



Vanuatu and Millennium Challenge Corporation: Building a Dynamic Partnership for Poverty Reduction through Economic Growth

Vanuatu is a small island nation in the South Pacific comprised of 83 separate islands, where approximately half of the population lives in poverty. Costly and unreliable transportation is a major impediment to economic growth and poverty reduction in Vanuatu. As a small, open, island economy, agriculture and tourism are central to Vanuatu's growth. These two sectors together employ more than 70% of Vanuatu's working population and represent approximately 34% of Vanuatu's GDP.

The five-year Compact program addresses the country's poor transportation infrastructure. Consisting of up to eleven infrastructure projects—including roads, wharfs, an airstrip and warehouses—the program aims to benefit poor, rural agricultural producers and providers of tourist related goods and services by reducing transportation costs and improving the reliability of access to transportation services.

The MCC program is expected to have a transformative impact on Vanuatu's economic development by increasing average income per capita by 15% within 5 years and directly impacting the lives of more than 65,000 poor, rural inhabitants—almost a third of the entire population.

Vanuatu's MCA program consists of two principal components:

- Civil works for the reconstruction of priority transport infrastructure on eight islands, covering roads, wharfs, an airstrip, and warehouses; and
- Institutional strengthening efforts and policy reform initiatives in Vanuatu's Public Works Department, including: provision of plant and equipment for maintenance; introduction of service performance contracts; establishment of local community maintenance schemes; and introduction of user fees. These efforts aim to ensure the sustainable operation and maintenance of Vanuatu's entire transport infrastructure network, not only those assets built or rehabilitated with MCC funds.

In developing its proposal for MCA assistance, Vanuatu utilized its Comprehensive Reform Program Summit, National Business Forum, and provincial Rural Economic Development Initiative (REDI) workshops to engage in a comprehensive consultative process with a broad segment of ni-Vanuatu society, including: Vanuatu's council of chiefs, leaders of women's groups, the private sector, NGOs, church leaders, and local government

officials from Vanuatu's provinces. The proposed projects were derived from each province's participatory Rural Economic Development Plan and received strong support from Vanuatu's donor community. To maintain public awareness and participation, the Government of Vanuatu has held MCA public outreach meetings in various provinces and engaged local media regarding proposal due diligence, project selection, and Compact development.

The Compact includes \$3.63 million for Program administration and audits. A comprehensive fiscal oversight and governance structure has been developed as part of the Compact to ensure maximum accountability for MCC funds, including the establishment of an accountable entity comprised of both government and non-governmental stakeholders. MCC has also retained approval rights over key agreements and implementation actions, e.g., selection of key service providers, certain payments, certain procurements, key personnel decisions for the accountable entity, detailed financial plans as well as the monitoring and evaluation plan

In addition, the Compact provides \$1.37 million for Monitoring and Evaluation (M&E) activities, which includes support for data collection and reporting on economic and poverty impact indicators, and key implementation benchmarks for the civil works and maintenance project components.

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Millennium Challenge Corporation (MCC), a United States government corporation designed to work with some of the poorest countries in the world, is based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people that promote economic growth and elimination of extreme poverty

