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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX I**

to the Commission Implementing Decision on the financing of the individual measure  
in favour of the Pacific region for 2024

**Action Document for Vanuatu Sustainable and Inclusive Rural Development Programme  
(VaVaC II)**

**ANNUAL MEASURE**

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

## 1 SYNOPSIS

### 1.1 Action Summary Table

<b>1. Title CRIS/OPSYS business reference Basic Act</b>	Vanuatu Sustainable and Inclusive Rural Development Programme (VaVaC II) OPSYS number: ACT-62292 Financed under the Neighbourhood, Development and International Cooperation Instrument ( <u>NDICI-Global Europe</u> )
<b>2. Team Europe Initiative</b>	Yes. This action will contribute to the TEI “Green-Blue Alliance for the Pacific and Timor-Leste”.
<b>3. Zone benefiting from the action</b>	The action shall be carried out in Vanuatu.
<b>4. Programming document</b>	Pacific Multi-Country Multi-Annual Indicative Programme 2021-2027
<b>5. Link with relevant MIP(s) objectives / expected results</b>	Priority Area 2 – Inclusive and Sustainable Economic Development Priority Area 1 – Climate Action and Environmental Sustainability
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	510 – General Budget Support 310 – Agriculture, Forestry, Fishing
<b>7. Sustainable Development Goals (SDGs)</b>	Main SDG: SDG 2 “Zero hunger” Other significant SDGs (up to 9) and where appropriate, targets: SDG 8 “Decent Work and Economic Growth” SDG 9 “Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation” SDG 12 “Ensure sustainable consumption and production patterns” SDG 13 “Climate Action” SDG 15 “Life on land”

	SDG 16 “Peace, Justice and strong institutions”			
<b>8 a) DAC code(s)</b>	15110 – Public sector policy and administrative management 40% 43040 – Rural Development 40% 31120 – Agricultural development 20%			
<b>8 b) Main Delivery Channel</b>	Central Government – 12001 Private Sector Institution – 60000			
<b>9. Targets</b>	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Education <input type="checkbox"/> Human Rights, Democracy and Governance			
<b>10. Markers (from DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Gender equality and women’s and girl’s empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	<b>11. Internal markers and Tags</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>
Digitalisation		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
digital connectivity			<input type="checkbox"/>	<input type="checkbox"/>
digital governance			<input type="checkbox"/>	<input type="checkbox"/>
digital entrepreneurship			<input type="checkbox"/>	<input type="checkbox"/>
digital skills/literacy			<input type="checkbox"/>	<input type="checkbox"/>
digital services			<input type="checkbox"/>	<input type="checkbox"/>

	Connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	transport		<input type="checkbox"/>	<input type="checkbox"/>
	people2people		<input type="checkbox"/>	<input type="checkbox"/>
	energy		<input type="checkbox"/>	<input type="checkbox"/>
	digital connectivity		<input type="checkbox"/>	<input type="checkbox"/>
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>BUDGET INFORMATION</b>				
<b>12. Amounts concerned</b>	Budget line(s) (article, item): BGUE-B2024-14.020132-C1-INTPA Total estimated cost: EUR 18 800 000 Total amount of EU budget contribution EUR 18 800 000 of which EUR 16 000 000 for Budget Support, EUR 2 700 000 for complementary support, EUR 100 000 for evaluation and/or audit.			
<b>MANAGEMENT AND IMPLEMENTATION</b>				
<b>13. Type of financing</b>	<b>Direct management</b> through: - Budget Support: Sector Reform Performance Contract - Procurement			

## 1.2 Summary of the Action

The Vanuatu Sustainable and Inclusive Rural Development Programme (VaVaC II) responds to the needs of Vanuatu as expressed by the economic, environment and social pillars of the National Sustainable Development Plan (NSDP) 2016-2030, and more specifically by the recommendations of the Overarching Productive Sector Policy (OPSP) 2020-2030.

The overall objective of this action is to contribute to a climate-resilient rural development which enables opportunities for rural communities. The specific objective is to promote climate-resilient food systems including production, value addition, safety and quality, and trade. The expected outputs will contribute to: (i) enhanced capacity to implement and monitor climate-resilient rural development policies, (ii) the delivery of stability-orientated macro-economic policies, (iii) public finance management (PFM) reforms, and (iv) improvements in budget oversight and transparency. The action aims to build upon the work laid down by the previous budget support programme under the 11<sup>th</sup> European Development Fund (EDF11).

The Vanuatu Sustainable and Inclusive Rural Development Programme will support the government budget to create fiscal space for rural development, and specifically support climate-resilient production, value addition, trade, safety and quality. It will also provide complementary support for the productive sector line ministries, notably the Ministry of Agriculture, Livestock, Forestry, Fisheries and Bio-security (the 'Ministry of Agriculture'), the Ministry of Tourism, Trade, Commerce and Ni-Vanuatu Business (the 'Ministry of Trade'), along with the Ministry of Finance and Economic Management (the 'Ministry of Finance') for its leading role in PFM reforms, and the Ministry of the Prime Minister for its central position in the overall coordination of development assistance. The action will thus help to strengthen the resilience of the primary sector while reducing its environmental and climate impact, to ensure fair economic returns and to stimulate green business models. Therefore, it will support Vanuatu's transition towards a green economy and it is intended to stimulate private sector involvement and investments in the agricultural sector and value addition, opportunities for complementarity with European Fund for Sustainable Development (EFSD+) will be sought.

The action will contribute to the Pacific Multi-Country Multi-annual Indicative Programme 2021-27 priority area 2 ‘Inclusive and Sustainable Economic Development’ and in particular to the following specific objectives: To support diversified, sustainable and resilient (including climate-resilient) economic growth, in particular by strengthening the role of micro, small and medium-sized enterprises (MSMEs) and supporting local livelihoods through diversification of the economy, thereby helping the country to integrate into regional and global value chains under the EU-Pacific EPA to which the country has requested to accede. It also has strong links with priority area 1 ‘Climate Action and Environmental Sustainability’.

### 1.3 Zone benefitting from the Action

The Action shall be carried out in Vanuatu.

## 2 RATIONALE

### 2.1 Context

#### *Political and Financial Outlook*

Vanuatu is an archipelagic nation state of 83 islands with a total land area of around 12,000 square kilometres located in the South West Pacific. It has a young population of approximately 375,000 people with the majority living in the rural areas and engaged in subsistence agriculture. It is located near the equator, on the Pacific Ring of Fire and is one of the world’s most disaster prone countries and also of the world’s most at risk countries for natural hazards. It suffers from most of the known natural hazards, including drought, floods, cyclones, earthquakes, volcanoes, tidal waves, tsunamis and the increasing impacts of climate change, coastal erosion and sea level rise.

Relative to its population, Vanuatu has a very high number of political parties and very fragmented political landscape. Since the early 1990’s this has resulted in coalition governments with very few of them completing their four-year term. This has led to a less dynamic implementation of policy accompanied with results on a lower band of the expectations. The EU budget support and technical assistance programmes have in the past and will in the future contribute to mitigation of these impacts and allow for induced stability of policy implementation despite frequent changes in the executive branch of the Government.

Vanuatu has a dualistic economy with a small proportion of the population engaged in the formal sector economy and the majority engaged in the non-formal sector. The small portion engaged in the formal sector contributes to the bulk of the revenue of the government and the large rural-based population continues to face challenges to income generating opportunities and food security as a result of increasing number of natural hazards and other climate change effects. Following the COVID19 pandemic, the reopening of borders and strong public infrastructure investments are paving the way for a faster recovery (dependent on the dynamics of the agricultural production, tourism, remittance inflows, and recovery in Vanuatu trading partners).

Macro-economic fundamentals remain stable, headline inflation and the current account deficit depends on the global energy and commodity prices. The core inflation remains under control allowing for continuation of the expansionary fiscal and monetary policy. Overall, the economic activity is expected to remain characterized by the real GDP growth within the stable macroeconomic policies. Rationale and Assessment

#### *Action Environmental Assessment*

The agriculture sector contributes to 16.9% of Vanuatu’s GDP, it is the livelihood of more than 87% of the households<sup>1</sup> and 77,224 households’ member (50.5% female and 49.5% male) are involved in agriculture activities<sup>2</sup>.

Vanuatu’s agriculture is mainly based on small scale farms (medium size 0.66 hectare), being subsistence farming (74.5%) the main activity for the highest proportion of the of agriculture households’ members who participate in agriculture activities. Self-employment accounts for 21.6 percent of agriculture and only 2% are employed in the private sector. Traditional agriculture production in Vanuatu is mainly based on shifting

<sup>1</sup> 2022 Vanuatu National Agriculture Census. Preliminary report, Vanuatu Bureau of Statistics.

<sup>2</sup> crop, livestock and forestry

cultivation that involve the intercropping of a diverse range of short-term food crops with multipurpose trees, small livestock (poultry and pigs), and artisanal fishing.

Prior the 2022 Vanuatu National Agriculture Census Vanuatu (VNAC), the annual production of crops in Vanuatu was 1,253,718 metrics tonnes<sup>3</sup>. The production of cash crops represents two-thirds (67%) of total crop production and it is mainly coconut (80.8%) and kava (18.2%)<sup>4</sup>. The production of temporary crops represents 13.8% of total crop production, mainly yam (25%), cabbage (15%), taro (11%), watermelon (10%), capsicum (9%), sweet potatoes (7%), cassava (6%), pineapple and other assorted vegetables. While remaining 19% is accounted for permanent crops, mainly citrus (36%), breadfruits (18%), banana, chestnut, navel, avocado and mango.

In terms of value, during the VNAC reference period, the value of the livestock sector was estimated in €70 million, and the total value of crop production was €2.7 billion, the value of cash crops represent 89.1% of total value, mainly kava (66%) and coconut (22%). The value of temporary crops represents 6.1% and the remaining 4.8% is accounted for the permanent crops. In terms market, agriculture makes up 80% of Vanuatu's exports, key commodities include copra (constituting 35% of exports), coconut oil, cocoa, coffee, kava root, cattle, and timber.

Even though most rural families grow food in their gardens, and food shortages are rare according to the Vanuatu National Statistic Office's food security analysis, it is observed that around 21% of people in Vanuatu experience moderate food insecurity, and 2.4% are severely food insecure. Moderate food insecurity signifies that people do not experience hunger, however, do not have regular access to safe and nutritious foods, thus putting them at greater risk of various forms of malnutrition and poor health.

Agricultural production and yields in Vanuatu, and therefore regular access to safe and nutritious food, face the high risk of being severely affected by the foreseen impacts/effects of climate change. Changes in season predictability (rainfall and temperatures), increased intensity of phenomena of El Niño and La Niña, higher sea temperature, higher frequency of tropical cyclones, and risks of saltwater intrusion of agricultural soils due to sea level rise, are some of these effects. The increase in intensity and frequency of tropical cyclones is expected to affect Vanuatu in general, and agricultural production outputs in particular, through:

- increased risk for investments on mid- and long- term cash-crops, such as timber trees that are susceptible for extreme winds and flooding;
- decreased food availability due to temporal harvest loss of main food crops, such as carbohydrates (root crops) as well as fruits (banana, papaya) and vegetables (island cabbage).

Furthermore, there is a trend amongst farmers to purchase food from cash-crops income, such as kava cultivation, while abandoning cultivation of food crops. This trend of increasing purchase of food is also observed by the national import-export statistics. Vanuatu remains a net importer of food, and food products contributes to more than one fifth of the total imports. This trend of reliance on imported food commodities is largely comprised of poultry meat, rice, flour, and tin fish and the increasing consumption of these foods can be attributed to a range of characteristics, including price, taste, shelf-life, shifting cultural norms, and ease of preparation. This observed switch from traditional foods to ultra-processed foods, rich in fats and sugar, increase exposure to non-communicable diseases.

### *Policy Linkage*

The action responds to the needs of Vanuatu as targeted by the environmental and economic pillar of the National Sustainable Development Plan (NSDP) 2016-2030, and more specifically by the recommendations of the sector policy: the Overarching Productive Sector Policy (OPSP). Moreover, this action aligns with the recovery plans aimed at strengthening Ni-Vanuatu resilience that the Government of Vanuatu launched to recover from the tropical cyclones such as Pam, Harold, Judy, Kevin and Lola that devastated several of its islands since 2015. Furthermore, the action builds on the results of the Vanuatu Value Chain (VaVaC) programme under the EDF11.

Food security, -in terms of sustainable availability, access, and utilization- as well as food safety and quality, are of major importance for Vanuatu. Food security, safety and quality are leading targets under the following policies:

<sup>3</sup> During the reference period of the 2022 Vanuatu National Agriculture, 12 months

<sup>4</sup> Other cash crop include cocoa, noni, Tahitian lime, coffee, vanilla and pepper

- The NSDP Environment Pillar 1.1 ‘Increase agricultural and fisheries food production using sustainable practices to ensure sufficient access to affordable and nutritious food’;
- The OPSP Development Objective 2 ‘Improved quality and safety and DO3 Food security’.

Although traditional agricultural cultivation systems have proven to be a vital part of food security and provide resilience in the face of climate change effects or natural hazards (cyclones, floods, droughts etc.) sustainable increase of food production using climate-smart agriculture (CSA) practices, that are adaptive to the foreseen effects of climate change as well as contribute to the mitigation and sequestration of Green House Gases (GHG), and the increase in climate-resilient nutritious food crops and livestock varieties, are vital to ensure availability local nutritious food for Vanuatu. The development of climate-smart agricultural and agro-processing practices for/with resilient food crops in Vanuatu is targeted under the following policies:

- The NSDP 2016-2030 Environment Pillars 1.1 and 1.5 ‘Enhance traditional agricultural practices, focusing on disaster risk reduction and climate change adaptation’;
- The NSDP 2016-2030 Economy Pillar 3.4 ‘Increase primary sector production, including through extension services and cooperatives’;
- The OPSP Development Objective 5 ‘Enhanced environmental services and resilience’.
- Food import substitution industrialization is targeted under the following policies:
- The NSDP 2016-2030 Environment Pillar 1.3 ‘Reduce reliance on food imports through import substitution for food products that can be produced domestically’;
- The NSDP 2016-2030 Environment Pillar 1.4 ‘Improve access to appropriate technology, knowledge and skills in food production, preservation and storage’;
- The NSDP 2016-2030 Economy Pillar 3.3 ‘Improve access to markets through quality infrastructure, utilities, storage and processing facilities in rural areas’;
- The NSDP 2016-2030 Economy Pillar 4.3 ‘Increase production and processing of niche commodities, and value addition to commodities in which Vanuatu enjoys a comparative advantage’;
- The OPSP Development Objective 1 ‘Market and Commodity Production’ and 4 ‘More onshore processing and value adding of economically viable agricultural products’.

Climate change adaptation in the agriculture sector is also part of the commitments under Vanuatu’s Nationally Determined Contribution (NDC) to the Paris Agreement.

#### *Intervention strategy*

The challenge is to facilitate the increase of the local sustainable production & consumption of healthy food. Therefore, the action should primarily address support towards value chain development of local, nutritious and healthy food crops/livestock commodities in the face of climate change challenges and direct the public towards consumption of local food. This not only includes tackling the key challenge of developing sustainable farming systems based on traditional systems and agroecology practices, but also development of value-adding agro-processing of food-crops that increase shelf-life and ease preparation, and marketing pathways, which allow increased employment and cash-generating opportunities for rural households. The above is well aligned with the guiding principles of various national policies, to include the National Agriculture Sector Policy 2015-2030<sup>5</sup>, the National Climate Change and Disaster Risk Reduction Policy 2022-2030 (2<sup>nd</sup> edition)<sup>6</sup>, and the National Livestock Policy 2015-2030<sup>7</sup>.

Under the current action, climate-resilient development will be emphasized profoundly, with service delivery on the development of agroecology and climate-smart agricultural practices that sustainably increase nutritious and healthy local food crops and livestock production. Simultaneously these production systems are adaptable to the foreseen effects of climate change, and contribute to the reduction and/or sequestration of GHG emissions. These

<sup>5</sup> Link available at: <https://www.fao.org/faolex/results/details/en/c/LEX-FAOC158156/>

<sup>6</sup> Available at: <https://www.nab.vu/sites/default/files/documents/National%20CCDRR%20Policy%202022-2030.pdf>

<sup>7</sup> Available at: [https://www.investvanuatu.org/wp-content/uploads/2020/04/National-Livestock-Policy\\_Dec2015-27\\_01\\_16.pdf](https://www.investvanuatu.org/wp-content/uploads/2020/04/National-Livestock-Policy_Dec2015-27_01_16.pdf)

developments are foreseen to be carried out by the Vanuatu Agricultural Research and Technical Centre in Santo, who have a wide experience in food-production research, in close coordination with the Ministry of Agriculture's departments, Vanuatu Primary Producers Authority breeds as well as agroecology, sustainable and climate-smart practices that will be implemented in practice on selected model farms and rural producers in each province. These selected farms will receive assistance and are central to improve production practices and further extension amongst other farmers. As catalytic factor for the dissemination of knowledge and new technique this programme will support the efforts of the Government of Vanuatu to build associations and cooperatives capacity in organisational and financial management. At the same time this action will contribute to strengthen the role play by the association to represent farmers in dealings with the public and private sector, promote agriculture and agro-industry investment and facilitate the provision of goods and services to farmers.

Simultaneously, it will support the development of the entire value chain through improvement of distribution networks and improved access to local and external markets. This requires service delivery in:

- the development of supply chain actors, notably production input providers (i.e., vegetative materials, seeds, tools, livestock feed and medicine, etc.) as well as technical know-how assistance to the farms to uptake sustainable and climate-smart production in an economically viable manner;
- the strengthening the value-adding actors/business involving climate-smart value addition, transformation and processing of the harvested food products that improves its handling, transport, and ultimately commercialisation.

Special attention will be directed to ensure the safety and quality of food products through certification. For the commercialisation of the processed food end-product, its especially important to meet up to the specific interest of the public and consumer in terms of quality (i.e., taste, shelf-life, ease of preparation, organic, fair trade, deforestation-free, carbon-zero, etc.) to substitute the main imported food commodities as well as positioning in export markets. The action will provide capacity support to selected agro-processors and industry business and will facilitate the establishment of integrated distribution and market access pathways mechanisms to promote and ensure the commercial viability of end-products. The agricultural products and commodities will be selected by the Government of Vanuatu based on their importance for food security, farm income and employment potential, provincial impact, linkages with tourism and manufacturing, to which Vanuatu enjoys a comparative advantage, and suitability to satisfy domestic (and international) demand. Lastly, strategically supporting agro-industries and their respective value chains, notably aiming at food import substitution in Vanuatu is essential and the action will ultimately target topical areas such as food security, economic and climate-resilience, agro-processing and rendering agro-industries' outputs commercially competitive to improve local access of local nutritious food crops and livestock enabling competitive edges against imported food products. As such, the action is also likely to contribute towards:

- Food security improvements in terms of utilization and health,
- Resilience ([to] climate change and external economic shocks, such as price spikes, global recession),
- Environmental impact reduction (reduce carbon footprint from imports/ shipping),
- The trade-balance of Vanuatu.

Vanuatu graduated from LDC category on 4 December 2020. Following Vanuatu's classification by the World Bank as an upper middle-income country, Vanuatu will be removed from the list of the Generalised Scheme of Preferences (GSP) / Everything-But-Arms (EBA) beneficiary countries and will no longer benefit from GSP / EBA preferences (duty-free and quota-free access to the EU market) as of 1 January 2025. On 10 July 2024, Vanuatu has submitted a request together with a market access offer to accede to the Economic Partnership Agreement (EPA) between the EU and the Pacific States. Accession to the EPA would ensure that Vanuatu maintains its full preferential access to EU market and gains wider benefits (flexible rules of origin), thereby enabling it to maximise on the benefits expected from exports linked to the VaVaCII Programme implementation, with positive knock-on effects on revenue and poverty reduction.

#### *List of Actions*

Vanuatu has demonstrated its capacity to implement budget support operations under the EDF financial framework. Against this background, the proposed budget support operation represents an important contribution

towards increased fiscal space for supporting sustainable and inclusive rural development through climate-smart agricultural interventions.

The action will build on the achievements of the past programme by enhancing the interventions of the past budget support programme in three (3) components.

First, support to the government budget to create fiscal space for sustainable and inclusive rural development, and specifically support climate smart research, its application to climate smart production and knowledge transfer, value addition, trade, safety and quality for food products. The component will also support the government's capacity to channel public funds to the selected value chains (especially root crops fruits, vegetables and poultry).

The second component contains complementary support for the productive sector line ministries, notably for the Ministry of Agriculture, the Ministry of Trade, along with the Ministry of Finance for its role in implementation of the PFM Improvement Roadmap (and its successors) and the Ministry of the Prime Minister for its role in overall coordination of the action.

The third component aims to provide a platform for upscaling the support via a financing facility created by the Government in compliance with the Public Finance Economic Management Act to; (1) improve access to finance for MSMEs trying to develop business in the selected value chains (mainly fruit, vegetables, root crops and poultry) and; (2) safeguarding and strengthening access to external markets for specific value chain products, while also building capacity of those MSMEs in crucial areas such as financial literacy and business development.

Furthermore, under this action it is intended to explore the opportunities to promote and support agribusinesses/private sector development, possibly under the EFSD+, for example linked to third component of this action. In order to drive domestic development, the Vanuatu Government has endorsed the Vanuatu Economic Corridor Concept, which encompasses a massive government-funded capital expenditure investment project for the trade and commerce sector. The policy proposal, developed in alignment with the Overarching Productive Sector Policy (OPSP) and the Trade Policy Framework Update (TPFU), includes a feasibility programme to explore all avenues for maximizing Vanuatu's domestic trade capacities. This will be achieved by integrating existing infrastructure and good business practices, as well as by improving linkages to better position domestic actors at the local, regional, and international levels. The implementation of the policy, drafted with the support of the VaVaC programme and closely linked to the OPSP, will require financial and technical resources and infrastructure investments, and thus has potential for initiatives under Global Gateway, preferably funded under EFSD+.

The present action is 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. It is also aligned with the European Green Deal by promoting resource-efficient and competitive economy and the Global Gateway promoting investments in climate, energy, transport and digital infrastructure need to develop local food systems, which contribute to the creation of sustainable prosperity and footprint reduction. The proposed action is consistent with key priorities of sustainable growth, job creation and climate change. Hence, this is in line with the SDG Goal 2 prominently, and also SDG Goals 8, 9, 12, 13, 15 and 16. The action aims to promote both public and private investment to achieve progress in the productive sector.

## 2.2 Problem Analysis

The productive sector in Vanuatu faces several challenges that hinder its growth and development. These challenges include:

- Unique characteristics and rich diversity: Vanuatu is a country with unique characteristics and diverse resources. However, harnessing and leveraging these productive capabilities are yet to be fully realized, posing challenges to the sector's growth potential.



- Limited access to services and technology: While access to professional services<sup>8</sup>, especially veterinary is limited due to lack of human resources and isolation, above 66% of agriculture households do not use any machinery for their agriculture activities and below 2% use heavy machinery.
- Untapped potential: Vanuatu's productive capabilities have untapped potential that needs to be explored and developed further. This includes the need to enhance value addition and diversification in the sector to create more robust and sustainable industries.
- Market development challenges: Vanuatu's productive sector also faces sector-specific and horizontal challenges to market development. These challenges may include limited access to markets and increased competition from imports, which can inhibit the growth of local industries.
- Restructuring internal priorities: To overcome challenges, there is a need for restructuring internal priorities and ways of working in the productive sector. This includes expanding time horizons, sources of evidence, and adopting future-informed insights to identify sustainable responses to complex challenges such as tight fiscal space, pandemics, and natural disasters.
- Improve quality and safety: Establishment and maintenance of credible, product specific, data bases are posing a major challenge for the development of Vanuatu's value chains. Meeting quality, consistency and more demanding SPS and food safety standards is a major challenge and is an area where capacity building effort needs to focus. This programme will support Vanuatu to finding ways to ameliorate these costs and defining an appropriate SPS and Food Safety architecture clarifying roles and responsibilities.

However, the main challenges are climate-related that impact its operations and productivity. These challenges include:

- Climate change impacts: Vanuatu is highly vulnerable to the impacts of climate change, including rising sea levels, increased frequency and intensity of tropical cyclones, and changing rainfall patterns. These changes affect agriculture, fisheries, and tourism, which are major components of the productive sector.
- Coastal erosion and saltwater intrusion: Rising sea levels and coastal erosion pose threats to coastal areas, where many productive activities are located. Saltwater intrusion into agricultural land and freshwater sources also affects agricultural productivity, making it more challenging for farmers to sustain their livelihoods.
- Disruptions to agriculture and fisheries: Climate change affects agricultural production through changes in rainfall patterns, increased temperatures, and pests and diseases. This impacts food security, as well as the income and livelihoods of rural communities heavily dependent on agriculture. Similarly, changes in ocean temperatures and acidity levels affect marine ecosystems, including fisheries, which are vital for both local consumption and export.
- Challenges in infrastructure and energy: Climate change can damage critical infrastructure, such as roads, ports, and power supply, affecting the efficient functioning of businesses in the productive sector. Extreme weather events can result in disruptions to transportation, communication, and energy supply, impacting the overall productivity and operations of businesses.

To address these challenges, Vanuatu has been implementing various adaptation and resilience measures. These include the promotion of climate-smart agriculture practices, building climate-resilient infrastructure, and integrating climate change considerations into sectoral policies and planning.

This budget support programme directly supports the Vanuatu Government in every step of the problem, starting with support to research to produce climate-resilient varieties of key crops needed for food security and increased economic resilience, through to training of government officers and farmers across the archipelago in the production of these varieties and finally also supporting value addition to increase domestic resilience and enhance productive capacity to also support downstream economic activities such as exports.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

<sup>8</sup> Vanuatu National Agriculture Census: For a reference period of 24 months only 14% of agricultural households received assistance for their agricultural activities.

The **Ministry of the Prime Minister and its Department for Strategic Planning, Policy and Aid Coordination** (the ‘Department of Strategic Planning’) is the main cross-government planning body. The implementation of the NSDP is supervised by the Department of Strategic Planning. The Department of Strategic Planning also acts as the Secretariat of the Developmental Committee of Officials (which includes all Ministries’ Director Generals, and recommends papers to the Council of Ministers), the Secretariat of the Council of Minister as well as the Secretariat of the Recovery operations Centre overseeing and coordinating large post-disasters’ recovery commitments. Finally, Department of Strategic Planning is the government’s central monitoring and evaluation (M&E) body, which is to provide periodical reports to the Council of Ministers and the National Parliament on NSDP and recovery projects’ implementation progresses.

The **Ministry of Agriculture & the Ministry of Trade** will be implementing the action. These are the two-line ministries responsible for the implementation of the OPSP and will be the direct beneficiaries of the budget support component of this action. The capacity of the two ministries has been effectively improving (also as a result of the support provided under the EDF11 budget support programme). While Ministry of Agriculture is the main player in Vanuatu promoting the agriculture sector, including quality, innovation, environmental friendly practices and sustainability, the Ministry of Trade is the main actor promoting value addition including certifications, standards, post-processing, branding, intellectual property and access to market. In addition, an important player in this action will be the Vanuatu Agricultural Research and Technical Centre, which is the lead institution on Research & Development through the entire value chains.

The **Ministry of Finance** will be an important stakeholder for the Programme as it will exercise leadership on the implementation of the PFM Improvement Roadmap 2022-2026 (and its successors), and play a crucial role in the delivery of a stable macro-economic environment and facilitate accountable payment transactions

## 2.3 Additional Areas of Assessment

### 2.3.1 Public Policy

The NSDP 2016-2030 is the Vanuatu overarching national development policy. It outlines the country’s development aspirations and addresses key challenges, such as adapting to climate change, reducing disaster risk and strengthening resilience, ensuring food and nutrition security, gender inequality. The NSDP is composed of three pillars: “Society”, “Environment” and “Economy”, and fully integrates the Agenda 2030 via its Monitoring & Evaluation Framework – which links the NSDP indicators to the SDG indicators.

The key sectoral policy that this action supports is the OPSP. The OPSP is closely aligned with the Environment and the Economy pillars of the NSDP, namely with the economy goals 3 “*strengthen rural communities*” and 4 “*create jobs and business opportunities*”, and environment goals 1 “*food and nutrition security*” and 2 “*blue-green economic growth*”.

The OPSP is guiding strategic actions and investment and aims to create the conditions for sustainable and inclusive growth, to provide food and improved incomes as well as contribute to environmental and social services to enhance wellbeing of all people in Vanuatu. The OPSP has an overarching perspective, and the main elements of the policy are formulated as so-called eight Development Objectives (DO)<sup>9</sup>. They reach from objectives such as promotion of export and domestic (import substitution) agriculture markets (DO1), improve quality and safety (DO2) and food security (DO3) by promoting standards and certifications and ensuring the production of sufficient, affordable, and nutritious food. Over strengthening agriculture value chains by linking the different value chain actors (DO4) to increasing production, improving market access, reducing costs/improve competitiveness, and supporting rural processing enterprises aims to lower transportation costs through infrastructure investment (DO6). The OPSP includes explicit reference to address important cross-cutting issues such as resilience to natural disasters and climate change (DO5) and promoting gender equality

<sup>9</sup> (1) Market and Commodity Production; (2) Improved quality and safety; (3) Food security; (4) More onshore processing and value adding of economically viable agricultural products; (5) Enhanced environmental services and sector resilience to natural disasters and climate change; (6) Investment in rural infrastructure to increase production, improve market access, reduce costs/improve competitiveness and support rural processing enterprises; (7) Enhanced capacity of both public and private productive sector stakeholders with a focus on women and youth, and (8) A priority focused productive sector operating within a stable and coherent policy framework.

and full, equal and meaningful participation of women in decision-making in agriculture (DO7). Recognizing that women play a critical yet often unrecognised, poorly remunerated and unsupported role in agriculture. This not only negatively impacts on gender equity in Vanuatu but also sustainable agriculture, productivity and food security.

While the OPSP is technically not properly costed, an important improvement has been made to the Ministry of Agriculture budgets as from 2021 onwards. Programmes and activities are directly linked to the OPSP, i.e. the OPSP objectives are now costed programmes in the annual Ministry of Agriculture's budget. The MFEM also has a three-year framework that uses the same structure, as such the Government does have a medium-term resource allocation directly linked to the OPSP. The possibilities for the Government to finance implementation of the OPSP are limited. Given the limited government resources, the Ministry of Agriculture relies on donor partners, e.g. the EU with its VaVaC budget support programme, to support implementation of their policy priorities. Nevertheless, the average budget growth for the Ministry of Agriculture between 2018 and 2023 has been 10.1% – significantly above the average growth of 3.8% for the government as a whole, demonstrating progress towards a better policy costing and financing.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

### 2.3.2 Macroeconomic Policy

Vanuatu is an International Monetary Fund (IMF) member on the 12-month Article IV consultation cycle.

The post-pandemic recovery in Vanuatu has been relatively strong on the back of continued recovery in tourism, strong agricultural production, resilient remittances, and a resumption of large donor-funded investment projects which had slowed down significantly during the pandemic. Agricultural production is benefiting from government support and is responding to increasing demand, including by tourists. Ongoing execution of construction activities with the return of external experts and easing of supply chains disruptions are also expected to boost economic activity.

Global energy and commodity prices have an impact on headline inflation and the current account deficit; however the current account deficit is expected to narrow due to a gradual recovery of tourism and strong remittances. The exchange rate regime of a basket-peg has served the country well and allowed to cushion the impact of import prices. Vanuatu's gross official reserves remain adequate. The monetary strategy takes into account all the above-mentioned factors, including negative output gap and slow growth of private credit.

Fiscal policy is expected to continue being expansionary in the medium-term. The unwinding of pandemic-related support programs is expected to contain current spending, and the return of tourism is expected to increase the Value Added Tax revenue, but reduced receipts from the Economic Citizenship Programmes are expected to offset these revenue gains. According to the IMF Debt Sustainability Analysis the risk of debt distress remains moderate with limited space to absorb shocks. External debt indicators are below their thresholds, given the concessional nature of external borrowing.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy, and the eligibility criterion is met.

### 2.3.3 Public Financial Management

The PFM Improvement Roadmap 2022-2026 ('the Roadmap'), approved in May 2023, contains activities from the previous roadmap that are yet to be finalized, new activities identified through consultations and activities identified as priorities through existing government policies.

The Roadmap contributes towards achieving the goals of the NSDP, specifically to Society Goal 6: Strong and Effective Institutions (SOC.6), Economy Goal 1: Stable and Equitable Growth (ECO.1) and Economy Goal 2: Improve Infrastructure (ECO.2).

The Roadmap has identified six objectives that it targets to support the above NSDP goals. These objectives are:

- Strengthening business continuity across the whole of government;
- Improving public investment monitoring and accountability;

- Enhancing fundamental PFM reporting and controls;
- Strengthening budget accountability of all public sector entities;
- Improving aid coordination and management; and
- Enhancing accountability through strengthening internal audit and external audit functions, and using monitoring, data, and statistics.

Achieving the six objectives described in the Roadmap is expected to result in the Government of Vanuatu achieving greater fiscal resilience, better performance, accountability, and transparency. The objectives have been split into fourteen functional areas, with each aligning to a responsible unit. For each responsible unit, strategies, activities, and resourcing needs have been identified to achieve these objectives. The objectives will be aligned to the responsible unit's work plan. The implementation of the strategies and activities identified in the Roadmap, including challenges experienced and resource needs (including development partner support), will be overseen by a Steering Committee supported by a coordinating team.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

#### 2.3.4 Transparency and Oversight of the Budget

The key budget documents are regularly produced and published on the website ([link](#)) of the Department of Finance and Treasury of the Ministry of Finance following the adoption of the National Budget. In addition, reports on execution of the budget, the half-yearly economic and fiscal report and also the Budget Policy Statement are produced and published there too, along with treasury quarterly and monthly reports.

The website of the Ministry of Finance is well organised and regularly updated. All main budgetary information is systematically published (with documents from the past years remaining available online). At times, some delay in publication may occur due to frequent natural disasters Vanuatu, causing substantial strain on the small public administration dealing with multiple similarly urgent priorities.

The Ministry of Finance is also mandated to produce the Whole of Government annual financial statements for presentation to the Vanuatu National Audit Office (the national body for the external audit). Once approved by the Auditor General these statements are presented to the National Parliament to be scrutinised by the Parliamentary Accounts Committee. These processes still face some delays, although there has been an incremental improvement over the past few years.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

### 3 DESCRIPTION OF THE ACTION

#### 3.1 Objectives and Expected Outputs

The **Overall Objective (Impact)** of this action is to contribute to a climate-resilient rural development which enables opportunities for rural communities and thus contribute to economic growth.

The **Specific Objective (Outcome)** of this action is to promote climate-resilient food systems including production, value addition, safety, quality, and trade.

The *induced outputs* to be delivered by this action contributing to the corresponding Specific Objective (Outcome) are:

- IO1) Strengthened policy, institutional, and PFM arrangements for climate-resilient and sustainable rural development that takes into account equal opportunities based on the specific needs and aspirations of men and women in their diversity.
- IO2) Strengthened service delivery for climate-resilient rural development by the Government.
- IO3) Upscaled gender-sensitive support for Micro, Small and Medium-Sized Enterprises (MSMEs) by the Government, in particular targeting sustainable practices.

The *direct outputs* to be delivered by this action are:

- DO1) Additional fiscal space created by the transfer of budget support funds.
- DO2) Improved policy dialogue between the EU and Vanuatu.
- DO3) Strengthened technical capacity in the Ministry of Agriculture, the Ministry of Trade, the Ministry of Finance, the Ministry of the Prime Minister.

### 3.2 Indicative Activities

Activities related to Direct Output DO1:

- Budget Support transfers

Activities related to Direct Output DO2:

- Regular policy dialogue and donor coordination

Activities related to Direct Output DO3:

- Support to institutional, regulatory and policy framework and monitoring through complementary support in the form of technical assistance.

The commitment of the EU's contribution to the Team Europe Initiative to which this action refers, will be complemented by other contributions from Team Europe members. It is subject to the formal confirmation of each respective member's meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise, the EU action may continue outside a TEI framework.

### 3.3 Mainstreaming

#### **Environmental Protection & Climate Change**

**Outcome of the SEA screening** (Strategic Environmental Assessment – relevant for Budget Support and strategic-level interventions). The Strategic Environmental Assessment (SEA) screening concluded that SEA is not required but the action will mainstream climate-resilient aspects of the rural development and climate smart agriculture of the Overarching Sector Policy Strategy (OPSP), as an integral part of the action. Climate resilience and environment mainstreaming will also be part of the policy dialogues.

**Outcomes of the EIA (Environmental Impact Assessment) screening** (relevant for projects and/or specific interventions within a project). The EIA (Environment Impact Assessment) screening classified the action as Category B (not requiring an EIA, but for which environment aspects will be addressed during design).

**Outcome of the CRA (Climate Risk Assessment) screening** (relevant for projects and/or specific interventions within a project). The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment).

#### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that this action will, in line with the Pacific Leaders Gender Equality Declaration, ensure that gender equality is adequately and effectively mainstreamed into all the dimensions of the action by recognizing, reinforcing and providing visibility to the role of the woman on the food systems, and the activities will seek for opportunities to increase a meaningful participation of women in the climate smart agriculture.

#### **Human Rights**

The action will be aligned with fundamental values of human rights, democracy and rule of law. A human rights-based approach will be followed in this project. From a human rights-based perspective, the action will finance activities that contribute to reducing social imbalances magnified by natural disasters and especially extreme weather events like the tropical cyclones, by providing support to climate smart agriculture. The project will

respect the following principles: respect for all rights, participation, accountability, non-discrimination and transparency.

### Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This action is not considered directly relevant to specifically support inclusion of persons with disabilities. However mainstreaming disability as a human rights-based approach will be followed. It is expected that people with disabilities will also benefit from access to increased food security. The action may also indirectly contribute to work opportunities and participation in decision making process and trainings for persons with disabilities.

### Democracy

The compliance with the political criteria to have stable institutions guaranteeing democracy will be monitored. Frequent changes in the Government are inherent part of the Vanuatu political system, however they have not been affecting negatively the implementation of the EDF11 budget support programme. They may potentially slightly slow down the pace of the implementation of the action in case they lead to changes of public administration personnel at key positions of the Ministries responsible for the implementation of the action.

### Conflict sensitivity, peace and resilience

The action will support resilience in economic activities and ecosystems. By supporting sustainable and inclusive rural development through climate smart agriculture, the action is expected to positively contribute to the stabilization of the food security and thus to the prevention of conflicts.

### Disaster Risk Reduction

Disaster risk reduction is a significant objective of this action, since Vanuatu is located near the equator and on the Pacific Ring of Fire and is one of the world's most disaster prone countries and one of the world's most at risk countries for natural hazards. Strengthening climate smart agriculture practices is expected to improve resilience and thus contribute to disaster risk reduction.

### Other considerations if relevant

Not applicable.

## 3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External environment - Macro-environment	<b>Vanuatu is a small open and remote economy</b> that is highly dependent on the external economic environment (for tourism, agricultural exports, energy prices).	<b>Medium</b>	<b>High</b>	The action will contribute to stabilization of the economic and fiscal situation through the Budget Support disbursements.
External environment – Climate	<b>Vanuatu is one of the world's most disaster-prone countries</b> (tropical cyclones, earthquakes, floods, and volcanic activity).	<b>High</b>	<b>High</b>	The action will contribute to climate-resilience through its interventions in the area of

change and disasters				agriculture/rural development.
People and Organisation	<b>Engagement in activities and ownership</b> , including government ownership and engagement of other sector stakeholders.	<b>Low</b>	<b>High</b>	The action will contribute to maintaining implementation momentum through the deployment of technical assistance and continued policy dialogue.

### Lessons Learnt:

Every year, as one of the most disaster prone countries and also one of the world's most at risk countries for natural hazards, Vanuatu is exposed to the impact of tropical cyclones (often a few of them) that require a significant response and recovery effort. This means that the very limited Government capacities are redirected to address the most pressing needs and other programmatic priorities are temporarily put aside and/or paused. Due to these reasons, implementation of programmes is often interrupted and/or significantly slowed down until the disaster-related immediate and urgent activities are completed. In addition to that, natural disasters cause damage to agricultural crops and destroy produce, affect most of the population since agriculture is the dominant source of livelihoods in Vanuatu, and also partially erase the results achieved since the previous disaster. That's why continuity of support in the area of rural development is needed and especially with emphasis and focus on sustainability and resilience. In a small island partner country so much exposed to harsh weather conditions like Vanuatu, switching support from one sector to another one after just one Budget Support programme would not be conducive for solidifying the results achieved and utilization of the potential of generating further benefits for the partner country by building upon what has been successfully already achieved.

Provision of high quality Technical Assistance plays a key role in implementation of the Budget Support programme in Vanuatu. This has been clearly demonstrated during the VaVaC Budget Support programme, which has faced a number of serious natural disasters necessitating addenda to the Financing Agreement of the Budget Support component (and as a consequence of that also to the Technical Assistance component). It has been crucial that the Technical Assistance team has mostly stayed in the country during times of distress - in addition to the COVID19 pandemic, four tropical cyclones category 4 or above (triggering floods) and three significant volcanic ash fall events. As a result, a major part of the VaVaC programme has been implemented under a National State of Emergency, which has an impact on the way how the government initiatives are implemented. Under these conditions, remaining presence of a strong Technical Assistance team in Vanuatu facilitated implementation of the VaVaC programme and disbursement process despite all the challenges encountered.

Other lessons learnt, which have been reflected in the design of the new Budget Support programme, concerns a number of features; (i) the disbursement of variable tranches should not be expected earlier than in the third year of the implementation of the Budget Support programme (among other things also due to the fact that the Technical Assistance team is usually not available immediately after signing of the Financing Agreement), (ii) the share of the variable tranches for the new programme should be increased only gradually (given the fact that 4 addenda under the VaVaC programme were related to variable tranche revisions), (iii) only limited number of straightforward and easy-to-understand non-complex performance indicators should be used, and (iv) performance indicators should be linked to small variable tranche amounts in order to spread risk of the respective part of the variable tranche not being paid.

The VaVaC programme has laid down a solid foundation for the continuation of the Budget Support programme in the area of climate-smart agriculture under NDICI. Specifically, the VaVaC programme has been instrumental and contributed to: (i) update of the relevant sectoral policy documents, review of the Public Finance and Economic Management (PFEM) Act, Public Finance Management (PFM) regulations, update of the PFM Reform Roadmap, review of the Central Tenders Board (CTB) Act, drafting of CTB regulations and procurement guidelines; (ii) alignment of the relevant sectoral policy documents, budget narratives (that contain the programme structures and output and outcome indicators) and business plans; (iii) development of the medium-term expenditure framework for better forward planning and budget execution; (iv) operationalization of the incumbent national monitoring & evaluation system for tracking spending and performance in terms of service delivery against the key policies; (v)

key technical activities such as development of the national budgets and expenditure reviews; (vi) execution of the sectoral programmes and related surveys of the supported ministries; (vii) engagement between the public and private sector through support for the organisation of the regular working groups; and last but not least (viii) review of the organisational structures of supported ministries and on-the-job training.

### 3.5 The Intervention Logic

The underlying intervention logic for this action is that Budget Support will provide the Ministry of Agriculture and the Ministry of Trade with adequate and reliable resources to strengthen the selected climate-resilient production techniques and value chains by implementing activities agreed in the Programme Implementation Task Force (PITF).

Moreover, complementary support will need to fill existing capacity gaps in the line Ministries of Agriculture and Trade (in addition to support for the Ministry of Finance and Ministry of the Prime Minister), thus promoting an effective use of the additional financial resources (given the experience under the EDF9 and EDF10 which showed less desirable implementation because of limited capacities. On the other hand, the technical assistance provided under the EDF11 budget support programme positively contributed to its implementation despite a number of tropical cyclones and disruptions caused by the COVID19).

This support is coupled with enhanced policy dialogue centred on the programs conditions, these Direct Outputs will contribute to the delivery of stability-orientated macro-economic policies focussed on fiscal discipline; PFM reforms based on a new Improvement Roadmap; improvements in budget oversight and transparency; enhanced capacity to develop, implement, and monitor climate-resilient rural development policies (notably the ongoing and future productive sector policy); and enhanced Service delivery for the production of crops and 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, resilience through import substitution and exports and quality/safety that will ultimately contribute to rural development.

Achieving the Direct Outputs is based upon the assumptions of (i) technical capacities of the Ministries of Agriculture, Trade, Finance and Prime Minister being strengthened by the provision of technical assistance, (ii) capacities of the Ministries to mobilise for policy dialogue, (iii) and timely Budget Support disbursements. Achieving the Induced Outputs is based upon the assumption of timely adoption of Decisions by the Council of Ministers in respect to transparent selection criteria for the establishment of the pilot farms and for support provided to MSMEs / Industrial Actors.



### 3.6 Logical Framework Matrix

BUDGET SUPPORT MODALITY as reflected by the national/sector public policy supported (4 levels of results / indicators / Baselines / Targets / Source of Data - no activities)

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest.

New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

Caveat: the indicators used in the *Logical Framework Matrix* refer to the budget support intervention logic. They help monitoring the implementation of the programme in view of its objectives and later evaluate its contribution to country policy's achievements. The list of indicators below should not be understood as the list of indicators informing the disbursement of variable tranches and spelled out in the relevant part of the financing agreement signed with the partner country, although some indicators may be used for both purposes and will be marked accordingly.

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the Budget Support contract (year)	Sources of data (1 per indicator)
<b>Indicative Impact of the policy</b>	II1. To contribute to a climate-resilient rural development which enables opportunities for rural communities.	II1. Average monthly household income derived from home production.  II2. % of population with moderate food security.	II1. VT 19,860.30 (2023)  II2. TBD (Household income and expenditure survey)	II1. VT 23,852.71 (2029)  II2. TBD in the first year of operation.	II1. Vanuatu Bureau of Statistics  II2. Vanuatu Bureau of Statistics
<b>Expected Outcomes of the policy</b>	EO1. Promoted climate-resilient production, value addition, safety and quality, and trade.	EO1. Ratio of vegetable products imports to current value crop production in the GDP (%).	EO1. 8% (2023)	EO1. 6% (2029)	EO1. Vanuatu Bureau of Statistics
<b>Induced Outputs (IO)</b>	IO1. Strengthened policy, institutional, and PFM arrangements for climate-resilient and sustainable rural development that takes into account equal opportunities based on the specific needs and aspirations of men and women in their diversity.	IO1.1. Status of the Overarching Productive Sector Policy (OPSP) monitoring.	IO1.1. Operational (2023).	IO1.1. Updated - if need be - and implemented. (2029).	IO1.1. Ministry of Agriculture Annual Report.
		IO1.2. Status of the PFM Improvement Roadmap 2022-2026 (and its successors).	IO1.2. Approved (2023).	IO1.2. Implemented (2029).	IO1.2. Progress on the implementation of the PFM Improvement Roadmap provided as part of the Government request for disbursement.
	IO2. Strengthened service delivery for climate-resilient rural development by the Government.	IO2.1. Number of study papers produced by the Vanuatu Agricultural Research and Technical Centre on resilient crop varieties and/or livestock breeds using climate smart agriculture practices suitable for Vanuatu, on planting, post-harvest handling, post-harvest	IO2.1. Zero (0) at the start of the Programme (2025)	IO2.1. Two (2) to be achieved by the end of Year 2 (2026) of the Programme.	IO2.1. The Ministry of Agriculture Annual Report (published as legally stipulated) or Letter informing the EU Delegation (submitted as part of the Government disbursement request).

		transportation, marketing and/or any other related area/activity.			
		IO2.2 Number of hectares planted of new resilient crop varieties at the Vanuatu Agricultural Research and Technical Center's location.	IO2.2. Zero (0) at the start of the Programme (2025).	IO2.2. One (1) to be achieved by the end of Year 2 (2026) of the Programme.	IO2.2. The Ministry of Agriculture Annual Report (published as legally stipulated) or Letter informing the EU Delegation (submitted as part of the Government disbursement request).
		IO2.3. Number of trainings for extension and field officers on the best management practices of resilient crop varieties and/or livestock breeds under climate smart agriculture systems.	IO2.3. Zero (0) at the start of the Programme (2025).	IO2.3. Seven (7) to be achieved by the end of Year 3 (2027) of the Programme.	IO2.3. The Ministry of Agriculture Annual Report (published as legally stipulated), a training agenda and a signed list of training participants or Letter informing the EU Delegation (submitted as part of the Government disbursement request) and a training agenda and a signed list of training participants.
		IO2.4. Number of trainings on the best management practices of resilient crop varieties and/or livestock breeds under climate smart agriculture systems.	IO2.4. Zero (0) at the start of the Programme (2025).	IO2.4. Fourteen (14) to be achieved by the end of Year 3 (2027) of the Programme.	IO2.4. The Ministry of Agriculture Annual Report (published as legally stipulated) and a training agenda and a signed list of training participants or Letter informing the EU Delegation (submitted as part of the Government disbursement request) and a training agenda and a signed list of training participants.
		IO2.5. Transparent selection criteria approved by the Decision of the Council of Ministers for farmers to receive support to establish pilot farms using resilient crop varieties and/or livestock breeds under climate smart agriculture systems.	IO2.5. Zero (0) at the start of the Programme (2025).	IO2.5. One set of criteria (1) to be achieved by the end of Year 3 (2027) of the Programme, all of which take into account the principles of equal opportunities for men and women in their diversity.	IO2.5. The Decision of the Council of Ministers or the Letter informing the EU Delegation about the approval of transparent selection criteria by the Decision of the Council of Ministers (submitted as part of the Government disbursement request).
		IO2.6. Number of pilot farms using resilient crop varieties and/or livestock breeds under climate smart agriculture systems established on the basis of transparent selection criteria that have been	IO2.6. Zero (0) at the start of the Programme (2025).	IO2.6. Twelve (12) to be achieved by the end of Year 3 (2027) of the Programme.	IO2.6. The Ministry of Agriculture Annual Report (published as legally stipulated) or the Letter informing the EU Delegation (submitted as part of the Government disbursement request).

		approved by the Decision of the Council of Ministers.			
	IO3. Upscaled gender-sensitive support for MSMEs / Industrial Actors by the Government, in particular targeting sustainable practices.	IO3.1. Transparent selection criteria approved by the Decision of the Council of Ministers for MSMEs / Industrial Actors to receive support towards enhancing their capacity in market access, food quality and food safety, value addition and export pathways for climate smart production.	IO3.1. Zero (0) at the start of the Programme (2025).	IO3.1. One set of criteria (1) to be achieved by the end of Year 4 (2028) of the Programme, all of which take into account the principles of equal opportunities for men and women in their diversity	IO3.1. The Decision of the Council of Ministers or the Letter informing the EU Delegation about the approval of transparent selection criteria by the Decision of the Council of Ministers (submitted as part of the Government disbursement request).
		IO3.2. Number of MSMEs/Industrial Actors supported towards enhancing their capacity in market access, food quality and food safety, value addition and/or export pathways for climate smart production on the basis of the transparent selection criteria that have been approved by the Decision of the Council of Ministers.	IO3.2. Zero (0) at the start of the Programme (2025).	IO3.2. Ten (10) to be achieved by the end of Year 4 (2028) of the Programme.	IO3.2. The Ministry of Trade Annual Report (published as legally stipulated) or the Letter informing the EU Delegation (submitted as part of the Government disbursement request).
<b>Direct Outputs (DO)</b>	DO1. Additional fiscal space created by the transfer of budget support funds.	DO1. Amount of Budget Support disbursements.	DO1. No disbursement under the Programme at the start of the Programme (2025).	DO1. The whole amount of fixed and variable tranches disbursed under the Programme (2029).	DO1. Letters from the EU to the Government of Vanuatu confirming the amount of disbursements under the Programme.
	DO2. Improved policy dialogue between EU and Vanuatu and coordination.	DO2. Status of policy dialogues on climate-resilient rural development.	DO2. No policy dialogue under the Programme at the start of the Programme (2025).	DO2. At least one (1) policy dialogue each Year during the implementation of the Programme (2025 - 2029).	DO2. Meeting minutes.

	DO3. Strengthened technical capacity in the Ministry of Agriculture, Ministry of Trade, Ministry of Finance, Ministry of the Prime Minister.	DO3. Implementation of capacity-building activities as per signed contract with the technical assistance provider.	DO3. Capacity-building activities as per signed contract with the technical assistance provider yet to be carried out (2025).	DO3. All capacity-building activities carried out as per signed contract with the technical assistance provider (2026).	DO3. Progress reports produced by the technical assistance provider on implementation of the activities as per signed contract.
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## 4 IMPLEMENTATION ARRANGEMENTS

### 4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with Vanuatu.

### 4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

### 4.3 Implementation of the Budget Support Component

#### 4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 16.0 million, and for complementary support is EUR 2.8 million. This amount is based on:

- the country's satisfactory performance under the previous budget support programme, its proven track record in achieving the agreed objectives and absorption capacity of past disbursements, with the last budget support payment under EDF11 foreseen in the first half of 2024;
- the commitment to implement the National Sustainable Development Plan (NSDP) of Vanuatu and especially the relevant policy framework: the Overarching Productive Sector Policy (OPSP);
- the commitment of Vanuatu for climate-resilient rural development through promotion of climate smart agriculture practices, climate-resilient production, value addition, safety and quality, and trade as outlined under the development objectives of the OPSP;
- the commitment of the Vanuatu to continue enhancing the sector policy and its monitoring framework;
- the added value and contribution of budget support and EU funded technical assistance in supporting this sector, given the past good cooperation between the EU and Vanuatu.

The action is expected to be implemented over six (6) years, with five (5) foreseen budget support payments. The indicative share of the fixed and variable tranche is 88.75% fixed (EUR 14.2 million) and 11.25% variable tranche (EUR 1.8 million).

#### 4.3.2 Criteria for Disbursement of Budget Support

##### a) Conditions.

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

- Satisfactory progress in the implementation of the OPSP and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.

- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information, including the quality, integrity and accuracy of budgetary information. The relevance and role of oversight bodies will be covered by the public financial management assessment in order to avoid duplications.

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:

- *Number of study papers produced by the Vanuatu Agricultural Research and Technical Centre on resilient crop varieties and/or livestock breeds using climate smart agriculture practices suitable for Vanuatu, on planting, post-harvest handling, post-harvest transportation, marketing and/or any other related area/activity.*
- *Number of hectares planted of new resilient crop varieties at the Vanuatu Agricultural Research and Technical Center's location.*
- *Number of trainings on the best management practices of resilient crop varieties and/or livestock breeds under climate smart agriculture systems.*
- *Number of pilot farms (using resilient crop varieties and/or livestock breeds under climate smart agriculture systems) established on the basis of transparent selection criteria that have been approved by the Decision of the Council of Ministers.*
- *Number of Micro, Small & Medium Enterprises/Industrial Actors supported towards enhancing their capacity in market access, food quality and food safety, value addition and/or export pathways for climate smart production on the basis of the transparent selection criteria that have been approved by the Decision of the Council of Ministers.*

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

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

#### 4.3.3 Budget Support Details

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

The following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

Indicative disbursement timetable

Country fiscal year and quarterly breakdown	Year 1 (2025)				Year 2 (2026)				Year 3 (2027)				Year 4 (2028)				Year 5 (2029)				Total in MEUR
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	
Fixed tranche in MEUR				3.5				3.5				3.0				2.5				1.7	14.2
Variable tranche in MEUR												0.2				0.6				1.0	1.8
Total in MEUR				3.5				3.5				3.2				3.1				2.7	16
Notes: Financial Years for Vanuatu run from January to December. Targets for the variable tranches (VT) are set to be achieved in Years preceding the expected VT disbursement.																					

#### 4.4 Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>10</sup>.

##### 4.4.1 Direct Management (Procurement)

The procurement of the complementary support / technical assistance will contribute to strengthen the capacities of the relevant ministries and provide recommendations for the improved sectoral policy, improved policy performance assessment and monitoring. Further-on it will contribute and provide recommendations on strengthening the institutional framework and capacity development for climate-resilient production, value addition, safety and quality, and trade. It will overall contribute to improved governance in the sector and sustained performance of the action. The detailed requirements will be specified in the procurement documentation.

This call has been launched on 01/09/2024 under a suspensive clause prior to the adoption of this Decision. This is justified because of very limited administrative capacities of the government that are often strained due to addressing the impact of frequent natural disasters and thus need support since the beginning of the programme. It is therefore important that the technical assistance can be mobilized as soon as possible after the Financing Agreement is signed in order to assist the Government in implementation of the programme and meeting the conditions for disbursements as per schedule, for which launching of the procurement process with a suspensive clause may be required (as per attached form h2a1 for Prior Approval).

<sup>10</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu). Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.



#### 4.5. 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 on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

#### 4.6. Indicative Budget

<b>Indicative Budget components</b>	<b>EU contribution (amount in EUR)</b>
<b>Budget Support</b> – cf. section 4.3	16 000 000
<b>Procurement</b> (direct management) – cf. section 4.4.1	2 700 000
<b>Evaluation</b> – cf. section 5.2 <b>Audit</b> – cf. section 5.3	100 000
<b>Totals</b>	<b>18 800 000</b>

#### 4.7 Organisational Set-up and Responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action and may sign or enter into joint declarations or statements, for the purpose of enhancing the visibility of the EU and its contribution to this action and ensuring effective coordination.

The Project Management Unit of the Ministry of Agriculture shall be responsible for the management of activities to be funded by the programme and to be led by Ministry.

The Programme Implementation Task Force, bringing relevant Directors of the implementing ministries together, shall be responsible for the provision of policy direction, allocation of specific responsibilities for activity implementation, and activity monitoring, overall coordination of the action, and for facilitating joint decision-making by the Ministry of Agriculture, the Ministry of Trade, the Ministry of Finance, and the Ministry of the Prime Minister.

The entry point for the EU in respect of the implementation of the action and action-related communication will be the Ministry of the Prime Minister. The main EU-Vanuatu platform for policy dialogue and for the coordination of the technical assistance will be the Budget Support steering committee consisting of the Director Generals of the Ministries of the Prime Minister, Agriculture, Trade and Finance. The Director General of the Ministry of the Prime Minister will chair the meetings of the EU-Vanuatu Budget Support steering committee, which will be aligned with the meetings of steering committee organised under the technical assistance project.

## 5 PERFORMANCE MEASUREMENT

### 5.1 Monitoring and Reporting

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 partner's strategy, policy or reform action plan list (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.

Indicators shall be disaggregated at least by sex when possible. Monitoring and reporting shall ideally include elements on how the action is taking into account the human rights-based approach and gender equality, where relevant.

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).

Roles and responsibilities for data collection, analysis and monitoring:

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

The annual report of the Ministry of Agriculture will be prepared by its Project Management Unit and the annual report of the Ministry of Trade will be prepared by its Trade Development Division and they will be submitted to the Public Service Commission by 30 March of each year. The Ministry of Finance will publish all fiscal and budget documents on the website of the Department of Finance and Treasury of the Ministry of Finance. In addition, progress report on the implementation of the PFM reforms will be submitted along with the above-mentioned verification documents to the EU as part of the Government disbursement request. The IMF Article IV Staff reports will be used as a source of verification for the general eligibility criterion on stability-oriented macroeconomic policies.

The Complementary support/technical assistance team 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 assessing the Programme's impact and the achievement of variable tranche indicators. It will also facilitate organisation of the meetings of the EU-Vanuatu Budget Support steering committee at the level of the Director Generals of Ministries of the Prime Minister, Agriculture, Trade and Finance, which will be aligned with the meetings of the steering committee organised within the framework of the complementary support/technical assistance project.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. The Ministry of Agriculture, the Ministry of Trade, the Ministry of Finance and the Ministry of the Prime Minister, along with the Vanuatu National Statistics Office recognises the importance of capturing high quality data and easy public access to them.

## 5.2 Evaluation

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

Mid-term evaluation will be carried out for problem solving and learning purposes and a potential top-up in particular with respect to the timeline and the indicators of the variable tranches.

Final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the potential launch of future actions in Vanuatu.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

All evaluation shall assess to what extent the action is taking into account the human rights-based approach as well as how it contributes to gender equality and women's empowerment. Expertise on human rights and gender equality will be ensured in the evaluation teams.

The Commission shall inform the implementing partner at least 3 months in advance of the dates envisaged 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 report may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination<sup>11</sup>. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

### 5.3 Audit and Verifications

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 audit or verification assignments for one or several contracts or agreements.

## 6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

In line with the 2022 “[Communicating and Raising EU Visibility: Guidance for External Actions](#)”, it will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union’s support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

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<sup>11</sup> See best [practice of evaluation dissemination](#)