

Australia-Vanuatu Partnership for Development Report

September 2010

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This is the first report on the Australia – Vanuatu Partnership for Development, signed in May 2009. It covers the 2009 calendar year as well as some significant events in 2010.

The partnership is designed to accelerate Vanuatu's progress towards achieving the Millennium Development Goals (MDGs). Under the partnership, the Australian Government—primarily through the Australian Agency for International Development (AusAID)—will also help the Vanuatu Government respond to the social, environmental and economic challenges it faces.

This partnership report was drafted jointly by the governments of Australia and Vanuatu and discussed by senior officials at the first annual Partnership Talks held in Port Vila in June 2010.

Summary

There has been strong early progress in the priority areas of education, infrastructure and economic governance in Vanuatu, which are assessed as being 'on track' to achieve agreed partnership objectives by 2015. In health, progress is 'partly on track' with more work needed to align donor efforts in support of Vanuatu's health reform agenda.

In education, donors are strongly supporting the country's reform agenda through the Vanuatu Education Road Map. Australia, New Zealand, the United Nations Children's Fund (UNICEF) and the Vanuatu Government are jointly funding the phase-out of primary school fees for all Vanuatu children by 2012, with 70% of schools fee-free in 2010.

In health, more progress was made in reducing the impact of malaria across Vanuatu and increasing nurse training to address workforce shortages. An outcome of the 2010 Partnership Talks was an agreement by Australia to provide a four-year, \$17.1 million commitment to support Vanuatu's *Health Sector Strategy 2010–2016*, in partnership with other donors.

In infrastructure, work has started on improving maintenance of transport infrastructure and creating job opportunities on the islands of Tanna, Ambae and Malekula. Australia is supporting Vanuatu's plans to design a new international wharf facility in Port Vila, and is also funding management improvements to ease congestion and increase the efficiency of stevedoring operations.

In economic governance, there are ongoing improvements in strengthening Vanuatu's budget processes and reporting systems, as recognised in the Public Financial Management Performance Report of November 2009 commissioned by the Public Expenditure and Financial Accountability (PEFA) program. In 2009, Australian advisers helped 94% of Vanuatu primary schools to adopt stronger financial management arrangements, enabling government and its donor partners to channel more funding direct to schools in 2010.

Climate change has been identified as an issue that needs to be addressed across all sectors.

Overview of Vanuatu context

The Vanuatu economy continues to perform strongly and has weathered the global economic crisis relatively well. The latest estimates from the Government of Vanuatu and the International Monetary Fund indicate economic growth of around 4% in 2009, driven by activity in tourism, construction and telecommunications. While this is substantially less than the 6.8% growth in 2008, it is impressive given the global and regional economic context. Vanuatu's 2010 Budget showed fresh optimism within government about the economic outlook, with forecast growth of 4.1% in 2010.



Vanuatu is one of the few countries in the Pacific that has significantly reduced poverty over the last decade, due largely to sound policy choices leading to strong economic growth. Vanuatu’s main commodity export is copra. Tourism is becoming increasingly important and is contributing to growth across a range of sectors—wholesale, retail, restaurants, hotels, transport and communications.

Results

Table 1: Ratings of the program’s progress towards the objectives of the Australia – Vanuatu Partnership for Development

Objective	Rating
Improved education: support increased access and quality of education for all boys and girls and equip them with relevant skills and knowledge	
Improved health: strengthen health services and accelerate progress towards health MDGs	
Improved infrastructure: develop essential infrastructure to support economic growth and service delivery	
Economic governance: progress reform on economic governance issues	

Note:

- The objective will be fully achieved within the timeframe of the partnership.
- The objective will be partly achieved within the timeframe of the partnership.
- The objective is unlikely to be achieved within the timeframe of the partnership.



Priority Outcome 1: Improved Education

Rating

■ The objective will be fully achieved within the timeframe of the strategy.

Joint commitments

The partnership will support increased access and quality of education for boys and girls and equip them with relevant skills and knowledge, through:

- > accelerating progress towards the 2015 goal of universal primary education (MDG 2)
- > improving the quality of education, through reforming the curriculum, upgrading school facilities and resources, and enhancing teacher training
- > ongoing support for the Government of Vanuatu's education reform agenda in line with the Vanuatu Education Sector Strategy, co-financed with New Zealand and other donors
- > increased training and employment opportunities by support for demand-driven vocational training services.

Target results

- > achieve the Vanuatu Education Road Map goal of increasing net primary enrolment rate to 100% by 2015, reaching 85% by 2011
- > improved literacy and numeracy skills of school age children, tracked through national assessments
- > strengthened financial management and accountability, including primary schools adopting government-approved bank accounts by the end of 2009
- > increased proportion of certified primary school teachers
- > higher numbers of technical and vocational trainees increase their incomes through skill development.

Assessment of results and performance

There has been strong early progress in supporting Government of Vanuatu efforts to deliver quality education services to the people.

The phasing out of school fees for primary education started in January 2010 to improve **access to basic education**. Through Vanuatu's Education Road Map, the grant provided to government and government-assisted schools has been increased to 6800 vatu per child. It is estimated that 70% of primary schools will be fee-free in 2010. A monitoring report by the Ministry of Education shows that enrolments have already increased by between 8% and 10% in 2010.

Quality of education continues to improve through reforming curriculum, upgrading school facilities and enhancing teacher training. In 2009, 12 new or upgraded classrooms were provided to primary schools across Vanuatu giving children from remote areas better access to education and a safer and healthier environment in schools.

While it is too early to see improvements in **learning outcomes**, the Vanuatu Government has committed to introducing early grade reading assessments in 2010 to provide important baseline and monitoring data on the quality of teaching and learning in schools.



Support to the Vanuatu Institute of Teacher Education has contributed to an increase in the number of **trained teachers**, from 50% in 2009 to an estimated 56% in 2010.

Two **Technical and Vocational Education and Training Service Centres** are now fully operational in Sanma and Malampa provinces, and have so far provided 34 training sessions to more than 830 trainees under the AusAID-funded Education and Training Fund. Business development services are now fully operational in both provinces with high demands from clients.

Vanuatu has now had more than 100 **Australia Pacific Technical College** graduates (75% in hospitality and tourism), half of whom are women. The college has 224 students currently enrolled (up from 150 in 2009) and now provides courses in Santo.

Priorities for 2010–11 will continue to focus on the objectives of the Road Map: enhanced access; improved quality; and improved management. Vanuatu and Australia, along with New Zealand and UNICEF—as donor pool partners—will look to:

- > continue **phasing out school fees** in primary education, including developing a policy on minimum standards for primary school education and costing of primary education to inform further development of the school grant scheme
- > conduct a study into the **cost of service delivery**
- > develop for implementation by 2012 a comprehensive approach to address performance and budget challenges associated with the **teaching workforce**, including teacher career structures, staffing of schools and training for teachers
- > develop and start implementing a strategy to roll out the new **national curriculum statement**, including focusing on literacy and numeracy
- > use **early grade reading assessment** as a regular process to track the quality of education, and improve the quality and use of education management information systems
- > develop a long-term strategy for **school facilities**, including establishing minimum standards for school construction.

Table 2: Estimated expenditure on Priority Outcome 1: Improved Education

Year	Australian commitment (A\$ million)	% of bilateral program	Partner government commitment (millions of vatu)	% of national budget	Other donor contributions (millions of vatu)
2009–10	6.0	13	3,148 (2009)	22	239
2010–11	6.4	13	3,623 (2010)	23	227



Priority Outcome 2: Improved Health

Rating

■ The objective will be partly achieved within the timeframe of the strategy.

Joint commitments

The partnership will strengthen health services and accelerate progress towards health MDGs, through:

- > health information system to track MDG progress and support evidence-based decision enhanced access to, and quality of, health care services, particularly for rural communities, including a strengthened health supply chain, strengthened community nursing, and upgraded facilities
- > controlling and progressively eliminating malaria
- > improved budgeting, financial and expenditure management
- > strengthened making.

Target results

- > under-five mortality rate reduced from 34.1 per 1000 in 2007 to the MDG target of 20.7 per 1000 by 2015, and maternal care improved with an increased percentage of deliveries supervised by skilled staff
- > increased routine measles and triple antigen vaccination coverage of one-year-old children to 80% by 2012 and 90% by 2015
- > reduced malaria incidence nationwide by 70% and elimination in Tafea Province
- > increased proportion of health sector expenditures that reach provincial and rural facilities.

AusAID funds a number of bilateral health initiatives and is currently in discussion with the Vanuatu Government and other donors to provide a multi-year funding commitment to support the country's health priorities. This includes the transition from current activities into a long-term partnership in support of Vanuatu leadership in health. This transition is crucial to achieve greater value for money and effectiveness in the use of donor and Vanuatu resources.

Assessment of results and performance

It is difficult to adequately assess progress against the target results listed above because there is not enough reliable data coming out of the health information system. The release of Census data and proposed assistance for the system should enable progress to be assessed in the coming year.

While some estimates suggest that Vanuatu is making slow progress towards **MDG 4** (reducing child mortality), progress against **MDG 5** (improving maternal health) is more difficult to assess. Currently 74% of deliveries nationwide are assisted by a skilled birth attendant, however this represents 95% in Port Vila and only 32% in remote Torba Province. In 2009, the AusAID-funded obstetrician/gynaecologist at Vila Central Hospital attended 1600 live births with no major adverse outcomes. A modest travel budget is also provided so the obstetrician/gynaecologist can attend to emergencies in the provinces. It is expected that skilled birth attendants will increase in rural areas with AusAID funding permitting the first

graduation of students from the Vanuatu College of Nursing Education since 2004. The students graduated in July 2009.

In relation to **immunisation coverage**, AusAID contributed funding to a UNICEF-supported initiative in 2009 to achieve 80% coverage with measles supplementary immunisations. Progress on routine coverage is still difficult to estimate. The AusAID-funded health supply chain and logistics specialist in the Central Medical Store will conduct a stocktake in 2010 to improve drug supply to the provinces.

Although malaria parasite incidence has fallen dramatically in recent years, a slight increase occurred to 15.6 per 1000 in 2009 from 13.6 in 2008 as a result of more rigorous testing and reporting processes. Technical and management assistance, together with flexible funding from AusAID through the Pacific Malaria Initiative Support Centre, enabled progress towards elimination to be maintained in the absence of Global Fund funding in 2008 and 2009.

Long-term technical assistance is being recruited to support the Ministry of Health public expenditure management reform agenda. Along with policy discussions, this will continue to strengthen the links established with the AusAID Governance for Growth Program and the Ministry of Finance and Economic Management, to ensure funds are directed to frontline service delivery.

Priorities for 2010–11

- > Transition AusAID support to a four-year, \$17.1 million commitment to finalise and implement Vanuatu's *Health Sector Strategy 2010–2016*, in partnership with other donors.
- > Improve the health information system to strengthen management and budgeting and track MDG performance.
- > Strengthen operational planning and budgeting systems in the Ministry of Health, to target resources to frontline provincial services.
- > Improve human resource management and planning to address shortages of clinical and support staff.

Table 3: Estimated expenditure on Priority Outcome 2: Improved Health

Year	Australian commitment (A\$ million)	% of bilateral program	Partner government commitment (millions of vatu)	% of national budget	Other donor contributions (millions of vatu)
2009–10	4.2	9	1,450 (2009)	10	na
2010–11	3.6	7	1,736 (2010)	11	240



Priority Outcome 3: Infrastructure

Rating

■ The objective will be fully achieved within the timeframe of the strategy.

Joint commitments

The partnership will develop essential infrastructure to support economic growth and service delivery, through:

- > rehabilitation and improved maintenance of high priority rural roads drawing on the private sector and local communities as key providers of road maintenance services
- > expanded access, and reduced costs of telecommunications and power services through greater competition and strengthened regulation
- > progress on reforms to improve maritime and aviation transport, including operational improvements to key wharf facilities and Air Vanuatu.

Target results

- > national roads better maintained and in good condition, including rehabilitation of national roads in Tanna, Malekula and Ambae by 2012
- > expanded local employment and private sector development through road maintenance activities
- > further improvements in telecommunications and power services:
 - 90% mobile phone population coverage by 2015
 - expanded coverage and reduced cost of Internet services
 - improved score on World Bank Institute Regulatory Quality indicator
 - 25% expansion in access to electricity in rural areas by 2015.

Infrastructure is delivered through the AusAID-funded Governance for Growth program with the Ministry of Infrastructure and Public Utilities as the lead agency.

Assessment of results and performance

Good early progress has been achieved on Phase 1 of the Vanuatu Transport Sector Support Program (VTSSP) to improve **road infrastructure** on the islands of Ambae, Malekula and Tanna. VTSSP, which commenced in January 2010, supported the Public Works Department to complete road condition surveys and engineering designs.

Training for island-based contractors has started. Demonstration road sites on Malekula and Tanna are underway to raise awareness among potential contractors and the general public of the opportunities provided by VTSSP. The private sector has responded enthusiastically, with more than 500 applications for participation in the program as contractors. More than 50 individual contracting opportunities have been identified for the private sector, including community groups, which will provide a much-needed cash injection to rural areas.

Vanuatu's policy to increase competition has continued to deliver substantial price reductions and further increases in access to **telecommunications**, with mobile coverage reaching 85% of the population (from 20% in 2007). The AusAID-funded Telecom Regulator has played a critical role in ensuring that access targets are met and that operators comply with their license requirements.

A new *Telecommunications and Radiocommunications Regulation Act* was passed in November 2009, ensuring that the regulatory regime has strong legislative backing. AusAID has provided \$4.1 million to finance a long-term World Bank program of capacity



support for the Telecom Regulator and the Ministry of Infrastructure and Public Utilities. Internet services are also set to expand with six new licenses issued and a new low-cost mobile broadband service in Port Vila. A 2009 study found that access and use of telecommunications is helping Vanuatu households to expand economic opportunities and reduce household costs. It has also contributed an estimated 1% to gross domestic product growth.

Australia and Vanuatu are co-funding the Utilities Regulatory Authority to ensure that **power and water services** are affordable and accessible. The authority's core costs are funded by Vanuatu and supplemented by a World Bank Trust Fund financed by AusAID. It recently issued a new tariff decision which will cut the cost of power by around 7% overall, including a 50% cut for low-volume consumers which will provide significant savings to ni-Vanuatu families.

AusAID provided \$1.9 million to the Ministry of Finance and Economic Management (MFEM) to finance an engineering design and funding proposal for a new US\$65 million **international wharf** in Port Vila. The poor performance of Port Vila wharf is a major impediment to economic growth. Australia and Vanuatu are also co-funding a new General Manager at the existing wharf facility, who has already contributed to significant improvements in operational performance.

AusAID advisers assisted the Air Vanuatu Board of Directors to review the financial performance of the airline's business operations and identify options for reforms. The ongoing operation of Air Vanuatu is a key factor in the economically vital tourism sector.

Priorities for 2010–11

- > Support for Port Vila wharf development and reform, potentially through an incentives-based program which will include strengthening the stevedoring concession and establishing an independent ports regulator.
- > Support Public Works Department in managing the challenges of implementing Phase 1 of the VTSSP.
- > Develop priorities for Phase II of VTSSP, including potential support for roads on the island of Pentecost, the development of Santo wharf, and the upgrade of rural airstrips across Vanuatu.
- > Support Public Works Department to integrate climate change adaptation measures into road interventions.
- > Support Air Vanuatu's business reform agenda.
- > Finalise the Universal Access Policy Fund tender to extend the mobile network to remote areas.
- > Expand access to electricity in rural areas.

Table 4: Estimated expenditure on Priority Outcome 3—improved infrastructure

Year	Estimated Australian commitment (A\$ million)	% of bilateral program	Partner government commitment (millions of vatu)	% of national budget	Other donor contributions (currency)
2009–10	13.2	29	1,400 (2009)	9.9	New Zealand contribution to Millennium Challenge Account



Year	Estimated Australian commitment (A\$ million)	% of bilateral program	Partner government commitment (millions of vatu)	% of national budget	Other donor contributions (currency)
					VT413 million Japan US\$17 million (main wharf)
2010-11	10.2	22	1,407 (2010)	9	VT2,535 million



Priority Outcome 4: Economic Governance

Rating

■ The objective will be fully achieved within the timeframe of the strategy.

Joint commitments

The partnership will progress reform on economic governance issues, through:

- > **strengthened budget processes** to better reflect national priorities for service delivery and public investment
- > **improved public financial management systems** including strengthening the budget process to combine donor and government resources and improved financial management in line ministries to ensure more resources for to deliver services
- > **stronger transparency and accountability** to Parliament and the people for the results of public expenditure
- > **improved management of Government Business Enterprises**, to improve effectiveness of their operations and manage fiscal risks
- > **enhanced collection and management of statistics** to track progress against the MDGs.

Subject to performance against these objectives Australia will provide additional funding on an incentive basis, to be agreed annually with the Vanuatu Government.

Target results

- > improved PEFA scores on:
 - Government of Vanuatu resources received by service delivery units
 - proportion of aid provided by donors managed through Vanuatu systems
 - comprehensiveness and transparency of public financial management, including oversight of fiscal risk from Government Business Enterprises
 - external scrutiny and audit
- > fiscal risks strategy in place for the 2010 Budget and updated annually
- > Vanuatu's Population Census, Household Income and Expenditure Survey and national accounts completed as scheduled and published.

The economic governance component of the partnership is implemented through the Governance for Growth program, with MFEM as the lead agency.

Assessment of results and performance

Vanuatu has continued its strong track record in economic governance. The European Union (EU)-funded PEFA assessment noted that Vanuatu is maintaining its strengths in **budget processes and reporting systems** and is progressing in other areas. Vanuatu has improved on 15 of the 31 PEFA indicators, although it slipped backwards against two. The International Monetary Fund Article IV consultations commended Vanuatu's strong economic performance and progress on structural reforms, but noted that further reform is needed.

The poor flow of funding to service providers, such as schools and health centres, is a bottleneck to service delivery. With AusAID support, MFEM is opening **provincial Financial Service Bureaus**, starting off in Santo in 2009, to improve the flow of finances



by making Department of Finance systems available in the provinces. A review of operations in Santo found that the office is well accepted and a valuable resource.

In 2009 the Government of Vanuatu took the landmark decision to phase out primary school fees under its Universal Primary Education policy. With AusAID support, a centrally-controlled system of bank accounts has been established across more than 400 government primary schools, allowing resources (replacing fees) to be channelled directly to schools.

In 2009, Vanuatu, with AusAID support, produced its first integrated national budget. This is a major step forward, bringing donor funds 'on-budget', improving the alignment of government and donor resources, and allowing the government to consider the total resource envelope available to meet its priorities.

The *Public Finance and Economic Management (Amendment) Act* of 2009 and financial regulations were amended to **strengthen transparency and accountability**.

These amendments, developed with AusAID advice, helped tighten up controls in three critical areas:

1. removal of the Minister of Finance's discretion to spend public money without an appropriation
2. removal of ministers' ability to transfer funds from the ministry to their own ministerial offices
3. implementation of a formal, orderly mid-year review of estimates to replace the continuous stream of ad hoc requests for budget transfers and 'supplementary appropriations'.

The Vanuatu Government's exposure to debts incurred by Government Business Enterprises, especially Air Vanuatu and the Vanuatu Commodities Marketing Board represents major areas of fiscal risk. A planned part-sale of government shares in Air Vanuatu did not proceed when a potential buyer could not be found. Subsequently, AusAID has supported the development of options for reforming Air Vanuatu as a fully government-owned entity for consideration by the board and shareholders. A draft repeal Act for the board has been prepared for consideration by Parliament. If passed, this will enable assistance to engage a liquidator and consider future institutional arrangements and investment needs for the sector.

In 2010 AusAID helped Vanuatu complete the 2009 Census. From mid-2010, results have become available and will provide valuable information on Vanuatu's progress to achieve the MDGs.

Priorities for 2010–11

- > Improved revenue policy analysis, revenue forecasting and strengthened forward expenditure estimates in the annual Budget papers.
- > Continued roll out of Financial Service Bureaus to Malekula and Tanna.
- > Assistance to implement the recommendations of the procurement review.
- > Strengthened governance regime for Government Business Enterprises to identify, monitor and report on government liabilities.
- > Ongoing corporate reforms to ensure financial viability of Air Vanuatu.
- > Subject to repeal of the *Vanuatu Commodities Marketing Board (Amendment) Act* (2005), AusAID will finance a liquidator, and an investment program for the copra sector, funded on an incentives basis.

- > Australia has agreed to consider a proposal to contribute to the cost of a new building for MFEM.

Table 5: Estimated expenditure on Priority Outcome 4: Economic Governance

Year	Estimated Australian commitment A\$ million	% of bilateral program	Partner government commitment (millions of vatu)	% of national budget	Other donor contributions (millions of vatu)
2009-10	3.7	8	2,900 (2009)	20	97 (EU-budget support)
2010-11	6.8	15	4,142 (2010)	27	97 (EU-budget support)

Other priority areas

In 2009 the following areas were identified for potential inclusion in the partnership:

- > support to policing and the law and justice sector
- > improved land administration
- > support to agriculture to enable Vanuatu to take advantage of the opportunities arising out of the Pacific Agreement on Closer Economic Relations Plus talks.

During the 2010 Partnership Talks, Australia agreed to support the production of a **human resource development plan** for the future needs of both the public and private sector in Vanuatu. Australia also agreed to look at supporting improved **voter awareness** on the roles and responsibilities of political leaders.

Policing and law and justice

Current Australian support for **policing** and the **law and justice sector** is scheduled to finish early in 2011.

The **Vanuatu Police Force Capacity Building Project**, implemented by the Australian Federal Police, shares its goal with the Vanuatu Police Force to 'provide a safer and more secure environment for the community by the prevention and detection of crime through strong police/community relations'. The Government of Vanuatu asked for support to improve the capacity of the Vanuatu Police Force in planning, budgeting, financial management and human resource management.

Australia has supported the development of a law and justice sector strategy, as well as strengthened administration in the state legal offices, through the **Vanuatu Legal Sector Strengthening Project**.

It was agreed during the 2010 Partnership Talks that future Australian support to policing and law and justice would be included as a new priority outcome under the partnership. A joint working group will be established to determine the specifics of this new priority area.

Land administration

Support to Vanuatu's land reform agenda will be provided through a joint program funded by Australia and New Zealand. The proposed program was put to tender in late 2010.



Agriculture

Australian support to the agriculture sector in Vanuatu expanded significantly during 2009–10 through regional aid initiatives.

Australia has provided a grant of \$1.4 million to Sarami Plantation to support growth and income opportunities in Vanuatu's cattle sector through the AusAID-funded Enterprise Challenge Fund. Up to 1000 smallholder farmers are expected to benefit from a higher and more reliable source of income through the project.

Australia is providing support to Vanuatu for trade facilitation through the Pacific Horticultural and Agricultural Market Access program. Commencing in late 2010, it is anticipated that this program will help Vanuatu resolve impediments to exporting agricultural products more widely in the region.

The **Australian Centre for International Agricultural Research** has started a \$1.2 million project (2009–14) to improve the development and delivery of seedlings for sandalwood and whitewood in Vanuatu.

It is expected that additional support to the **copra** sector will be provided as part of support to repeal the Vanuatu Commodities Marketing Board (as discussed under Outcome 4).