



Fiji

16 January 2007

Letter No.: 074

Ref. No.: Vanuatu Integrated Framework Project

Dear Mr Sisi,

You will note from earlier emails with Ms Virisila Raitamata of our office that approval for UNDP's direct execution of the Integrated Framework Project has now been received from New York. In this regard, the project document is hereby duly submitted for the Government of Vanuatu's signature.

The prompt return of the signed document to our office will facilitate the required processes for the recruitment and fielding of DTIS consultants now scheduled for 6 February as well as subsequent activities of the project.

We look forward to your timely action on the above.

Thank you and regards.

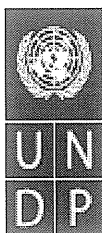
Yours sincerely,

A handwritten signature in black ink, appearing to be 'Richard Dictus', is written over a horizontal line. The signature is somewhat stylized and loops back.

Richard Dictus
Resident Representative

Mr Timothy Sisi
Acting Director of Trade
Ministry of Trade
PMB9030
Port Vila
Vanuatu

Cc: Mr Benjamin Shing, Director General, Ministry of Finance & Economic Management
Ms Roslyn Arthur, UN Desk Officer, Ministry of Foreign Affairs



United Nations Development Programme

Names of additional partners

World Bank, IMF, WTO, UNCTAD, ITC

Title of Project

Vanuatu Integrated Framework for Trade-Related Technical Assistance (IF)

The aim of the Integrated Framework project is, foremost, to assist Vanuatu to expand its participation in the global economy while contributing to sustainable growth with poverty reduction and human development. The IF project is to provide Vanuatu with inputs for mainstreaming development oriented trade in its national development plan (the Priorities and Action Agenda); to address its main supply-side barriers and provide Vanuatu with a coordinated and responsive mechanism of trade-related technical assistance from the international community.

Date: 16 January 2007



UNITED NATIONS DEVELOPMENT PROGRAMME

PROJECT NUMBER:

PROJECT TITLE: Vanuatu Integrated Framework for Trade-Related Technical Assistance

EXECUTING AGENCY: UNDP Fiji in close collaboration with Trade and Human Development Unit, Geneva Office

IMPLEMENTING PARTNER: Government of the Republic of Vanuatu

PROJECT SITE: Vanuatu

OF: IF Trust Fund 65410

ESTIMATED START DATE: 1 November 2006

ESTIMATED END DATE: 30 June 2007

Summary of Inputs	
GCF	-
IF Trust Fund: <i>(incl. GMS & ISS)</i>	US\$300,000
	<hr/>
Total	US\$300,000

Approved on behalf of:

Government of Vanuatu:

UNDP:

Section I

Part I. Economic and social situation

Vanuatu is a small, geographically fragmented island country with a population of 215,000 over a chain of more than 80 islands. The country is remote from major industrial countries (2471 kilometers to nearest major port) and is economically reliant on agricultural exports such as copra, cocoa, kava, beef, and timber and on the tourism sector as the main drivers of Vanuatu's small economy. High concentration in relatively few primary products translates into economic vulnerability stemming from large terms of trade and other weather-related shocks.

Vanuatu has maintained macroeconomic stability, with low inflation rates and the exchange rate being broadly stable. Economic growth averaged about 3 percent in 2003-05. Fiscal consolidation continued in recent years although there are some risks for the 2006 budget. Vanuatu has a prudent debt management policy. Important progress has been made in strengthening its financial sector, and in 2003, OECD removed Vanuatu from the list of uncooperative tax havens.

HDI Rank of Vanuatu is 118 and it has 23% of the population comprising of adolescents, youth make up 20% and 54 % of the total population are below 20 years and majority of the population reside in rural areas where services are poor. To reduce the incidence of hardship in Vanuatu, there is still a need to prioritise improvements in service delivery such as water supply, health, education and roads in both urban and rural areas. The lack of these services places extra demands on women and children in terms of time use, access to health and education services and improving their livelihoods. There is also a great need to look into job creation through skills development and access to credit in particular to women who have the potential to be entrepreneurs..

Population (millions)	0.2
Population growth rate (%)	1.8
Life Expectancy at Birth (years)	68.4
Fertility Rate (%)	4.2
Adult literacy rate (%)	74
Human Development Index/rank	0.659/118

As typical to most small islands states, Vanuatu faces several key challenges and development constraints as it strives to sustain strong economic growth and improve living standards of its population. These include a small domestic market, narrow and fragile resource base, a shortage of skilled personnel, difficult inter-island transportation,

high unit costs of social and economic infrastructure provision and high vulnerability to external and natural disasters. These result in the visible inequities amongst the rural and urban communities and exacerbates inequities in situations where women are concerned.

The Government has demonstrated a strong commitment to integrate trade into its current Priorities and Action Agenda¹ with a view to broadening its economic base and reducing its dependency on few products and vulnerability to external shocks.

Some of the proposed actions include developing an efficient export marketing system for selected agricultural produce, collaborating with the private sector to promote trade and investment, revising quarantine legislations, increasing airline capacity and developing tourism infrastructure, enhance the image of locally manufactured goods, strengthening the Vanuatu Investment Promotion Authority to provide a “one stop shop”, and establishing mechanisms to facilitate easy access to markets. It is expected that the IF diagnostic study will provide the analytical framework for prioritizing these and related policy proposals. The assessments will also take into account and scrutinize implications and negative impact of these trade related issues on the women of Vanuatu.

More broadly, the IF project is expected to help Vanuatu better integrate into, and benefit from, the international trading system. In particular, the IF project will aim to assist Vanuatu in managing the WTO accession process (should it continue to pursue its application to join the WTO), as well as in negotiating bilateral trade agreements as foreseen with the EU under the Economic Partnership Agreement and with Australia and New Zealand under PACER. Moreover, the IF could assist in tapping into some of the potential gains from improved market access through bilateral and multilateral trade liberalization and trade facilitation but at the same time raise issues of concerns should some of these impacts negatively on the women of Vanuatu. Identifying and addressing constraints to developing the export potential of certain sectors including the development of local productive capacities would be crucial to unlock economic growth in this small island economy. Vanuatu has demonstrated a commitment to improving its trade policy and has sought support from the donor community.

The IF project aims at strengthening the capacity of Vanuatu to deal with trade issues and to improve the use of trade policy as part of its overall growth and development strategy, while also taking into account pro-poor and human development outcomes including the achievement of the MDGs.

Part II. Strategy

The IF project will provide inputs for mainstreaming development oriented trade to the Priorities and Action Agenda² and beyond. The project will address supply-side barriers.

While the Diagnostic Trade Integration Study (DTIS) will be the core activity of the IF process, this will be preceded by a pre-DTIS mission that will have among its objectives

¹ The Priorities & Action Agenda formulates the medium term (3-5 years) priorities of the Government, and sequences the required policy interventions.

² The Priorities and Action Agenda is the medium term (3-5 years) development plan of the Government identifying priorities and sequencing the required policy interventions

inclusive consultation on the country's pro-poor trade policy and trade integration strategy, and the role that trade can play in its overall development. It will be crucial to ensure that a wide range of views of women are sought and integrated into the study findings and recommendations. These need to include women from both the rural and urban settings from within the various service sectors and others will be of priority. The findings/outcome of the consultation phase will help guide and define the DTIS, especially through human development and gender lenses.

The exercise will serve the purpose of identifying the key constraints and challenges to the country's integration into the multilateral trading system and the global economy, and will: (i) review and analyze Vanuatu economic and export performance; (ii) assess the macroeconomic environment and the country's investment climate; (iii) assess the international policy environment and the specific constraints that the country's exports face in international markets; (iv) analyze key labor-intensive sectors for expansion of output, exports and employment; (v) assess the poverty and pro-poor strategies that can be adopted to ensure equitable outcomes for men and women, for rural and urban settings, and (vi) conclude recommendations for trade policy reforms, institutional capacity implications, and an action plan to remove bottlenecks and respond to the opportunities identified in the diagnostic study. Again the opportunities will ensure gender issues are adequately addressed.

The last element is very important because it will constitute the Action Matrix - set of policy recommendations and priority technical assistance needs to overcome the identified constraints—that will be presented together with the DTIS at the national trade integration workshop, the National Validation Workshop.

Part III. Management Arrangements

The high-level WTO-based Integrated Framework Steering Committee (IFSC) and Working Group (IFWG) designated UNDP as the lead agency for the Vanuatu trade mainstreaming exercise. UNDP Fiji will serve as the executing agency for the project in close collaboration with the UNDP Geneva-based Trade and Human Development Unit (THDU) and the management authority will be within the Poverty Unit of the UNDP Fiji Office supported by Vanuatu Desk Officer within the Development Services Unit UNDP Fiji). The Ministry of Foreign Affairs and External Relations of Vanuatu will be the IF Focal Point in-country supported by the National IF Committee made up of respective sectoral representatives.

A team of local and international experts, some of whom will be women, led by a Team Leader designated by the Government of Vanuatu will be responsible for the DTIS exercise with the CO and the THDU supervising the process in collaboration with the national IF Focal Point and UNDP Fiji. The five other IF cooperating agencies will serve as partners. Each of the agencies will be expected to provide technical support to the IF team based on its comparative advantages and competences. All relevant communication in-country will be led by the Ministry of Trade as the main national focal point. UNDP

Fiji will maintain and be responsible for communication with UNDP Trade Unit in Geneva who facilitates communication with the IF partners as relevant.

The designated IF Team Leader will participate in a preparatory mission to Vanuatu (already taken place in 16-20 October 2006) to discuss the IF process and work plan with the authorities, other national stakeholders and donors. A key objective of the mission was to define the scope of the IF exercise; secure common understanding of the priorities, agree on ideal institutional support structures, the identification of a Lead Donor Facilitator, and composition of the IF team. As a conclusion of the preliminary mission, an Aide-Memoire will be signed between the Government of Vanuatu and UNDP (acting on behalf of the IF agencies) to confirm the agreed institutional arrangements, terms of reference and modalities for implementing the project. The Aide Memoire is attached as Annex 1.

The project will be directly executed (DEX) by UNDP Fiji in close collaboration with the Geneva Trade Desk for technical backstopping. This arrangement will also ensure effective management of the interface between the global level of the IF³ and country level implementation of the IF project in Vanuatu.

Part IV. Monitoring and Evaluation

Monitoring and evaluation will follow the DEX modality guidelines. Work-plans, financial reports and other reporting will be prepared accordingly. UNDP will share information on the progress of the project, study findings/recommendations, and lessons learned with the IFSC, IFWG and the rest of for IF community for purposes of knowledge sharing. In addition, the project will be subjected to UNDP project monitoring and evaluation in line with standard guidelines and procedures, and can be encapsulated in any evaluation initiated by the IFWG and/or IFSC. In addition to the country trade integration strategy and capacity building plan of action, the other outputs of this project will be a series of knowledge products that will be used to support national policy dialogue, better appreciation of trade issues and advisory support services and lessons learnt which could be used by other potential IF countries, i.e. other LDCs, Samoa and Solomons from 2007 and Tuvalu & Kiribati in the near future through the Pacific Islands Forum Secretariat .

³ That is the IF governing bodies particularly, the IF Steering Committee, the IF Working Group, IF donor group and the WTO Least Developed Countries (LDC) group.

Part V. Legal Context

This programme support document shall be the instrument referred to as project support document in Article 1 of the Standard Basic Assistance Agreement (SBAA) between the Governments of Vanuatu, Government of Solomon Islands and Government of Papua New Guinea and the United Nations Development Programme, signed by the parties on 27 March 1983, 4 April 1986 and 7 April 1981 respectively. The host country's implementing Agency shall, for the purposes the Standard Basic Agreement, refer to the Government co-operating Agency described in that agreement.

The following types of revisions may be made to this project document with the signature of the UNDP Resident Representative only, provided that he is assured that The Government has no objections to the proposed changes:

- (a) Revisions in, or in addition to, any of the annexes of the project document;
- (b) Revisions which do not involve significant changes in the immediate objectives, outputs or activities of a project but are caused by re-arrangement of inputs already agreed to or by cost increases due to inflation.

Section II. Summary Results and Resources Framework:

Intended Outcome as stated in the Results Framework: Development oriented trade mainstreamed in the Priorities and Action Agenda (PAA) with priority projects set by the Action Matrix implemented	
Outcome indicator as stated in the Programme Results and Resources Framework, including baseline and target:	
<ul style="list-style-type: none"> ▪ Findings/recommendations of the DTIS appear in the next PAA (revision is ongoing) ▪ IFTF WII Status Report indicates that by Q4/2007 a project/projects to implement the priority activities of the DTIS Action Matrix have started 	
Applicable MYFF Service Line: Globalization Benefiting the Poor (1.4.)	
Partnership Strategy: Government of Vanuatu (GoV), the World Bank, IMF, UNCTAD, ITC, WTO, Donors	
Project title and ID: Vanuatu Integrated Framework for Trade-Related Technical Assistance	
Main Outputs	Indicative Activities
<ul style="list-style-type: none"> ▪ IF institutional arrangements created, IF team constituted, TORs and DTIS concept paper prepared and discussed with all stakeholders ▪ DTIS report and Action Matrix for trade and Trade-related capacity building ▪ DTIS report and Action Matrix considered and endorsed by national stakeholders ▪ Donors' briefing meeting ▪ Trade mainstreamed in the PAA 	<ul style="list-style-type: none"> ▪ Creation of National Implementation Arrangements for the IF ▪ Preparatory missions by IF cooperating agencies (16-20 October 2006) ▪ Composition of the IF team of national and international consultants/experts ▪ Preparation of the DTIS concept paper & interfacing with the PAA ▪ Fielding of IF team to Vanuatu to undertake trade policy research, sector and capacity assessment, literature review, etc, on the basis of the area identified by the concept paper and essential for the diagnostic trade integration studies. ▪ Convening sector meetings and workshops (part of the main mission) ▪ Production of draft DTIS report and Action Matrix ▪ IF oversight missions (to Geneva & Port Vila) ▪ Convening of National Validation Workshop to review and endorse DTIS findings/recommendations ▪ DTIS & Action Matrix presented to donors' briefing meeting
	Inputs Required
	<ul style="list-style-type: none"> Consultants/experts Mission travel Workshops National Secretariat Mission travel Conference facilities DTIS Research team

Section III The Annual Work Plan and Budget

Year: 2006/2007

Project Number:

Project Title: Vanuatu Integrated Framework for Trade-Related Technical Assistance

EXPECTED OUTPUTS & MONITORING ACTIVITIES	Key Activities <i>List all the activities to be undertaken during the year towards stated output</i>	TIMEFRAME				RESPONSIBLE PARTNER (S)	Source of Funds	Planned Budget		Amount (US\$)
		Q4/06	Q1/07	Q2/07	Q3/07			Q4/07	Donor	
Preparation of TORs & Aide Memoire	Preparatory IF mission	X				GoV; UNDP/THDU, UNDP CO; IF Cooperating agencies	Code?	IFTF	71600 Travel costs	30,000*
DTIS report & Action Matrix	Research analysis, sector assessment, impact assessment, drafting of DTIS report & compilation of Action Matrix	X	X	X	X	IF team; UNDP/THDU, UNDP CO; IF Cooperating agencies	Code?	IFTF	71300 National Consultants 71600 Travel costs (6 missions) 71200 International Consultants 72500 Miscellaneous Expenses	12,000** 104,000 75,000*** 10,000
Pro-poor trade integration strategy adopted Trade mainstreamed in the PAA. Contingency	Convening National Validation Workshop to review and endorse DTIS findings/recommendations				X	GoV; UNDP/CO.	Code?	IFTF	21100 Workshop Costs 72500 Miscellaneous Expenses 71600 Travel costs (1 mission)	15,000 2,000 14,000
Management fees (GMS & ISS) –paid to NY (24,000)										
Total										276,000

* = Committed expenditures (resources temporarily advanced by the THDU Unit)

1. Mr. Daniel Gay, designated IF Team Leader for Vanuatu orientation mission to Geneva (travel and DSA) USD 2,000
2. Mr. Daniel Gay and Mr. Roy Mickey Joy (senior official of the Ministry of Foreign Affairs and External Trade of Vanuatu, based in Geneva) participation to the IF preparatory mission (travel and DSA) USD 28,000

USD 30,000

** = 2 national consultants x 1,5 work months x USD 4,000 per month = USD 12,000

*** = 6 international consultants x 1,5 work months x USD 6,000 per month + 1 team leader x 3 work months x USD 7,000 per month = USD 75,000