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Vanuatu's Road to Economic Growth

Roads are vital links that help people access clinics, markets and schools. In 2006, the Millennium Challenge Corporation (MCC) signed a \$65.69 million compact with the Government of Vanuatu (GOV) to rehabilitate the two most important roads on Efate and Santo Islands, the two largest islands.

The 149.7 kilometers of rehabilitated roadways have become gateways to economic growth and community activity. 62 percent and 49 percent of the populations of Santo and Efate Islands, respectively, are benefitting from the rehabilitation of these roads.



Over 39,000 people are expected to benefit from MCC's investments, which translate to \$73.8 million estimated income gain over the 20 year life of the investment. Conveying the importance of these roads and expressing their appreciation to the American people, the ni-Vanuatu named the Efate Ring Road the "Road of Life," and the Santo East Coast Road the "Goodwill Highway."

A section of rehabilitated road on Efate Island, Vanuatu.

Spurring Economic Activity

MCC's investments in Vanuatu are allowing farmers to access markets and reduce their costs of doing business.

Reduced travel time: Expectant mothers and people in need of medical attention often could not make it to the hospital on time before rehabilitating the roads. Preliminary estimates show that average travel time will be reduced by up to 50 percent on Efate Island and up to 75 percent on Santo Island. For example, it used to take 3 hours to get from Luganville to Port Olry on Santo Island; it now takes 45 minutes.

Reliable year-round access: Before the compact, the Efate Ring Road was impassable nine days per year. That number has dropped to just two days. The roads have withstood earthquakes, cyclones, and heavy

rains, important tests given the frequency of natural disasters (including one “1 in 10 year” and one “1 in 5 year” storms and earthquakes, ranging from 6.0 to 7.9 in magnitude).

Reduced vehicle operating costs: Preliminary economic estimates show that vehicle operating costs have generated \$6 million in savings for businesses and citizens.

The Efate Ring Road is the only road that leads to the Efate Island’s agricultural areas, connecting each coastal village and five nearby islands to Port Vila, the economic and political capital. One of Efate’s leading coconut farmers is already reaping many benefits:

“For farmers, this has a big impact in our lives and for our business. It used to take me more than two hours to drive to Port Vila from Epule, and now it takes me less than one hour. During the rainy season, my truck would slide back several times to the bottom of the hill, and I had to start the engine over and over. Now, I can enjoy the drive to town and feel confident that I will reach my destination on time.”

Improved road conditions have also led to an expansion in guided bus tours for travelers, boosting revenues for both tour operators and businesses. With improved access to commercial centers, resort owners use the improved roads to stock their hotels and restaurants.

Visible signs abound of increased economic activity resulting from the road:

- ★ Tourism increased by an average of nine percent per year since 2006. This compares favorably with an average of less than three percent worldwide during the same period. Vanuatu receives more cruise ship visitors than any other South Pacific country, based on a 2010 survey.
- ★ Direct value added to local incomes derived from tourism expenditure increased by 24 percent from 2006 to 2010 (from \$108 million to \$133 million).
- ★ Since 2006, arrivals outside of Port Vila grew by almost 90 percent—equivalent to an increase of 10,000 tourists, even amidst a global recession.
- ★ In 2010, total tourism expenditure was equivalent to \$221.7 million.
- ★ In 2010, approximately \$46 million, or 21 percent, of all tourist expenditure was spent on local transport, including along the MCC-rehabilitated roads.

Prioritizing Donor Coordination

The MCC compact with Vanuatu is an excellent example of donor coordination. Due to a rise in oil prices and the cost of construction materials, the scope of the Transportation Infrastructure Project had to be reviewed early on in the compact’s life. The Government of Vanuatu, MCA-Vanuatu (the local entity implementing the compact), and MCC determined the priorities for how best to achieve the original goals of the compact within the timeframe and available budget.

The solution was to focus on the rehabilitation of the Efate Ring Road and sections of the Santo East Coast Road, while seeking additional support from other donors. The GOV secured funding through an agreement with the Government of New Zealand’s aid program to support the project. This additional support allowed the full completion and sealing of both roads.

Australia's aid agency, AusAID, also worked with the GOV to provide funding for monitoring and evaluation activities necessary to measure the full impact of the compact. In addition, AusAID is funding sub-projects that were planned for in the original compact program as part of a new long-term Vanuatu Transport Sector Support Program.

Continuing a Longstanding U.S.-Vanuatu Friendship

Vanuatu played an important role during World War II when the country's largest island, Santo, was home to one of the largest United States bases in the Pacific. During the war, the U.S. Navy constructed operational roadways and airstrips, and the new roads allowed for easier travel around the island.

The compact represents the largest American investment in Vanuatu since World War II. In May 2011, the U.S. Navy's humanitarian and civil assistance mission, the Pacific Partnership, will visit Vanuatu, where they will travel the MCC-funded road on the island of Santo from Luganville to Port Olry.

These roads, once built by Americans with ni-Vanuatu help, and now rehabilitated with MCC funding, offer the Navy's Pacific Partnership an opportunity to re-engage with Vanuatu, provide medical services to areas formerly too difficult to reach, and build new schoolhouses for students. The benefits of the MCC-Vanuatu Compact will be felt for generations.