

## Partnership Priority Outcome 4: Economic Governance

### Aim

The Partnership will support progress towards poverty reduction and improvement in living standards for ni-Vanuatu men and women through strengthened economic governance. Strong public sector institutions and processes are critical to the delivery of effective and efficient government services in key areas such as health, education and infrastructure. Vanuatu has a hard-won reputation for responsible public financial management. This provides a strong foundation to build on, including for development partners to increasingly implement aid activities through government systems in support of Vanuatu's development priorities.

Under the Partnership for Development, Vanuatu and Australia will support activities to strengthen the planning, budgeting and accountability processes of the Vanuatu Government. Through the Partnership, the two governments will:

- **Strengthen budget processes** to better reflect national priorities for service delivery and public investment.
- **Improve 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 flow to deliver services.
- **Strengthen transparency and accountability** to Parliament and the people for the results of public expenditure.
- **Improve management of Government Business Enterprises**, to improve effectiveness of their operations and manage fiscal risks.
- **Enhance collection and management of statistics** to track progress against the MDGs.

Progress against the commitments under this Priority Outcome will directly support the implementation of other Partnership commitments in health, education and infrastructure through more efficient and accountable functioning of Government of Vanuatu systems.

The activities implemented under this Priority Outcome will build on the existing activities to support improved public financial management through the Governance for Growth (GfG) Program, including in the Ministry of Finance and Economic Management and the Prime Minister's Office.

The GfG program helps Vanuatu to develop and implement jointly identified economic reform priorities. It makes use of targeted incentives to support these initiatives.

## Measurement

Vanuatu and Australia will adopt the following targets for activities in support of strong economic governance.

Activity	Targets	Timeframe
<b>1. Strengthened budget processes</b>	<ul style="list-style-type: none"> <li>• More effective Budget process taking into account all sources of funding available to Government, and allocating funding in line with the Government’s program and fiscal policies.</li> </ul>	Dec.2009
	<ul style="list-style-type: none"> <li>• Information systems, processes and public sector staff provide effective and efficient support for the Budget process.</li> </ul>	Dec.2009
	<ul style="list-style-type: none"> <li>• Budget estimates are published for the Budget year and three forward years.</li> </ul>	Dec.2011
	<ul style="list-style-type: none"> <li>• Strategy for managing fiscal risks (from sources including indemnities, warranties, guarantees, legal action, unmet payment obligations and government business enterprises) published in the Budget papers.</li> </ul>	Dec.2011
	<ul style="list-style-type: none"> <li>• Organisational structure and remuneration decisions for government agencies are made in accordance with a fiscally sustainable workforce planning strategy.</li> </ul>	Jun.2012
<b>2. Improved public financial management systems</b>	<ul style="list-style-type: none"> <li>• The Department of Finance establishes offices in all provinces to support improved financial management in line ministries.</li> </ul>	Dec.2010
	<ul style="list-style-type: none"> <li>• A whole of government information management strategy is developed and implemented.</li> </ul>	Dec.2011
	<ul style="list-style-type: none"> <li>• Legislation for procurement is reviewed and amended, and procurement capacity is strengthened.</li> </ul>	Jun.2012
<b>3. Stronger transparency and accountability to Parliament</b>	<ul style="list-style-type: none"> <li>• The Public Finance and Economic Management (PFEM) Act and Financial Regulations are amended to: introduce improved appropriation arrangements; clarify responsibility for financial and fiscal management; and simplify and improve fiscal and financial reporting.</li> </ul>	Aug.2009
	<ul style="list-style-type: none"> <li>• Budget papers are tabled in Parliament on the date required by the PFEM Act.</li> </ul>	Nov.2009
	<ul style="list-style-type: none"> <li>• Implement revised economic and financial reporting framework under amended PFEM Act.</li> </ul>	Dec.2010
	<ul style="list-style-type: none"> <li>• The annual Financial Regulations 2.2 report is completed and reports fewer breaches of the Finance Regulations and instructions relating to purchasing and management of cash advances.</li> </ul>	Jun.2012
<b>4. Improved management of government</b>	<ul style="list-style-type: none"> <li>• A strategy to manage fiscal risks from GBEs is implemented.</li> </ul>	Dec.2009
	<ul style="list-style-type: none"> <li>• The legislative framework and Government</li> </ul>	Dec.2009

<b>business enterprises (GBEs).</b>	ownership and management of GBEs is reviewed and review recommendations are actioned. <ul style="list-style-type: none"> <li>• The Government becomes more active and effective as a shareholder and director in GBEs.</li> <li>• GBEs provide accurate and timely financial information.</li> </ul>	Dec.2010 Dec.2011
<b>5. Enhanced collection and management of statistics</b>	<ul style="list-style-type: none"> <li>• The population census is completed in accordance with international quality standards.</li> <li>• Implementation of agreed capacity strengthening initiatives in the National Statistics Office.</li> </ul>	Dec.2009 Dec.2011

Specific indicators for the targets above are contained in the Governance for Growth design document and annual work plans and will be assessed periodically by the Governance for Growth Management Committee. These means of verification will include:

- Public Expenditure and Financial Accountability (PEFA) and International Monetary Fund article IV assessments (Activities 1-5)
- Publication of budget forward estimates from the 2012 year onwards (Activity 1).
- Fiscal risk strategy published in Budget papers (Activity 1).
- Implementation reports on roll out of Department of Finance offices to the provinces (Activity 2).
- Amended Contracts and Tenders Act (Activity 2).
- Amended PFEM Act and supporting regulations (Activity 3).
- Unqualified annual financial statements tabled in Parliament (Activity 3).
- Tabling of the Finance Regulation 2.2 report (requiring the Director-General of Finance to identify breaches of the PFEM Act) and action on identified breaches (Activity 3).
- Completion and publication of the 2009 Population census (Activity 5).

## Resources

Through the Governance for Growth Program, Australia will commit the following resources to support achievement of the targets for strong economic governance.

<b>Year</b>	<b>Australia through GfG AUD million</b>
2009 (last 6 months)	2.0
2010	4.0
2011	3.5
2012 (first 6 months)	2.0
<b>Total</b>	<b>11.5</b>

The next phase of the GfG program will be designed during 2011 and will result in funding decisions from July 2012 and beyond.

**Additional Incentive Funding:** In addition to the funding outlined above, Australia will make available incentive-based financing for the implementation of high priority economic reforms. Funding will be linked to agreed performance milestones which relate directly to successful implementation of the agreed reform. This mechanism will work broadly as follows:

- Progress under the Partnership will be reviewed by the two Governments in annual discussions in May
- During these discussions the two Governments will agree which economic reform will be the priority for financing under the incentives mechanism for the coming year and the high-level targets to be achieved
- Following these discussions, through the GfG program, officials of both Governments will agree a simple implementation plan which outlines the specific targets, milestones, approach and a schedule for performance payments.
- Incentive payments will be administered by the GfG program in accordance with the agreed implementation plan. A progress report will be provided for consideration at the next annual Partnership review.

The initial priority economic reform for 2009 will be based on reforms to GBEs with specific details to be negotiated in discussions with the Vanuatu government.

Funding levels for the incentive financing are indicated below. These resources are additional to the base resources provided for economic governance.

#### **Additional Incentive Financing**

<b>Year</b>	<b>Australia through GfG AUD million</b>
2009 (last 6 months)	1.5
2010	1.5
2011	3.0
2012 (first 6 months)	3.0
<b>Total</b>	<b>9.0</b>

### **Implementation Strategy**

**Use of Vanuatu Government Systems:** Consistent with the principles of the Paris and Accra declarations, strengthening the effectiveness of Vanuatu government systems is a key objective of Australia’s aid program to Vanuatu. Australia will seek to use and strengthen Vanuatu government systems in delivering support for strong public sector institutions and processes. This will enable greater transparency and accountability of government service delivery to the citizens of Vanuatu. Australia’s contribution will be delivered wherever possible through grants to the Ministry of Finance and Economic Management (MFEM) so that it may procure and manage goods and services, including technical advisors, using Vanuatu government procurement, personnel and financial management systems. Decisions on these matters will be made jointly by the two Governments.

**Implementing Arrangements:** The two Governments agree that activities in support of economic governance will be undertaken through the Governance for Growth (GfG) program. GfG is a ten-year joint initiative of the Vanuatu Government (through the Prime Minister's Office and Ministry of Finance and Economic Management) and Australian Government (through AusAID). Established in 2006, the aim of GfG is to identify and remove obstacles to economic growth and service delivery in Vanuatu. The program provides technical assistance, flexible and incentive financing and other assistance to support Vanuatu's economic reform priorities.

Activities to improve public financial management in line agencies will also be undertaken through the other priority partnership outcome areas of education, health and infrastructure. GfG will help with the coordination of Australian assistance in these areas.

Within the Vanuatu government the key implementing agencies are the Prime Minister's Office and the Ministry of Finance and Economic Management. Within the Australian government the key implementing agency is AusAID.

**Donor Coordination:** Vanuatu and Australia will promote coordination between development partners working on public sector institutions and processes through regular dialogue and meetings. The main agencies involved are:

- Audit: the European Commission (EC) provides technical assistance in the area of internal audit and plans to support assistance to build capacity on the office of the Auditor General;
- Improvement of line agency financial management: New Zealand (NZ AID) provides support for improved capacity in planning, financial management and audit in the Ministry of Education.
- PEFA assessment: The EC supports 3 yearly PEFA assessments (consistent with WB/IMG guidelines).
- State Owned Enterprises: work on GBE reform will be undertaken jointly by AusAID and the Asian Development bank (ADB), with initial scoping to commence in July 2009.