Fruits/Vegetables, Beef, Coconut) as part of the governance structure is foreseen in the Bill. Representatives of the working groups will be members of the NTDC and as such be able to influence relevant policies and actions.

Following approval by the NTDC in July 2016, Terms of Reference for an inter-ministerial **VaVaC Programme Administration Task Force (PATF)** and a **VaVaC Programme Implementation Task Force (PITF)** have also been developed and approved by the Council of Ministers. These Task Forces will strengthen the linkages between concerned ministries for coordination, guidance and implementation of the EDF 11 support through VaVaC.

VU/EU policy dialogue on agri-sector reform and performance will therefore be at the strategic levels of NTDC, PATF and PITF, and through meetings during missions of EU representatives at the levels of Ministers, Directors General and Directors of Departments.

Trade with EU upon graduation from LDC status

As an LDC Vanuatu is an "Everything-But-Arms" (EBA) beneficiary. As such it has a full duty-free, quota-free access to the EU market for all products except arms and ammunition. However, Vanuatu is projected to graduate from LDC category in December 2020. Upon graduation from LDC Vanuatu will lose its access to special and differential treatment to international markets. Vanuatu's graduation would result in a less generous preferential market access regime (the Generalised Scheme of Preferences – GSP) for its exports to the EU unless the country accedes to the existing Economic Partnership Agreement (currently between the EU, Fiji and PNG). Some of its exports are likely to face higher tariffs in EU markets, translating in a price increase, which will eventually affect the level of competitiveness of its products.

For instance, the EU market for coconut oil represents around 97% of Vanuatu's export market for coconut oil globally. If Vanuatu should lose its trade preferences, coconut oil exported to the EU could face a tariff increase of at least 4%. Should EU buyers turn to other exporting countries as a result, Vanuatu's coconut oil industry would be negatively affected, with trickledown effects on the rural economy as copra is one of the main income earners for the rural population. In other words, some of the net positive effects expected from exports under the Vanuatu Value Chain (VaVaC) programme could be nullified by the loss of revenue, with knock on effects on the country's efforts to reduce poverty, to promote good governance and sustainable development.

It is therefore important for the implementation of the VaVaC programme to take into account the need to assist Vanuatu to move towards acceding to the existing EPA between the EU and the Pacific States. Accordingly, a component should be foreseen, to be added and fine-tuned at a later stage to facilitate Vanuatu's accession to the existing EPA between the EU and the Pacific States.

1.1.2 Stakeholder analysis

The final beneficiaries of this action are **private businesses (including smallholders)** working in the coconut, cattle, and fruits and vegetable value chains. The enhanced fiscal space for rural development, coupled with a robust mechanism for access to finance, to be committed at a later stage, will create a first-class enabling environment for businesses to flourish in these areas of comparative advantage.

Vanuatu's agencies implementing the budget support program for the selected value chains (**MALFFB** and the **MTTCNVB**) will be the direct beneficiaries of the budget support component by means of a Sector Reform Contract (SRC) of this action. Awareness on climate

change impacts, as well as capacity of the two ministries is improving, however, some gaps still exist² and these will be addressed through the provision of TA under this program.

In addition to the MTTCNVB and the MALFFB, a number of multi-stakeholder institutions will directly benefit from the program, including:

- **Vanuatu NTDC**, chaired by the Minister of the MTTCNVB, is held three times per year. Presently, its meetings constitute the best available mechanism for structured dialogue among stakeholders who are relevant to this action document – Government, Private Sector, Civil Society and Development Partners. The NTDC is supported by a professional Secretariat, the Trade Development Division (TDD) of the MTTCNVB, which guarantees sustainability of this mechanism.
- **The VaVaC PATF**, tasked to provide overall inter-ministerial coordination for the action³, and the **VaVaC PITF**, tasked to coordinate implementation of value chain activities funded through the budget support component of the action.
- **The Livestock Industry Working Group (LIWG)** The LIWG is Vanuatu's public-private consultative body on livestock matters, which aims to protect, promote and further the interests of its stakeholders engaged in the livestock industry.

Multi-stakeholders associations in the coconut and fruits and vegetable value chains are relatively unstructured and include a **Fruits and Vegetables Cluster (FVC)** and a **Coconut Focus Group (CFG)**. There is potential to support these groups to become effective actors representing stakeholders of the two value chains.

Project beneficiaries have been fully consulted since inception of the programming phase. High-level direction on EDF 11 is sought at each NTDC meeting.

1.1.3 Priority areas for support/problem analysis

Priority Area 1: Increase economic activity and income generation in the rural areas by achieving a qualitatively high and sustainable and climate-resilient production of primary and value added goods for (i) coconut (ii) beef and (iii) fruit and vegetables, with the view of boosting trade in domestic and foreign markets. Vanuatu's economy has in the last decades shifted gradually but steadily from primary sector to services. The latter now accounts for about 70% of GDP (with tourism playing a dominant role), whilst primary sectors jointly contribute to around 22% of GDP. The industry sector (at about 10% of GDP) is mainly driven by construction. Meanwhile, agri-business manufacturing is not yet sufficiently structured while it has a high potential.

On the other hand, based on the 2009 Census, the primary sector still provide employment to about 63% of the population, followed by services (29%) and industry (7%). The comparison of GDP and employment figures reveals the relatively high productivity of services compared to other sectors, notably agriculture. The semi-subsistence nature of most agricultural production explains the low agricultural productivity and calls of a comprehensive approach to increase economic activity and income generation in the rural areas whose conditions were further aggravated by the damages caused by TC Pam. Low agriculture productivity and the limited extent of agro-processing partly explain the structural deficit observed in the current accounts.

² See the Annexes “Assessing Public Policy Eligibility” and “Assessing Public Financial Management Eligibility”

³ Ministries represented in the PATF are the MALFFB, the MTTCNVB, the Ministry of Finance and Economic Management (MFEM), and the Prime Minister Office (PMO)

While supporting post-TC Pam recovery, promoting targeted climate-resilient agriculture value chains, with a particular focus on MSMEs, will provide lasting development benefits to the country. Given the limited available resources, the government agreed that products eligible for support should be restricted to a narrow number. Based on consideration of farm income potential, employment potential, export potential, linkages with manufacturing, linkages with sustainable tourism, sustainability of import substitution, and impact on different provinces, the EDF11 NIP for Vanuatu selected the three value chains for support, namely (i) coconut (ii) beef and (iii) fruits & vegetables. Though in particular for the Cattle/beef value chain some foreign investment occurs (a slaughter house and some cattle farms in Santo are owned by a Japanese private company), the smallholder cattle owners receive little support to enable penetrating the more lucrative urban and export beef markets (absorbing together nearly 80% of total estimated current beef production). Revenues for the smallholders and semi commercial cattle farmers are still at very low levels and require specific measures for support, to be provided under the sector reform contract. While New Zealand (MFAT) will target the semi-commercial cattle farmers under their new agri-programme, the EDF 11 support will largely focus on the smallholders. Exports constitute about 35% of total beef production, primarily to PNG, Japan and Solomon Islands (approx. 55%, 30% and 15% respectively).

Improving the supply chain, with in particular smallholders, buyers, processors at present having limited capacity to supply markets on a regular basis in required quantity and quality is likely to contribute to benefits for smallholders and MSME in Vanuatu. A study by IFC (Vanuatu agri-tourism linkages, 2015) revealed that the tourism sector (hotels and restaurants) in 2014 imported 54% (valued at USD 8.5 m) of its demand for fresh products, for which local supply could be an alternative.

Expected benefits from the action include prevention of unsustainable rural-urban migration; promotion of culturally sensitive, MSME-based development models which will complement the goods and services already supplied by customary communities; enhancement of climate-resilient production; establishment of sustainable forward economic linkages with the tourism sector; and improvement of the current account of the balance of payment. In line with the comprehensive value chain studies undertaken in preparation to this document, activities will target constraints at institutional and organizational level as well as at production, productivity, value addition, safety and quality, and trade level.

1.2 Other areas of assessment

1.2.1 Fundamental values

Vanuatu adheres to the fundamental values of democracy, human rights and the rule of law. It had a *Good Governance Development Contract (GGDC)* from 2013 to 2016, for which adherence to the EU fundamental values was a pre-condition. The EU's Risk Management Framework shows that the risks relating to *human rights* and the *rule of law* remain both moderate and the risk on *democracy* low.

On Human Rights, the only substantial risk concerns "*women's rights*", in particular women's participation in politics and gender-based violence. The risks of "*occurrence of crimes*", that "*the country deviates from core international commitments*" and that "*weaknesses in the constitutional and legal framework lead to insufficient guarantees of human rights*" each remain low.

The highest risk within the Rule of Law category, "*political interference in the judiciary*", has recently been changed from substantial to moderate since a recent political bribery case has shown the strength of the current judiciary system. The risks that "*conditions for access to justice and fair trial are not met*" and "*conditions on law enforcement are undermined*" remain both low.

Consequently, according to the budget support guidelines, a Sector Reform Contract can be established with the necessary trust and confidence that budget funds will be spent pursuant to the fundamental values that the EU and Vanuatu share. Equal rights for men and women should remain a point of attention in the political dialogue between Vanuatu and the EU.

1.2.2 Macroeconomic policy

As revealed by information from the Reserve Bank of Vanuatu (RBV), the Ministry of Finance and Economic Management (MFEM) and the International Monetary Fund (IMF), Vanuatu's macro-economic policies have been sound and stability-oriented in recent years.

Vanuatu signed a programme with the IMF shortly after TC Pam had hit the country in 2015. On the basis of the Post Disaster Needs Assessment (PDNA), it reached an agreement on financial assistance under the *Rapid Credit Facility* and the *Rapid Financing Instrument* of 23.5 million US dollar. Due to the outstanding IMF loan, the Fund pays annual visits to Vanuatu. The latest IMF mission took place in July 2016. The IMF Article IV Staff Report was published in October 2016.

During the period 2010-2014 real GDP grew at an average rate of 1.8%. It may have contracted in 2015 as a result of the damages caused by TC Pam (but the actual growth is not yet available, according to the IMF the estimate is -0.8% and according to the RBV it is 1.7%). The IMF estimates growth at 4.0% in 2016 and projects it at 4.5% in 2017 driven by the recovery in tourism and agricultural production, and further ramping –up of infrastructure projects. Fiscal expansion pushed the fiscal deficit above 11% of GDP in 2016 and is expected to do the same in 2017. Consequently, government debt is increasing, even from 34.1% of GDP in 2016 to more than 50% in 2020. According to the 2016 IMF Debt Sustainability Analysis Vanuatu remains at a moderate risk of debt distress since the sizeable infrastructure projects pose threats to debt and fiscal sustainability when grants and concessional financing are delayed or become insufficient to cover the investment program.

Whilst current fiscal expansion is relevant, the IMF recommends embracing fiscal discipline. The government should safeguard debt and fiscal sustainability. This will require careful project selection for public investment, spending discipline (including by state-owned enterprises), and mobilising additional revenues (including by introducing an income tax).

The monetary stance has been accommodative in an effort to support growth in the aftermath of Tropical Cyclone Pam and the peg to the basket of currencies has served Vanuatu well in promoting stability and confidence. Inflation is projected to remain below 3% in the medium term owing to low commodity prices, even though expanding domestic demand will provide some upward pressure. The Reserve Bank should be ready to tighten if inflationary pressure emerges.

As of March 2016, the domestic banking system is adequately capitalized and profitable. But commercial banks are risk-averse, leading to a low degree of lending and hence an unexploited potential of economic activity. Also, progress on financial inclusion is needed especially in the outer islands.

There are concerns with money-laundering and terrorism financing since the Financial Action Task Force (FATF) grey-listed Vanuatu. In 2016, Vanuatu has committed at a high-level to cooperate with the FATF to address its shortcoming regarding Anti Money Laundering/Combating Financing of Terrorism (AML/CFT). A FATF mission and the Vanuatu authorities met in June to assess the situation. Still, 32 laws have to pass in Parliament.

Obvious vulnerabilities to external risks remain, including the danger of natural disasters, cyclical effects of El Niño's droughts and La Niña's rainfalls, and weaker-than-expected

economic growth. Development of agile contingency plans, building of fiscal buffers, promoting adaptation measures, and improving economic diversification and quality upgrade have the potential to strengthen resilience.

1.2.3 Public Financial Management (PFM)

In April 2017, the Council of Ministers approved a PFM Reform Roadmap for the period 2017-2021. This was drafted with aid from the Pacific Financial Technical Assistance Centre (PFTAC). This Roadmap addresses the weaknesses as identified in the Public Expenditure and Financial Accountability (PEFA)-self assessment of 2015. The actions for the next five years are to: 1. Improve procurement regulations and processes and accessibility of procurement information; 2. Improve payroll control and its direct linkage with changes in personnel records; 3. Establish an effective fiscal oversight of State Owned Enterprises (SOEs) to manage fiscal risks arising from them; 4. Improve reconciliation, monitoring, and reporting of debt, arrears, and guarantees; 5. Improve relevance of internal audit by focusing on material fiscal risks; 6. Upgrade the Financial Monitoring and Information System (FMIS) to strengthen controls and speed up report generation; 7. Strengthen PFM regulatory frameworks; 8. Strengthen independence and relevance of external audit by focusing on material fiscal risks, and completing audit within prescribed period; and 9. Improve legislative scrutiny of the budget and accounts.

Apart from the development/enhancing of fundamental controls and ensuring adequate compliance, the Roadmap stipulates also the plan to develop capacity and processes towards establishing an integrated and medium-term planning and budgeting.

Implementation of the Roadmap has already started. It is a major step forward with PFM reforms in the past where credibility of Vanuatu's PFM reform initiatives was benefitting from the inclusion of key reforms in the MFEM Corporate Plan and the Department of Finance and Treasury (DoFT)'s Business Plan.

1.2.4 Transparency and oversight of the budget

The GoV meets the entry point for budget support, as the enacted Budget was published in April 2016. The information included in the Budget is comprehensive.

There is room for improvement in terms of public access to key fiscal information. For example, the Budget is only published after approval by the Parliament. Also, external audit reports and information on the award of public contracts are not released to the public.

As to the timeliness of published documents, this is good for in-year budget reports, whilst challenges are noted for Financial Statements - the latest published Financial Statements are for the year 2012.

The effectiveness of budget oversight is undermined by the weak capacity of the Office of the Auditor General (OAG) and the limited effectiveness of legislative scrutiny.

The PFMRR includes targets on transparency and oversight and its approval represents a pre-condition for the signing of the Financing Agreement for this action. Reform expectations in this area include improvements of the DoFT's website (notably through the provision of clear information about publication dates for key budgetary documents), to faster release of Financial Statements, and to public release annual year-end reports by the OAG.

The assessment of budget transparency and oversight in Vanuatu is rated as satisfactory given the size of the country and of the administration as well as of its capacity and even in some occasions up to standards of countries of bigger size and facing fewer challenges than SIDS.

2 RISKS AND ASSUMPTIONS

RISKS	RISK LEVEL	MITIGATING MEASURES
Developmental - some ministries are relatively weak, with consequent risk of weak public services	High	Incorporate support measures for the MALFFB and the MTTCNVB. Via PFTAC, the EU continue supporting the MFEM
Developmental – Awareness and knowledge within the government regarding climate change and its possible impacts on value chains is limited.	High	Have targeted actions to enhance climate-resilient production amongst producing communities, as well as awareness raising activities on the possible impacts of climate change within the government and among the producing communities.
PFM – procurement system remains weak. Risk of substantial delays in procurement and of sub-optimal procurement outcomes	High	Australian Aid Program supports improvements in this area. Progress remains slow. Link tranche release to verifiable improvements in procurement systems
PFM – Lack of political commitment and weak capacity of the OAG leads to risk of limited government accountability	High	Australian Aid Program supports improvements in this area. Progress remains slow. Link tranche release to verifiable improvements in the capacity of the OAG
Human Rights – gender discrimination undermines efficiency of resource allocation	Medium	Director of Department of Women Affairs included as NTDC member; priority given to women in value chains where they already play a prominent role;
Macro-Economic - Natural disasters and climate change will have a negative impact on value chains' development	High	Programme leads to higher resilience as it supports product diversification, and generate income for smallholders. Activities pursued under this action will, whenever possible, include elements of adaptation
Political instability slows down essential sector reforms	High	Release of tranches are conditioned by progress in agreed reforms
Government budget allocation to Rural Development remains low	High	SRC will measure progress in the sector policy (for fixed tranches) and track performance indicators (for variable tranches). The EUD will also maintain a policy dialogue to mitigate this risk. The NTDC to be used as the fora for assessing the performance of the program
Risk of climate related disasters, damaging coconut, beef, fruit & vegetables production	High	Mainstream climate change and climate-resilient, in particular, into value chain development, including related policies as well as advisory and extension services.
When the programme ends, smallholders may not be able to sustain their production, due to the reduced government support and the lack of affordable loans	Medium	The programme should ensure that the government sticks to its commitment of an increasing share of budget to the productive sectors. The Finance Facility should create appropriate financial products/services to promote sustainable businesses able to afford standard bank loans in the future
Weak world prices for some targeted commodities (e.g. copra or coconut oil)	Medium	The action supports the development of a more diversified portfolio of products which increases resilience against price fluctuations
Competition among value chain sectors in relation to access to EDF11 resources.	Medium	The NTDC to be used as fora where competition is made transparent and consensus reached.
EU Regional and Intra ACP funded programmes fail to create necessary synergies	Medium	Information exchange and strong coordination among EUDs, regional organizations involved and national stakeholders

ASSUMPTIONS

- Continuous engagement between the government and the EU
- Commitment and availability of the MALFFB and MTTCNVB at Director General level
- Support from the government to ensure ownership, legitimacy and resource allocation

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The EDF 11 focus on Rural Development draws from the OPSP's four focal actions and from the TPF focus on sectors of comparative advantage. In the last decade, there has been a range of donor funded activities supporting Vanuatu's agricultural sector, many of which have been implemented by bilateral agencies or NGOs. Over this period, there have been weaknesses in coordination and a generally low level of ownership of these projects by the government.

Important lessons can also be drawn from the EU-funded "Projet d'Organisation des Producteurs Agricoles pour la Commercialisation Associative" (POPACA, 2004-2007) including the necessity for a holistic value chain approach, to assist commercial ventures and producer groups to become export-oriented, market-driven enterprises that will supply national tourism industry and overseas markets with competitive agriculture products.

In some rural areas it is unacceptable for a woman to start her own business or take out a bank loan. In response to this, pursuing gender mainstreaming through the involvement of the entire household in project activities may be effective.

The program draws upon the three value chain studies and the finance facility study drafted in preparation for this action. In addition to "value chain specific" interventions, the studies stress the importance to develop cross-cutting activities to consider the common usage of certain facilities and infrastructures across the value chains. Also, the studies overwhelmingly point to the need to increase access to finance for the value chain participants.

Farmer's skills and knowledge increases as a consequence of training and extension support. Enhanced knowledge of nutrition, especially amongst women farmers, does influence change in agricultural practices and processing to achieve more positive nutrition outcomes. Thus, farmers' training on agronomy, horticulture and livestock issues should be a continuous process rather than a one-off during programme implementation.

3.2 Complementarity, synergy and donor coordination

Opportunities for complementarity and synergy with on-going projects include: Australian funded (i) Rural Roads Program; (ii) Vanuatu Media Strengthening Program on improved radio content and provincial networks; (iii) Pacific Horticultural and Agricultural Market Access (PHAMA) program; (iv) Technical and Vocational Education and Training (TVET) program; (v) Governance for Growth (GfG) Program supporting the MFEM on PFM and the MTTCNVB on TPF implementation; New Zealand funded (i) Inter-Island Shipping Program to build/upgrade jetties and wharves, promote maritime reform and subsidise some shipping routes; (ii) Vanuatu Tourism Program to assist the Department of Tourism and the Vanuatu Tourism Office with the implementation of the VSTAP; (iii) Rural Financial Literacy Program targeting the 27 NBV branches around the country; (iv) Rural Training Centres Program; (v) support to Wan Smol Bag, a NGO, on improved community services particularly to youth and women; and (vi) Vanuatu Agriculture Sector Support Programme (in preparation) supporting potato production and the beef value chain; (i) EU/WB funded GCCA/GEF Increased Resilience to Climate Change and

Natural Hazards Program; (ii) Energy Facility I Program for biofuel-based rural electrification in Torba, Penama and Malampa islands; and (iii) Combating Invasive Species Program implemented by Live & Learn, a NGO; IFAD funded (i) program (in preparation) on nutrition, food-security, and possibly WASH; multi-donor funded (i) Enhanced Integrated Framework (EIF) Project supporting capacity building and infrastructure to alleviate supply-side constraints to trade; (ii) Strengthening Ni-Vanuatu Resilience Programme (funded by various development partners) which was initiated following TC Pam.

Synergies are to be found with the EU funded Intra-ACP "Coconut Industry Development for the Pacific" programme, which includes Vanuatu. With Vanuatu being a member of the programme's steering committee, this will ensure that the country benefits from both the Intra ACP and the national allocation in an efficient way.

The EU supports the operationalisation of the Intra-ACP funded Regional Pacific Agricultural Policy project, implemented through Secretariat of the South Pacific (SPC). As such, an effective Agricultural Management Information Systems will be set up in SPC member States (including Vanuatu), providing reliable and timely agricultural and livestock data, linked to a regional data management system.

Access to EU-supported regional facilities (notably PFTAC and PRIF) will be actively explored, as well as complementarity with interventions to be pursued under the EDF 11 Pacific Regional Indicative Program (PRIP), notably under Priority Area 1 – Regional Economic Integration. The proposed action and related EU policy dialogue will be flanked by the EU/FAO Policy Assistance Facility through the FIRST Programme.

There is no formal donor coordination mechanism in Vanuatu, but the NTDC provides a mechanism for donor coordination on trade-related funding. Further donor coordination happens on an ad-hoc basis, as the donor community is quite small and contacts are frequent, though since 2016 attempts are made to hold monthly donor coordination meetings in which the government takes part as well. As highlighted by the Result Oriented Monitoring (ROM) report for the EDF10 Good Governance and Development Contract (GGDC), there may be merit to establish a Donor Round Table on Rural Development when the Head of Delegation is in Port Vila. This could be organised back-to-back with an NTDC meeting and with support from the NTDC Secretariat. This action falls under the EU-NZ-VU partnership declaration on Sustainable Agriculture, signed in June 2016 by Commissioner Mimica. A joint steering group for enhanced coordination on support to agriculture will be established in the context of the partnership.

3.3 Cross-cutting issues

Across the three value-chains the action will consider the role of both men and women and how they will benefit from the intervention. The importance of minimising environmental impact and addressing climate change will be integral aspects of the work. In the GGDC gender received special attention.

3.3.1 Formal Employment and Decent Work

The EU past interventions in the region have contributed to build capacities of farmers associations to advocate their interests and to generate better revenues for their members. This action will promote more inclusive governance within the Rural Development value chains through a better participation of all stakeholders. It will further empower workers and farmers to protect and promote their rights and will help develop formal employment opportunities. Decent Work agenda will be central in discussions and support involving private sector actors.

3.3.2 Gender, Youth and Disabilities

Gender equality is a crosscutting priority for the government. As such, to work towards gender justice, Vanuatu has ratified the *Convention to Eliminate All Forms of Discrimination Against Women* (CEDAW) and signed-up to the Sustainable Development Goals (SDG). Youth and people with disabilities are also important areas that will be mainstreamed in various activities.

Particular attention will be given to gender-related issues in the agricultural sector. To ensure gender mainstreaming at the highest level, from November 2016 the Director of Department of Women Affairs, will become a permanent member of the NTDC - the body responsible for assessing progress of the action, provide direction to the entities dealing with its daily implementation, and advise CoM.

The Budget Support/SRC component of the program will ensure that women receive priority support in areas where they already play a prominent role. These include the fruits and vegetable value chain (from production to marketing) and some segments of the coconut value chain (for example, extraction of virgin coconut oil). Moreover, when outsourcing its services, the past gender mainstreaming performance of potential service suppliers will be assessed. Women farmers will be specifically targeted in the area of agricultural education system and extension services. Provision of training funded under the SRC will promote gender mainstreaming in terms of program delivery, timing, physical location, facilities and eligibility criteria. Gender sensitive indicators will be included in the specific action plans that will be developed from the Performance Assessment Framework to measure progress towards gender equity and women empowerment.

3.3.3 Environment and Climate Change

Continued crop production within an environment of heightened climate variability and long-term climate change will require an increased awareness from farmers (agriculture and livestock) as well as the government about the changing variables and continual innovation. Without more sustainable and innovative practices, yields of many of the crops currently grown commercially are likely to be impacted by climate change. Sustainable natural resource management will be promoted through actions aiming to improve production practices.

Environmental and climate issues will be mainstreamed into the capacity building and training activities and there are opportunities for introducing green technology and approaches at farm and industry level (e.g. sustainable energy generation and water efficiency solutions). The PAF includes a number of priority outputs that, in order to be delivered effectively, will need to give due consideration to climate change matters, notably on the side of adaptation and resilience. Climate-relevant outputs addressed by the PAF include:

- Improved market information systems suitable to provide farmers with real-time information on climate issues relevant to the target value chains, and advisory services on adaptation
- Improved market infrastructure suitable to withstand the impact of climate change and natural hazards
- Improved skill-development of the work-force, including on suitable training and extension on sound and resilient agricultural practices;
- Improved production and productivity, to be achieved through applied research into innovative and climate-resilient production techniques and application of those techniques through training and extension; and

- Improved awareness within the government of the possible impacts of climate change on production value chains;

Through the ongoing EU/WB funded Increased Resilience to Climate Change and Natural Hazards Program, useful skills and knowledge are already being generated at the Vanuatu Agricultural Research and Technical Centre (VARTC), one of the key partners of the action.

3.3.4 Nutrition

Engaging in the livestock and fruits and vegetables sectors in particular can have an important positive effect on family diet and consequently has the potential for positively impacting the health and nutritional status of the household and surrounding community. The action will be strengthening the capacity of the government to sensitize beneficiaries on nutrition.

3.3.5 Migration

The urban/rural migration must be addressed through the creation of employment in both urban and rural areas. Decent jobs in farming and agro-processing in migration-prone areas will create a reduction in adverse coping mechanisms such as crime, and mitigate migration to urban areas.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goal 2, but also promotes progress towards Goals 5, 8, and 13. This does not imply a commitment by the country benefiting from this programme.

The **overall objective** is to *achieve a strong rural economy which creates opportunities, enables the climate-resilient development of rural communities, and increasingly contributes to national prosperity*, as defined in the third goal in the economic pillar of the NSDP 2016-2030.

The **specific objective** is to *contribute to equitable, broad-based, and sustainable economic growth, recovery, and resilience by promoting organisation, and climate-resilient production, value addition, safety and quality, and trade in the coconut, beef and fruits and vegetables value chains*.

The **expected results** are:

1.1 Strengthened policy, institutional, and PFM arrangements for Rural Development

Strengthening the sector through policy/strategy development evidenced by ensuring relevant data gathering/processing, improving coordination through multi stakeholder fora and specific working groups for different value chains and implementation of the PFM Reform Plan (PFMRP).

1.2 Strengthened service delivery for the coconut, beef and fruits and vegetables value chains

Improving access to markets, to business development services, innovation and research for increased productivity/production, strengthening linkages with the sustainable tourism industry and financial service providers resulting in enhanced services, delivered within a stable macro-economic environment and through improved PFM practices, which in turns shall trigger a positive response from private businesses that will increase production, value addition, exports and quality/safety in the three value chains and will ultimately contribute to Rural Development.

1.3 Increased technical capacity in the MALFFB, the MTTCNVB, and the MFEM and provision of adequate and reliable financial resources to promote climate-resilient Rural Development

Complementary support will fill existing and prospective capacity gaps in the line ministries, thus promoting an effective use of the additional financial resources. Coupled with enhanced political dialogue centred on the program's conditions, the abovementioned direct outputs will induce: delivery of stable macro-economic policies focussed on fiscal discipline; PFM reforms based on a new Reform Plan; improvements in budget oversight and transparency; enhanced capacity to develop, implement, and monitor rural development policies (notably the OPSP and the TPF); and, most importantly, enhanced service delivery for the coconut, cattle, and fruits and vegetables value chains.

4.2 Main activities

The main activities that have been defined for each of the components are based on the results of the three value chain studies and of the finance facility study that were conducted in 2015 and 2016 in preparation for this action. The studies already provide detailed actions including indicative costing based on a comprehensive analysis of constraints and opportunities for strengthening of each of these value chains.

4.2.1 Budget support

Budget support is proposed for areas where a sound level of policy framework, coordination and ownership of the reforms has been shown. The main activities are geared towards policy targets that the Government will commit to achieve in relation to the VaVac (as outlined in the TPF and OPSP) policy areas. The sector reform contract will be implemented through following activities:

- transfer of EUR 20 million in tranches over the period 2017-2021 (sector budget support component);
- strengthened policy dialogue with the Government on the areas identified as the objectives of the sector reform contract;
- complementary support (technical assistance) of EUR 4 million to enhance the government's capacity to make effective and efficient use of BS resources for Rural Development;
- support for climate-resilient production and for awareness on climate change within the government and amongst the producing communities;
- more efficient monitoring and reporting on VaVac (TPF, OPSP) by strengthening the capacities of the authorities in charge and other stakeholder institutions in developing institutional capacities to further upgrade, elaborate, plan and implement policies and legislation, to establish mechanisms for monitoring and assessment – Performance Assessment Framework (PAF) – as well as implementation of PFM;
- regular monitoring of progress with sector policy reforms and other budget support eligibility criteria.

4.2.1.1 Result 1.1: Strengthened policy, institutional, and PFM arrangements for Rural Development

- Support to relevant policy/strategy development in the sector
- Support relevant data gathering and processing for evidence based policy/strategy development, and sector performance monitoring
- Support multi-stakeholders coordination fora such as the NTDC and, if appropriate, establish a Donor Roundtable on Rural Development
- Support relevant NTDC sub-committees and working groups for the three value chains of coconut, cattle, and fruits and vegetables

- Support implementation of PFMRR

4.2.1.2 Result 1.2: Strengthened service delivery for the coconut, cattle and fruits and vegetables value chains

- i. Improve market transparency and information, including on real-time information on climate issues relevant to the target and value chains, and advisory services on climate change adaptation.
- ii. Improve innovation in processing and product development;
- iii. Improve shipping and market infrastructure suitably to withstand the impact of climate change and natural hazards;
- iv. Improve business development services provision
- v. Improve market access by improving key parts of the quality infrastructure
- vi. Improve linkages with the tourism industry to increase domestic demand
- vii. Improve access to finance for value chain actors
- viii. Improve skills development of the work force, including on suitable training and extension on sound and resilient agricultural practices application of those techniques through training and extension;
- ix. Increase production and productivity through applied research into innovative and climate-resilient production techniques;
- x. Improve value chain organisation and governance;
- xi. Improved awareness within the government of the possible impacts of climate change on production value chains;

4.2.2 Complementary Support

4.2.2.1 Result 1.3: Increased capacity for the MALFFB, the MTTCNVB, and the MFEM and provision of adequate and reliable financial resources to promote climate-resilient Rural Development

Assistance to MTTCNVB, MALFFB, and the MFEM for financial and operational management and policy and project development and implementation, through the provision of technical assistance (see appendix 2 for more details). It is expected that an estimated number of 7 Long Term junior and senior TA combined will be required for:

- a. Overall coordination, leadership and oversight,
- b. for Contract, Finance and Procurement,
- c. Capacity building in MALFFB
- d. Capacity building in MTTCNVB
- e. Capacity building in MFEM

The Complementary support/TA shall ensure to put particular emphasis on enhancing monitoring and monitoring systems of the programmes as developed by the line ministries as well as on impact on income increase of smallholder farmers, producers, vulnerable groups (with disaggregated information by beneficiary groups). Social and economic inclusiveness will be promoted and closely monitored by the technical assistance team, while ensuring that actions contribute to strengthening local farmer

groups (by areas, value chains). Specific studies to measure the effect of actions on the above features are to be supported through the provision for short term TA.

The indicative reporting structure of the technical assistance will see each expert jointly reporting to a relevant GoV official and to the Lead Coordinator (or his/her Deputy). The Lead Coordinator will also report to a relevant GoV official. Clearing of requests for payments for TA services to the selected company will involve prior consultation with GoV officials to whom the individual experts are reporting and approval by the Lead Coordinator.

4.3 Intervention logic

Budget support through the SRC will provide the MALFFB and the MTTNCVB with adequate⁴ and reliable resources to strengthen the selected value chains by implementing activities agreed in the PAF. Moreover, Complementary Support will need to fill existing capacity gaps in the line ministries, thus promoting an effective use of the additional financial resources since past experience under EDF 10 showed poor implementation because of limited capacity. Coupled with enhanced political dialogue centred on the program's conditions, these direct outputs will contribute to the delivery of stable macro-economic policies focussed on fiscal discipline; PFM reforms based on a new Reform Roadmap; improvements in budget oversight and transparency; enhanced capacity to develop, implement, and monitor rural development policies (notably the OPSP and the TPF); and enhanced service delivery for the coconut, cattle, and fruits and vegetables value chains incorporating best practices in respect of climate change adaptation and disaster risk reduction. Enhanced services, delivered within a stable macro-economic environment and through improved PFM practices, should trigger a positive response from private businesses that will increase production, value addition, exports and quality/safety in the three value chains and will ultimately contribute to Rural Development.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the ACP-EU Partnership Agreement.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) No 322/2015.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for budget support component is EUR 20.0 million, and for complementary support is EUR 4.0 million. This amount is based on the following considerations:

⁴ The total annual budget of MALFFB and the MTTNCVB would increase by more than 100% as a result of the financial transfer. Priority activities included in the PAF were costed by the value chain studies undertaken in preparation to this action.

- Government's absorption capacity, with estimated annual amount of EU budget support approximately equal to 1.3% of the partner country's budget;
- Commitment of the partner country to allocate national budget resources (including EU budget support) in line with the NSDP, the sector policies for rural development (OPSP and TPF), and to follow standard national budget procedures;
- Commitment of the partner country to establish centralised units in the MTTCNVB (Project Management Unit) and the MALFFB (Trade Development Division) for the professional management of activities in support of Rural Development;
- Satisfactory track-record of the partner country with implementation of the TPF and the OPSP;
- Continuous commitment of the EU and partner country to ensure recovery and development of the rural sector following the devastations caused by TC Pam;
- Commitment to maintain a financial engagement through budget support comparable (on annual basis) to that achieved under EDF10
- Satisfactory track record and good absorption capacity of EU budget support allocations under EDF10;

5.3.2 *Criteria for disbursement of budget support*

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the TPF, and the OPSP⁵, and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policies;
- Satisfactory progress in the implementation of the Vanuatu's PFM Reform Plan;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for disbursement that may be used for variable tranches are based on existing government commitments through the relevant policies and frameworks mentioned above and annual benchmarks for tranche payments based on progress towards achievements of the results specified in point 4.1 and in Appendix 1 of this Action Document.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Government of the Republic of Vanuatu may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

⁵ Until the updates of these two overarching policies are finalized, reference policies will be the relevant subsector policies.

5.3.3 Budget support details

The disbursements under this SRC will consist of five fixed tranches (EUR 13.5 million), and four variable tranches (EUR 6.5 million), in a total amount of EUR 20 million, and will be transferred tentatively over the period 2017-2021.

Budget support is provided as direct untargeted budget support to the National Treasury. The crediting of the euro transfers disbursed into VUV will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support of budget support

5.4.1 Procurement (direct management)

SUBJECT IN GENERIC TERMS, IF POSSIBLE	TYPE (WORKS, SUPPLIES, SERVICES)	INDICATIVE NUMBER OF CONTRACTS	INDICATIVE TRIMESTER OF LAUNCH OF THE PROCEDURE
Complementary Support to the Vanuatu's Sector Reform Contract on Rural Development	Services	1	Q4/2017

It is intended to launch the procedure with a suspensive clause prior to the adoption of the Financing Decision.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 22(1)(b) of Annex IV to the ACP-EU Partnership Agreement on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

PROGRAMME COMPONENTS	EU CONTRIBUTION (AMOUNT IN EUR)	INDICATIVE THIRD PARTY CONTRIBUTION, IN CURRENCY IDENTIFIED
5.3. Budget support Sector Reform Contract on Rural Development	20.0 m	
5.4.1. Complementary Support to the Vanuatu's Sector Reform Contract on Rural Development (Direct Management)	4.0m	
5.9. Evaluation, 5.10 Audit	0.3m	
5.11. Communication and Visibility	0.2m	
Contingencies	0.5m	

TOTALS	EUR 25m	N/A
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5.7 Organisational set-up and responsibilities

The MALFFB-PMU shall be responsible for the management of activities to be funded by the SRC and to be led by MALFFB (based on PAF's contents).

The MTTCNVB-TDD shall be responsible for the management of activities to be funded by the SRC and to be led by MTTCNVB (based on PAF's contents).

The Public-Private Working Groups (PPWG) responsible for the target value chains (Livestock Industry Working Group (LIWG) , Fruits and Vegetables Cluster (FVC) and Coconut Focus Group (CFG), will be responsible for providing technical advice on activity design and implementation to relevant members of the VaVaC Programme Implementation Task Force (PITF). Capacity building and technical assistance will be provided to ensure that the abovementioned PPWG's are in the position to effectively exercise their mandate.

The VaVaC PITF shall be responsible for the provision of policy direction on value chain development, allocation of specific responsibilities for activity implementation, and activity monitoring.

The VaVaC Programme Administration Task Force (PATF) shall be responsible for overall coordination of the action, and for facilitating joint decision-making by the PMO, the MFEM, the MALFFB, and the MTTCNVB on the VaVaC Program.

The NTDC shall be responsible for assessing progress on the action, provide high-level directions to the VaVaC PAFT and PIFT, and advise the CoM on options to ensure effectiveness and sustainability of the action.

With reference to the partnership declaration on Sustainable Agriculture, signed in June 2016 by Commissioner Mimica, a high level steering group comprised of representatives of the government of Vanuatu, European Union Delegation and New Zealand High Commission for enhanced coordination on support to agriculture will be established.

An Annual Donor Roundtable on Rural Development may be established to enhance coordination on Rural development.

5.8 Performance monitoring and reporting

Written reports on VaVaC implementation shall be prepared and submitted according to the table presented below.

REPORT	COMPILED BY	SUBMITTED TO	DEADLINE FOR SUBMISSION
Quarterly Financial Report, MALFFB	MALFFB-PMU	VaVaC PATF	30 April 31 July 31 October 31 January
Quarterly Financial Report MTTCNVB	MTTCNVB-TDD	VaVaC PATF	Same as above
Quarterly Narrative Report, SRC	VaVaC PITF	VaVaC PATF	Same as above
Quarterly Consolidated Report	VaVaC PATF	NTDC Secretariat, NAO, European Commission	30 May 31 August 30 November 28 February
Annual Financial Report,	MALFFB-PMU	VaVaC PATF	28 February

MALFFB			
Annual Financial Report MTTCNVB	MTTCNVB- TDD	VaVaC PATF	Same as above
Annual Narrative Report, SRC	VaVaC PITF	VaVaC PATF	Same as above
Annual Consolidated Report	VaVaC PATF	NTDC Secretariat, NAO, European Commission ⁶	31 March

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the action, a **mid-term and final evaluation** will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for learning purposes, in particular with respect to any adjustments that may be required, taking into account the innovative nature of the action in the Vanuatu context.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the action is innovative in the Vanuatu context, and that any potential subsequent action will need to be informed by experience gained under this programme.

The Commission shall inform the implementing partner at least 3 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and *inter alia* provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any necessary adjustments, including, if indicated, the reorientation of the project.

⁶ For the Budget Support Component of the action, the Commission will also require an Annual Report Based on the Budget Support Guidelines

Indicatively, 2 contracts for evaluation services shall be concluded under framework contracts in June 2019 and June 2021.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, 1 contract for audit services shall be concluded under a framework contract in 9/2021

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

In addition to the communication and visibility requirement under the SRC, indicatively 2 contracts for services on communication and visibility shall be concluded under framework contracts in March 2018 and March 2020.

APPENDIX 1 - INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective: Impact	OO. To achieve a strong rural economy which creates opportunities, enables the <i>climate-resilient</i> development of rural communities, and increasingly contributes to national prosperity.	1. GDP agriculture, fishing and forestry, million VUV (2006 prices)	1. 13,524 (2014)	1. 14,597 (2019)	VNSO (National Accounts)
		2. Income increase of smallholders	2. Baseline is to be set following the VNSO (HIES – Household Income and Expenditure) Survey in year 2018	2. + 10% from baseline (2021)	Specific survey by VNSO
Specific objective(s): Outcome(s)	SO. To contribute to equitable, broad-based, and sustainable economic growth, recovery, and resilience by promoting organisation, and climate-resilient production, value addition, safety and quality, and trade in the coconut, beef and fruits and vegetables value chains.	1. Export of coconut-based products, 3-year average, million VUV (current prices)*	1. 1,526 (2015-17)	1. 2,000 (2019-21)	1. VNSO (Trade Statistics)
		2. Number of smallholders (M/F) rejuvenating their plantations or use other venues to improve coconut production/productivity.	2. 0	2. tbd (2019, specs in PAF)	2. Annual reports line ministries

		3. Cattle slaughtered at the commercial abattoirs, tonnes*	3. 2,932 (2017)	3. 3,550 (2021)	3. VNSO (Quarterly Statistical Indicators)
		4. Production of Fruits and vegetables sold at the Port Vila Municipal Market, value (current prices)*	4. To be released (06/2016-05/2017)	4. Increase compared to baseline: 10% (2021)	4. VNSO
Induced Outputs	O1.1 Strengthened policy, institutional, and PFM arrangements for Rural Development	1.1.1 Status of TPF Update (TPFU)	1.1.1 To be updated (2017)	1.1.1 Updated (2018)	1.1.1 MTTCNVB-TDD (TPFU document)
		1.1.2 Status of TPF Monitoring Reports	1.1.2 Available, based on TPF 2012	1.1.2 Available, based on TPFU (from 2018)	1.1.2 Ibid (TPFIM-Status Reports)
		1.1.3 Status of OPSP Update	1.1.3 To be updated (2017)	1.1.3 Updated (2018)	1.1.3 MALFFB-PMU (OPSP document)
		1.1.4 Status of OPSP Monitoring Reports	1.1.4 No monitoring report available (2017)	1.1.4 Available, based on updated OPSP (from 2018)	1.1.4 Ibid (OPSP Status Reports)
		1.1.5 Percentage of PAF's outputs whose implementation is 'on-track'	1.1.5 Not available (2017)	1.1.5 Positive track-record on implementation (from 2018)	1.1.5 EDF 11 PATF & EDF 11 TA Team (PAF Status Reports)
		1.1.6 Status of the Bill for the Trade Governance Act	1.1.6 In drafting (2016)	1.1.6 Approved by CoM and submitted to Parliament (2017)	1.1.6 CoM meeting minutes

		1.1.7 Status of PFMRR	1.1.7 Approved by Cabinet (2016)	1.1.7 Implementation advanced (2017)	1.1.7 PFMRR Coordinating Team (PMFRP document and CoM Decision)
		1.1.8 Status of PFMRR implementation	1.1.8 PFMRR not in place (2016)	1.1.8 Positive track- record on implementation (from 2017)	1.1.8 PFMRR Coordinating Team & EDF 11 TA Team (Annual Monitoring Report - Summary table of PFM performance and reform programme monitoring table)
Induced outputs	O1.2. Strengthened service delivery for the coconut, beef and fruits and vegetables value chains	1.2.1 Status of coconut value chain association	1.2.1 Not formally existing (2017)	1.2.1 Association formally established (2018) and 3 meetings held per year	1.2.1 Annual reports line ministries
		1.2.2 Status of livestock working group	1.2.2 Not formally existing (2017)	1.2.2 Association formally established (2018) and 3 meetings held per year	1.2.2 Annual reports line ministries
		1.2.3 Number of smallholders (M/F) trained in improved livestock management (** EU RF#7)	1.2.3 0 (2017)	1.2.3 tbd (2019, specs in PAF)	1.2.3 Annual reports line ministries

		1.2.4 Status of fruits and vegetables association	1.2.4 Not formally existing (2017)	1.2.4 Association formally established (2019) and 3 meetings held per year	1.2.4 Annual reports line ministries
		1.2.5 Number of smallholder fruits and vegetables growers (M/F) trained in improved production, processing and marketing (** EU RF#7)	1.2.5 0 (2017)	1.2.5 tbd (2019; specs in PAF)	1.2.5 Annual reports line ministries
Direct outputs	O2. Increased technical capacity in the MALFFB, the MTTCNVB, and the MFEM and provision of adequate and reliable financial resources to promote climate-resilient Rural Development	2.1 Annual Budget appropriated to MALFFB and the MTTCNVB	2.1 VUV 905 million (2016)	2.1 Compared to 2017 appropriation, increases by at least: EUR 3.0m in 2018; EUR 3.0m in 2019; EUR 3.0m in 2020; EUR 2.5m in 2021; EUR 2.0 m in 2022	2.1 MFEM (Parliamentary Appropriations)
		2.2 Status of EU Technical Assistance to Rural Development	2.2 To be deployed (2017)	2.2 Fully deployed (from 2018)	2.2 EU Delegation (contract for the provision of supplementary support)

Note: OO=Overall objective; SO=Specific objective; OI=Output 1 etcetera.

* Corresponding to indicators in NIP 2014-2020

** [EURF](#) is a methodological note on the Results Framework indicators from EU Directorate General International Cooperation and Development (DG DEVCO) 06.

APPENDIX 2: DETAILS ON INDICATIVE REQUIREMENTS FOR TECHNICAL ASSISTANCE

Refers to section 4.2.2.1: Complementary support,

Section: result 1.3 *"Increased capacity for the MALFFB, the MTTCNVB, and the MFEM and provision of adequate and reliable financial resources to support Rural Development"*.

Proposed TA positions:

- a. One Long-Term (LT) Lead Coordinator (senior consultant) providing leadership and oversight to the VaVaC program to ensure its smooth implementation, monitoring and reporting against agreed deliverables
- b. One LT Deputy Lead Coordinator (junior consultant) to support the functions of the Lead Coordinator
- c. One LT Contract, Finance, and Procurement Expert (junior consultant) to support the management functions of the Trade Development Division of the Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business.
- d. One LT Project Management Expert (senior consultant) to build capacity in the Project Management Unit of the Ministry of Agriculture, Livestock Forestry, Fisheries, and Bio-security and ensure the smooth implementation of its management functions
- e. One LT Agriculture Expert (junior consultant), to support implementation of activities for the coconut, beef, and fruits and vegetables value chains led by the Ministry of Agriculture, Livestock Forestry, Fisheries, and Bio-security
- f. One LT Trade and Industry Expert (senior consultant), to support implementation of activities for the coconut, beef, and fruits and vegetables value chains led by the Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business
- g. One LT PFM expert (junior consultant), to support the Department of Finance and Treasury's Budget Division in its role as coordinating team for the PFMRR
- h. Short-Term (ST) Technical Assistance, to be mobilised as needed over the course of the program

ABBREVIATIONS

ACRONYM	DEFINITION
ACP	Africa Caribbean Pacific
CFG	Coconut focus Group
CoM	Council of Ministers
DO	Development Outcomes
DoFT	Department of Finance and Treasury
EDF	European Development Fund
EIF	Enhanced Integrated Framework
EU	European Union
EUD	European Union Delegation
FAO	Food and Agriculture Organisation
FIRST	Food and Nutrition Security Impact, Resilience, Sustainability and Transformation
FVC	Fruits and Vegetables Cluster
GBEs	Government Business Enterprises
GCBEs	Government
GCCA	Global Climate Change Alliance
GDP	Gross Domestic Product
GEF	Global Environment Facility
GfG	Governance for Growth
GGDC	Good Governance Development Contract
GoV	Government of Vanuatu
GPGC	Global Public Goods and Challenges
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFP	Investment Facility for the Pacific
IMF	International Monetary Fund
LDC	Least Developed Country
LIWG	Livestock Industry Working Group
M&E	Monitoring and Evaluation
MAF	Measures on Access to Finance
MALFFB	Ministry of Agriculture, Livestock, Forestry, Fisheries, and Bio-security
MFEM	Ministry of Finance and Economic Management
MSME	Micro Small and Medium Enterprises
MTTCNVB	Ministry of Tourism, Trade, Commerce, and Ni-Vanuatu Business
NAO	National Authorising Officer
NGO	Non-Governmental Organisation
NIP	National Indicative Program
NSDP	National Sustainable Development Plan
NTDC	National Trade Development Committee
OAG	Office of the Auditor General
OPSP	Overarching Productive Sector Policy
ORCBDS	Office of the Registrar of Cooperatives and Business Development Services
PAA	Priority Action Agenda
PAF	Performance Assessment Framework

PATF	Programme Administration Task Force
PDNA	Post Disaster Needs Assessment
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Plan
PFTAC	Pacific Financial Technical Assistance Centre
PHAMA	Pacific Horticultural and Agricultural Market Access
PITF	Programme Implementation Task Force
PMO	Prime Minister Office
PRIF	Pacific Region Infrastructure Facility
PRIP	Pacific Regional Indicative Program
PVMM	Port Vila Municipal Market
RBV	Reserve Bank of Vanuatu
ROM	Result Oriented Monitoring
SDG	Sustainable Development Goals
SPC	South Pacific Community
SRC	Sector Reform Contract
TA	Technical Assistance
TC	Tropical Cyclone
TGA	Trade Governance Act
TPF	Trade Policy Framework
TPFIM	Trade Policy Framework Implementation Matrix
TVET	Technical and Vocational Education and Training
VARTC	Vanuatu Agricultural Research and Technical Centre
VaVaC	Vanuatu Value Chain
VCCI	Vanuatu Chamber of Commerce and Industry
VNSO	Vanuatu National Statistics Office
VSTAP	Vanuatu Strategic Tourism Action Plan
WASH	Water Sanitation and Hygiene
WB	World Bank
