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**SMALL- AND MEDIUM-SCALE ENTERPRISES  
PROMOTION AND DEVELOPMENT**

DP/VAN/79/001  
DP/VAN/85/002

**VANUATU**

**Report of the evaluation mission\***

Prepared in co-operation with the Government of Vanuatu,  
the United Nations Development Programme and the  
United Nations Industrial Development Organization

**United Nations Industrial Development Organization**

**Vienna**

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## SUMMARY OF FINDINGS

I. DP/VAN/79/001 - DP/VAN/85/002 - Small- and medium-scale enterprises promotion and development, Phase I and II, in-depth evaluation 13-21 May 1987.

II. Summary of immediate objectives phase I: Assist the Government in development policy and promotion measures and in the establishment of an office for SSE promotion, identify entrepreneurs, carry out pre-feasibility studies, assist entrepreneurs in establishing and managing their enterprises and in commercial aspects. Prepare proposals and facilitate access to financing. Formulate and set up a training programme for national staff and entrepreneurs.

Phase II: To establish within the Department of Industry the capability to identify, appraise and evaluate small-scale industrial projects and to provide extension services and training to Ni-Vanuatu entrepreneurs.

### III. Findings of the evaluation mission

Industrial development in Vanuatu is at a very early stage. The situation is also very difficult for even small-scale industrial development given the very small and fragmental domestic market, the remote geographical location and the serious shortages of even low level technical and entrepreneurial skills in the indigenous population. Technical training is very fragmented and inadequate.

Results of the first phase with the benefit of the distance of several years must be considered inadequate. The limited but definite project results of the second phase must be seen against this background. Results of this phase include a Department of Industry that has certainly been strengthened in operational activities such as simple extension and promotion activities and in training activities. Department weaknesses in policy making and technical support services could not be overcome by the project as the national staff does not have an adequate background (there is an absolute shortage of the required skills in the country). The second category of results consists of about 14 enterprises that have been established with the involvement of the project to varying extents. Overall one can state the results are limited but acceptable against the difficult background.

#### IV. Recommendations

The Government should place highest priority on development of technical and managerial manpower in the country. It should also make an early decision on the recommendations made in the "white paper". The Department of Industry should be strengthened, if possible by technical expertise and by further (university level) training of the staff.

UNDP/UNIDO and the Government should ensure continued assistance to the Department as this is certainly needed. This assistance should increase the volume of direct assistance to small-scale industry by practical level expertise, both involving an industrial engineer type as well as a "business advisor". Further assistance should also include possibilities for short-term specialist assistance for policy level advice as well as to assist in the development of any medium-scale industries, allow for fees for university extension programmes for Department staff as well as include specific types of volunteers. The new project should start as soon as possible and fully draw upon the regional project. Best results can be expected by concentrating on small-scale projects related to local resources or producing for an established local market.

#### V. Evaluation team

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**LIST OF ABBREVIATIONS**

<b>INTV</b>	<b>Institut National de Technologie de Vanuatu</b>
<b>CFTC</b>	<b>Commonwealth Fund for Technical Co-operation</b>
<b>EDF</b>	<b>European Development Fund</b>
<b>SIDFA</b>	<b>Senior Industrial Development Field Adviser</b>
<b>CTA</b>	<b>Chief Technical Adviser</b>
<b>UNV</b>	<b>United Nations Volunteer</b>
<b>IPF</b>	<b>Indicative Planning Figure, the amount available to a country from UNDP to finance projects</b>
<b>SIS</b>	<b>Special Industrial Services, a UNIDO-administered fund</b>
<b>NGO</b>	<b>Non-governmental Organization</b>

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## INTRODUCTION

Based on a study carried out under UNDP financing in 1977 on the possibilities of small-scale industrial development in the country, the Government of Vanuatu decided to establish a Department of Industry within the Ministry of Finance, Commerce, Industry and Tourism, to be responsible for the promotion of small-scale enterprises.

To support this, in 1979 a UNDP/UNIDO project was signed, DP/VAN/79/001, to assist in the setting up and organization of this department and in the implementation of a promotional programme geared towards the small- and medium-scale industry sector. The second phase, DP/VAN/85/002, which was signed in early 1985, was to continue these activities, but put more emphasis on strengthening national skills in project identification and appraisal, extension services and training in order to establish a national indigenous capacity to effectively administer the industrial policy of the Government.

The Government of Vanuatu was and is faced with a situation where the industrial sector in the country is at the beginning of its development and where a serious shortage of skilled manpower exists. It is in the process of articulating an industrial development strategy. In developing this strategy it obtained in 1986 the assistance of a UNIDO expert under the SIS programme. The main emphasis for the future lies on using the locally available raw materials (mainly agro-industrial) and promoting industries that earn or save foreign exchange. Major elements of the strategy include the encouragement of indigenous participation in the industrial sector through manpower training and a business support infrastructure, promotion of geographical distribution and in general the acceleration of the pace of industrial development.

In view of the total duration of the two phases of the project, the relative importance of the projects in the UNDP country programme as well as the fact that, in addition, a number of UN volunteers, associate experts, and short term experts provided by UNIDO administered funds (SIS) have been involved in the subject in Vanuatu, it was decided to undertake an evaluation in order to assess the results and impact of the project and to review the present approach. Detailed terms of reference for the evaluation are included in Annex I.

The mission originally scheduled to start in February 1987 had to be postponed due to the cyclone Uma that caused extensive damage in Vanuatu on 7 February 1987. The mission took place in May 1987 and was composed of:

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The UNDP/UNIDO representative was briefed by the UNDP Resident Representative and the UNIDO SIDFA in Suva, Fiji, on 13 May. Together with the Government representative he carried out the evaluation from 14 to 21 May. A scheduled debriefing in Suva was cancelled due to the political situation in Fiji. The UNDP/UNIDO representative in the evaluation was also debriefed in UNDP/New York on 22 May. In Vanuatu the team met and discussed with Government officials, project staff as well as a number of entrepreneurs both in Port Vila and in Santo. A full list of persons consulted is given in Annex II. Also any relevant reports concerning Vanuatu were consulted.

The team would like to express its appreciation of the full co-operation received in the course of the evaluation from all Government officials, UN staff as well as other persons consulted.

The evaluation reviewed the design, implementation and results of both phases of the project. It reviewed relevant documentation and discussed both phases where appropriate. While the report focusses its attention on phase II of the project, wherever relevant, also phase I is discussed, in order to ensure that an adequate overall perspective is obtained based on the results of the different approaches tried by the two phases of the project.



## CHAPTER I: PROJECT FORMULATION

### A. Objectives of the project

#### 1. Development Objective

The Development Objective of both phases is the following:

"To promote and develop small- and medium-scale enterprises over the whole archipelago of Vanuatu, and to encourage the emergence of a new class of Ni-Vanuatu entrepreneurs, in conformity with the present Government Policy, as described in the First National Development Plan (1982-1986).

The creation of new enterprises (both in the secondary and tertiary sectors) will lead to the increase of a number of jobs available, especially in the rural areas, and will help, by the distribution of monetary flows in those regions, in diminishing the existing disparities between the various regions. Emphasis will be given to the establishment of resource-based, export-oriented, import substitution industrial enterprises."

#### 2. Immediate Objective

The immediate objectives of phase I, DP/VAN/79/001, were given as follows:

" (i) To assist the Government of the New Hebrides, in the formulation and setting up of a development policy in favour of small-scale local enterprises and of a promotional programme specifically adapted to the specific economic and social conditions of the least developed areas.

(ii) To assist the Government in the organization and in the setting up (within the Industry Division of the Ministry of Trade, Industry and Tourism) of an office responsible for the implementation of the programme of promotion of small- and medium-scale enterprises.

(iii) To identify potential entrepreneurs and to select, in accordance with the development priorities established within the Development Plan, the type of small-scale enterprises to be promoted, taking into account the existing prospects of development and the possibilities of using local raw materials found in the New Hebrides.

(iv) To carry out, if necessary, prefeasibility studies with a view to identifying the industrial products which can be locally manufactured on a small scale and giving a priority to industrial ventures using techniques adapted to the New Hebrides conditions.

(v) To help existing local entrepreneurs in the setting up and in the organization of their enterprises, by providing them with an extended assistance on the management side and in the production process of goods.

(vi) Assistance and training in commercial aspects (determination of selling prices, presentation of goods, training of salesmen, promotion and maintenance of the sales units). Ad hoc training programmes will be organized in order to ensure that the enterprises thus created will be competitive.

(vii) To formulate proposals to make more flexible access to the banking system and facilitate the grant of loans not only for buildings and equipment, but also for the working capital.

(viii) To formulate and set up a training programme, both for the project counterpart personnel and the New Hebrides entrepreneurs."

It is clear that the above statements are rather wide reaching covering much more than a one man project can do, and technically speaking, most are not objectives but activities, "ways in which" but no targets. They do give, however, an indication of the general approach of the project.

Phase II, DP/VAN/85/002, was far more specific in terms of its objectives:

"To establish within the Department of Industry the capability to identify, appraise and evaluate small-scale industrial projects, and to provide extension services and training to Ni-Vanuatu entrepreneurs."

This clearly defines two areas of assistance on which to focus, the "institution-building" type of establishing indigenous capabilities in the Ministry, and the "direct support" one of providing extension services and training. Also here, however, it is clear that in principle the objective is not clearly specified.

From the objectives it is clear that both projects included both "direct support" and "institution-building" elements, but the emphasis shifted in phase II to a higher proportion of institution-building.

#### B. Socio-economic and institutional setting of the project

Vanuatu, classified as a "least developed country" has a land surface of 11,880 km and a sea area of 680,000 km<sup>2</sup> and consists of about 80 islands, the largest of which is Santo with 3,947 km<sup>2</sup>. The capital Port Vila is located on the centrally located island of Efate and has about 16,000 inhabitants.

The main products (and export earnings) are primarily copra (approx. 60-70 per cent of export earnings) and to some extent coffee, cocoa, beef and forestry products.

The economy is rather dualistic, with an expatriate sector predominant in international and domestic banking ("tax haven" status), tourism, plantation agriculture and public services, and an indigenous sector with comparatively very low income subsistence farmers.

The manufacturing sector was and remains rather underdeveloped. A 1985 Business Establishment Survey recorded 67 enterprises with a total of 557 employees in manufacturing. All registered enterprises together have approximately 900 employees (most others are artisans and traders). There are only few medium-scale industries, most are owner-only or employ one to three workers.

Given this situation, the Government has set the following objectives:

- Modify the structure of the industrial economy by promoting and developing the sector to self-propelling growth through import substitution and export industries;
- Accelerate industrial sector development and broaden the range of products;
- Exploit agro-industrial potential to maximize value-added and employment;
- Encourage indigenous participation in the industrial sector;
- Develop the industrial infrastructure and improve support systems;
- Attract new investment to priority areas;
- Promote geographical distribution of industrial activities;
- Strengthen the base for small-scale and rural participation in industrial development.

Given the small size of the local market, the difficult geographical location and the availability of raw materials, it is clear that small-scale industries must be a priority area of development. For both small- and medium-scale industries the best scope for development lies in agro-based industries (coconut, meat, fruit and vegetable processing) or in industries serving primarily the local market (wood, leather, metalworking, etc.).

This situation is even aggravated due to the recession in the country since 1985. This recession mainly caused by low commodity prices and the serious downturn in tourist arrivals is not likely to end soon.

The only external source of finance for small-scale entrepreneurs is the Development Bank of Vanuatu. The commercial banks are not interested in providing credit for small-scale enterprises. It seems that sufficient funds are available partly from the funds of the bank itself, partly from other credits administered by the bank (ADB, EDF). The Bank provides finance to industry at 10-14 per cent interest but normally requests the entrepreneur to put up 35 per cent of the total investment (excluding land and buildings) from own resources. This presents often a problem even for the very small projects concerned as indigenous entrepreneurs cannot provide this. The bank has, however, shown to be flexible whenever they were convinced that the project was fully viable and provided up to 100 per cent of the investment.

The main problem for small-scale industrial development apart from the ones already mentioned is the lack of entrepreneurs with any technical or managerial skills and experience. The technical training system in the country leaves much to be desired, and of course the best trained people find employment in the Government or the expatriate-owned trading, banking and plantation activities.

There are a number of vocational training activities spread over the islands, mostly run partly by various NGO's. Most of these concentrate on the basic technical skills concerned and in no way train entrepreneurs. All these organisations have their own methods, approach and targets as there is no national structure in which they operate. The only small business-oriented training is given by again some NGO's, but these are temporary activities that do not lead in themselves to permanent training facilities. The only higher level technical training available in the country is the "Institut National de Technologie de Vanuatu" in Port Vila which offers a French language training leading to the French C.A.P. certificate. Also here, however, training in entrepreneurship skills are not included. In addition there are some very small training operations such as the rattan and leather training institutes also mainly technical skill oriented.

At the time of the evaluation a team sent jointly by the Australian Development Assistance Bureau and the Asian Development Bank were involved in a comprehensive study of the labor markets and training system and preparing recommendations to the Government. It is hoped that this will lead to a better overall approach to cater for the training needs in the country. Their report "Vocational Training and the Labour Market in Vanuatu" should be available in the next few months.

The Government authority responsible for the small- and medium-scale industry sector is the Department of Industry in the Ministry of Finance, Commerce, Industry and Tourism. This department is responsible for all Government activities related to the industrial sector, policy making and implementation, industrial development support activities, etc.

The Department at present is staffed by a Director and 3 staff members. None of these has any technical background. This reflects the absolute scarcity of technically qualified staff in the country, a problem that has barely changed since the first phase project was designed and approved.

### C. Project design and specification

Both project documents show the diversity of needs for external assistance that the new country of Vanuatu had. Both project designs show a combination of direct support activities (both to the Government as well as to industry) as well as institution-building type activities in establishing and strengthening the Government machinery related to industry, mainly the Department of Industry.

The project document for DP/VAN/79/001 shows a long list of "objectives" that are mostly categories of activities, without any quantification. Also the project outputs and activities are in terms of categories and do not clearly specify what the project or the expert was expected to do. What is important, however, is that there is no specification of the type of role the expert was expected to play, as an advisor to the Ministry, advisor to small- and medium-scale industries or to act as an officer of the Ministry. This led to problems that will be discussed later.

The project document for DP/VAN/85/002 is rather clearer in this, both in the objective as well as in the outputs and activity parts. The expert was to train seven counterparts, develop training programmes for entrepreneurs and assist in the establishment of new enterprises. There are, however, also weaknesses in this project design, with the activity part somewhat confusing and not fully describing counterpart training, the outputs mentioning a total of seven counterparts while inputs in terms of Government staff are not specified. These minor design problems, however, do not seem to have affected the implementation of the project in a major way.

CHAPTER II: PROJECT IMPLEMENTATION

A. Delivery of inputs

UNDP/UNIDO inputs

The following inputs were delivered during the DP/VAN/79/001 project:

	<u>m/m</u>	<u>Original budget (A)</u> \$	<u>m/m</u>	<u>Latest budget (N)</u> \$	
11-01 Expert industrial promotion	36	178,200	31.4	210,294	
11-50 Consultants	18	90,000	5.5	13,920	
11-12 Director of Industries (OPAS)			9	50,536	
11-15 Travel cost		21,500		12,731	
11-16 Other personnel cost		3,000		314	
19 Personnel total		292,700			287,795
39 Training total		14,000			3,466
49 Equipment total		7,000			7,355
59 Miscellaneous		<u>4,000</u>			<u>11,469</u>
99 Project total		317,700			310,085

In addition to these budgetted inputs a number of associate experts were provided to Vanuatu in relation to the project, and supervised by the project expert. In total more than 7 work/years of associate experts were supplied during the first phase of the project.

The budget for phase II (DP/VAN/85/002) evolved as follows:

	<u>m/m</u>	<u>Original budget (A)</u> \$	<u>m/m</u>	<u>Latest budget (H)</u> \$	
11-01 Chief Technical Adviser	24	179,800	45	294,886	
14-01 Volunteer industrial economist			24	19,851	
02 Volunteer industrial engineer			24	16,568	
15 Official travel		5,000		6,895	
16 Other cost				5,000	
19 Personnel total		184,800			343,200
39 Training total		8,300			4,737
51 Operation/maintenance of equipment		3,500		3,737	
53 Sundry				4,266	
59 Component total		<u>3,500</u>			<u>8,003</u>
99 Project total		196,600			355,940

As can be seen from the above table, the main changes in the phase II project since its approval have been:

- Extension of the CIA post from 24 m/m to 45 m/m;
- Addition of two project-financed UNV posts in response to problems in identifying other sources of finance.

These main changes on the request of the Government of Vanuatu were agreed during a Tripartite Review held in March 1986. The project design was not substantially revised at that occasion.

While there was some delay at the beginning of phase I with the identification and fielding of the main expert, who then left after only one year without adequate forewarning, leaving another gap before the new expert could arrive, there were no such problems with phase II because the expert selected was actually in Vanuatu on another assignment when the project started.

There were, however, problems in providing the planned two UN Volunteers. In view of the small IPF available to the country at the design stage of the project it was decided not to include their financing in the project but to seek other financing. No such financing could, however, be identified. The problem was dealt with by the Tripartite Review of March 1986 and the subsequent budget revision that brought in the funds for two UNV's. However, after this was solved it proved difficult to identify and recruit the two volunteers. The first one actually arrived after long delays in April 1987 while the second one, an industrial engineer, has not even been identified. This post is now being cancelled and possibly replaced by an associate expert post. It is not clear why it has proven difficult to find the required type of expertise under the UNV scheme.

#### Government inputs

The Government inputs defined in the project document of phase I were two counterparts, administrative support personnel and office space and supplies. These inputs were supplied as required.

For the phase II project, the following were defined:

"The Director of the Department of Industry as a counterpart as well as one counterpart for each UNDP professional input, two secretaries, one driver, office space, furniture and supplies and travel costs for counterpart personnel."

Also these were fully supplied, with the exception of the driver. This minor deficiency did not hamper the project seriously. In fact, actually the full staff of the Department of four to five professionals were effectively counterparts to the one expert available. It is unfortunate that none of the staff has a technical background. This is, however, understandable given the serious shortage in the country. The only problem that may now hamper the operation of the Department is a shortage of Department travel funds for the national staff to provide services outside Port Vila.

### B. Implementation of activities

We will not discuss in great detail here the activities carried out under phase I, partly because it is difficult to obtain clear information other than from the regular reports. Two important issues stemming from this phase however are: (a) the fact that the main expert aimed his activities at identifying and promoting medium-sized enterprises, mostly with foreign interests, and (b) that he gradually slipped from the role of Advisor to the Ministry into the post of Head of the new Department of Industry. This was already reported by the SIDFA as early as four months after the start of the assignment. This position was formalized after about two years when the expert was converted into an OPAS expert. Soon after this a Government policy decision terminated a number of OPAS type posts including this one and the expert had to leave. In summary, the attention of the project was far too much oriented to a type and size of industries that was not suitable to Vanuatu. This is confirmed by the poor results of the enterprises actually assisted (see Chapter III). It is also clear that although the expert as well as the four associate experts who were assigned to the project worked hard, they worked mainly in the "OPAS" mode, not paying any substantial attention to training of national staff of the Department.

Project DP/VAN/85/002 operated differently, with the expert working closely with the Director of Industries in an advisory role, not taking executive decisions. The expert, however, was and is closely involved with the Director in a lot of executive type work, policy discussion, discussions with the Development Bank of Vanuatu, etc. The team considers that possibly the involvement of the expert here, although requested by higher Government



officials, should be decreased or modified to lessen the direct influence on executive decisions. The project also turned away from the medium-size industries, unless specifically asked for advice on these, and concentrated on providing assistance to small, often Ni-Vanuatu-owned companies.

The project document specified three categories of activities: identification, appraisal, development and implementation of viable small-scale industries and training of entrepreneurs and counterpart staff. In general terms the project has carried out the types of activities indicated. The precise nature and extent will be discussed in the next chapter. Since the main activities were in general terms and not quantified, no clear statement can be made whether they were completed or not.

Co-operation between the expert on the one hand and the national staff of the Department on the other seems to have been reasonably good. In certain activities of the Department itself it seems that there is a strong reliance on the expert, probably more than desirable.

The project has had contacts with other organizations. The main one is the Development Bank where the Department frequently negotiates on behalf of entrepreneurs to obtain loans. Occasional contacts with other external assistance organizations have taken place but this was not directly linked to project activities. Although there has been, mainly logistical, support to SIS funded experts, a higher level of integration and co-operation with such short-term experts and activities would have been desirable. This will be even more important in the future as the activities of the regional project DP/RAS/86/075 "Small and Medium-scale Industry and Entrepreneurship Development in the Pacific Islands" gain momentum.

### CHAPTER III: PROJECT RESULTS AND ACHIEVEMENT OF OBJECTIVES

#### A. Outputs

##### DP/VAN/79/001

It is difficult to now assess the final outputs of the phase I project that ended in 1984, both in terms of enterprises established/assisted and in terms of establishing and strengthening of the Department of Industry. Activities in both categories have continued and it is not possible to clearly identify what was produced by phase I. Only the following general statement can be made:

- While the Department of Industry was actually established, not much training of national staff seems to have taken place, certainly not of the Director as this post was actually occupied by the expert, and a lot of the promotion work, certainly overseas, was done by him alone.
- Most of the projects reported on as being promoted, established or otherwise assisted either never materialized or do not exist today anymore (cement plant, tannery, papaine factory and associated industries, brewery, snail processing, coconut timber, peanut oil, charcoal, bêche de mer) or have been drastically reorganized after serious troubles (Trocas shell products, fruit juice plant). In other cases it is not clear to what extent the project actually contributed. On the whole, the results must be considered very limited. Probably the main reason for this is that the type and size of projects pursued were not suitable to Vanuatu.

##### DP/VAN/85/002

The project document listed the following outputs:

(i) Seven trained counterparts including the Director of the Industries Department capable of managing and implementing the Government's industrial policy unaided.

(ii) Six counterparts trained in industrial extension services. Two counterparts trained in project identification, appraisal and evaluation techniques.

(iii) Six programmes per year in commercial operational aspects for existing and newly created Ni-Vanuatu enterprises.

(iv) Ten small-scale Ni-Vanuatu-operated enterprises implemented each year of this new phase (1984-86) as part of the overall localization effort.

This included a number of national staff of the Department (7) that was never considered and never materialized.

At the occasion of the Tripartite Review in March 1986 the output targets were discussed and considered in the light of experience. The outputs were then revised. Essentially the first two outputs were revised so that they did not specify a number any more, the third output was revised to three programmes per year and the fourth remained unchanged. One output was added:

"A report containing the recommendations on institutional arrangements required for the implementation of the Ministry's development objective."

While it is not clear why this output was added, it appears from the activity section that this was to be the follow-up of a separate project, SI/VAN/86/801 - Assistance in Preparing a White Paper on Industrial Strategy and Policies.

The project up to May 1987 produced the following results:

(a) Establishment of the Department of Industry and training of staff

The Department of Industry is much better established today than it was in 1984. All four present staff are trained in certain types of non-technical extension services (mainly book-keeping, help in relations with the bank, help in identifying and obtaining equipment and raw materials as well as in selling) and to some extent in preparing project analysis and similar activities. This has been achieved through occasional formal training by the expert but mainly by "on the job" training supervised by the expert.

Extension services

Reporting formats on extension activities are used and records maintained. Unfortunately so far no attempt has been undertaken to analyse the reports prepared and draw conclusions on services performed, needs of entrepreneurs, etc.

Financial analysis

For financial project analysis only an elementary break-even analysis is done. For the typical size of projects of only a few thousand dollars this must be considered sufficient. While the Department staff has been trained in more formal feasibility analysis, these skills have not been applied as medium-scale projects have been developed recently.

While the Department can perform such promotion and extension activities, there does seem to be a lack of initiative in the sense that (potential) entrepreneurs are not sufficiently actively shown opportunities and stimulated into expansion or new activities. This is also true for new opportunities and potential entrepreneurs.

#### Training activities

A second major task of the Department is the training of entrepreneurs. Here a lot has been achieved. The Department staff can now independently give the two training courses developed, one on basic accounting and one on general entrepreneurship. The courses have been developed and manualized, materials and handouts are being used, slides have been made. This must be considered a success area for the project.

The main weaknesses of the Department are its very limited capabilities in areas of policy making related to industrial development, development and management of the Department, and technical support services.

At present another problem exists in the shortage of travel funds for the Department staff that limits work outside Port Vila. This is caused by the budget austerity measures of the Government necessitated by the economic downturn.

#### (b) Promotion and establishment of new enterprises

Under this heading the project with the Department undertook the following:

In the first year of the project four so-called "entrepreneurial promotion drives" were organized in the four main urban concentrations outside Port Vila: Pentecost, Tanna, Santo and Malekula.

Both in 1985/86 and in 1986/87 two week courses were given on general entrepreneurship in both Port Vila and Santo for a total of 02 actual and potential entrepreneurs. Starting in late 1986 the project has also given three one-week courses in elementary accounting in Vila, Santo and Malekula for a total of 29 participants. While the courses were largely developed by the expert, the later ones have mainly been given by national Department staff.

In addition, the project was active in the establishment of a small "leather training centre" where 14 trainees participated in two 6-month training courses (two of these are now established independent shoe makers) and 3 participated in a 3-month saddlery repair course. These were both given by a CFTC expert in leather products industries. A one-week fibre cement tile making course was given for two participants.

The project also organized the "First Vanuatu Industrial Trades Fair" in Port Vila with 30 participating firms and 3000 visitors. A local products promotion drive was organized in Santo. There is also a weekly half-hour radio programme organized by the Department discussing issues relevant to small-scale industry. A Directory of Industries was published and already updated (300 entries).

These promotion activities were partly meant to stimulate entrepreneurs to establish new small-scale industries. In addition, the project and Department offer a variety of support activities to new entrepreneurs.

Against the target given in the project document of 10 new enterprises to be established per year, the project in its first 12 months of operation claimed four, in its second 12 months eight new projects. In the current year a similar number can be expected.

It should be well understood that the role of the project and the Department in the establishment of these new enterprises varies. Only in a few cases did the Department/project identify the opportunity and the entrepreneur and completely assist in establishment and initial operation. In most cases the Department/project assisted in one or more but not all of the following:

- Identify opportunity and entrepreneur;
- Develop the idea to the fully worked out concept of an enterprise;
- Find and obtain land/premises;
- Obtain bank financing;
- Identify and obtain equipment/raw materials;
- Find and develop marketing opportunities;
- Establish record keeping and accounting system and train entrepreneur;
- Follow-up on repayment of loans and check maintenance of books.

It is fair to say that, only in some of the cases, the new enterprise would not have existed without the project. In other cases the Department/project has facilitated and possibly improved the chances of the new venture. It should be added that obviously this is a normal situation, entrepreneurs should have a good dose of own initiative in order to be able to establish and run an enterprise, they should not need assistance in all different activities, but occasionally "a push and a hand".

In terms of established new enterprises, these results are rather shallow. One should, however, take into account the background and the difficult situation as described in Chapter I.B. It should also be considered that 12 new enterprises on an existing total number of registered enterprises of approx. 70 is an important addition, at least in relative terms.

#### **B. Achievement of the immediate objective**

When assessing the above results with the immediate objective of the project one could say the objective has largely been achieved. There is now a basic capability in the Department to identify and appraise small-scale projects, and to provide extension services and training. The project has also already provided extension and training services and assisted in establishment of new enterprises. In light of the above discussions, however, it is also clear that there are important shortcomings in the results of the project, and that possibly more could have been achieved.

In summary, given the circumstances, the achievement of the objective is partial but acceptable.

#### **C. Contribution to the achievement of the development objective**

The assessment of the contribution of such a relatively small project to national objectives should be treated with care. It could, however, be stated that the project has made certain contributions to the development of small- and medium-scale industries. In an economy as the one of Vanuatu, a small contribution to a sector that has been rather neglected can become significant.

## CHAPTER IV: CONCLUSIONS AND RECOMMENDATIONS

### A. Conclusions

#### General

In Vanuatu the industrial sector stands at the very beginning of its development. At this stage, with the exception of directly agro-based export processing industries (copra, meat, fish, etc.) and possibly some medium-scale industries serving the local market, only small-scale industrial activities are viable.

The main problems for industrial development are:

- Very small domestic market with low buying power;
- Remote geographical location including a fragmented national geography and market;
- Serious shortages of any level of technical and managerial skills in the Ni-Vanuatu population.

Less important additional problems are an underdeveloped or even unexplored national resource base, poor distribution channels and poor inter-island transport services. To some extent the availability of investment resources may occasionally hamper individual projects, but this does not seem an important problem. For most viable small-scale projects finance is available in principle.

The National Training System in general and training opportunities aimed at small-scale technical or managerial skills in particular are very limited. Most such efforts are supported by external assistance, and co-ordination of these into a complete national structure at the moment is non-existent, although at least an extensive analysis of the problem is under way.

#### The project

The results of the first phase project DP/VAN/79/001, with the benefit of a distance of several years must be considered marginal only. Most enterprises identified promoted and otherwise assisted have never materialized or have collapsed since. The project may have been instrumental in more

formally establishing a Government Department of Industry, but also here only marginal training of national staff has taken place.

It must be considered a very positive development that the UNDP/UNIDO and the Government learned from this experience and designed a second phase that showed a different approach, both increasing attention to development of national capabilities in the Department of Industry and aiming for a different type and size of enterprises.

The main result of the project is probably the strengthening of the Department of Industry. This strengthening mainly concerns the operational activities of preparing simple projects and discussing these with the bank, providing extension services and training. The Department is still very weak in policy making and in developing its own activities further. The Department is also still very weak in technical matters, but a solution for this could not be expected from the project as none of the national staff has a technical background or education.

The results in terms of new enterprises established, expanded etc. are limited. While not unimportant for Vanuatu the limited achievements show that the present approach is not most effective in this area. If this type of results is to be increased (the Minister has set a very ambitious target of 2 new enterprises per month, or 24 per year) the volume of the promotion and extension work has to increase, and probably to become more practical implementation-oriented. More initiatives to identify projects and entrepreneurs and in supporting existing entrepreneurs in improving their operations are required.

#### B. Recommendations

To the Government:

(1) The Government should place the highest priority on the development of indigenous technical and managerial manpower. The present training opportunities available are not sufficient. Particular attention should be paid to add training in basic business skills to technical education. This is needed in order to directly encourage establishment of new small- and medium-scale industries. This is especially important as due to



the present economic stagnation, salaried employment is not likely to grow fast in the near future. Fortunately, a comprehensive study of the labour market and training system is about to be finalized.

(ii) An early decision should be taken on some of the recommendations made in the "white paper". Specifically the possible combination of the Department of Industry into one of "Industry and Commerce", the establishment of a "standards" unit in the Department and other recommendations with implications for the organization and staffing of the Department.

(iii) Training of the Department of Industry staff must be encouraged. Where possible this should be done as part time studies. The present proposal of two staff members following an extension type university programme while staying on the job should be pursued. To strengthen the policy making function as well as the management of the Department, also the Director of the Department should undertake university level studies. It should be considered in his case, however, to complement extension type programmes with at least one year of intensive full time university studies. Continued permanent assistance of a high level expert to the Director will not be sufficient to overcome this problem.

(iv) If at all possible, the Government should attempt to recruit one staff member to the Department of Industry with at least medium level technical education and as much practical experience as possible. The evaluation team recognizes, however, the fact that such staff may be very difficult to find.

Concerning the project, to UNDP/UNIDO and the Government:

(i) Assistance to the Department of Industry continues to be very much needed, also after the present project terminates at the end of 1988. A new project should be developed based on experience so far for at least 2-3 years.

(ii) The team considers that assignment of a permanent P5 level expert to the Department is not appropriate, because neither is it cost-effective nor does it match the needs of Vanuatu. The evaluation team considers that further assistance should consist of the following elements (more or less in order of priority) depending on funding available:

- (a) If possible, two practical level experienced experts.

One of these should be an industrial engineer with extensive experience in technical aspects of running small/medium manufacturing enterprises. The other should be a management/commercial business consultant with experience with small/medium enterprises in manufacturing and trade.

It could be considered to recruit experts for 6 months to one year at the time so that subsequent experts with their varying background could give changing industry branch emphasis.

UNDP/UNIDO should consider using special mechanisms to recruit such expertise on a regional basis. Probably Asian region experts with experience that is very relevant for Vanuatu could be obtained at considerably lower overall cost than the present CTA.

- (b) A provision for a maximum of 6 man/months of short-term consultant for a 3-year project.

These will be used for short-term (max. 1 month) assistance to the department on policy level studies and advice or for specific technical expertise in relation to medium-sized planned investments.

- (c) A provision for training of Department staff. Specifically the existing proposal to pay partly or fully the fees for extension type university level studies of two Department staff should be financed. This will not only be very relevant and valuable training, but it will also ensure that these already trained staff members stay with the Department. It is understood by the team that this involves about \$4,000 per person, the equivalent in terms of cost to the project of a study tour.

- (d) Up to two volunteers. These should, however, not be of the industrial engineer/industrial economist type but with a rather more specific background such as furniture making/woodworking, ceramics/pottery, textile finishing, fruit and vegetable processing, etc.

It is considered that "direct support" is the most suitable given the situation in terms of counterparts available and the basic "institution building" that has taken place under DP/VAN/85/002.

(iii) The above outlined approach should not wait for the project to end but should start as early as possible, latest when the contract of the present expert expires in March 1988. A new project document should be prepared to be effective as soon as possible after this date. Agreement on the general approach outlined above should be reached much earlier, if possible at the occasion of the Tripartite Review planned for mid July 1987 to enable UNDP/UNIDO to identify and recruit the right experts in time.

(iv) The regional project, DP/RAS/86/075 "Small- and Medium-scale Industry and Entrepreneurship Development in the Pacific Islands", should be ready to provide policy level support to the Government of Vanuatu on a rather short notice when required, thus obviating the need for a permanent policy level expert in Vanuatu.

(v) The project (and the Department) should continue to concentrate attention on small-scale projects, based either on local resources (wood, rattan, coconut and coconut oil products, fruit and vegetables, etc.) or on import substitution of products with a well established local market (pottery, furniture, metal fabrication, repair and maintenance, souvenir products, etc.).

(vi) Where applicable, however, also selected medium-scale industries for domestic market and/or export to neighbouring countries should be assisted. In most cases for such projects specialized expertise should be brought in either through the short-term expert component of this project or through the regional project. Special care should be taken, however, to ensure viability of such projects, too many have proved to be too optimistic in the past.

Annex I

**TERMS OF REFERENCE**

**In-depth Project Evaluation of DP/VAN/85/002 - Small- and Medium-Scale Enterprises Promotion and Development**

**I. Background**

The Government Industrial Development Programme aims at promoting basic industries which process local materials, encouraging local (indigenous) entrepreneurs to participate in the development of industrial activities; encouraging local manufacture of goods and introducing services to assist in savings of foreign exchange; creating job opportunities in rural and urban areas; establishing a sound basis for medium- and long-term industrial opportunities; stimulating growth of several key industries and providing a core of skilled labor force through the establishment of a centralized industrial training centre. Within the framework of the general objectives of this programme, the development objective of the current UNIDO/UNDP assistance is to promote and develop Ni-Vanuatu enterprises (both in secondary and tertiary sectors) and thereby to diversify local production and increase employment opportunities and income among the indigenous population, particularly in rural areas.

In October 1977 a study was carried out (under UNDP financing - DP/NHE/77/003) on the possibilities of creating and developing small-scale enterprises in Vanuatu. On the basis of this study the government decided to create, within the present Ministry of Finance, Commerce, Industry and Tourism a Department of Industry for the promotion and development of small- and medium-scale enterprises. UNDP/UNIDO technical assistance was provided through the project DP/VAN/79/001 - Small- and Medium-Scale Enterprises Promotion and Development, Phase I - to assist in the setting-up and organization of this new department and in the implementation of a promotional programme geared towards the small- and medium-scale industry sector. The UNDP/UNIDO assistance first took the form of advisory services and then of an OPAS expert serving as the Director of Industries. Although much was achieved during this period, little progress was made towards creating sufficient national capability to carry on the work of the Department without outside assistance. Therefore, in addition to the setting-up of new Ni-Vanuatu enterprises the present second phase of the project is expected to concentrate on assisting the Government to build-up national skills in project identification and evaluation, extension services and training, that would lead to an indigenous capacity to effectively administer the Government's industrial policy. The present assistance has accordingly set following project objectives for the second phase project DP/VAN/85/002:

1. To establish within the Department of Industries the capability to identify, appraise and evaluate small-scale industry projects and assist in establishing Ni-Vanuatu enterprises providing extension services and training to Ni-Vanuatu entrepreneurs;
2. Provide a one-roof stop to Ni-Vanuatu entrepreneurs seeking technical and/or technological assistance. Also recommend financial assistance to SSES.

3. To assist in establishing coherent national policies and programmes for promotion of indigenous enterprises.

Since the UNDP/UNIDO assistance programme in Vanuatu has been on-going since 1979, it has been decided to review the impact as well as the approach of the present technical assistance project. This review of UNDP/UNIDO is timely in view of the fact that the Government is presently formulating its programme for the second five-year-period in this sector.

## II. Scope of the review

The main tasks of the special mission will be to:

1. Evaluate project VAN/85/002 - Small- and Medium-Scale Enterprises Promotion and Development, in order to determine:
  - its efficiency in terms of how well the activities are being managed and the appropriateness of inputs provided by UNIDO/UNDP and the Government;
  - its effectiveness in terms of how well the project has or is achieving its immediate objectives; and
  - its relevance to the longer term national and sectoral goals of the Government;
  - its impact in terms of changes and results actually produced from activities undertaken by the project.
2. Identify the factors which may have facilitated or deferred the achievement of the project's immediate purposes and ultimate objectives, and
3. Make recommendations for future action.

While the evaluation will focus on DP/VAN/85/002, it will also review DP/VAN/79/001 in order to ensure a proper understanding of the situation.

The mission should feel free to review all steps in the formulation and implementation of the project and make recommendations as to its future.

As part of the above tasks, the mission will also review if the approach utilized in the project has led to optimum results, or if another approach could have improved the results. This will include the review of:

- relations of the project(s) with potential entrepreneurs and existing local industries;
- contacts with local institutions, including development financing institutions;
- contacts with existing local facilities and infrastructures for development of small- and medium-scale industries, e.g. projects and programmes of other departments of the government, vocational education and co-operatives;
- the extent to which the capabilities of the Department of Industries have been strengthened, e.g. in identifying potential entrepreneurs carrying out prefeasibility studies, conducting training programmes, guiding Ni-Vanuatu entrepreneurs in formulating investment proposals, providing extension services to existing industries, etc.

### III. Composition of the mission

The mission will be undertaken by a staff member of UNIDO from the Evaluation Staff.

The Government is invited to participate in the mission. Any such Government representative should not have or have had any responsibility for formulation and/or implementation of the project.

### IV. Consultations in the field

The mission will maintain close liaison with the UNDP Resident Representative in Fiji, the SIDFA based in Fiji, the concerned agencies of the Government, the Project Manager and the counterpart staff assigned to the project.

The mission is expected to visit a number of actual or potential end-users (small and medium industries) as well as any other organizations and institutions in Vanuatu.

Although the mission should feel free to discuss with the authorities concerned anything relevant to its assignment, it is not authorized to make any commitments on behalf of the UNDP or UNIDO.

### V. Timetable and report of the mission

The mission will be required to visit the UNDP office in Fiji at the commencement and conclusion of the assignment in Vanuatu for briefing and debriefing purposes with the Resident Representative and the SIDFA. The total expected duration of the mission in the field will be two weeks, starting on or about March 23, 1987.

The mission will prepare its report according to the UNDP Manual. The draft report should be completed in the field, so that there is an opportunity for additional consultations as may be necessary. It should be submitted in its final form simultaneously to the UNDP and UNIDO. The UNDP and the UNIDO, by agreement, will submit the report to the Government.

Annex II

**LIST OF PERSONS CONSULTED DURING EVALUATION**

Government of Vanuatu

Mr. Augustine Garae	Director, National Planning and Statistics Office
Mr. Martin Tamata	First Secretary, Ministry of Finance, Commerce, Industry and Tourism
Mr. Japin Tari	Director of Industry, Ministry of Finance, Commerce, Industry and Tourism
Ms. Eileen Nganga	Senior Industrial Development Officer, Office for Development of Enterprises, Department of Industry
Mr. Kal, eau Vatoko	Senior Industrial Development Officer, Extension Officer, Department of Industry
Ms. Rosemary Leona	Industrial Development Officer, Department of Industry

UNDP/Suva

Mr. Jerrold Berke	UNDP Resident Representative
Mr. Ross Mountain	UNDP Deputy Resident Representative
Mr. Aly-Raza Nazerali	UNDP Assistant Resident Representative

UNIDO/Suva

Mr. Ivan Contreras	Senior Industrial Development Field Adviser
Mr. Fayoyo	Expert, Small-scale industry extension services DP/RAS/86/075
Mr. Eric Detroyer	Associate expert, DP/RAS/86/075

Project staff/Port Vila

Mr. W. Milton Soysa	Chief Technical Adviser
Mr. Ramesh Shah	United Nations Volunteer, Industrial Economist

Other organizations/Port Vila

Mr. John K. Donnan                      Managing Director of the Development Bank of Vanuatu

Mr. Kenneth Beckman                    Country Representative, International Human Assistance Programs Inc.

Port Vila

Mr. Michael Kailul                      Leather Footwear Manufacturer

Mr. Roy Bani Wilkins                    Leather Footwear Manufacturer

Mr. Sylvester Bulesa                    Pottery Manufacturer

Mr. Siri Kalomori                        Wood-working Manufacturer

Mr. Frank Mael                          Linda's Upholstery Furniture Manufacturer

Mr. Grimond Lango                      V.T.L. Enterprises (trader in leather working materials and accessories)

Mr. Oscar Graf                          Melanesian Furniture Centre

Furniture manufacturer

Santo

Mr. Jagendia Singh                      Managing Director, "Lees" Biscuits

Mr. Sarakata Butchery                   Meat packer and deep freezer

Mr. Andrew Siba                         Head, Rattan Training Centre

Mr. Lucien Bourriand                    Headmaster, Saint Michel Vocational Training Centre