

Republic of Vanuatu
Republique de Vanuatu



Australian Government

AusAID

Vanuatu Transport Sector Support Program (VTSSP)

Design Document (Phase 1)

Road Transport

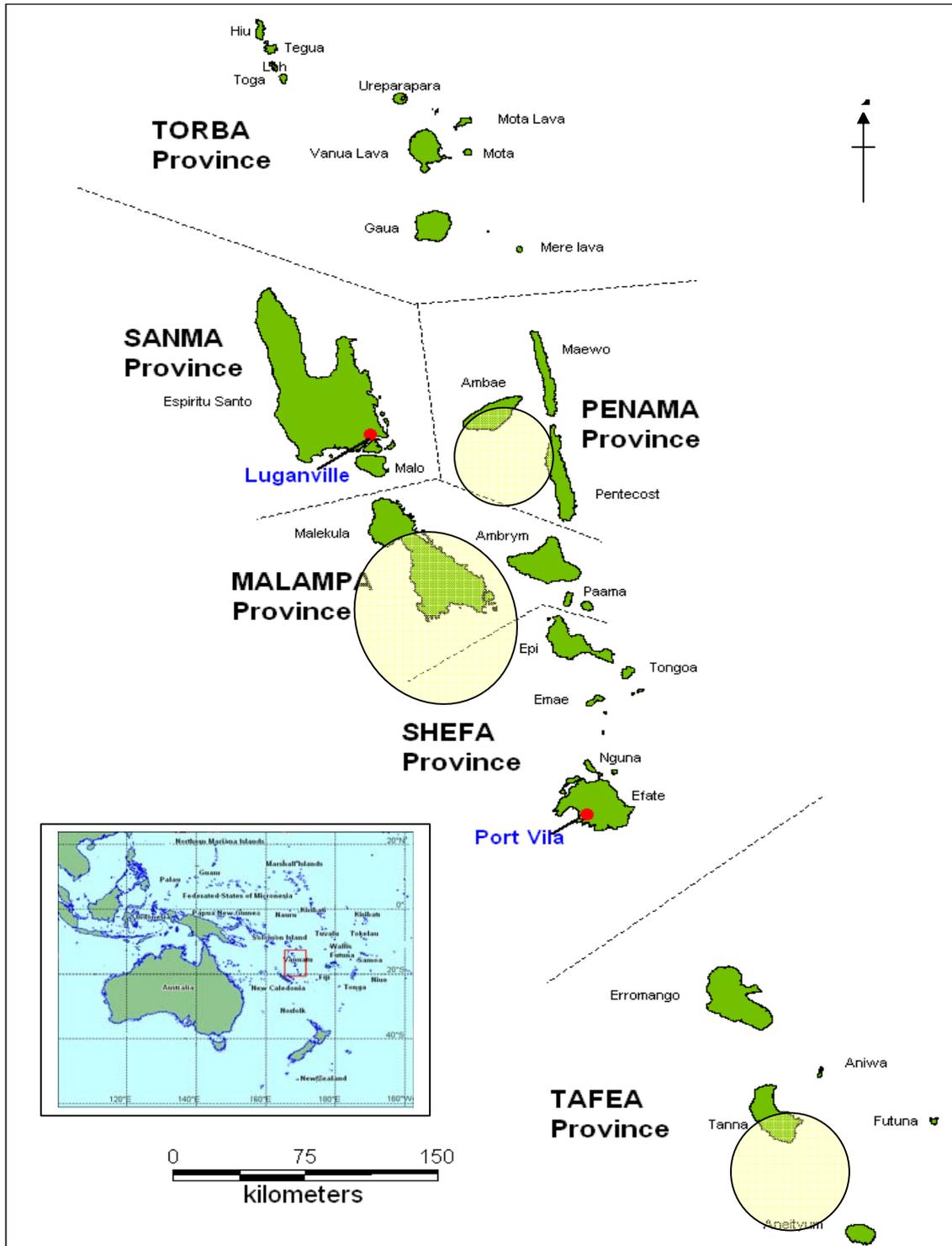
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Acronyms

AADT	Average Annual Daily Traffic
ADB	Asian Development Bank
AFD	Agence Française de Développement
ASIST	Advisory Support Information Services and Training
AusAID	Australian Agency for International Development
CBC	Community Based Contractor
CG	Community Groups
CTB	Central Tenders Board
EU	European Union
GDP	Gross Domestic Product
GfG	Governance for Growth
GoA	Government of Australia
GoV	Government of Vanuatu
GPS	Global Positioning System
GST	Goods and Services Tax
HIES	Household Income and Expenditure Survey
HIV/AIDS	Human Immuno-deficiency Virus / Acquired Immuno-Deficiency Syndrome
ILO	International Labour Organization
ISP	Institutional Strengthening Project
JICA	Japanese International Cooperation Agency
LBAT	Labour Based and Appropriate Technology
LBC	Locally based contractor (provincial)
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MFEM	Ministry of Finance and Economic Management
MIPU	Ministry of Infrastructure and Public Utilities
MPM	Ministry of the Prime Minister
NZAID	New Zealand Agency for International Development
ODA	Official Development Assistance
PAA	Priorities and Action Agenda
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PMO	Prime Minister's Office
PNG	Papua New Guinea
PRIF	Pacific Region Infrastructure Facility
PWD	Public Works Department
RM	Routine Maintenance
SI	Spot Improvement
SSC	Small Scale Contactors
TA	Technical Assistance
TL	Team Leader
TVET	Technical and Vocational Education and Training
VBC	Vanuatu Based Contractor
VIT	Vanuatu Institute of Technology
VTIP	Vanuatu Transport Infrastructure Program
VTSSP	Vanuatu Transport Sector Support Program

Map of Vanuatu



Executive Summary

This document presents the design of the Vanuatu Transport Sector Support Program (Phase 1) to be financed by AusAID. The design responds to the request from the Government of Vanuatu for assistance to Vanuatu's transport sector. Support in this area is seen as critical for broad based and inclusive economic growth and service delivery.

The Vanuatu Transport Sector Support Program (VTSSP) represents a long term partnership (10-15 years) with the Vanuatu Government to support the transport sector. The program will be delivered over three phases.

Phase 1 will run for 2 years and will complete road maintenance sub-projects on the islands of Tanna, Malekula and Ambae. There is a possibility of an extension of Phase 1 for a third year, should it be required. Phase 1 will also begin the process of building capacity within MIPU and PWD, as well as the design of future support to be provided under Phase 2.

Phase 2 will be a longer term (5 years) sector-based program of support which aims to improve performance of the transport sector more generally. Phase 2 may expand the focus beyond road transport to also include support for maritime and airport infrastructure. There is also the potential for Phase 2 to continue or complete any of the sub-projects of Phase 1.

Phase 3 will build on objectives and outcomes of the earlier phases. The key directions of Phase 3 will be decided following a review of implementation and progress under Phases 1 and 2.

This design document only covers Phase 1, although due to the links with the future phases, the goal, purpose and results are all of a long-term nature.

The Transport Sector in Vanuatu

Managing transport services in Vanuatu is particularly challenging. Vanuatu has a population of around 215,000 spread over an archipelago of around 65 populated islands. While economic growth in Vanuatu has improved in recent years, it remains concentrated in the main urban areas of Port Vila (island of Efate) and Luganville (island of Espiritu Santo).

Broad based economic growth and service delivery in rural areas is constrained by expensive, unreliable and limited transport infrastructure and transport services. Rural road infrastructure is inadequately maintained, and in need of both rehabilitation and more routine maintenance. The resources provided in the budget are currently insufficient to maintain the existing network. Poor road conditions are driving up transport costs, hindering access to services and restricting economic growth in rural areas.

Current donor funded assistance to the transport sector includes the Millennium Challenge Corporation's (MCC) Vanuatu Transport Infrastructure Program, and the

Outer Islands Airport Upgrading Project funded by Agence Francaise de Development. An EU funded program supporting community based contracting of road maintenance finished in 2007. NZAID has committed to support the MCC program to help address the short fall in completing the Efate Ring Road and Santo East Coast Road. JICA is funding a program of maintenance for the main wharf.

Activity Origin and Proposed Approach

The Joint Strategy on Development Cooperation (2005 – 2010) commits Australia to support long term stability for Vanuatu by accelerating development including broad-based growth, and improving the welfare of the general population.

In December 2007, the Government of Vanuatu approached Australia requesting possible assistance for road transport, particularly around the short fall in finance for works initially planned through the MCC Vanuatu Transport Infrastructure Program (VTIP). AusAID met with the Government of Vanuatu in February 2008 to discuss possible modalities and proposed a multi-phase program of support to the transport sector through the Ministry of Infrastructure and Public Utilities (MIPU). The concept and design of the proposed Vanuatu Transport Sector Support Program (VTSSP) was developed in conjunction with the Ministry of Public Utilities and the Public Works Department following a design mission in May 2008.

The VTSSP (Phase 1) is proposed to be the first phase of a long term partnership (10-15 years) between the Governments of Vanuatu and Australia in the transport sector.

Phase 1 will commence by supporting the Ministry of Infrastructure and Public Utilities and the Public Works Department to improve rehabilitation and maintenance of road transport infrastructure, with a focus on works in selected provinces. Initial works will be on the islands of Tanna, Ambae and Malekula, including works previously identified under the Vanuatu – MCC program.

Assistance provided to the PWD in Phase 1 will also include technical assistance, financing for selected physical road works, and support for the development of a viable and competitive local private sector – ranging from small scale island based contractors to medium scale Vanuatu wide contractors. Features of the proposed approach include a focus on strengthening and using local private sector capacity to undertake works, using small and medium scale contracting and labour based appropriate technology methods. The program will be managed through the Public Works Department, using Government of Vanuatu processes as much as is practicable.

Phase 2 of the VTSSP will be designed during Phase 1 and will build on Phase 1 progress and move towards providing a more sector based program of support in transport.

Expected Benefits

The expected benefits of improving the road transport network are significant. Improvements to road accessibility will make it easier for people in rural communities to access important services, such as health care and schools, and are also expected to contribute to economic development, by making it easier to transport goods to and from

markets. The program's focus on supporting labour-based appropriate technologies, together with its efforts to increase the role of private sector and communities in delivering road works, is also expected to provide important local employment opportunities and business opportunities for small scale contractors.

Improved management of the road network by PWD is also expected to lead to the more efficient allocation of limited budget resources, and better standards of maintenance, which should help to reduce costs of providing transport infrastructure in the long run. Taken together, all of these benefits can be expected to contribute to Vanuatu's progress towards meeting the Millennium Development Goals.

Vanuatu Transport Sector Support Program

Proposed Goal and Purpose

The proposed goal and purpose come from the vision articulated in Vanuatu's own Priorities and Action Agenda 2006 – 2015.

Proposed goal: *Social stability and economic growth to create and educated, healthy and wealthy Vanuatu.*

Proposed purpose: *To generate a reliable and adequately maintained transport system.*

Key Result Areas

The four result areas for the VTSSP are:

- Result 1: The Government of Vanuatu's management of the road transport sector is improved;
- Result 2: The quality of public financial management in the transport sector is improved;
- Result 3: The role of the competitive private sector and community groups in providing road maintenance services is increased; and
- Result 4: Sustained improvements in road transport access are supported using labour based appropriate technologies which generate local employment.

For each Phase of the VTSSP, specific measurable indicators will be developed which reflect planned outcomes under each of the result areas. Phase 1 is focused on providing agreed road transport maintenance and upgrading works in three provinces: Ambae, Malekula and Tanna, with program performance indicators reflecting this focus.

Summary of Phase 1 Assistance

Phase 1 will provide technical assistance and financing to support the PWD in each of the four key result areas:

Result 1 - Government of Vanuatu's management of the road transport sector is improved: This will include support to strengthen capacity in planning, budgeting and management of the road transport network centred on the principles of asset conservation.

Result 2 – The quality of public financial management in the transport sector is improved: This will include support to strengthen the financial management capacity of MIPU / PWD covering procurement, financial controls, monitoring, reporting and accountability.

Result 3 – Role of the competitive private sector and community groups in providing road maintenance is increased: Support in this area will help to strengthen

the role of the private sector and communities in the delivery of physical works, including skills training and facilitating access to appropriate tools and equipment.

Result 4 – Sustained improvements in road transport access are supported using labour based appropriate technologies which generate local employment: This will include support to strengthen PWD capacity to scope, contract, supervise and manage labour based appropriate technology road works through contracts with the private sector and community groups.

All physical works will be managed through the PWD using Government of Vanuatu systems, supported by technical assistance provided through the VTSSP. Financing will be provided through the Government of Vanuatu’s Development Fund Account, and thus support integration of the VTSSP with the Government of Vanuatu’s planning and budgeting cycle.

Management arrangements

Key partnerships and management arrangements proposed for VTSSP Phase 1 include:

- Joint GoA and GoV oversight and strategic direction through the GfG Management Committee with representation from the GoV and the GoA; and
- Implementation under the Government of Vanuatu Ministry of Infrastructure and Utilities (MIPU), through the Public Works Department (PWD).

Performance assessment

Outcomes under each of the result areas are identified for each phase of the VTSSP. Progress against the outcomes will be monitored, measured and evaluated on a routine basis, using Government of Vanuatu reporting systems and tools as much as possible, with the aim of strengthening systems and links to the Government of Vanuatu’s own planning and reporting cycle. In addition, specific evaluation is proposed to periodically measure progress of implementation against the performance framework for the program. Refer to Annex E for the results framework and performance indicators that will be used to monitor implementation of Phase 1.

Other options considered for implementation of VTSSP

One option considered during earlier discussions was to provide additional financing for the MCC funded Vanuatu Transport Infrastructure Program to help address the financial shortfall to undertake identified works. This approach was reviewed, but was not supported for a number of reasons including:

- MCC VTIP’s use of a single international contractor to undertake all works;
- the anticipated costs of works; and
- potential difficulties with sustainability, including:
 - the proposed technical standards;
 - that the MCC funded program is being implemented as a stand-alone project and managed by a Project Management Unit which would operate in parallel to government systems and processes.

Other options, including a five year project focusing solely on physical works, were also rejected because of identified problems with sustainability.

Risk management

Improving the performance of the transport sector in Vanuatu is a central part of the Vanuatu Government's strategy to improve economic growth, broad based and inclusive development, and service delivery. Supporting the Government of Vanuatu's Priorities and Action Agenda to improve the performance of the transport sector is strongly aligned with both Australian and Vanuatu Government policy aims.

Given the urgency noted by the Government of Vanuatu, and the new policy initiatives announced in the Australian budget, the phased approach allows for a prompt response to the Vanuatu government request, while also supporting the development of a longer term sector based program of support.

The over-arching risk for transport sector programs is the lack of sustainability of investments. This risk is being addressed through the establishment of a long term partnership in the transport sector, together with the phased move towards a sector based program of support which will strengthen and build on the Government of Vanuatu's own systems and processes. Sustainability is also being addressed by developing locally appropriate technical standards for works, as well as a focus on strengthening people, processes and systems within MIPU / PWD.

The VTSSP will focus on rehabilitation and maintenance of infrastructure, and increasing the role of the private sector in service delivery. This approach addresses the risk of poor sustainability resulting from limited local capacity to manage and deliver maintenance services. The use of Government of Vanuatu systems for contracting and financial management will be supported by technical assistance to ensure the accountability in the use of aid funded resources. The VTSSP will work closely with the AusAID funded *Governance for Growth Program*, which is assisting the Government of Vanuatu strengthen budget and financial management systems.

Finally, the proposed sector based approach for Phase 2 and 3 will support the better use of all resources – donor and government – and thus support stronger performance of the sector as a whole. While this may increase the initial risks around the delivery of specific physical inputs in the short term, it reduces the risk of the program having limited and unsustainable impacts on the transport sector in the longer term.

1 Background and Design Approach

1.1 Origin of the proposal

The Australia-Vanuatu Joint Development Cooperation Strategy 2005-2010 aims to advance the development objectives articulated in Vanuatu's national development plan, the Priorities and Action Agenda 2006-2015 (PAA). The PAA highlights the need for a more reliable and adequately maintained transport system to enhance social and economic development in Vanuatu.

Australia recognises the importance of investment in basic infrastructure services in partnership with governments across the Pacific. The 2008-09 Budget announced major increases in Australian development assistance financing for the Pacific Region Infrastructure Facility and the Pacific Partnerships for Development. The 2008-09 budget initiatives build on the 2007-08 Infrastructure for Growth Initiative.

The development of the proposed Vanuatu Transport Sector Support Program (VTSSP) follows a request from the Government of Vanuatu to the Government of Australia for assistance in the transport sector, particularly to help address the short-fall in finances for road works initially planned to be undertaken under the Millennium Challenge Corporation's Vanuatu Transport Infrastructure Program.

The proposed Vanuatu Transport Sector Support Program (VTSSP) is consistent with the Australian Government's policy directions and will help improve broad based and inclusive growth and service delivery in Vanuatu by helping address a key local constraint to broad based and inclusive development.

1.2 Context

Country Development Context

After a mixed performance over an extended period, the last few years have seen strong economic growth in Vanuatu. Growth in real GDP per annum was 7.2% in 2006, 6.5% in 2007 and an estimated 6.4% in 2008 - the highest per capita economic growth in the Pacific. Key drivers of performance have been sound macroeconomic management, political stability and improved performance in key sectors including tourism, construction and agriculture. However, economic growth has been concentrated in the two main urban areas of Port Vila and Luganville, rather than broad-based, and there is considerable inequity and variation in per capita growth and income, with about 8% of the population living in poverty.¹ Rural areas account for around 78% of the population.

Inadequate, unreliable and expensive transport is one of the major constraints to broad based and inclusive economic growth and service delivery in rural areas.

¹Vanuatu Household Income and Expenditure Survey (HIES), 2006, identified a gini co-efficient for Vanuatu of 0.41, which suggests a significant level of income inequality. Vanuatu's GDP is around US\$2,000 per capita.

Private sector development

Vanuatu was ranked 60 out of 181 countries in the World Bank's Doing Business 2009 assessment. Vanuatu scores relatively poorly on issues like registering property, starting businesses and cross border trading.

Currently the private sector plays a limited role in the maintenance of transport assets. While in Port Vila and Santo there are a number of medium size private road contractors, in many islands there is limited or no formal private sector capacity to undertake such work. The ADB 2003 Private Sector Assessment (Issues, Challenges and Policy Options) noted:

A key issue for infrastructure lies in understanding how the technology related to the cost and the regulatory structure of the country. Typically smaller scale technologies permit more diffused supply, which tends to favour competitive supply. If the government cannot regulate it, then a few hundred competing smaller providers.... may produce a more efficient result even if the underlying cost of production is higher'.

Sector Context

Providing reliable, well-maintained transport services is difficult and costly in Vanuatu because of the difficulty of providing adequate services to the geographically dispersed and rural-based population, and the limited existing infrastructure. Vanuatu has a population of around 215,000, spread over an archipelago of around 65 populated islands. Although around 80% of Vanuatu's population live on six main islands, there are over 45 islands with populations of less than 1,000 people². Transport services across the islands are highly variable – while twenty islands have air strips, some islands have no road network at all.

The interconnectivity of the transport modes (land, maritime, aviation) is essential for the functionality of transport services. The role of the road network is to provide cost effective services across the main islands, and connect people to markets, services and transport hubs (jetties, wharves, airstrips). Transport services are provided by a mix of public and private enterprises. But the cost of services is high, in part because of the unreliable and poor quality infrastructure. Road transport costs per kilometre also vary markedly across the country depending on the state and condition of the road and traffic volumes (e.g. from 10 – 25 Vatu per passenger per kilometre).

Institutional arrangements

The Ministry of Infrastructure and Public Utilities (MIPU) is responsible for the management of key national infrastructure assets in the areas of land transport, maritime transport, aviation and water supply. The Public Works Department (within MIPU) is responsible for the road network³, outer island air strips and some water supply facilities⁴

² Vanuatu National Census, 1999

³ Urban roads in Port Vila and Luganville are managed by the respective municipalities.

⁴ The water supply system in Port Vila is managed by Unelco.

such as in Santo (Luganville), Malekula (Lakatoro and Norsup) and Tanna (Isangel). Physical works are managed by PWD through six Provincial Works Divisions.

Transport policy and policy based budgeting

Currently Vanuatu's National development strategy is set out in the Priorities and Action Agenda 2005 – 2016 (PAA), which the government is using to strengthen prioritisation in the budget and the move toward more policy based budgeting. At this time, the PAA has limited analysis with regard to the transport sector. In particular, the Government of Vanuatu does not have a costed national transport plan that is linked to the budget and which supports the prioritisation of expenditure including maintenance, rehabilitation and new investments. Funding for maintenance is also inadequate, despite recent GoV funding increases in the budget for maintenance.

Assets

The major transport infrastructure assets⁵ are:

- 1,767 km of roads, of which 73 km are paved, 1,303 are gravel and 400 km are earth;
- 26 air strips, of which 4 are sealed, 5 coral, and 19 grass. Two strips are currently being upgraded and sealed by AFD;⁶ and
- 36 wharves, jetties and landing stages⁷.

1.3 Road transport sector

Budgets and asset management

Road transport infrastructure maintenance is limited and budgeted resources are not sufficient to cover the asset maintenance requirements. The state of transport infrastructure assets varies from good to frequently poor. In the 2005 Public Works Department Corporate Plan 'Infrastructure for the Public', the Director notes that

"... the PWD's annual budget ceiling does not reflect the required budget for operations and maintenance. The Vanuatu Government is faced with a growing problem with public infrastructure in Vanuatu, due to insufficient availability of funds. The condition of the infrastructure is deteriorating significantly. This is reducing the level of service provided by the infrastructure, increasing operation and maintenance costs, and creating a growing financial liability for the Government. If this is not addressed urgently, the infrastructure, which is meant to assist social and economic development in Vanuatu, may in fact become an impediment to such development..."

⁵ PWD 2006 Road inventory update, and PWD 2005 Statement.

⁶ The three international airports (Bauerfield, Pekoa and White Grass) are maintained by Air Vanuatu Limited (AVL).

⁷ The port facilities in Port Vila and Luganville are the responsibility of the Ports Authority and operated under contract by a private sector company. Otherwise infrastructure consists of small wharves or jetties.

The recent increase in the annual maintenance budget to 500 million Vatu is a positive development for Vanuatu. However, based on 'back of the envelope' calculations, the actual funding required to maintain the existing network could be as much as 2 billion Vatu (A\$20 million). On top of the annual required maintenance funding, initial rehabilitation of the network needs to be funded to bring it into a maintainable state.

Functional classification of assets and asset management

The national roads are of highly variable standards and capacities, ranging from low traffic volume earth roads with less than 20 vehicles a day to major roads with traffic volumes greater than 100 vehicles a day and servicing significant proportions of the national population.

Strengthening asset management would assist government to improve planning and budgeting for the road network. Annual road condition surveys are currently a part of budget preparation in some, but not all provinces. However, as available funding is currently well below that required to adequately maintain the network, a strategy is needed to best use available funds – to keep the network conditions at optimum level that is affordable. The PWD has developed – with the assistance of the EU – a simple asset management data base, but more work is needed to link this with budget allocation decisions to the desired network standards and to improve the transparency and performance focus of budget implementation. For example, it would be useful to add criteria to the asset classifications – such as community access roads (traffic volumes < 20 vehicles per day); feeder roads (20 < Average vehicles per day < 100); and major roads (average vehicles per day > 100). Such categorisation would help in budget management and would also help to guide differentiated design standards which reflect actual road usage.

Standards and technical references

A key strategy to improve the standards and specifications is to directly link these with the road asset register and functional classification. Not all roads require the same standards – and standards should be better linked to actual road usage, environmental conditions and funding availability.

The definition of works would also benefit from another category which would cover roads that are in non-maintainable condition. Such works can be characterised by the need for interventions to keep the road open or 'transitable', by addressing those spots where the road is failing or about to fail. Such 'spot improvement' interventions should aim to keep the road open (in line with the design standard set for it), with less attention on the design speed and the surface riding quality, as these are not binding constraints on accessibility. This is considered appropriate and affordable under low traffic volumes (less than 20 vehicles per day).

Due to the terrain and high rainfall, road designs, routine and periodic maintenance should also place much more emphasis on drainage, including provision of scour checks, line drains, relief culverts and outlets and soak away pits. Drainage structures should also rely more on in-situ building of concrete pipe culverts rather than the use of corrugated pipes, given the aggressive environment and corrosion.

PWD would also benefit from a simplified list of standard drawings which could be used to meet road classification and road usage requirements.

Value for money outcomes in physical works

It is important to monitor and report on sector performance in a systematic way, in order to strengthen planning and management and to ensure that work is delivered to plan, within budget and to technical specifications. It is also important to monitor and evaluate whether projects have effectively contributed to the policy or developmental objectives and to learn whether other approaches may improve outcomes. Audits of physical works – the costs of works and the outcomes achieved – can be very important in improving the quality and planning and management of works. Such audits may show for example, that the PWD should increase the attention on drainage or make changes in the way work is programmed, machinery is maintained or work is contracted out.

Supplementing monitoring and reporting with quality assurance audits can be important in assessing the relative costs and merits of various modes of program delivery (force account, contracting out, local contracting, international contracting, etc).

1.4 The private sector and transport service provision

The private sector has the potential to play a central role in service provision in the transport sector. Currently, the private sector is used for the delivery of some road works, plant hire and a range of smaller maintenance works, while community groups are engaged for basic maintenance (particularly grass cutting). But the role of the private sector could be greatly increased. Initially, this would help fill the gap between what the PWD can physically do (with its limited equipment and resources) and what the network requires. In the longer term, increased private sector involvement is expected to deliver more cost effective maintenance works and generate local employment.

The development of a small-scale private contracting industry based in the islands is intended to complement the role of PWD, by significantly expanding capacity to maintain and improve the road network. For most provinces, however, the shift to private sector provision will not bring immediate results because existing private sector capacity in this area is very limited. The development of a viable private sector is a slow process which will require years of mentorship and support. It is therefore essential that small scale contractors have an appropriate entry point to the market (i.e. simple low value maintenance contracts which ensure a steady workload and allow them to mature over time), whilst at the same time ensuring that PWD force account operations are continued to support capital intensive periodic maintenance work.

High mobilisation costs mean that involving more established national contractors or international firms for work in the small islands is only cost effective for major works or projects of a complex technical nature. Even where major national contractors are mobilised, local (province based) capacity – both private and public – will still be needed for the sustained delivery of routine maintenance, periodic maintenance and emergency works.

A number of other constraints must also be addressed in order to build a competent and competitive private sector based in the islands. These include consistency in work availability, and the availability of credit, equipment, and appropriate skills training. A preliminary study will be undertaken during the interim stage which will explore the opportunities and challenges in increasing private sector involvement in infrastructure

provision. This study will be used to inform the implementation approach (refer to Annex A for further details).

Existing private sector capacity

There are some 15 medium scale building and civil works contractors that are regularly engaged to undertake road maintenance works. Most of these are based in Efate or Santo. Contractor registration is flexible in that registered contractors in one sector can move into another sector without additional requirements for licensing. No thresholds are defined for participation in tenders, which means that, in principle, any registered contractor can participate in a tender no matter the volume of work – unless the tender expressly specifies a minimum experience level.

In the provinces, there appear to be many small building contractors. Some are registered with the provinces, while others are running their businesses informally. Many of them are single person businesses, with skilled and casual labour contracted as needed to meet work requirements. These businesses have the potential to be transformed into formal petty (labour only) or small scale contractors and compete for government funded work. As well, community groups are regularly contracted to undertake simple road maintenance on their traditional land. Some of these groups may be interested in ‘skilling up’ and increasing the complexity of maintenance work through more formal contracting arrangements.

Access to finance and credit

Access to finance and credit is essential for small business to operate effectively. Reportedly, the banking system does have some level of confidence in the building sector, although conditions for loans and guarantees are likely to be linked to the size of the business and the provision of collateral. It appears that only limited small-scale credit facilities are available for starting or emerging businesses. The Vanuatu National Provident Fund is currently studying setting up a small to medium scale credit scheme.

Access to equipment and tools

Except for medium scale contractors in Efate and Santo, small scale contractors do not have easy access to equipment. Hiring opportunities on the islands exist in some places, but prices are excessive and most equipment is not appropriate for small scale road maintenance works. Although the PWD is allowed to hire out equipment, their equipment is typically of a scale which is beyond the requirements for a small scale contractor.

Community groups currently engaged in road maintenance works are not supplied with hand tools under contract arrangements. However, given relatively high labour rates, labour based work is only cost effective if workers can gain access to good hand tools. Production rates for simple activities like grass cutting, drain cleaning and excavation can be doubled with appropriate tools.

A preliminary study will be undertaken to identify equipment needs and explore possible equipment financing arrangements and requirements in more detail (refer to Annex A for further information).

Training

The main technical training centre is the Vanuatu Institute of Technology (VIT). The VIT runs certificate courses in a range of areas such as automotive engineering, tourism and language training. The VIT also runs tailor made courses for clients and has the capacity to deliver ‘competency based training’ aimed at the job market. The VIT is able to run courses out of Port Vila or to send its teaching staff to other places for programs. The Chamber of Commerce also runs a number of short training courses for businesses.

1.5 Government financial management and administration

The PEFA review of the Vanuatu finance system undertaken in 2006-07 concluded that Vanuatu performs very well in terms of accounting, budget management and funding control. However, it does less well in terms of linking policy with budget and also external audit and scrutiny. These findings also apply to MIPU, where overall expenditure control is strong, but where there are weaknesses in the strategic use of funds in terms of both forward budgeting and effective monitoring.

Many of the strong control and accounting elements of the PFM system in Vanuatu were developed under earlier Australian and other donor support for strengthening the public finance management systems. This has since continued, evolving from the earlier Ministry of Finance and Economic Management Institutional Strengthening Project (MFEM-ISP) and the Public Sector Reform Project to the current Governance for Growth Program (GfG). The GfG is providing ongoing support to the government improve the quality of Vanuatu’s public expenditure management and public financial management systems.

The VTSSP will aim to build on and reinforce the use of existing government systems, which is in line with the program’s longer term aim to support a sector based approach. Within the Ministry of Finance and Economic Management, the GoV has set up a specifically designed Development Fund Account, for the use of donors, so that donor funding is fully integrated in the budget execution process and funds are utilised using GoV systems. The Development Fund Account allows for full accountability and transparency in the use of the specified donor funds, and specific donor arrangements can be negotiated on the use and management of donor contributed funds, on reporting processes, procurement processes, and the processes for ongoing contributions.

Australia already uses the Development Fund Account to fund activities under the GfG and other programs. The GoV has also advised that they do not wish to have project specific Trust Accounts set up at an agency level, due to the risk of undermining budget processes and fragmenting financial accountability arrangements. Agency level accountability depends on line agency level financial management capacity which, according to the PEFA, is weaker than within the central agencies.

Australia uses similar arrangements in other countries including for the Transport Sector Support Program in PNG, which work well as a mechanism for channelling funds and strengthening partner government systems and accountability. The risks of inappropriate fund utilisation are minimised through tranching funding linked to jointly agreed work programs, financial reports (including cash-flow reports) and progress reports, alongside supportive technical assistance and system audits – both financial and technical – to support good robust systems and value-for-money outcomes.

A procurement and systems audit will be undertaken during the interim stage to assess existing MIPU / PWD personnel and systems in financial management. This will be used to further inform the implementation approach (refer to Annex A for more details).

National level financial management

Currently donor support is being provided to the Ministry of Finance and Economic Management (MFEM) to improve financial management and budgeting, and this work is being extended to improving financial management systems in line agencies and provincial headquarters. Assistance to MIPU and PWD to improve financial management must be linked to this work, and operate in a consistent and coordinated manner.

The MFEM is planning to strengthen financial management systems at the provincial level by rolling out of Provincial Finance Service Bureaus in selected provinces. The Finance Services Bureaus may be co-located within the PWD Provincial Offices in some of the provinces. This will involve setting up a small Finance presence in each of the provinces so that Finance officers can help the staff of line ministries manage their funds better. It is proposed that these services will be rolled out over the next few years, and MFEM builds up its own capacity to staff these functions. In 2008-09 the plan is to implement a Financial Service Bureau in the northern province of SANMA, based at Luganville on Espiritu Santo, and one in the southern province of TAFEA, based at Isangel on Tanna.

The functions of the Finance officers will include: the maintenance of key records and registers (e.g. bank accounts, assets registers); support for imprest (petty cash) management, in the form of advice, procedural training, support for record keeping and submission of imprest requests; and basic trouble shooting and reporting support functions, assisting officers in line ministries to understand their budget and how funds are being used.

Provincial PWD financial management

Improving financial management, public administration and budget systems are a crucial part of strengthening the performance of the transport sector as a whole. For example, if community and private sector capacity is to be built, contracting, contract management and financial management systems must work well, and contractors must be paid in a timely manner (ideally within 30 calendar days from the date of invoicing).

Strengthening financial management capacity and processes will also improve the effectiveness of budget implementation and the quality, timeliness and accountability of PWD processes. Functioning and effective information system linkages between PWD and the Department of Finance, and between PWD central and provincial offices, are essential for effective financial management. Systems seem to work well in some, but not all, provincial offices.

The issuing of warrants and the processing of approvals to purchase or enter into contracts and the issuing of cheques is all done centrally in Port Vila (following standard financial management processes). However, provinces also need good access to the finance system to support program management and ensure timely processing of approvals and purchase and delivery of fuel and supplies. Unlike some other countries

in the Pacific, and other line agencies, all payments are made by cheque – even for labour hire under force account arrangements. This can significantly slow down transaction times.

In some provincial offices, finance equipment is well functioning, but staff report that it is not always the case. In one office, much of the equipment is not functioning, including the dial-up link for the finance system. Breakdowns in communications between the national and provincial PWD finance systems add considerable delays to approvals for work, the release of warranted funds and the issuing of payments for work completed. The breakdown in communication systems for finance necessitates a time-consuming process of paper-based communication – sent back and forth by plane. While some provinces advise that payments to contractors are completed within a month, one of the smaller provincial PWD offices advises that payment times average 2 months. This will need to be addressed, particularly as the role of the private sector is to be increased.

Supporting the GoV (MIPU/PWD) to use and strengthen systems and accountability requirements is the most appropriate approach for donor support to the sector. Donor support for small-scale and community contracting will be most efficiently managed through suitably supported GoV systems to ensure that the systems are working well and accountably. The GoV financial management and accountability procedures are sufficient to meet Australian accountability requirements. However, the extent to which GoV systems are followed in a comprehensive and timely manner is currently unclear – as is the level of additional technical support required. A specific systems review of MIPU and PWD finance systems will be undertaken in the preparatory stage to ensure that financial and procurement TA is appropriately tasked, and to identify if there are areas where the current GoV systems need supplementing in order to meet Australian financial management and accountability requirements.

It may be appropriate for the VTSSP to provide basic financial and information management equipment in some circumstances in order to ensure more reliable and efficient financial management processes.

Contracting and Procurement

Contracting and procurement arrangements are set out in the Republic of Vanuatu, Government Contract and Tenders Act, No. 10 of 1998.

- Provincial Works Managers have the delegation to assign work for contract values up to 500,000 Vatu using a Small Works Agreement;
- For work up to the value of 1 million Vatu, contracts can be assigned, but need prior approval by the Director of PWD;
- For works up to the value of 5 million Vatu, three quotes are required and approval by the Director of PWD; and
- Above 5 million Vatu, the procurement process must go through the Central Tenders Board and be approved by the Council of Ministers.

Community contracts can only be entered into through the Small Works Agreement. If contracts are awarded to private contractors, they need to present their registration with the GST office and their business license from the Ministry of Finance. Multi-year contracts may be awarded under the conditions that budget commitments are available.

At the provincial level, small scale businesses need to be registered with the Provincial Administrations and pay a licence fee. The arrangement for registration of businesses nationally is much more complex and has been identified as a problem in the World Bank's *“Doing Business Indicators”*.

The Government Contracts and Tenders Act does not allow for the breaking up of contracts into smaller amounts in order to circumvent tender requirements, however, the approval process could be simplified by developing and agreeing a standard proforma contract with the State Law Office.

There are no standard rules about the payment conditions within contracts. Up-front contract payments can vary, and sometimes suppliers require a 100% upfront payment (due in part to past problems of slow payment of suppliers by government). Standard work contracts do not require any performance bonds (or bank guarantees for advance payments) nor are retentions being deducted from invoices. For Australian funded contracts under VTSSP, modest advance payment should be facilitated of say 20 – 30% of the total contract value to help ensure that cash flow does not become a barrier to entry for small scale contractors.

Taxes and duty exemptions

PWD can request exemption from the Customs Department for taxes and duties for donor funded programs. In this case, a duty exemption certificate will be issued to contractors so that all invoices for work undertaken on aid funded projects to be issued without GST.

This process should be clarified and covered (as appropriate) in the project Subsidiary Arrangement, or through references to the overarching development cooperation arrangement. Arrangements need to be put in place to deal with the management of GST in the agreed procurement / contracting arrangements.

2 Analysis

2.1 Expected Benefits

Improving transport services is essential for service delivery, economic growth and broad based and inclusive development in Vanuatu.

The expected benefits of improving the road transport network are significant. Improvements to road accessibility will make it easier for people in rural communities to access important services, such as education and health care. For example, an improved road network will improve access to schools and health centres (contributing to MDG 2 - universal primary education, and MDGs 4 and 5 - reduce child mortality and improve maternal health).

Better roads will also help to reduce unit transport costs and times, and make it easier to transport goods to and from markets, thereby contributing to economic development (MDG 1). The program's focus on supporting labour based appropriate technologies, together with its efforts to increase the role of private sector and communities in delivering road works, is also expected to provide important local employment and business development opportunities for small scale contractors.

Improved management of the road network by PWD is expected to lead to more efficient allocation of limited budget resources, as well as improved routine maintenance of existing roads based on locally appropriate standards. This is in turn expected to reduce the opportunity costs of poor road maintenance, which can result in much higher costs in the long run. Improvements to road drainage are also expected to reduce the harmful effects of poorly maintained roads on the physical environment, such as excessive run off and erosion.

Taken together, all of these benefits can be expected to contribute to Vanuatu's progress towards meeting the Millennium Development Goals, particularly those goals associated with improving access. Without effective rural transport systems, the MDGs and all rural development and poverty initiatives, agriculture and growth are substantially constrained.

2.2 Challenges

Improving land transport services requires:

- Improved transport planning and management;
- A better maintained and reliable transport infrastructure, which is delivered in accordance with locally appropriate and affordable standards which meet the network's functional requirements;
- Improvements in the efficient and effective use of government's own resources – particularly around rehabilitation and maintenance of assets; and
- A stronger role for a competitive and performance oriented private sector in service provision – to improve the availability and cost effectiveness of services.

Improving the efficient and effective use of scarce resources – particularly on maintenance – will require government to operate differently in a number of ways. Currently the PWD undertakes most maintenance work through force account. But its capacity is limited. Even if the PWD had more funding, it would not be able to maintain the country's transport assets without contracting some of the work to the private sector. But as noted previously, there is currently little private sector capacity to work with the PWD, and mobilising large national or international firms to the many islands in the country is neither feasible nor cost effective. This underscores the need to build up local private sector capacity to undertake small-scale maintenance works.

2.3 Strengthening government capacity

Improving the performance of the land transport sector requires government to improve transport planning and management, strengthen asset maintenance and improve the efficient and effective use of the government's own resources. In part this requires the systems and processes of government – policy, planning, budgeting and managing budget implementation (financial management, contracting, contract management, reporting etc) to be undertaken in an efficient and effective manner. It also requires capacity building training with MIPU and PWD staff to strengthen their skills in these areas.

Vanuatu does not currently have the resources to maintain its transport assets, let alone rehabilitate and upgrade those assets. However, improving the transport sector does not require government to undertake all tasks, and partnership with the private sector and communities will be essential.

Strengthening government's capacity to plan and manage the sector is central to longer term and sustained improvements in sector performance. Donor programs that run in parallel to government can undermine basic government systems and lead to weaker sector outcomes. Donor assistance provided through flexible programmatic mechanisms – moving towards more sector based support – is likely to be the best approach to supporting consistent improvements in the use of all resources, and of the government systems required for sector management.

2.4 Private sector development

For most of the islands, it does not make economic sense to depend on imported large scale contracting capacity to undertake the ongoing and fairly straightforward requirements of routine maintenance, spot improvements, and construction of basic structures.

There is considerable experience internationally and in the region, confirming that a local, performance-oriented private sector with the capacity to maintain transport infrastructure can be developed. But developing such capacity takes time, requiring continuous efforts in training and mentorship of potential private sector operators, and targeted procurement approaches that support credible new entrants.

Potential contractors may develop from community groups, existing small scale entrepreneurs from other business sectors, retired PWD technical staff grouping together, and other groups who see the potential opportunities of becoming a road maintenance contractor. But entrepreneurs make savvy decisions on their future, and a

competitive and performance oriented private sector will only develop if they can see long term job opportunities, if work is packaged and contracted in a way that suits the developing market, and if work is awarded and supervised in a transparent and performance oriented manner.

Strengthening the role of the private sector makes economic, technical and social sense. There are large numbers of unemployed or under-employed people in the rural areas of Vanuatu. A local private sector creates jobs, spreads the benefits of work into the broader community, and helps build local pride in the assets and local responsibility for their upkeep.

2.5 Appropriate technological approaches

It is very costly to mobilise contracting resources to remote island sites to undertake relatively straightforward maintenance work. This means that technological approaches need to be appropriately tailored to meet local requirements – such an approach is essential to ensure that infrastructure investments are effective, affordable and sustainable. An appropriate and tailored solution might range from labour intensive periodic or routine maintenance for minor works such as grading and re-gravelling, to labour intensive machinery supported approaches for more technically demanding work, or machinery intensive approaches for large and complex works.

Three broad groupings of work were readily identified by the design mission:

- Straightforward and small scale work suitable for community groups and small scale contractors;
- Small structures and more complex work requiring some equipment – suitable for small and medium scale island based contractors; and
- More complex tasks suitable for medium scale experienced road work contractors based in Vanuatu.

All of this work could be undertaken in a more labour intensive manner using appropriate technology approaches (LBAT), with the scoping of the work and contracting arrangements appropriately tailored to the circumstances (both in terms of physical works and contracting capacity). The designs and design standards must also be appropriate - overly technical approaches using design standards developed for other countries can undermine efforts to develop a more sustainable and cost effective approach to managing infrastructure.

Appropriate technological approaches should aim to achieve the 'right mix' between labour and machinery, rather than just relying on importing machinery intensive approaches commonly used in high wage countries. Appropriate technology approaches are widely used in other parts of the world – including Sri Lanka, Cambodia and Africa. The International Labour Organization (ILO) has played a particularly important role in supporting and documenting these approaches through various country based projects and regional Advisory Support, Information Services and Training (ASIST) in Asia, Africa and South America.

Vanuatu has some experience with labour intensive community based contracting, and has used labour based–machinery supported approaches in the late 1980s (which

ceased when donor support stopped. While this experience can be built upon, long term engagement is needed. Previous experience indicates that strengthening government's capacity and developing a local private sector will take much longer than five years.

2.6 Lessons Learned

Donors have had mixed success at supporting better maintenance of infrastructure in the Pacific. Short term (3-5 years) capital investment programs have a poor record in supporting the institutional, policy and regulatory changes necessary for effective asset maintenance. More successful programs (e.g. PNG and Samoa) demonstrate that long-term sector based support which emphasises sector performance, improved asset and financial management, and greater private sector involvement in service provision are more likely to be sustainable and achieve the long term changes required.

The European Union had a four year program of technical assistance to the Public Works Department (2003-2007) that has useful lessons for the implementation of the VTSSP. An evaluation of the program found that former training had very little impact, that a lot of the prerequisite systems were not in place to ensure adequate routine and periodic maintenance, and that staff had been trained in different types of surveying.

One aspect of private sector development is encouraging the use of local contractors and local communities in the delivery of infrastructure programs. Experience in Vanuatu and elsewhere shows that these groups can be an efficient and cost-effective means to improve infrastructure whilst also maximising local employment.

Donors have also learnt that setting up parallel delivery systems is not conducive to building sustainability and can undermine local systems. In a program which emphasises long-term planning and maintenance, it is therefore essential to use and strengthen the Vanuatu government's own systems.

Finally, the design and implementation of aid activities in Vanuatu needs to define clear partnership approaches, including roles, objectives, and use of country expenditure systems; appropriate risk allocation and incentives for private sector participation; and building the capacity of men and women in local communities.

2.7 Other Donor Activities in Vanuatu

AusAID along with other major donors such as EU and New Zealand are working together to support the GoV's Priorities and Action Agenda (PAA).

Donor funds to Vanuatu are equivalent to 50 per cent of the GoV national budget, with Australian aid equivalent to around 30 per cent of the GoV national budget. The majority of AusAID's assistance to Vanuatu is currently in the sectors of Governance (55% of aid expenditure in 2006-07, includes economic governance, civil society, law and justice), Education (25%), and Health (11%).

The main transport related programs by other donors are:

- The MCC funded Vanuatu Transport Infrastructure Program;
- NZAID support to the MCC-VTIP;

- NZAID funded study on inter-island shipping;
- Agence Française de Développement (AFD) financed Outer Islands Airport Upgrading Program;
- JICA funded Port Vila Wharf Upgrading Program; and
- EU support for road maintenance (€2 million, completed).

In addition, Queensland State government's Department of Works is providing some targeted training for PWD staff, and assistance to help the GoV national laboratory develop standards and achieve accreditation for infrastructure testing.

Given the number of large donor funded infrastructure programs currently being undertaken, donors need to be aware of the constraints on MIPU and PWD to implement or manage these programs. Donors need to work more closely together to co-ordinate and harmonise approaches. This underscores the importance of moving towards a sector based approach in the transport sector.

VTSSP will work closely with other AusAID programs in Vanuatu, including those focused on: Economic Reform and Governance; Law and Justice; Education and Training; and Health. Particular programs of importance to VTSSP design and delivery include:

- **Governance for Growth Program (\$50 million, 2006-15)** - this program's focus on better quality expenditure and public investment, and enhanced PFM is directly relevant to building to institutional capacity of PWD in this VTSSP component area;
- **Land Program (\$13.9 million, 2009-14)** - VTSSP will work to complement activities undertaken through the Land Program including consultation on land tenure issues and appropriate consultation with land owners in relation to sub-project road maintenance.
- **Technical and Vocational Education and Training (TVET) Strengthening Program (\$13 million, 2005-11)** - given the VTSSP focus on improving training for SSCs and local capacity building to improve ability to provide local roads-maintenance, VTSSP should coordinate with training delivered via TVET trainers and the Vanuatu National Training Council.
- **Education and Health initiatives:** The VTSSP program is intended to expand access for men, women, children and persons with disability to essential education and education services.

Several AusAID sector policies are also of relevance to the VTSSP including: Gender equality in Australia's aid program – why and how (2007); Tackling Corruption for Growth and Development (2007); and Meeting the challenge: Australia's international HIV/AIDS strategy (2004). These are addressed in further detail in Section 4.2 and Annex D.

3 Proposed approach

3.1 Rationale for AusAID involvement

The Government of Australia supports the Government of Vanuatu's Priorities and Action Agenda which identifies improving transport infrastructure services as key to strengthening broad based economic growth and inclusive development. As well, Australia has major infrastructure initiatives including the Infrastructure for Growth Initiative and the Pacific Region Infrastructure Facility, to increase support for economic infrastructure services in partner developing countries.

Australia has considerable experience to assist the Government of Vanuatu in the transport sector. In this region, AusAID is supporting the transport sector in PNG, Solomon Islands (in partnership with the ADB and NZAID), East Timor (with the ADB), and has major transport programs in other regions, particularly Indonesia. In addition, a transport sector support program would complement and support the work of the Government of Vanuatu in utilities reform supported by the Governance for Growth Program.

The sub-projects on the islands of Tanna, Malekula and Ambae were selected from the list of dropped MCC projects following consultation with the Vanuatu Government on priorities. Consideration was also given to the appropriateness of the roads for the mechanisms to be used through phase 1 (Labour Based Appropriate Technology mechanisms).

3.2 Strategy selection

Following an initial request from the Government of Vanuatu to help in addressing the short fall in financing the work proposed under the MCC funded Vanuatu Transport Infrastructure Program, AusAID developed a short options note for consideration by the Government of Vanuatu. The approach proposed and ultimately adopted in the program design is for a long term partnership between Australia and Vanuatu (the Vanuatu Transport Sector Support Program), commencing with a short first phase leading to more sector based (and possibly multi-donor) support in the longer term.

The option of providing funding direct to the MCC for the Vanuatu Transport Infrastructure Program (VTIP) was considered by AusAID in the earlier mission, but was not considered an appropriate approach given the use of a single international contract for the works, the design approach and identified problems with sustainability.

A further option of delivering the identified physical works through a stand-alone project was also considered, but was not considered appropriate for similar reasons as those identified above for the VTIP, including the likely limited sustainability of outcomes, and the potential undermining of the Government of Vanuatu's systems through parallel program delivery.

The proposed VTSSP will complement the MCC funded VTIP, and in the longer term, help improve the sustainability of the investments made under VTIP by improving the Government of Vanuatu's capacity to maintain its transport infrastructure. There are longer-term opportunities to work with other donors as VTSSP moves towards a sector

based approach in Phase 2. New Zealand, in particular, has expressed interest in contributing to VTSSP in Phase 2.

In summary, Australian support for the proposed VTSSP is consistent with Australian development assistance policy and the Government of Vanuatu's Priorities and Action Agenda. The proposed sector based approach is also consistent with the principles of the Paris Declaration on Aid Effectiveness, which emphasises greater use of government systems, ownership and harmonisation.

3.3 Program Description

The proposed approach is to develop a long term program of sector based support for transport in Vanuatu, which emphasises the importance of asset preservation to ensure a balanced and sustainable development of the transport network in Vanuatu. The proposed VTSSP will therefore provide direct resources for the maintenance of physical infrastructure (including for road maintenance under Phase 1).

Special attention will be paid to suitable engineering solutions with respect to Vanuatu's physical, environmental and economic conditions. For example, in the land transport sector, design and maintenance of road improvement works will be appropriate to local conditions to help ensure cost-effective service provision, reliable access (transitability), and to facilitate the expansion of services to a wider range of communities.

All physical works during Phase 1 will be scoped and delivered using local contracting with communities, small-scale contractors and medium-scale Vanuatu based contractors. The increased costs for managing and supervising a large number of small contracts is expected to be offset by the lower costs for actual works.

The proposed approach will also support the development of a competitive, performance oriented and diverse Vanuatu based private sector that is able to undertake the required maintenance and rehabilitation works (or at least the less complex works) in the future.

The phased approach allows the program to get some 'quick wins' through supporting the delivery of identified physical works and using local contracting capacity (which PWD has some experience in), while retaining the flexibility to design subsequent phases to best meet local requirements and respond to sector progress.

There is strong support from GoV for the proposed approach, including that the partnership be long term and sector-based, in order to support GoV led reforms to sustainably improve services in the sector. Positive feedback has also been received during consultations with other principal partners. These consultations have included: Prime Minister's Office (PMO); Ministry of Infrastructure and Public Utilities (MIPU) Public Works Department (PWD); Public Works' Provincial Offices; Ministry of Finance and Economic Management (MFEM), GfG office; Millennium Challenge Account (MCA); MCC and NZAID.

Currently in Vanuatu, there is significant marginalisation of women from discussions and decisions on areas of social and economic development, governance and human rights at community and national levels. Under the 1997 Comprehensive Reform Programme the Government introduced a Gender Equity policy comprising nine benchmarks to improve the situation of women.

Recognising that gender equality is integral to economic growth and development, but also that western concepts of formal gender equality often meets resistance in Vanuatu, VTSSP will aim to contribute to gender equality through increasing opportunities for women and youth to participate in the economy and increase access to services. The VTSSP will also link with research being undertaken by the Governance for Growth program that looks at promoting a better understand of women's role in the economy.

3.4 Community consultation and participation

The sub-projects selected for VTSSP Phase 1 were chosen from the MCC program. Therefore extensive consultations had already occurred on selecting the 12 sub-projects. This included environmental and social impact analysis, gender analysis of the proposed programs, and extensive community consultation on priority projects for implementation. The analysis in this design document, therefore, builds on this pre-existing work.

Community consultations will be a key plank of the implementation approach. Strong community ownership will be essential to ensuring longer term sustainability of investments in the road network, particularly as communities are expected to play a substantial future major role in routine road maintenance. The program will work closely with local communities and keep them informed about the planned works, in order to build community ownership and participation in maintenance activities.

3.5 Critical Elements of the VTSSP Partnership

The VTSSP is a partnership between Australia and Vanuatu. A partnership approach brings with it mutual responsibility and obligation, and requires a clear understanding of what both parties will bring to the table.

Australia is committed to a long-term partnership focused on strengthening Vanuatu's transport network. Australia will commit substantial resources to VTSSP. These resources will be available for both investment and also to help strengthen the supporting systems and build the required capacity to rehabilitate and maintain the network.

Australia will be guided by Vanuatu's priorities and will be implemented through PWD and utilise Vanuatu's systems. VTSSP is based on the premise that Vanuatu's financial management systems and practices are generally sound, which will enable Australia to directly use and help further strengthen these systems. A continued commitment by the Vanuatu government to maintain robust financial management systems and practices is therefore essential to the success of the VTSSP.

The Vanuatu government's undertaking (made under the MCC Compact) to maintain a high level of funding commitment for maintenance is fundamental because it demonstrates that Vanuatu, through an allocation of its own resources, is committed to improve transport infrastructure maintenance to the best of its ability. For Phase 1, AusAID will continue to commit funds as long as the current budget for maintenance within PWD is kept constant in real terms (to ensure additionally of funds rather than replacement). At present, 500 million Vatu is allocated to maintenance. If the PWD

maintenance budget is reduced, then the AusAID budget will be reduced proportionally, unless there have been exceptional circumstances to account for the reduction. AusAID will also take into account the performance and funding commitment of both MIPU and PWD during Phase 1, before committing to future Phases of the VTSSP.

There has been strong consultation with other donors to ensure a harmonised approach in developing the VTSSP. It is hoped that Australia's decision to support a sector based program of support will further strengthen donor harmonisation and cooperation within the transport sector. Other donor partners, including New Zealand and JICA have expressed potential interest in the future sector based program of support. The MCC, given its five-year compact term to March 2011 and commitment through the VTIP to improving infrastructure in Vanuatu, will also remain an important medium-term partner, particularly in terms of harmonising project activities and ensuring complementary of efforts.

This program will build on the Pacific Region Infrastructure Facility's coordination and harmonisation approach. While the World Bank and the ADB are not currently substantially involved in transport infrastructure in Vanuatu, future opportunities for collaboration may arise and would be welcome.

3.6 Interim Stage

The interim phase of VTSSP will consist of a number of detailed studies in preparation for Phase 1 of the Vanuatu Transport Sector Support Program (VTSSP). These studies will help guide the successful implementation of VTSSP Phase 1, and include: an evaluation of private sector capacity; a detailed design of the road works; a finance and procurement system audit; and, a study on the technical standards. These studies will be used to help inform the direction of the capacity building and strengthening within Public Works Department (PWD) and the Ministry of Infrastructure and Public Utilities (MIPU), as well as the approach to developing the private sector on the three selected islands. Further details on the preliminary studies are in Annex A.

During the interim phase, the tendering and contracting process for VTSSP will also be undertaken.

3.7 Goal and purpose

Goal and purpose

The proposed goal and purpose come from the vision articulated in Vanuatu's own Priorities and Action Agenda 2006 – 2015.

Proposed goal: *Social stability and economic growth to create and educated, healthy and wealthy Vanuatu.*

Proposed purpose: *To generate a reliable and adequately maintained transport system.*

3.8 Key Result Areas

The four result areas for the VTSSP are:

- Result 1: The Government of Vanuatu's management of the road transport sector is improved;
- Result 2: The quality of public financial management in the transport sector is improved;
- Result 3: The role of the competitive private sector and community groups in providing road maintenance is increased; and
- Result 4: Sustained improvements in road transport access are supported using labour based appropriate technologies which generate local employment.

The Results Framework is summarised on the following page. A detailed Results Framework, including expected outcomes and performance indicators, is in Annex E.

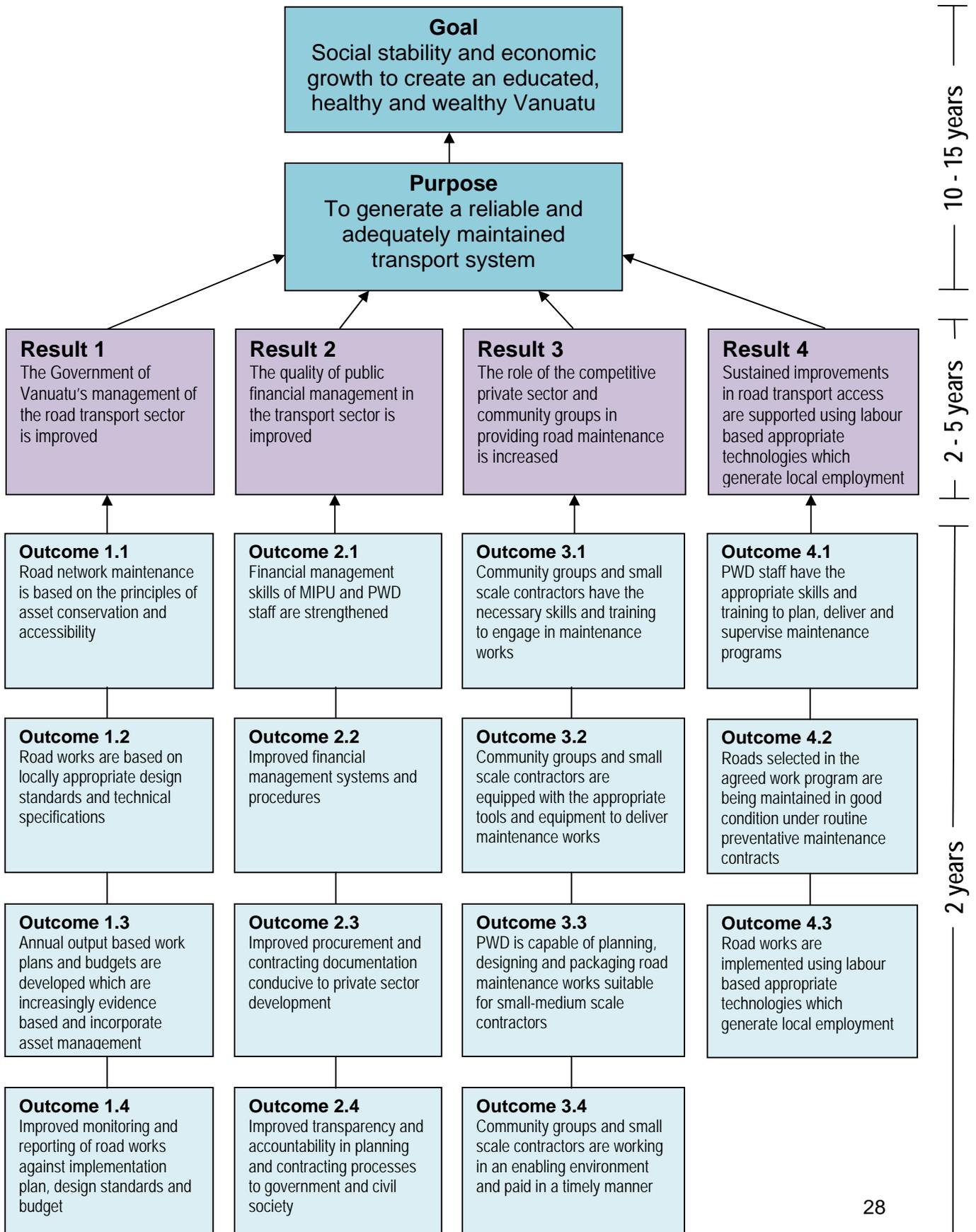
3.9 Expected outcomes for Phase 1

The planned outcomes for Phase 1 of the VTSSP are set out under each result area. Phase 1 is relatively short, and under Result Areas 1 and 2, the VTSSP will aim to strengthen the PWD basic systems of asset management, budgeting, planning, budget implementation, monitoring and accountability as a basis for longer term strengthening of government systems.

The approach is derived from requirements for strengthening asset management and planning and the Public Expenditure and Financial Accountability (PEFA) framework that is already being used in the Ministry of Finance and Economic Management for improving budget systems, financial management and accountability.

Result Areas 3 and 4 focus on strengthening the capacity of private sector and community groups to partner with the PWD to deliver road works, with a focus on preventative maintenance, and the use of labour based appropriate technological and contracting approaches in the implementation of maintenance works.

Vanuatu Transport Sector Support Program Results Framework



3.10 Phase 1 – Description of Result Areas

Phase 1 has four Result Areas. All the long term TA positions, together with PWD, will work to varying extents on all four of the Result Areas. All four Result Areas work in different ways to support improved road maintenance – and thus the balanced and sustainable development of the road network in Vanuatu.

Result Area 1: The Government of Vanuatu’s management of the road transport sector is improved

Result Area 1 will support the PWD to improve the management of the land transport sector, with a particularly focus on strengthening systems around road maintenance and asset management and budget management. This will require enhancements to current PWD processes, particularly around asset management, design standards, improving the linkage between asset management (maintenance) and work planning, and moving to output based work plans and budgets.

Outcome 1.1: Road network maintenance is based on the principles of asset conservation and accessibility

Activities under this outcome will include an update of the functional road classification and road asset register to help strengthen the planning and budgeting of works. VTSSP will support the functional classification of roads by strengthening annual road condition surveys (to include both functional classification and condition). This will serve as an important planning tool, i.e. design standards, affordable levels of accessibility and budget allocations for maintenance will follow road class and road usage (traffic levels). Any reclassification exercise will need to take account of the draft Roads Act, which is currently being considered by the Government of Vanuatu and is expected to be passed in mid-2009.

Outcome 1.2: Road works are based on locally appropriate design standards and technical specifications

The development of appropriate local technical standards for road works is essential for a small country like Vanuatu. On too many occasions, engineering firms have introduced ‘foreign’ standards into the design process leaving the country with over-designed infrastructure and maintenance requirements that the country can ill afford. VTSSP will support MIPU in the development of design guidelines which better reflect the practical realities prevailing in Vanuatu. Given high annual rainfalls, drainage and erosion protection must be a major aspect of all future road improvement projects. The program will also support MIPU with the preparation of an updated inventory of road building materials (including locally available materials), whilst at the same time promoting empirical research using alternative road building materials in trial projects.

Outcome 1.3: Annual output based work plans and budgets are developed which are increasingly evidence based and incorporate asset management requirements

Given that maintenance resources are limited, the PWD needs a process of developing annual work programs and allocating scarce resources to get the best value returns to

maintaining the road network. During Phase 1, VTSSP will support improvements to the PWD work planning and budgeting processes and advocate the use of policy and output based budgeting. Budgets should not only be linked to the physical outputs (i.e. kilometres of roads maintained / kept to a specified standard) but be attributable to specific performance indicators that are linked to the transport sector policies).

Maintenance plans and budgets should also be increasingly evidence based, drawing on up to date information (such as annual condition surveys and performance audits). The maintenance plan and budget should be developed on the basis of a clearly defined road network, agreed standards and an updated inventory (based on annual condition surveys). Maintenance is to be prioritised ahead of new investment activities in order to preserve road assets and reduce the total costs of keeping the network at an agreed standard. The principle of asset preservation strives to reduce total project life-cycle costs by prioritising maintenance above new investment activities, thereby preventing the high costs to the country from inadequately maintained and impassable roads. The use of multi-year maintenance planning, programming and budgets, and the use of multi-annual maintenance contracts will also be promoted within a longer time horizon.

Outcome 1.4: Improved monitoring and reporting of road works against implementation plan, design standards and budget

Systematic monitoring and reporting of work program implementation will help PWD improve its management of the overall program and its ability to report on budget outcomes to the Ministry of Finance and Economic Management. Internal auditing and quality control systems are important to signal problems in implementation and allow for the monitoring of 'value for money' outcomes of work to inform senior management on the best approaches for using scarce government (and donor) resources to achieve outcomes.

Result Area 2: The quality of public financial management (PFM) in the transport sector is improved

Strengthening public financial management is an essential part of improving the management of any sector by government agencies. This Result Area will focus on strengthening financial management, procurement, forms of contracting, and the accountability of the PWD to government and civil society in its use of resources. This will be essential if the PWD is to support the effective use of its budget resources, and effectively contract communities and the private sector to deliver works.

Outcome 2.1: Financial management skills of MIPU / PWD staff are strengthened

The program will provide relevant training and mentoring to help strengthen the financial management skills of MIPU / PWD staff. This will include training in areas such as: output based budgeting and work planning, financial controls, contracting and procurement. Some training may potentially be sourced through VIT and Rural Training Centres). Where necessary, the PWD Provincial Offices will also be supported with standard office equipment (computers, printers and copiers) and surveying tools (eg. GPS, digital camera, etc), to strengthen communication channels between field, PWD Provincial Divisions and the Head office.

Outcome 2.2: Improved financial management systems and procedures

Result Area 2 will also support the strengthening of PWD's financial management and reporting systems so that they are accurate, robust, and support timely and accurate payment of invoices in line with contracts, and clear and agreed processes for the transparent and effective use of funds provided by AusAID through the Vanuatu Development Fund Account for VTSSP. Financial management must comply with the Financial Regulations of the Republic of Vanuatu and as required by the Commonwealth of Australia. Strengthening the transparency and accountability of the PWD in its use of budgeted and VTSSP funds to government and civil society will be supported.

In support of this approach, the VTSSP Senior Finance and Procurement TA will consult with and coordinate with the Governance for Growth (GfG) program to ensure that the financial management improvement approaches are consistent with and supportive of Vanuatu's financial improvement program through the MFEM, which is being supported by the GfG.

Outcome 2.3: Improved procurement and contracting documentation conducive to private sector development

The VTSSP will support PWD to develop procurement and contract documentation for LBAT community and small scale contracting, which is appropriate for the circumstances and encourages value for money outcomes in contracting. This work will be closely linked to the support and training for communities and small scale contractors provided under Result Area 3, and the effective delivery and management of the work program under Result Area 4.

Outcome 2.4: Improved transparency and accountability in planning and contracting processes to government and civil society

Improved liaison between PWD and provincial stakeholders will be critical to the successful implementation of the road maintenance program. Community input and support will also be vital to the success of any locally implemented program, including road improvements. VTSSP will promote improved liaison with provincial stakeholders and local communities during prioritisation, planning and design of the works - either directly through community consultations or indirectly through their representatives (i.e. elected provincial councillors, chiefs).

This Result Area will also work with PWD to increase the level of accountability and transparency in its procurement processes by encouraging the regular and timely publication of tenders, procurement processes and contract awards, as well as timely reporting of progress and expenditure to government and donors.

Result Area 3: The role of the competitive private sector and community groups in providing road maintenance services is increased

Note: During phase 1 this will only be in Malekula, Tanna and Ambae

Building the capacity of the private sector to engage in road maintenance is seen as an essential to complement the work of PWD. However, development of a local contracting

industry will require long term support eg. through providing long term job perspectives, training and by creating an enabling business environment (eg. timely payment of invoices, access to credit and appropriate equipment). VTSSP will promote the involvement of the private sector (small scale contractors and community groups) in routine road maintenance works in a number of ways. Activities planned under this Result Area aim to improve the enabling environment and provide community groups and small contractors with the necessary, skills, equipment and support to deliver maintenance works. VTSSP will provide opportunities for both men and women in the communities to engage in training and employment, where culturally appropriate. The TA in each province will need to work with women and youth groups when looking at developing opportunities in each community.

The development of local small scale contractors in Malekula, Tanna and Ambae is expected to contribute to local employment creation, create long term capacity for sustained road maintenance and reduce reliance on the mobilisation of external larger scale contractors to undertake works.

Outcome 3.1: Community groups and small scale contractors have the necessary skills, training and support to engage in maintenance works

Under this Result Area, community groups and small scale contractors in Malekula, Ambae and Tanna will be trained and supported to carry out road maintenance works. The VTSSP TA will work with the PWD to develop and deliver appropriate on-site and off-site training, mentoring and support programs, linked to the award and delivery of agreed work programs. The VTSSP will provide support and training and technical support to community groups and small scale contractors, both prior to contracting and during contracting, with the longer term objective of supporting the development of a competitive local contracting industry.

It is anticipated that more than 15 community groups (5 in each province) will be trained for routine maintenance contracts and be ready and able to undertake road maintenance contract works with the PWD. Following training of potential small scale contractors, it is anticipated that at least 9 local contractors (3 in each province) will pass the training program and register their businesses.

Selection and training of contractors will be carried out through a staged approach, which will involve a larger number of potential contractors commencing training and possibly undertaking some work. The VTSSP TA will develop (in conjunction with the other Result Areas) a strategy for engaging with potential small scale contractors, offering training, mentoring and supporting promising groups to progress in developing capacity and undertaking some work, A drop-out rate should be anticipated in the training, which should be compensated by inviting sufficient number of contractors during the initial stages of training.

Outcome 3.2: Community groups and small scale contractors are equipped with the appropriate tools and equipment to deliver maintenance works.

Contracting arrangements need to support community groups and small scale contractors with appropriate tools and equipment for the intended works. Whereas communities can rely on hand tools for minor maintenance works, more sophisticated works for spot improvement and periodic maintenance depend on the availability of appropriate road building machinery / equipment. VTSSP will develop (linked to

contracting arrangements etc) a strategy based on the range of options (eg. modest advance payments and equipment hire arrangements) to make equipment available to contractors, as well as sustainable arrangements for the provision of maintenance services and spare parts. Funding is provided under the VTSSP for this equipment to be made available through appropriate hire arrangements.

A more detailed assessment of options and possible approaches will be carried out during the interim phase and the VTSSP will identify an appropriate approach for supporting access to equipment.

Outcome 3.3: PWD is capable of planning, designing and packaging road maintenance works suitable for small-medium scale contractors:

All works foreseen under VTSSP will be implemented by Vanuatu national contractors (small and medium scale) and community groups. The contracting methodology will consist of 3 different target groups, depending on the scope and complexity of works, namely: community based contracting for minor maintenance, local based contracting, and Vanuatu-wide (national) contracting for more complex works requiring larger experienced road firms. The contracting documentation and contracting approaches developed under Result Areas 2 and 3 need to be fair, effective and transparent in order to support quality and cost effective works and the longer term development of a competitive and performance oriented industry.

Small scale contractor development within VTSSP should promote the principle of diversification allowing contractors to have sufficient mobility to take on all types of civil works (building, roads, water supply, etc), given that they are unlikely to survive financially, if they only focus on road works only.

Outcome 3.4: Community groups (CGs) and small scale contractors (SSCs) are working in an enabling contract environment and paid in timely manner.

The program will also work closely with PWD to improve responsiveness and timeliness of invoice payments, and to ensure that other contracting arrangements are conducive to private sector engagement.

Result Area 4: Sustained improvements in road transport access are supported using labour based appropriate technologies which generate local employment

During Phase 1 of the VTSSP, maintenance works will be financed on the islands of Malekula (Malampa), Tanna (Tafea) and Ambae (Penama). Exact costing for each of the roads will be developed after the detailed design study and scoping of the works, which will be carried out by MIPU / PWD and reviewed by an external consultant.

Planning, prioritisation and budgeting at provincial level will follow the general principles outlined under Result Area 1. Provincial Work Divisions in Malekula, Tanna and Ambae will be supported in preparing output based budget and work plans, and monthly or quarterly physical and financial progress reports. Capacity of provincial staff will also be

strengthened to effectively manage maintenance works through long term technical assistance.

Outcome 4.1: PWD staff have the appropriate skills and training to plan, deliver and supervise maintenance programs

PWD staff will receive appropriate training and mentoring opportunities in the VTSSP program. Technical advisers will be located within PWD in each of the three provinces and work closely with and mentor counterparts to implement the program of works, and strengthen associated systems and procedures. The TA team will have explicit responsibility for ensuring that PWD's skills are upgraded through on-the-job training, supplemented by formal training courses. Areas of training may include, but are not limited to:

- Inventory and condition surveys;
- Maintenance planning and programming;
- Procurement;
- Design and surveying;
- Quality control procedures and simple testing;
- Contract management and administration procedures; and
- Supervision of works.

Provincial roads staff will also be supported with adequate resources necessary to carry out their roads management responsibilities. This includes sufficient transportation to regularly inspect roads and visits works sites on the islands.

Outcome 4.2: Roads selected in the agreed work program are being maintained in good condition under routine preventative maintenance contracts

All works will be implemented by Vanuatu contractors. As noted above, the contracting methodology will consist of 3 different target groups depending on the scope and complexity of works; community based contracting, local (island) based contracting and Vanuatu wide contracting.

- Community based contracting will be applicable for routine maintenance works and will be awarded to community groups living along the road. The contracts will be small in value (< Vatu 500,000), and work within the customary boundaries will be directly awarded to the respective community.
- Locally based contracting approaches will be adopted for routine maintenance and Spot Improvement works and will be open to civil works, building or road contractors from the relevant province (through expression of interest). Other interested business people or individuals may also participate, i.e. retired or ex-foreman from PWD. More information about the selection procedure of contractors is presented in Annex B (under Outcome 3.1).
- Finally, the more complex works for Spot Improvements and Periodic Maintenance will be tendered nationally through Vanuatu wide tender processes to attract a wider range of capable and established road contractors. Table 1

below sets out the indicative procurement arrangements, in line with the Government of Vanuatu procurement requirements. More details on the types of maintenance works, the road selection criteria and agreed works, adopted design standards and the proposed contracting and procurement approach is set out in Annex B (under Outcome 4.2).

Outcome 4.3: Road works are implemented using labour based appropriate technologies which generate local employment

The program’s focus on promoting the use of Labour Based Appropriate Technology (LBAT) approaches is expected to generate considerable local employment opportunities (within the proposed works, the potential for employment creation is estimated at **158,100 work days**). Assuming most of the unskilled labour in maintenance works is recruited from the neighbouring communities, local income generation is estimated at around 30% of total VTSSP investment in road maintenance works. It is also expected that the skills and experience acquired by small-scale contractors and communities engaged in completing works under Phase 1 will help them to better compete for future public works contracts.

The maintenance works supported by VTSSP, totalling an estimated A\$9 million are divided in 3 categories, namely: Routine Maintenance (RM), Spot Improvement (SI) and Periodic Maintenance (PM).

More details on the works will be available in the studies carried out in the interim stage.

Table 1: Procurement Arrangements

Contracting methodology	Type of works	Procurement method	Target group	Contract Value (Vatu)	Contract size (km)	Approval
Community Based Contracting (CBC)	Routine Maintenance	Direct Award	Community groups living along the road within the customary boundaries	< 500,000	< 5 km	PWD Division Manager
Limited Locally Based Contracting	Routine Maintenance Spot Improvements	Provincial Procurement 3 quotations	Civil works, building or road contractors from the province	< 5,000,000	< 20 km < 5 km	Director of MIPU / PWD
Locally based contracting	Spot Improvements	Provincial Procurement Open tender	Civil works, building or road contractors from the province or nearby islands	> 5,000,000	< 10 km	Central Tenders Board (CTB) Council of Ministers (CofM)
Vanuatu wide tendering and contracting	Spot Improvements Periodic Maintenance	National Procurement Open tender	Road contractors from Vanuatu	> 5,000,000	No limit	CTB CofM

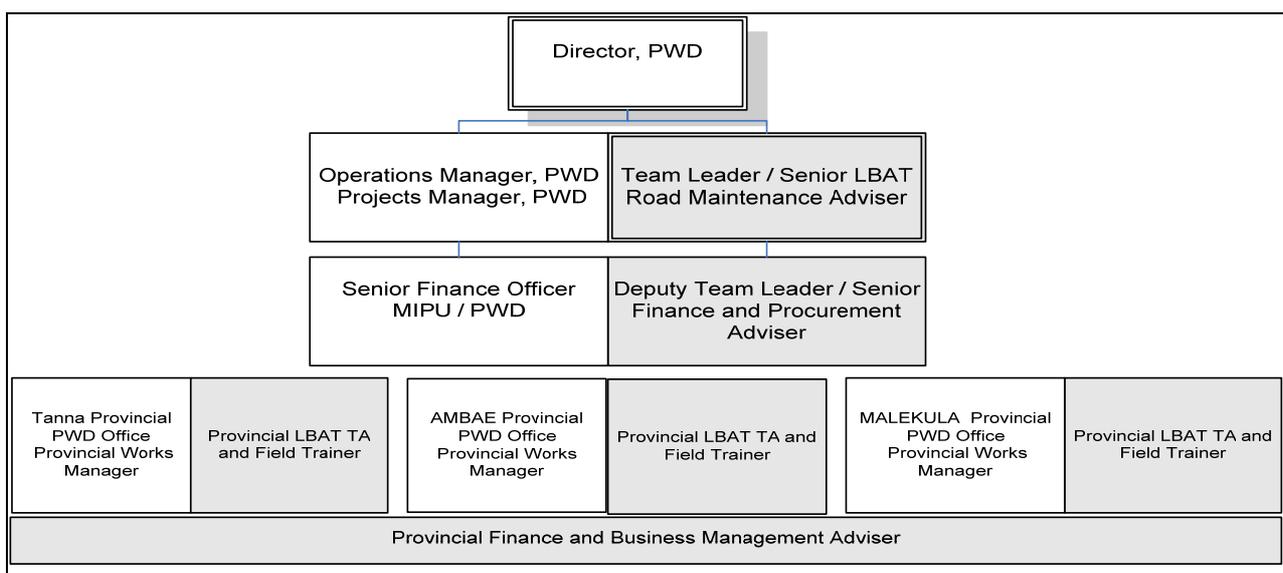
3.11 VTSSP Phase 1 inputs

3.11.1 Technical assistance

The technical assistance will include six long term TA – three based in PWD headquarters (with the Provincial Finance and Business Management Adviser making frequent trips to the provinces), plus one adviser based in each of the three provincial PWD divisions in Tanna, Ambae and Malekula. The modality of technical assistance was selected after discussion with MIPU/PWD about the most efficient means to

implement the program. While Phase 1 contains a heavy use of international technical advisors, this was deemed necessary given the human resource and capacity constraints within PWD.

If local based advisors are available, the managing contractors will be strongly encouraged to consider them as part of the TA team. The Provisional LBAT TA and Field Trainer position in each province will be twinned with a local contractor to build the capacity and the sustainability of the program. It is envisaged that this twinning would have the potential to increase the pool of local advisors and reduce the need for international TA in Phase 2.



PWD Positions (counterparts)	Long term TA Positions
Director, PWD	Team Leader and Senior LBAT Roads Maintenance Adviser ⁸
Operations Manager, PWD	
Projects Manager, PWD	Deputy Team Leader and Senior Finance and Procurement Adviser ⁹
Senior Finance Officer, PWD	
Provisional Managers, PWD (Tanna, Malekula and Ambae)	Provincial LBAT Field Trainers x 3 (one in each PWD Provincial Division)
Provisional Finance Officers, PWD (Tanna, Malekula and Ambae)	Provincial Finance and Business Management Adviser (1 to be shared between 3 Divisions)

The long term TA identified above, will be supplemented by short term TA inputs as proposed to the GfG management committee by the VTSSP Program Management Team for consideration.

3.11.2 Financing for agreed physical works

In keeping with the principles of mutual accountability, partnership and sustainability, Australian financing for the program will also be linked to the ongoing commitment of the Government of Vanuatu to maintain the level of resources allocated for maintenance in

⁸ based in PWD Central Office, Port Vila

⁹ ibid

the annual budget in real terms (to ensure additionally of funds rather than replacement). At present, 500 million Vatu is allocated to maintenance. If the PWD maintenance budget is reduced, then the AusAID budget will be reduced proportionally, unless there have been exceptional circumstances to account for the reduction. AusAID will also take into account the performance and funding commitment of both MIPU and PWD during Phase 1, before committing to future phases of the VTSSP.

Agreed physical works will be financed through the Development Fund Account. The proposed work program for funding under VTSSP Phase 1 will be developed by the PWD as part of their usual annual work programming processes for approval by the GfG Management Committee.

The work program should also set out procurement arrangements for the GfG Management Committee's consideration. Work will be undertaken following PWD's standard program management and supervision processes supported by the VTSSP TA.

Under Result Area 2, the VTSSP TA will work with the PWD to set out the business processes for the use of finances provided under the VTSSP by Australia through the Development Fund Account, including approvals, financial processing, financial reports (including cash flow reports) and requests for quarterly 'top ups' for agreed works. VTSSP business processes should be identical to GoV business processes, supplemented (only if necessary) by additional reporting / audit requirements to meet Australian financial management accountability requirements.

3.11.3 Goods (equipment, tools)

Provisions are made in the budget for the supply of appropriate equipment to the contractors, hand tools to the communities, as well as office equipment and surveying tools to the PWD Provincial Divisions.

The PWD Provincial Offices will be supported with standard office equipment (computers, printers and copiers) and surveying tools (GPS, digital camera, etc), where appropriate. The budget also allows for provisions to strengthen the communication channels between field, PWD Provincial Divisions and the Head office.

Community groups that will be contracted for small scale maintenance works need appropriate hand tools such as shovels, wheelbarrows, grass cutters, etc. VTSSP will assist the communities by supplying good quality hand tools on a commercial basis (i.e. monthly invoices submitted for work will be discounted to repay for the hand tools.). Tools will be supplied to the existing community structures for distribution to the workers. Such tools are readily available in common hardware stores on Santo and Efate, but more difficult to obtain on the outer islands.

For larger scale maintenance works, contractors need to have access to appropriate equipment, typically constituting of pedestrian rollers / plate compactors for compacting; fuel generated concrete mixers, water pumps and compressors / jack hammers for structural works under wet conditions; and tractor based versatile equipment for haulage and light grading under remote and difficult conditions.

VTSSP will look into various options to make equipment available to contractors. A more in depth assessment will be carried out during the interim phase to investigate: the existing capacity of the local construction industry; the availability of appropriate equipment on the domestic and regional market; and the options for financing equipment.

It is important that such arrangements are set up in a sustainable manner with appropriate risk sharing between client and contractor. It is anticipated at this stage that more sophisticated equipment will be made available to the contractors on a hiring basis through the PWD Provincial Divisions, and that more standard and commonly used equipment will be purchased by the contractors themselves through modest advance payments on the contracts.

Final arrangements for making equipment available to the contractors will be proposed by PWD and the Manager Contractor to the GfG management committee during the program inception phase, based on the recommendations from the equipment financing study carried out in the preparatory phase. Further details of the provisions for goods and equipment will be identified during the preliminary studies.

3.11.4 Training

VTSSP Phase 1 will provide training both to Public Works Department Officers and private contractors and communities in road maintenance works, tendering, procurement, contract management etc. Community groups and contractors will also receive training on HIV and Sexually Transmissible Infections prevention. Training plans will be drawn up by the TA officers in conjunction with PWD counterpart and will be adapted to meet the needs of the different communities. Training could potentially be sourced through VIT or Rural Training Centres.

4 Implementation Arrangements

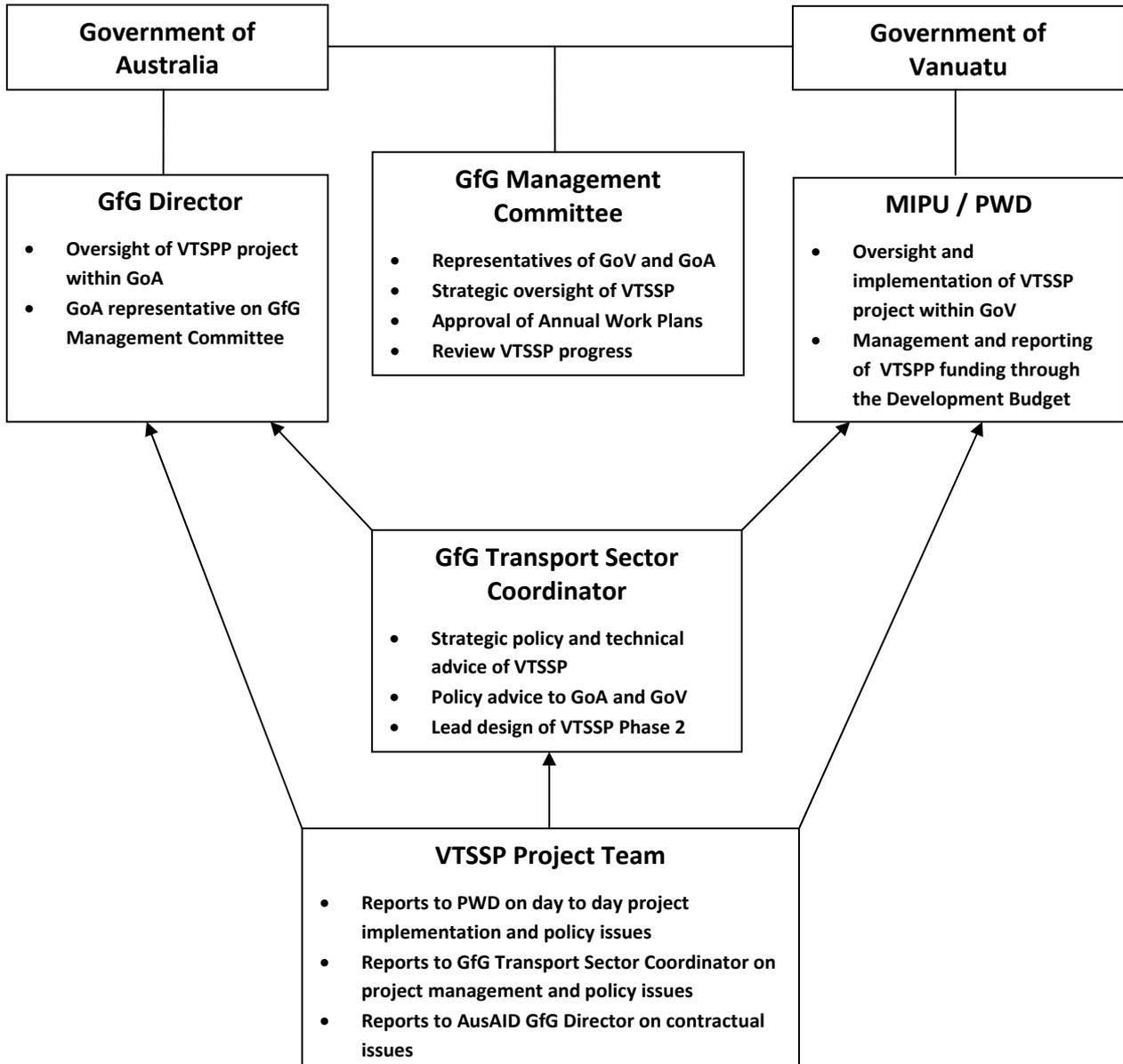
4.1 Management and Governance

Proposed Management Arrangements

The program represents a partnership between Vanuatu and Australia and the management arrangements reflect this. The management arrangements will support and be integrated within the Government of Vanuatu's own management arrangements in transport. The management arrangements will also facilitate substantial policy dialogue between the government of Vanuatu and Australia on the requirements and performance of the transport sector.

AusAID needs to provide substantive and high level engagement in the overall management and strategic direction of the program so that Australian support to the sector is flexible and responsive to the evolving requirements of Vanuatu's transport sector. The Program Director of GfG will be responsible for ensuring that the VTSSP is consistent with the directions of the GfG and Australia's Vanuatu Program as a whole. The VTSSP will have access to regular technical support from AusAID's advisory group. Reporting and management relationships are depicted in the diagram on the following page.

Reporting relationships



GfG Management Committee

It is proposed that the GfG Management Committee will be the formal GoV-GoA supervisory and coordination arrangement for the program, as well as serving as a platform for wider discussions in the transport sector. In addition to its high level strategic role, the GfG Management Committee will provide overall strategic direction to VTSSP, consider implementation issues, review progress and effectiveness of assistance (including technical assistance), consider the proposed future rolling work programs (physical works and procurement approach) and financing requirements. The GfG Management Committee will also provide direction to the future direction of the VTSSP – including input to the design of further Phases.

The GfG Management Committee already includes representatives of key agencies, including the Ministry of the Prime Minister, Ministry of Finance and Economic Management, the Ministry of Foreign Affairs and AusAID, and will be expanded to include MIPU for discussion on VTSSP. This would build on the complementary nature of the program to other GfG programs, particularly the work in Public Financial Management.

AusAID

The AusAID representative on the management committee is the Director of the Governance for Growth Office (the AusAID Counsellor also attends as an observer). The Director of Governance for Growth will be responsible for overall oversight of the VTSSP within AusAID.

AusAID will be responsible for: communications and managing contracts with the Managing Contractor; internal AusAID coordination and reporting; monitoring and reporting on the VTSSP progress, monitoring the performance of the managing contractor and team leader, and managing AusAID's responsibilities with regard to the recommendations (including funding/ resource allocations) from the GfG Management Committee.

AusAID will also contract a Transport Sector Coordinator, who will provide strategic policy advice to the Government of Vanuatu and the Government of Australia. The Transport Sector Coordinator will also provide technical advice for VTSSP, including development of VTSSP Phase 2.

Management of implementation

Phase 1 of the VTSSP will be implemented by the Vanuatu Public Works Department. The Team Leader and the Director of PWD will be responsible for agreeing on the work plan.

The PWD's current quarterly meetings will be central to VTSSP management and reporting arrangements. These quarterly meetings between the Central Office and the Divisions report on PWD budgets, work programs and progress.

The technical assistance provided under Phase 1 of the VTSSP should slot into the management arrangements of the PWD at the national and provincial levels to manage the VTSSP Phase 1 as follows:

- National PWD: Director PWD and the PWD Senior Management team and the VTSSP TA team leader and deputy team leader
- Provincial Level: Provisional PWD senior management team and VTSSP TA led by the PWD Provisional Manager

The day to day management of the VTSSP will thus be undertaken by PWD with support from VTSSP TA team.

The VTSSP TA Team leader will report to the Director of PWD and the Transport Sector Coordinator. The reporting arrangements will be agreed upon by all three parties at the beginning of implementation.

The VTSSP Team leader has the overall responsibility for the quality and effectiveness of the TA inputs, the preparation of work programs for the TA inputs and the management of the TA team and day-to-day communications with the Managing Contractor. The TA team leader will also work with PWD to ensure that Australian inputs to the VTSSP are utilised appropriately and in line with the strategic direction and work program agreed by the GfG Management Committee.

The finance advisers will also coordinate and consult with the GfG Public Financial Management Coordinator on financial management and other related matters to ensure coherency across the program.

Transport Sector Coordinator

The Transport Sector Coordinator position is a joint resource for Australia and Vanuatu. As such, the Coordinator will provide strategic technical and policy advice on the VTSSP on behalf of both Governments. The Transport Sector Coordinator will work closely with counterparts in the Prime Minister's Office (PMO), Ministry of Infrastructure and Public Utilities (MIPU), Ministry of Finance and Economic Management (MFEM) and the AusAID GfG Program. Key areas of responsibility include:

- Supervise VTSSP implementation and the VTSSP team on behalf of the GoA and GoV;
- Provide strategic policy and technical advice to the GoV on the development and implementation of transport sector policy;
- Ensure that the VTSSP and other AusAID-funded activities in the transport sector remain aligned with GoV policy priorities as well as coordinate with other donors to ensure donor harmonisation in the transport sector;
- Assist MIPU/PWD to the technical quality of the inputs of other contractors engaged through the VTSSP to ensure the program is implemented successfully;
- Develop and maintain excellent working relationships with key stakeholders especially staff within PMO, MIPU, MFEM, other GoV agencies, AusAID and other donors active in the transport sector;
- Lead the development of Phase 2 of the VTSSP;
- Assist PWD with VTSSP awareness raising; and

- Support MIPU / PWD during the interim stage in preparation for the start of VTSSP.

Long Term Technical Assistance

The Managing Contractor selected will be responsible for supplying six long term technical advisers and will have the capacity to recruit and mobilise short term TA as required by the VTSSP. The Managing Contractor would be accountable for the performance of the TA team as a whole and for the performance of individual members.

It is essential that the long term technical assistance team has experience in small scale contracting and labour based appropriate technology (LBAT) road maintenance. It is noted, however, that it may not be possible to recruit advisers who have both LBAT and regional experience, as the use of LBAT approaches in the Pacific has been limited.

Role of Team Leader

The Team Leader (TL) will have particular responsibility for: the effectiveness of the technical assistance team, and their partnership with PWD to plan, manage and deliver on scoping contracting and delivering on the agreed physical works. The TL will report to the Director, PWD and the GfG Transport Sector Coordinator.

Short Term Technical Assistance

The TL will also work with PWD to plan and scope short term technical assistance positions – through six monthly work programs for AusAID / GfG Management Committee consideration – for contracting where flexible assistance is required. The TL will also ensure provision of these positions is timely and cost-effective.

4.2 Cross Cutting Issues

The VTSSP is required to address cross-cutting issues within the program and ensure that all activities meet the relevant requirements of both the Government of Australia and the Government of Vanuatu. More details on cross-cutting issues, including HIV/AIDS, Occupational Health and Safety, and Anti-Corruption are found at Annex D.

The VTSSP must also meet ‘Child Protection’ Requirements and Fraud control requirements of the Government of Australia, and it will be the responsibility of the Managing Contractor to ensure that appropriate measures are in place. None of the contractors engaged under the project will be working directly with children.

Environment

The design of each VTSSP sub-project needs to take into account any environmental concerns. While no new roads or major works are planned under VTSSP, any drainage work and road maintenance must ensure environmental damage is minimised and/or mitigated. All works should be implemented in accordance with GoV’s environmental standards. During the design of each sub-project, there will be extensive community consultation to minimise environmental impact. This consultation will also ensure that potential drainage run-offs and other works would not cause any land disputes or damage to kastom land. The design will also need to take into consideration the impact

of the road on climate change as well as the potential impacts of climate change on the road (e.g. storm surge etc).

Gender

The VTSSP will support AusAID's gender equality policy outcomes.¹⁰ The objective of the program is to strengthen the reliability and effectiveness of transport services in Vanuatu, with particular attention to affordable and reliable connectivity. This is expected to have benefits for both men and women in improving access to services and markets.

In rural communities where women play an important role in getting produce to and from markets, improved access and connectivity should result in substantial benefits as it is expected to reduce the cost and time in getting produce to rural centres. Traditionally women often spend much time travelling to and from school, markets and health centres. The increased connectivity will improve access to schools and health clinics, thereby improving the availability of education and health care and reducing the time and travel cost and travel safety (including walking along roads).

Opportunities for women to be involved in actual physical works (through community contracting etc) will depend in part on the local cultural requirements. As part of the baseline analysis, an assessment will be undertaken to identify the expected benefits, opportunities and constraints of the program for men and women (see Annex F for more detail on the baseline study). Lessons learnt from the baseline study will be incorporated in implementation plans and monitored through the impact analysis. Any negative impacts can then be dealt with by the technical advisers and PWD during program implementation.

Land

Community consultation will be vital to ensure that any issues with the land surrounding the planned projects are fully considered. The upgrading projects selected for Phase 1 were originally planned for funding by the MCC. This process included discussion of land issues, which has provided a solid platform for progressing planned works. Consultations will also look at ensuring potential conflict analysis is undertaken in regards to potential sites for road surfaces, as well as the location of drains (as water run-offs could potentially impact on gardens and houses by the road side).

AusAID is in the final stages of the design process for the Land Sector Reform Program. Therefore consideration will need to be made of potential linkages with land conflict analysis and land use planning.

¹⁰ *Gender equality in Australia's aid program – why and how, AusAID, 2007*

5 Monitoring and Evaluation

The VTSSP is structured around a Results Framework which outlines the Goals, Purpose, and result areas for the 10-15 year implementation period of the program. Under Phase 1 of the VTSSP, there are four Result Areas. While it is expected that tangible progress will be made against each of the four result areas within Phase 1 (two years), it is likely that many of these will only be fully achieved over a much longer time frame (5-10 years).

Expected outcomes for the Phase 1 are also included. These provide a more detailed picture of what the program plans to deliver over the next two years. Performance indicators are also included to measure and assess program progress (both in the short term and in the longer term). Progress towards achieving the outcomes in the results framework will be reviewed after 1 year of implementation and evaluated at the end of the program. Refer to Annex E for more detail on the Results Framework.

Reporting on program progress will be provided by the Program Management Group to the GfG Management Committee on a six monthly basis. The reporting should cover:

- Progress of works against plan;
- Expenditure against plan;
- Training and transfer of technology (particularly effectiveness); and
- Performance of the TA
- Contribution towards the results and outcomes indicated in the Results framework for Phase 1 (Annex E).

Baseline monitoring, including of road use, economic activity, and private sector capacity will be undertaken at the beginning of Phase 1 in order to be able to assess the impact of the program. The baseline study will provide the minimum information required to assess the quality of the program implementation and measure the effective development results of VTSSP (i.e. the impact at the level of Result Area result areas, purpose and goal). The baseline study will be closely linked with the results framework. This is to ensure that the data collected can be replicated, if necessary, for ongoing program monitoring and evaluation, any mid-term review, and when the program is being assessed for the completion report and impact study. The baseline study will also identify any necessary changes to the results framework (See Annex F for more information). The Transport Sector Coordinator, based in the GfG Office, will play an important role in monitoring the performance of the program, as well as providing technical oversight of the design of Phase 2.

6 Sustainability Issues

Sustained improvements in transport services come from long term sector improvements in policy and planning, the use of appropriate and affordable technical standards and approaches, asset management and, the development of a performance oriented private sector which is willing and able to partner with the PWD in delivering road maintenance services. Such changes require long term support to build the necessary capacity of the public and private sector. Long term support is also needed to improve the approach to road asset management and planning, including the better allocation of limited resources

to ensure the network is effectively maintained and to support more reliable and cost effective services.

It is neither appropriate nor sustainable to continue supporting the transport sector in line with past approaches, where donors provided large scale project based capital investments for physical works and depended on the limited fiscal and institutional capacity of the Government of Vanuatu to manage and maintain such assets. Nor is it appropriate to work in parallel to government systems.

The planned outcomes from Phase 1 of the VTSSP are unlikely to be sustained unless work can be continued and built upon during later phases of the VTSSP. International experience has shown that using government systems and supporting sector based approaches have the greatest potential for longer term impacts.

The intended phased approach gives the Government of Vanuatu and the Government of Australia a flexible response to circumstances, allowing the program to build on what works and to be adjusted where necessary to respond to emerging challenges. The long term VTSSP supports an increasing focus on policy and sector performance, thus highlighting the necessary long term changes required to improve transport functionality. The multiple foci of improving government capacity, technical standards, the use of appropriate technical approaches, maintenance, and strengthening the role and capacity of the private sector in service provision are all key initial steps.

Integrating public expenditure management and public financial management matters is central to the proposed approach. The program will emphasise and strengthen the linkages to the central agencies (and the GfG) and, in doing so, will support a more efficient flow of government finances together with an integrated and 'whole of government' consideration of transport sector matters.

The VTSSP Phase 1 has limited sustainability when considered in isolation of the longer term approach. But when considered as part of the proposed VTSSP multi-phase approach, Phase 1 lays the foundation for longer term changes in the way that road assets are managed and maintained. This seen as essential for sustained improvements in asset management practices – both for roads and in the transport sector more generally.

7 Risks and risk management

The risks of the proposed approach are considerable, but can be managed with good quality and strategic technical assistance, commitment by the Government of Vanuatu to the proposed approach, and good quality and strategic engagement between the Government of Vanuatu and the Government of Australia. This section briefly outlines the major risks to the program. A more detailed Risk Assessment Framework, including proposed risk management strategies, is provided at Annex G.

The initial focus on maintenance is essential for long term sustainability of improvements in the transport sector. However, increased resources from Australia must not be offset by the Government of Vanuatu reducing their own expenditure on maintenance. Over time, the VTSSP should support improved budgeting and resource management so as to improve the effective level of expenditure on asset management (within Vanuatu's capacity to afford). Such discussions will be supported by the GoV – GoA engagement and the GfG, as well as the VTSSP.

The VTSSP Phase 1 proposes introducing labour based appropriate technology approaches, using the local private sector and communities to undertake work. The technical specifications of works and contracting arrangements will need to be carefully developed so that the approaches recognise the current constraints on small scale private sector and community capacity and provide the support needed to nurture the nascent private sector (including training, materials and equipment, financing arrangements and mentoring).

The quality of works will also depend on good supervision mentoring and support to community groups and small scale contractors by the PWD Provisional Offices and the TA in the provinces. Understaffing in the Provisional offices is a risk, as is the provision of inappropriate technical advisers (i.e. who lack experience in LBAT, good interpersonal skills and training capacity, and a 'hands on' approach). There was some concern within the Government of Vanuatu that LBAT produces 'sub-standard works'. The effective scoping, supervision and mentoring of the small scale contractors and community groups will therefore be essential for the credibility of the approach.

Given the large number of new donor programs being managed / implemented through PWD, the absorptive capacity of PWD to deal with significant new programs is limited. For this program to be a success, there will need to be a significant level of technical assistance and capacity building. In the long-term, the VTSSP should look at addressing the capacity constraints in PWD, including through training and scholarships.

There is also a risk of Australian funds being channelled through the Vanuatu Development Fund Account being misused. The focus of technical assistance resources for procurement and financial management is intended to help the GoV strengthen its processes to minimise this risk. Ongoing engagement and support between the GfG and MFEM, including regular PEFA assessments, also provide overarching quality assurance.

Strengthening the processes for work program approval, procurement / contracting, contract management, payment of invoices and reporting are all necessary parts of improving financial accountability. The tranching of funding arrangements with top-ups following financial reports (including cash flow reports), progress reports and a formal request for additional funding based on agreed work programs will help minimise risks, as further funds will not be made available unless previous funding has been fully acquitted. This approach, while high risk is also high return, as improving government systems has the added benefit of strengthening the GoV's use of its own funding.

Supporting a substantive and long term engagement between the Government of Vanuatu and the Government of Australia in the sector, with the potential for additional resources reflecting good progress are all incentives for the Government of Vanuatu to proactively manage the risks. There will be an opportunity for AusAID to review the level of GoV commitment and progress before committing to future phases.

There is a risk that there may be lags in the implementation of the VTSSP Phase 1 due to delays in tendering and contracting as well as potential delays caused by the wet season and unforeseeable occurrences. Given that Phase 1 is a component of a long-term program, there is the possibility to roll-over Phase 1 projects into Phase 2 to ensure completion.