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Republique de Vanuatu



Governance for Growth Program

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Table of Contents

List of Acronyms	i
Map of Vanuatu	iii
Executive Summary	v
1. Background and Design Preparation	1
1.1. Origin.....	1
1.2. Design Method.....	1
2. Analysis.....	3
2.1. The Development Challenge	3
3. Proposed Response	6
3.1. Approach	6
3.2. Lessons Learned.....	8
4. Program Description.....	10
4.1. Goal and Purpose	10
4.2. Results Framework.....	10
4.3. Result 1: Vanuatu’s policy framework is supportive of broad-based growth	12
4.4. Result 2: The quality of Vanuatu’s public expenditure is improved.....	20
4.5. Location, Duration, Budget.....	24
4.6. Communications Strategy.....	24
4.7. Gender.....	26
4.8. Anti-corruption	27
4.9. Sustainability	27
4.10. Capacity Building	28
5. Program Management	29
5.1. GFG Management Structure	29
5.2. Procurement	30
5.3. Risk Management.....	30
6. Performance Assessment Framework	33
6.1. Levels of Analysis	34
6.2. Annual Program Cycle	35
6.3. Inputs.....	36
6.4. Tools and Data Sources	36
6.5. GFG Reporting.....	39
6.6. Roles and Responsibilities	40

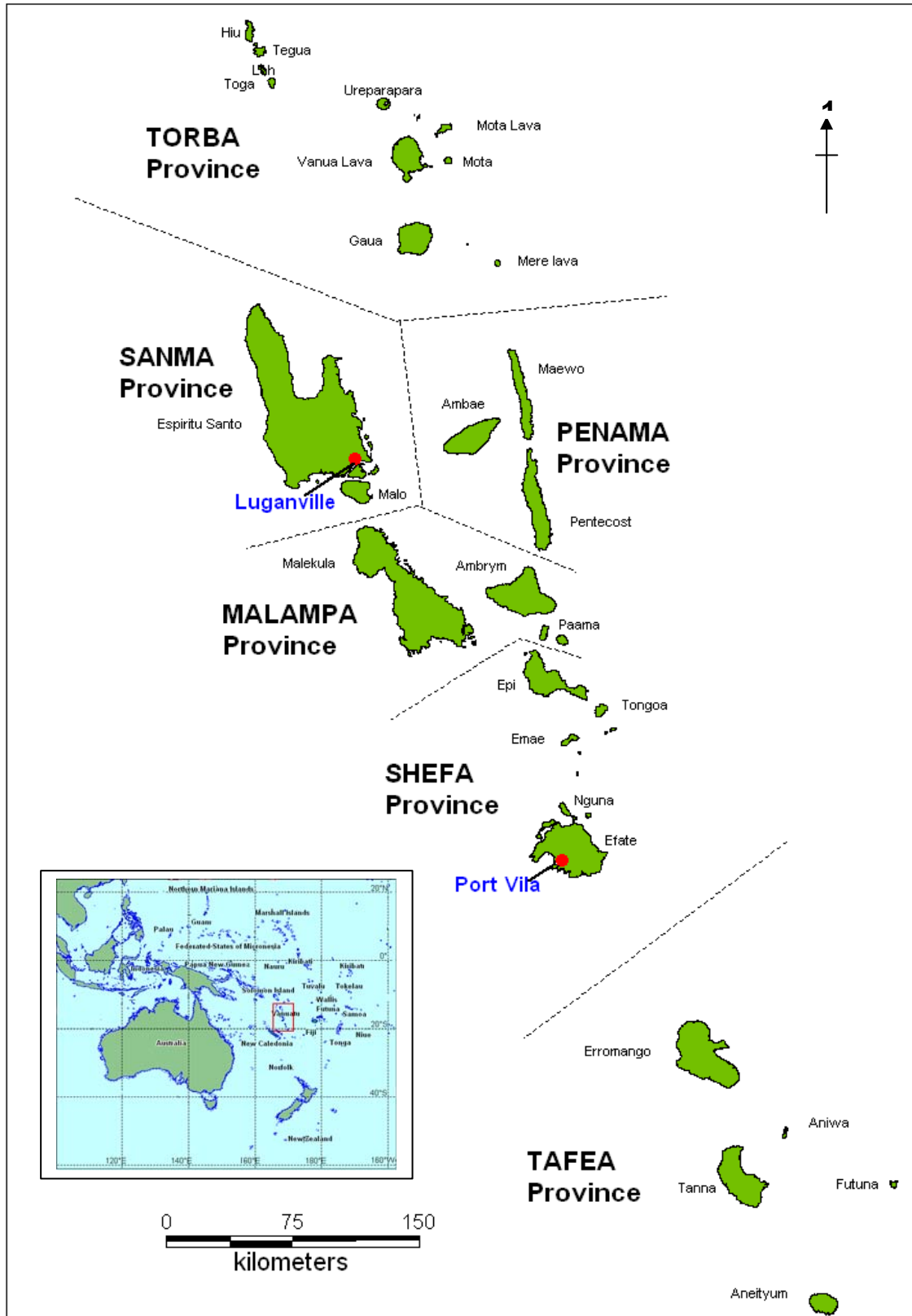
6.7.	Links across the AusAID Program.....	41
6.8.	Mid-Term Review.....	41
6.9.	Performance Indicators	42
Annex 1:	Cost Estimates.....	49
	Cost Estimates in AUD by Vanuatu Financial Year (calendar year)	49
	Cost Estimates in VUV by Vanuatu Financial Year	51
	Cost Estimates in AUD by Australian Financial Year.....	53
Annex 2:	Power Sector Project.....	55
Annex 3:	Telecommunications Sector Sub-Program.....	61
Annex 4:	Research Fund.....	65
Annex 5:	Gender and Economic Growth Research – Survey of Economic Participation and Production.....	69
Annex 6:	Economic and Sector Policy Sub-Program.....	73
	Strategy and Sector Policy Adviser Terms of Reference	78
	Economics Adviser Terms of Reference.....	81
Annex 7:	Public Financial Management Sub-program.....	83
	Public Financial Management Coordinator Terms of Reference.....	89
	Revenue Adviser Terms of Reference.....	92
Annex 8:	Terms of Reference – GFG Management	95
	Central Agencies Group (Oversight of GFG) Terms of Reference.....	95
	Governance for Growth Program Management Committee Terms of Reference	96
	GFG Program Director Terms of Reference	97
	GFG Program Manager Terms of Reference	99
	Program Performance Specialist	100
Annex 9:	Public Expenditure & Financial Accountability 2006	101
Annex 10:	Other Donor Activity	103
Annex 11:	Persons and Organisations Consulted.....	107
Annex 12:	Summary of Provincial Consultations	111
Annex 13:	Vanuatu Priorities and Action Agenda 2006 – 2015	115

List of Acronyms

ADB	Asian Development Bank
ADR	Annual Development Report
ASTAE	Asian Technical Alternative Energy Trust Fund
AusAID	Australian Agency for International Development
CAG	Central Agencies Group
COM	Council of Ministers
CRP	Comprehensive Reform Program
DCO	Development Committee of Officials
DESP	Department of Economic and Sector Planning
DFA	Department of Foreign Affairs
DoF	Department of Finance
DSPC	Department of Strategic Policy Coordination
EU	European Union
FMIS	Financial Management Information System
GEF	Global Environment Facility
GFG	Governance for Growth
GoA	Government of Australia
GoV	Government of Vanuatu
HIES	Household Income and Expenditure Survey
ICR	Independent Completion Report
ICT	Information and communication technologies
IFC	International Finance Corporation
IMF	International Monetary Fund
MBC	Ministerial Budget Committee
MCC	Millennium Challenge Corporation
MFEM	Ministry of Finance and Economic Management
MFEM-ISP	MFEM Institutional Strengthening Project
MIPU	Ministry of Infrastructure and Public Utilities
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NZAID	New Zealand Agency for International Development
PAA	Priorities and Action Agenda
PAF	Performance Assessment Framework
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public financial management
PSC	Public Service Commission
PSRP	Public Sector Reform Project

QAI	Quality at Implementation
REDI	Rural Economic Development Initiative
REF	Rural Electrification Fund
TA	Technical Assistance
TVL	Telecom Vanuatu Limited
VANREPA	Vanuatu Renewable Energy and Power Association
VBTC	Vanuatu Broadcasting and Television Corporation
VCMB	Vanuatu Commodities Marketing Board

Map of Vanuatu



Executive Summary

Originally envisaged as a facility replacing two governance sector institutional strengthening projects¹, the Governance for Growth (GFG) Program was prepared over 2005 and 2006. That preparation included several missions to Vanuatu, extensive consultation with the Government of Vanuatu, and an AusAID peer review. The output of that design process was a Design Note, finalised in May 2006, which was the basis for the commencement of GFG implementation in August 2006. The current design was prepared concurrently with that first year of implementation by a joint AusAID-Government of Vanuatu design team.

The Development Challenge

Following a decade of mixed performance, the last four years have seen strong economic growth in Vanuatu, driven by sound macroeconomic management, recent political stability and improved performance in key sectors (tourism, construction). However growth remains concentrated in urban areas. About 70 percent of the population lives in rural communities and has seen little change: the government and its services have limited reach. Vanuatu's overarching development challenge is to ensure that economic performance is translated into broad-based economic opportunities and improved service delivery.

There are a number of key governance obstacles to broad-based growth and improved service delivery, including:

- Lack of clear and coherent national economic policy, with too many initiatives based on short-term political expedience rather than long-term national interest. Policy instability makes life hard for the private sector, leading to uncertainty and increased risk.
- Poor track record on policy implementation. Initiatives are often short-lived and reflect immediate political imperatives rather than evidence-based advice from the Executive.
- While Vanuatu's budget processes and financial management are relatively sound, expenditure is not well prioritised, capital spending is low and budget preparation does not have strong policy content. There are real concerns about whether allocated resources actually reach their targets, particularly in rural areas.
- There is a widespread lack of accurate and timely feedback on government performance, what information exists is generally considered of poor quality, and it is not widely available.
- Vanuatu already faces high costs associated with its small size and remoteness, but it adds to these costs with poor policy and regulatory settings and inadequate investment in infrastructure.
- Vanuatu has generally sound legal frameworks and systems to underpin development. However, stronger leadership is needed at senior political and bureaucratic levels to apply these effectively for the benefit of the country as a whole.

¹ The Ministry of Finance and Economic Management Institutional Strengthening Project (MFEM-ISP) and the Public Service Reform Project (PSRP)

Proposed Response

GFG addresses those challenges to broad-based growth and effective service delivery that are derived from weak governance. It aligns with Australia's focus on accelerating broad and sustainable economic growth, as articulated in the 2006 White Paper on Australia's aid program. The design responds to lessons learned from previous projects in Vanuatu and the rest of Melanesia, including: the need for a long-term horizon over which to achieve and assess impact; the benefits of a collaborative partnership that recognises the importance of political leadership to success; the need for flexibility to allow AusAID to support reform champions within Government; the importance of focusing on policy implementation and the delivery of tangible growth and improved service delivery outcomes; and the potential to use incentives and investment to back reform.

GFG is structured around a Results Framework which provides the Goal, Purpose, intended Results and Outcomes for a *ten year* implementation period. The aim is to achieve the Results by 2017; the Outcomes are four year targets which the program aims to achieve by the end of 2011.

The Goal of GFG is taken directly from the vision articulated in Vanuatu's own *Priorities and Action Agenda 2006-2015*:

“an educated, healthy and wealthy Vanuatu”

The Purpose of GFG is **to generate economic growth and improve service delivery through good governance.**

Underpinning the Goal and Purpose, GFG targets two key Results; the logic of the program then identifies a set of *four-year Outcomes* that will lead towards the two Results:

Result 1: Vanuatu's policy framework is more supportive of broad-based growth

- Outcome 1: Government develops and implements policy decisions to remove constraints to broad-based growth
- Outcome 2: There is greater dissemination of information, and public debate, about economic growth and the role of government
- Outcome 3: Policy decisions are increasingly informed by sound research, evidence and analysis

Result 2: The quality of Vanuatu's public expenditure is improved

- Outcome 4: The budget increasingly reflects national priorities for service delivery and investment
- Outcome 5: Public financial management in line ministries and provinces is improved
- Outcome 6: Budget resources are increasingly used for their intended purpose
- Outcome 7: There is stronger accountability to Parliament and the people for the results of public expenditure

The program is a rolling design within the parameters of the Results and Outcomes. It will utilise a wide range of aid modalities including technical assistance, grants, direct investment, incentive funding, research funding, support for third party implementing partners, and brokering the involvement of international organisations and other donors. The specific activities that will be undertaken to achieve the Results and Outcomes, and the

inputs and modalities to be used, will be identified and agreed between AusAID and the Government of Vanuatu annually through a performance review and planning process.

Early priority activities, many of which are already underway, include:

Economic and Sector Policy: A substantial sub-program, this support will improve policy coordination, planning and economic analysis across government, will enhance the allocation of resources through the budget process, and improve accountability to Parliament and the people for the results of government expenditure.

Public Financial Management: This sub-program will relate closely to the Economic and Sector Policy Sub-Program, building capacity in financial management in key big-spending line agencies (Health, Education) and in the provinces. It will also support improved revenue administration and policy.

Power Sector: Electricity is expensive and available to little more than a quarter of the population. GFG will assist with improved regulation, GoV capacity building, better management of the GoV rural electrification fund, and direct investment in expanded access to electricity in rural Vanuatu.

Telecommunications Sector: Telecommunications in Vanuatu is a monopoly sector with poor coverage and high prices. GFG is supporting GoV to introduce competition in telecommunications, and to improve regulation of the sector. Through GFG, AusAID is also providing substantial incentive funding – part of the White Paper Incentives Initiative – to support telecommunications reform.

Vanuatu Commodities Marketing Board: GFG will assist with developing strategic policy options for the development of Vanuatu's coconut-based industries, fund an audit and review of VCMB, and provide advice on the most appropriate future role for VCMB.

Part Sale of Air Vanuatu: Through GFG AusAID is funding the services of the International Finance Corporation to advise and assist the government with the sale of a minority share of Air Vanuatu, in order to introduce private sector management expertise and improved operational efficiencies.

Gender and Economic Growth Research: GFG will fund a program of research intended to expand the understanding of the gender aspects of Vanuatu's economy and economic growth.

Research Fund: Annual funding for indigenous research into economic growth, governance and service delivery in Vanuatu will be managed by the GFG Unit.

Support for National Statistics Office: GFG will manage the ongoing institutional partnership between the NSO and the Australian Bureau of Statistics, as well as offering expanded support to improve the quality, timeliness, sex disaggregation and coverage of national statistics.

Risk and Sustainability

Reform in Melanesia has risks, including political instability and change (national elections are due in Vanuatu in 2008); the vulnerability of Vanuatu's economic to external factors;

and the limited human and technical capacity to implement reform. The GFG design incorporates several features to maximise the sustainability of the Outcomes and Results it achieves. Most importantly, it is led by the Government of Vanuatu, ensuring there is strong leadership of the initiatives supported. It is a ten-year program, allowing for reforms to be carried through to implementation and for capacity to be effectively built. GFG supports broad-based economic reforms that will benefit the majority of the population in Vanuatu and have a lasting effect on the economy, and it makes sensible use of technical assistance, using it selectively to support, advise and build long-term capacity within the Government of Vanuatu. Finally, it supports capacity building to strengthen core systems of governance, particularly Vanuatu's own policy and financial management processes.

Program Management

Two key factors influenced the design of the program management arrangements. First, GoV asked that GFG provide for substantive policy engagement directly with the Government of Australia, through AusAID. Secondly, the nature of the policy and structural reforms to be supported by GFG demands strong GoV ownership of, and involvement in the delivery of the program.

Accordingly, GFG is established as a partnership between AusAID and the Government of Vanuatu. AusAID needs the capacity and flexibility to be able to respond to reform initiatives that a contract with a managing agent can often constrain. The Program Director is a senior AusAID officer who reports to a joint Management Committee, which makes decisions about program priorities, resource allocation, and activity implementation, providing a forum for the discussion of both policy and program issues. Matters which require higher-level endorsement within the Government of Vanuatu will be considered by the Central Agencies Committee, with the AusAID Counsellor attending when necessary.

The GFG Unit (comprising four AusAID staff) is housed in Government of Vanuatu office space provided by the Public Service Commission, adjacent to the Prime Minister's Office and the Department of Strategic Policy Coordination. This co-location is both substantively and symbolically important to the partnership, enabling frequent informal contact and the development of close relationships between the GFG staff and government counterparts.

Performance Assessment

The performance of GFG in achieving the Outcomes, and moving towards the intended Results, will be monitored and evaluated through the program's Performance Assessment Framework. Structured around four levels of analysis – country level, program level, activity level and inputs – the PAF utilises existing AusAID and Government of Vanuatu reporting systems and tools as much as possible. Features of the PAF include: a mix of qualitative and quantitative performance approaches; linking the PAF to the Government of Vanuatu's own planning and reporting cycle; the inclusion of participatory evaluation tools; the selective development of program-specific assessment tools with the intention of maximising performance information for Government of Vanuatu and other AusAID programs as well as GFG; and articulation directly to AusAID's agency-wide quality and performance assessment system.

1. Background and Design Preparation

1.1. Origin

The *Joint Strategy on Development Cooperation (2005-2010)* signed in March 2005 commits Australia to “support long term stability for Vanuatu by accelerating development, including broad-based growth, and improving the welfare of the general population”, through improved governance, raising productive capacity and improving service delivery, with a particular focus on isolated rural communities and informal settlements in urban areas. The Strategy reflects the Statement of Principles, signed by Minister Downer and Vanuatu Prime Minister Ham Lini in December 2004, which jointly recognises that the principle of good governance is crucial to the security and prosperity of Vanuatu.

Australia’s White Paper on the overseas aid program, *Australian Aid: Promoting Growth and Stability*, was released in April 2006. The White Paper notes that generating shared and sustainable economic growth is the single most important objective for the Asia-Pacific region over the next ten years. It sets out a plan for Australia’s aid program over the coming ten years in light of a doubling of the aid program by 2010, with increased aid flows linked to performance.

An independent completion report (ICR) of two completed long-term governance projects – the Ministry of Finance and Economic Management Institutional Strengthening Project (MFEM-ISP) and the Public Service Reform Project (PSRP) was undertaken in January 2006. The ICR team found that the two projects had been successful in strengthening financial controls and processes and improving public service recruitment and management, with strong legislative backing. It also found, however, that the projects had focused too much on the establishment of sound systems, and not enough on broader questions of how those systems might influence the ultimate goal of Australian assistance – the implementation of improved policy, the strengthening of growth and the reduction of poverty. Importantly, the ICR team observed that a more appropriate program in support of economic growth would (i) stress support for implementing structural reform and better public investment choices (the quality of spending), and (ii) enhance technical assistance with flexibility to use direct investment support backed by policy dialogue.

Originally envisaged as a facility replacing the two governance projects – MFEM-ISP and the PSRP – the Governance for Growth (GFG) Program was prepared over 2005-06. That preparation included several missions to Vanuatu, extensive consultation with the Government of Vanuatu (GoV), and the AusAID peer review and appraisal process. The output of that preparation was a Design Note, finalised in May 2006, which was the basis for the commencement of GFG implementation in August 2006. The First Year Workplan for GFG was agreed with the Government of Vanuatu in November 2006 and set out a program of activities for the period to August 2007.

1.2. Design Method

The design was undertaken concurrently with implementation of the First Year Workplan. This provided an opportunity to pilot approaches and modalities, test the management approach, and to reflect lessons learned during implementation directly in the design. It also allowed the GFG team to get some early runs on the board and build relationships of trust and understanding with key GoV officials, enabling dialogue about incentives and policy reform.

In April 2007 a Design Concept Note was prepared jointly by Australian and Vanuatu officials. Following endorsement by the Government of Vanuatu Central Agencies Group it was peer reviewed and endorsed in May 2007 by a joint AusAID-GoV peer review panel.

The joint AusAID-GoV design team comprised the GFG Unit and the GFG Management Committee. Specialist inputs were utilised in specific areas – both consultants (e.g. power sector and PFM) as well as IFI expertise (e.g. World Bank on power, telecoms, utilities regulation). The team consulted widely through discussions in Port Vila and a program of consultations in the provinces². These consultations included structured workshops with officials of the Province, line agency provincial representatives, Provincial councillors and representatives from the community. In addition to the workshops, the design team consulted a range of economic activities, communities, schools and health centres. A summary of those consultations is provided at Annex 13, and a list of all people and organisations consulted is at Annex 12.

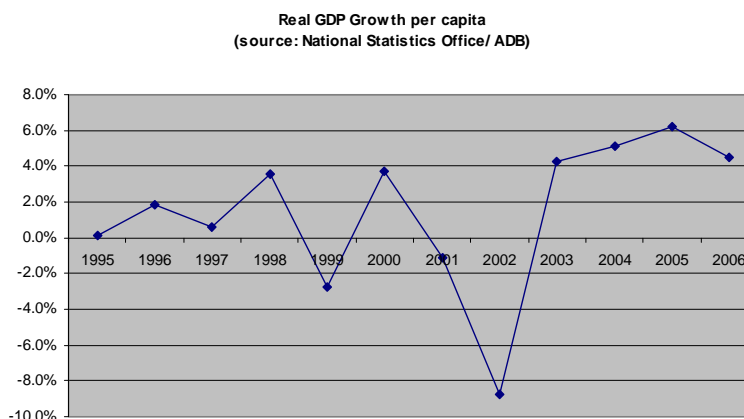
²The Provincial Consultations team comprised: Gregoire Nimbtik (Director, Strategic Policy and Coordination) and Frederick Hosea (Director, Economic and Sector Planning) from Government of Vanuatu, and Chris Bleakley (Director), Sara Webb (Design Specialist), Leith Veremaito (Program Manager) and Sara Lightner (Program Officer) from GFG.

2. Analysis

2.1. The Development Challenge

After mixed performance over an extended period, the last few years have seen strong growth in Vanuatu's economy. Key drivers of this performance have been sound macroeconomic management, recent political stability and improved performance in key sectors (tourism, kava, beef construction, forestry).

However economic growth in Vanuatu remains concentrated rather than broad-based³, reflecting thriving economic activity around Port Vila and to some extent Luganville. In other parts of the country little has changed:



- Around 25% of the population has access to power and the tariff is amongst the highest in the world⁴
- Only about 10% of the population has access to telecommunications (mobile or fixed line)⁵
- Land transport infrastructure is poor – limiting access to services and economic opportunities⁶
- While more than 80% of urban dwellers have access to improved water supplies, only half of rural people have the same access⁷
- Of the 8,000 children who begin primary education every year only 120-150 graduate from secondary school.⁸
- Access to primary health care is variable, with a large proportion of the population travelling for up to 2 days to reach an aid post (reflecting the dispersed population and low coverage of services)⁹
- Female incomes are estimated as only 68% of male incomes and only 3.8% of seats in Parliament are held by women¹⁰

In summary, a large percentage of Vanuatu's population has little or no exposure to government or government services. The overarching development challenge for Vanuatu is to ensure that the benefits of positive economic performance are invested more

³ Asian Development Bank, *Country Strategy and Program Update: Vanuatu 2006 – 2009*, August 2006

⁴ Castalia Strategic Advisers, *Infrastructure Regulatory Review for Government of Vanuatu*, 2005

⁵ ADB *Basic Statistics* 2006

⁶ *Millennium Challenge Compact between USA/MCC and Government of Vanuatu*, March 2006

⁷ Asian Development Bank *Data and Statistical Indicators – Basic Statistics* 2006

⁸ Marcus Cox et al, *The Unfinished State: Drivers of Change in Vanuatu*, April 2007

⁹ Government of Vanuatu, *Priorities and Action Agenda 2006-2015*, June 2006

¹⁰ UNDP Human Development Report 2006

effectively and equitably to provide for increased economic opportunity and service delivery for the whole country.

This challenge is well articulated by leaders from across the political and social spectrum. There is growing demand for the adoption of policy and investment choices which will deliver more broadly based growth. This demand, together with current positive economic performance, provides a critical opportunity for Vanuatu and its donor partners to lay the foundations for future development. Achieving this aim will require that key governance obstacles to growth and service delivery are tackled.

Policy certainty and stability. The political system in Vanuatu can encourage parochial local and party interests at the expense of policies in the national interest. Frequent changes of government (eight Prime Ministers since 1996) both exemplify and exacerbate the problem. The relative stability since late 2004 is a notable exception. Policy instability and uncertainty make life hard for a private sector which must contend with uncertain rules around such fundamentals as the right to import and export. At a broader level, it leads to a lack of coherence in government policy, with policies often appearing to contradict each other.

Policy formulation and implementation. Until recently Vanuatu has lacked clear and coherent development policy, and had limited success in following through to implementation. Initiatives are often short-lived, reflecting short-term political imperatives rather than evidence-based advice from the executive¹¹. Limited analysis is undertaken or commissioned by government to underpin the decisions it takes. Where policy initiatives are agreed, implementation is challenging in an environment of scarce human resources, particularly in areas that demand specialised skills.

There is a widespread lack of accurate and timely feedback on performance, with no common approaches across government for performance monitoring. Information on outcomes, particularly for education and health, and even for GDP, is thought to be of questionable accuracy. Data is generally of a poor quality and is not disaggregated by either sex or province. This greatly limits the capacity of government or donors to effectively target programs and allocate resources, or to monitor implementation.

In 2006 the government adopted a “Priorities and Action Agenda” (PAA) which spells out development priorities, strategies to implement these, and the basis for performance monitoring. The existence of this agenda provides an important opportunity: the PAA should provide a focus for government and donor efforts in the coming years. The government is finalising a Monitoring Framework for the PAA and will publicly report progress annually through an Annual Development Report.

Financial management. Independent studies such as the recent PEFA¹² assessment have found that Vanuatu’s budget process and financial management are relatively sound, especially at the centre within the Department of Finance. However, government spending is not well prioritised, capital expenditure is low and budget preparation does not have a strong policy content: the budget is not used as a tool to implement the government’s vision for the country. Budgets are not prepared or analysed according to their gender or poverty impact.

¹¹ Peter Bazeley and Ben Mullen, *Vanuatu: Economic Opportunities Fact-Finding Mission*, July 2006

¹² Carole Pretorius and Corina Certain, *Vanuatu Public Expenditure and Financial Accountability: Final Report*, European Union, July 2006

The effectiveness of financial management reduces with distance from the centre towards the coal face of service delivery (ie line ministries, provinces). Systems of accountability are weak in the provinces with the result that even low-level financial decision-making is often retained in Port Vila, greatly reducing efficiency. It is also common for the provincial outlets of national ministries to find their annual budgetary allocations diverted by agency headquarters to unbudgeted activities during the course of the year¹³.

These characteristics of public financial management in Vanuatu reduce the quality of public expenditure and constrain the delivery of services. This issue is well recognised by government and is reflected throughout the PAA.

Economic governance, regulation and investment. Vanuatu already faces the high costs associated with its small size and remoteness, but adds further to these costs with poor policy and regulatory settings and inadequate investment in basic infrastructure. The business regulatory environment needs to be streamlined to promote investment. Basic services such as roads, power, telecommunications, water, and inter-island shipping are expensive or unavailable, imposing large costs on the productive sectors, especially outside Port Vila. In some cases these costs arise because poorly regulated private monopolies are not required to meet their service obligations. These obstacles pose a considerable challenge to economic activity, especially outside the main urban centres.¹⁴ The Millennium Challenge Corporation (MCC) is making a major investment (US\$66m) in roads and some other basic infrastructure. Other donors are also developing investment or TA programs in infrastructure (AusAID, EU, Japan, China, World Bank). In combination these efforts should provide a boost to economic growth.

Leadership as the foundation for growth and service delivery. The fact that governance-related constraints have been recognized in the PAA suggests that the government's problem identification machinery is working well. Vanuatu does not lack the legal framework and systems needed to underpin development. What it does require is the leadership at senior political and bureaucratic levels to apply these for the benefit of the country as a whole. It is clear that after many years of capacity building effort by GoV and donors there are very capable individuals working in government – some of the region's most skilful public servants – but these are limited in number. This means the capacity to champion change within government is limited at any one time. It should be noted that the participation of women in formal leadership – both in Parliament and the bureaucracy – is very low. Data on women in senior positions in the public sector are not published, but it is known that only one of ten Directors-General is female and about ten women are Directors (18%)¹⁵.

There are other incentive issues that can constrain development. The Independent Completion Report of AusAID's earlier governance projects found that the primary prerequisite is greater political commitment to rapid growth. In key areas this commitment is apparent, but vested interests and the power of the status quo mean that advice, support, and incentives for reform have a key role to play. Additionally, the lack of public demand for reform further reduces incentives for action.

¹³ Marcus Cox et al, *The Unfinished State: Drivers of Change in Vanuatu*, April 2007

¹⁴ The National Accounts of Vanuatu 2005 report that the value of the agriculture sector decreased by 1.4% in real terms in 2005; this observation is also made in Bazeley, P & Mullen, B, *Economic Opportunities Fact-Finding Mission*, July 2006

¹⁵ Cox et al p29

3. Proposed Response

The goal of the Joint Development Cooperation Strategy 2005-2010, in line with the PAA, is: “to support long term stability for Vanuatu by *accelerating development, including broad-based growth*, and improving the welfare of the general population”. The Strategy goes on to commit AusAID to “consolidating key governance and service delivery programs and expanding their impact into rural areas, and by providing additional support for broad-based and equitable growth”. The GFG Program responds directly to these priorities.

3.1. Approach

The approach taken in GFG reflects a number of key principles, most important of which is **GoV leadership of the program**. Activities undertaken in the program respond to initiatives of GoV and support implementation.

GFG will maintain a **clear focus on supporting equitable growth and service delivery**. It will support good governance as a means to achieve these ends. The focus on growth and service delivery provides the lens through which activities will be prioritised and resources allocated. GFG will seek to avoid the diffusion of effort and loss of focus which can afflict facility-type programs.

Political commitment is essential to the success of a reform program tackling tough issues. As a jointly managed GoV and AusAID program, GFG will position itself in close support of key reform-minded leaders and officials within Vanuatu. The program will facilitate policy engagement between the governments of Vanuatu and Australia around governance issues affecting growth and service delivery. It will respond flexibly and responsively to support reform efforts which align with the program’s aims.

GFG will adopt **aid delivery modalities** according to the demands of the context. It will use direct investment in GoV systems in order to strengthen those systems and to provide incentives for reform, subject to appropriate controls. Technical assistance (TA) will remain important as a means to support change where there is clear political support. In exceptional circumstances TA may have a role in supporting core GoV functions. GFG will use external TA where expertise is not available locally. In some cases TA may be contracted directly by AusAID, in others by GoV – based on a case-by-case assessment of the options. GFG will seek to engage other institutions – such as the International Financial Institutions (World Bank, IFC, ADB) – where they have relevant expertise, and will cooperate actively with other donors. GFG will be the primary vehicle through which AusAID facilitates the work of the IFI’s on governance and economic reform in Vanuatu – ensuring that Vanuatu can benefit from the expertise and experience the IFI’s have to offer without having to rely on borrowing. GFG will also bring significant investment financing to the table – for example, in infrastructure – to directly generate growth and back policy reforms.

All decisions about modalities will be made jointly by AusAID and GoV, based on an analysis of the specific context.

Issues of growth and service delivery offer up a vast array of potential entry points. GFG will be a **targeted and integrated program** that seeks to identify critical issues, risks and opportunities. Program elements will be integrated and mutually reinforcing: better evidence, analysis and consultation will inform policy decisions and the budget process; investments directly targeting growth and service delivery will also provide incentives for

policy implementation; greater attention to monitoring and reporting the outcomes of government programs will increase accountability around the use of public funds; policy engagement will identify opportunities to back policy reform with investment.

Recognising that **gender equality is integral to economic growth**, but also that western concepts of formal gender equality often meet resistance in Vanuatu, GFG will aim to contribute to gender equality in Vanuatu by raising awareness on issues related to women's economic participation and status, and supporting a greater consideration throughout the policy and budget cycle of the impact of government activities on women and men throughout Vanuatu. The starting point for GFG will be supporting a better understanding of women's role in the economy.

GFG will be **integrated with other elements of the AusAID program**, particularly health and education, which are now beginning to look sectorally at issues around public financial management. The sector programs have prime responsibility within AusAID for supporting development outcomes in their sector. GFG will complement this work by tackling cross-cutting issues affecting the quality of public expenditure, and will help to coordinate across these programs and the central agencies of GoV. For example, AusAID education sector program leads Australia's engagement with Vanuatu on education reforms and Australian support for education, but GFG will help to address cross-cutting governance obstacles to that education reform. These might include such things as improved procurement processes to deliver school supplies and equipment more quickly and cheaply to schools in the provinces; or more effective and accountable use of school fees by building local audit and reporting.

There are some elements of the economic growth agenda that will fall outside GFG, with its focus on governance. For example, AusAID is planning increased assistance to the productive sectors and rural development. The role of GFG in this case will be to support policy reforms and regulatory change, and to provide performance-based incentives or subsidies for rural infrastructure. But the responsibility will rest with AusAID's agriculture program for technical assistance and project activities – and their outcomes – in the productive sectors.

GFG will also be the vehicle for **implementation of White Paper Initiatives**: those that link to the governance and growth agenda. For example, the Incentives Initiative is central to the incentives-based approach of GFG, providing substantial motivation for GoV to pursue policy reforms to full implementation. Where GFG works to improve public sector effectiveness in key areas the Public Sector Leadership initiative will be linked; there may also be opportunities to implement elements of the Infrastructure for Growth initiative.

3.1.1. Operating Principles

Reflecting the approach outlined above, GFG will be guided by eight **operating principles**:

1. GFG will maintain a clear focus on supporting equitable growth and service delivery, particularly outside Port Vila.
2. GFG will be driven by GoV policy and will be responsive to opportunities to support reform.
3. There will be collaborative decision-making by GoV and GoA about program priorities and resource allocation.

4. GFG will be primarily concerned with the implementation of policy, and the incentives around implementation.
5. GFG will emphasise incentives for reforms that target equitable growth, with dedicated financing to back these reforms.
6. GFG will have a ten year timeframe, allowing the necessary time for the program to have an impact.
7. GFG will increasingly work through GoV systems, but will select from the full range of aid modalities to achieve greatest impact.
8. GFG will maximise cooperation with other donors.

3.2. Lessons Learned

AusAID has increasingly used flexible mechanisms of support since the mid 1990s. These have variously been called capacity building or governance facilities, or capacity building or governance programs. The design has also been significantly informed by lessons specific to Vanuatu, as articulated in the Independent Completion Report (ICR) of the MFEM-ISP and PSRP. This ICR highlighted positive and negative lessons, born of AusAID's engagement in the governance sector in Vanuatu since 1998. This experience, together with that of other major bilateral donors, the World Bank and the ADB, has generated a number of important lessons¹⁶ which have been reflected in the design of GFG in order to maximise the benefits of a flexible and responsive approach, while addressing some of the challenges:

- **Integrated approach:** AusAID's assistance in governance in Vanuatu over the last eight years reduced the economic growth and governance agenda to one of improving financial management and civil service reform through TA. While it effectively integrated legislative reform with systems development and individual capacity building, this approach neglected many other elements that are crucial to growth, including structural reform and public investment.
- **Long-term engagement:** Experience both in Vanuatu and elsewhere in the region has reinforced the need for a long-term commitment to engagement and support in order to achieve sustainable reform and improvements in capacity. An important element of this long-term engagement is continuity of personnel – crucial to effective and trusting relationships with GoV partners.
- **Focus:** Facilities and flexible programs often face challenges in balancing responsiveness with maintaining a clear focus. This is the other side of the flexibility coin. Too many small activities can dissipate that focus; and providing support across too wide a spectrum of areas can dissipate that focus. Where focus is lost impact is often lost too. The articulation of a clear set of results or objectives (strategic focus) and the rigorous screening of potential activities against those results is essential.
- **Direct dialogue:** The modality used for MFEM-ISP and PSRP – implementation by a managing contractor – cut AusAID out of the day-to-day dialogue around reform and performance improvements. Importantly, in reviewing AusAID's

¹⁶ The lessons referred to in this section are drawn from a range of AusAID and other donor materials, including: MFEM-ISP and PRSP Independent Completion Report (AusAID 2006); Timor Leste Technical Assistance and Capacity Building Discussion Paper (AusAID June 2006); Capacity Building in Public Finance: an evaluation of activities in the Pacific (AusAID September 2004);

governance assistance, GoV representatives highlighted their preference to talk directly to the Australian Government (through AusAID) about economic reforms; not through a third party such as a managing contractor.

- **Choices of Modality:** Many programs and facilities in the past were limited in their response to a problem. Technical assistance was the default modality and, while appropriate in some cases, in others it had little impact or was in fact counter-productive.
- **Selection of Implementers:** Many facilities and programs, especially those managed by a managing contractor, delivered assistance through subcontractors. This added another layer of management into an already many-layered arrangement, sometimes causing confusion for counterparts about where responsibility and authority lay. More recently some programs have begun utilising a greater range of implementing partners, including Australian whole-of-government partners, and working in closer partnership with multilateral organisations. This has provided the capacity to respond in more effective ways and generate additional benefits through more broadly-based partnerships.
- **Resourcing:** Experience across a wide range of programs and facilities has shown that managing a flexible package of assistance is resource-intensive, especially in an environment of instability (economic, political or social). Sufficient senior resources with adequate administration support are crucial to effective management.

4. Program Description

4.1. Goal and Purpose

The GFG program addresses those challenges to broad-based growth and effective service delivery that are derived from weak governance. The Goal of GFG is taken directly from the PAA: **“an educated, healthy and wealthy Vanuatu”**. The program aligns fully with Australia’s focus on accelerating broad and sustainable economic growth, as articulated in the 2006 White Paper on Australia’s aid program.

The Purpose of GFG is **to generate economic growth and improve service delivery through good governance.**

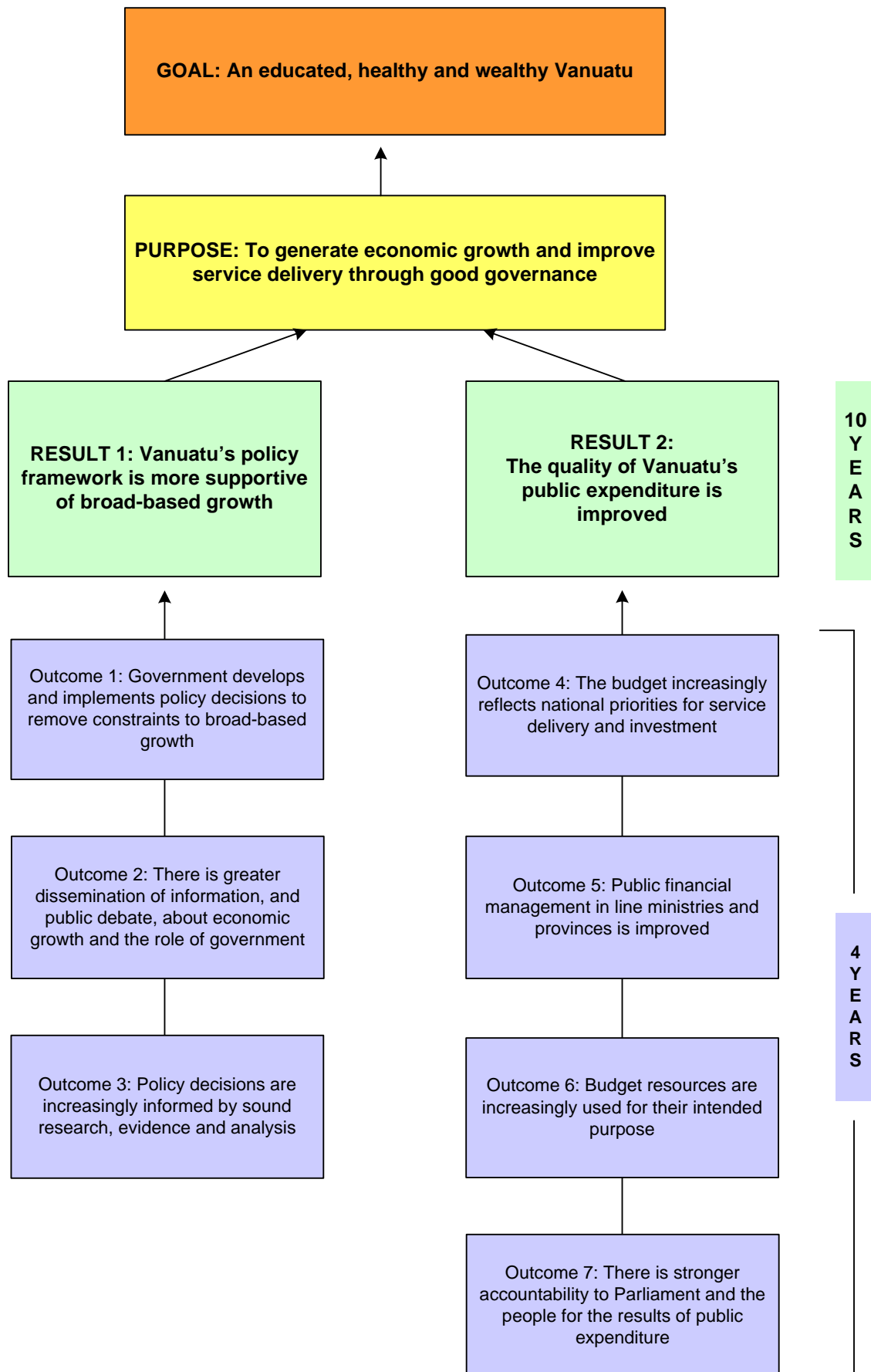
4.2. Results Framework

Beneath the Goal and Purpose outlined above, two Result areas articulate the *ten-year* vision for GFG:

Result 1: Vanuatu’s policy framework is more supportive of broad-based growth

Result 2: The quality of Vanuatu’s public expenditure is improved

The diagram below outlines the logic of the GFG program and shows the *four-year* Outcomes the program will target in working towards the Results. Within this framework activities will be progressively identified through dialogue and agreement with Government of Vanuatu, over the four year period of the design.



4.3. Result 1: Vanuatu's policy framework is more supportive of broad-based growth

A more coherent and consistent policy framework would provide greater certainty to the private sector and could begin to remove obstacles to economic growth.

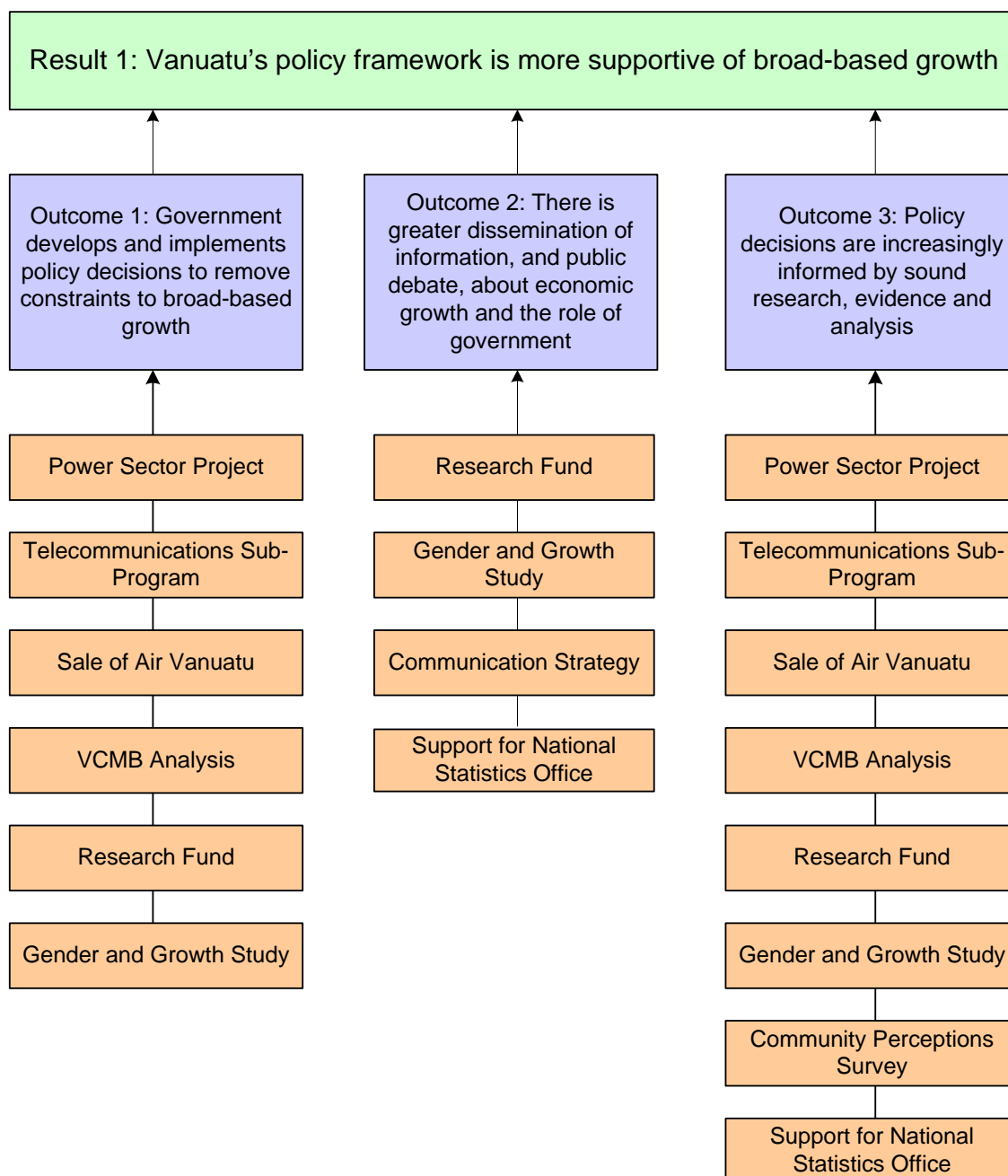
GFG will work closely with key GoV decision-makers to build a more robust policy-making process, incorporating sound research and analysis to ensure decision-makers are well informed about policy options and their implications. The program will help GoV access high quality technical and analytical advice, including on the gender implications of policy issues. GFG will also support the wide dissemination and discussion of research and analysis findings through publications, radio programs, media debates, seminars and other public events.

GFG will work with GoV to identify and support reforms which remove obstacles to broad-based growth for men and women in Vanuatu. Evidence of ownership and political backing for implementation will be the fundamental consideration in deciding which reforms to get behind. GFG will try to demonstrate how a robust policy process can help GoV translate its policy aspirations into reality. The Office of the Prime Minister and its Department of Strategic Policy Coordination (DSPC), along with the other central agencies of government (MFEM, MFA), will provide the focus for this engagement.

GFG will remain focused on the *implementation* of reforms. It will make available incentives for the implementation of sound policy directions. The approach to incentives will be flexible: they may take the form of financing for capacity-building, technical advice, investment or adjustment costs. Each package of assistance will be designed on a case-by-case basis. The aim will be to ensure that the major obstacles to implementation of reform are removed, such that the key determinant of its success becomes GoV's political will, leadership and willingness to drive through change.

Political interest in development outcomes will be strengthened through close engagement with Ministers and political advisers, through improving the quality of performance information, through supporting GoV efforts to engage with the people about roles, responsibilities and performance, and through strengthening the links between the centre and the provinces in planning, budgeting and service delivery.

A set of activities will be undertaken in order to progress towards Result 1, some of which comprise sub-programs of inter-related activities. Further work will be identified and implemented over the four year design period as new issues arise, new reform opportunities emerge, and as political leadership shifts.



4.3.1. Policy Development and Coordination

The Office of the Prime Minister (PMO) and the DSPC play an essential role in overall policy coordination and planning in Vanuatu. This role includes interpreting the broad objectives of the government of the day and working to ensure that the bureaucracy responds effectively to translate these into action. PMO and DSPC perform key coordinating functions across government and are closely involved in a range of GoV’s core decision-making or advisory bodies such as the Council of Ministers (COM), Development Officials Committee (DCO) and Central Agencies Committee (CAC).

As the Chair of the CAC, the Director General of the PMO is a key counterpart of the GFG Program. The Director of DSPC is the Chair of the GFG management Committee.

The Program Director will work closely with these counterparts to identify ways that the GFG can support and strengthen the central policy development and coordination functions of government. This might include support for processes and systems or the provision of analytical or policy advice on issues of concern to GoV (including sourcing external expertise where needed). Key aims will be to ensure that a greater degree of policy rigour and coherency inform the decisions taken by government, and to strengthen the government's capacity to coordinate and monitor the actions of the bureaucracy in responding to government's decisions.

Work in this area will be coordinated with support provided on economic and sector planning and public financial management such that GFG is providing an integrated program of support around GoV's policy analysis, development, implementation and monitoring functions.

4.3.2. Incentives

GFG will make direct investments or grants, framed as incentives to support key GoV reform initiatives, with a focus on investments that generate broad-based growth¹⁷. The 2006 grant via the World Bank to support the establishment of the Utilities Regulatory Authority was the first of these. Investments made directly into the GoV system in support of improved service delivery in specific sectors (health and education) will be made outside GFG, through AusAID's programs in those sectors.

Investments here will take two forms: targeted grants and multi-year investments through the GoV budget. They are intended to provide incentives to encourage and support positive reforms. While grants (either made directly to GoV or through third parties such as the World Bank) are relatively straightforward to agree, manage and monitor, multi-year investments require a more complex architecture, including general and specific monitoring and performance indicators. In order for the investment program to provide an effective incentives structure it will be essential that the conditions to secure investment are clear, and known in advance.

Investment is being built into core GFG activities. In **telecommunications** financing for rural access is part of an overall incentive-based approach. Clear performance triggers have been agreed. If GoV can achieve the agreed milestones then GFG will fund a \$6.0 m program of regulatory support and investment. If GoV cannot complete the agreed reforms GFG is likely to provide scaled-back assistance focused on regulatory support.

The **power sector** program will provide \$8.0m for sector planning, regulation and investment in rural electrification. Investment support is incentive-based and linked to GoV's own contributions through the Sarakata Hydro Scheme Special Fund, and related reforms.

GFG is in the early stage of planning a broader **rural infrastructure** program which will aim to develop a mechanism to invest in supporting community needs for basic infrastructure. This will be developed in coordination with other AusAID/EC work on support to the productive sectors, and will take into account women's needs so as to ensure new infrastructure reduces rather than increases women's workloads, as well as men's.

¹⁷ In the previous Concept Note and in earlier design consultations with GoV this was articulated as a Policy Reform Fund.

4.3.3. Power Sector Project

Improving access to power is fundamental to economic and social development in Vanuatu. Modern services sectors, such as the growing tourist trade and off-shore financial services need reliable power to operate. Social and economic development requires education, which is helped enormously when children (and adults) have electric light by which to study in the evenings. Health facilities depend on power for lighting, equipment and cold storage. Staying in touch with the world by telephone and internet demands electricity. So too do the small agricultural processing operations that could increase rural livelihoods.

At around 27% of the population, access to safe and reliable power in Vanuatu is low compared to comparator countries. While Port Vila and Luganville are well-served, rural communities have very limited or no access. At US 48 cents per kWh the base power tariff is amongst the highest in the world.

GFG's power sector project will aim to achieve the following outcomes:

1. Access to safe and reliable power for men and women is expanded across Vanuatu.
2. Electricity is provided at prices which are reflective of efficient costs including an adequate return on investment.
3. The legal framework and institutional capacity for effective regulation of the energy sector is established.

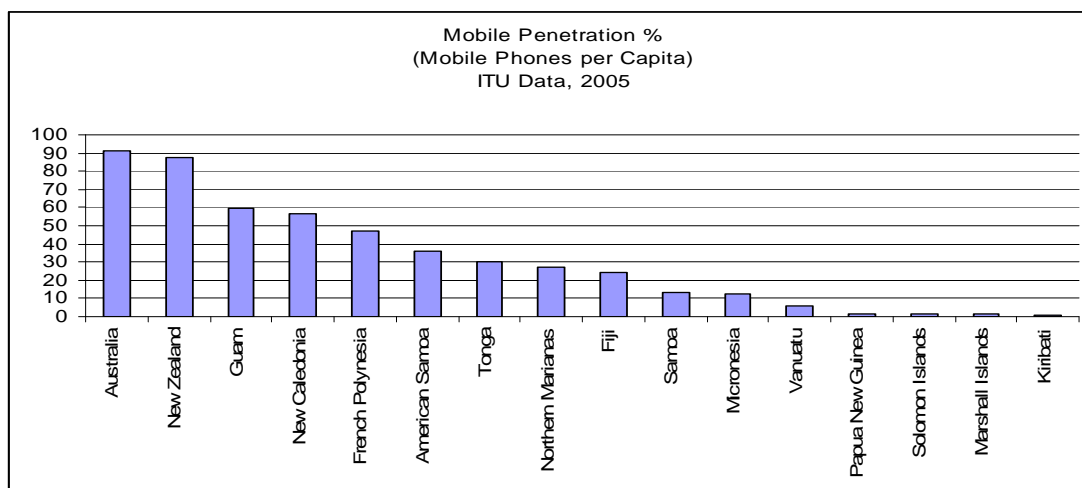
To achieve these outcomes the project will provide: assistance to the new established Utilities Regulatory Authority; analytical advice on mechanisms for financing rural electrification (including the existing Sarakata Special Reserve Fund); capacity building support to the energy unit; and investment financing for a rural electrification program. The Sub-program will be implemented in partnership with the World Bank and other donors active in the energy sector (EU, Japan) as well as alternative service providers, including NGOs (such as VANREPA).

Full details of the Power Sector Project are outlined in Annex 2. The budget is \$8.9m over 2008-11.

4.3.4. Telecommunications Sector Sub-Program

Well-functioning and affordable information and communications infrastructure, and a more dynamic communications sector are crucial to Vanuatu's development and growth prospects. Currently the telecommunications sector faces a number of challenges:

- High prices, particularly for non-local and mobile telephone and data services
- Limited coverage, particularly outside Port Vila
- Limited range of products and services
- Monopolistic market structure with a single provider – Telecom Vanuatu Limited (TVL)
- Weak policy making and regulatory capacity.



These problems are the source of major dissatisfaction amongst the public and the business community, with strong and increasing public pressure on GoV to take action. In urban areas high costs and poor service stifle the ability of the private sector to take advantage of new technology. In rural areas poor phone coverage is a major barrier to economic activities, for example the capacity of farmers to coordinate their activities across the supply chain (producers, processing, distribution, buyers).

GFG's Telecommunications Sector Sub-Program will aim to achieve the following outcomes:

1. The availability of telecommunication services is expanded throughout Vanuatu.
2. The costs of telecommunications services are reduced throughout Vanuatu.
3. The legal framework and institutional capacity for effective regulation of the telecommunications sector is established.

To achieve these outcomes GFG will provide: support for negotiations to open the market to competition; and incentive-based program for regulatory and policy support and rural access financing. The program will be implemented in partnership with the World Bank (potentially through financing for a World Bank operation).

Full details of the Telecommunications Sector Sub-Program are outlined in Annex 3. The budget is \$6.506m over 2008-11.

4.3.5. Partial Sale of Air Vanuatu

The Government of Vanuatu (GoV) is seeking to privatize its national carrier, Air Vanuatu, and has requested a Proposal from the International Finance Corporation (IFC) on the provision of advisory services to assist in structuring and implementing the transaction. IFC is the private sector arm of the World Bank Group. The benefits GoV is seeking to realise through this partnership include:

- Reduction, and preferably elimination, of all government subsidies.
- Increased passenger flows: By further leveraging the marketing strength of a strategic partner, as well as better integrating flights and connections, increasing passenger numbers is a realistic goal.
- Expansion of the Jet fleet. Either by leasing appropriate aircraft from the airline partner (at market-related rates or lower), or by lending its market "muscle" to

secure new aircraft from third parties at competitive rates, a strategic partner can facilitate an expansion of Air Vanuatu's current fleet of a single Boeing 737.

- Improved operational performance: In addition, operational efficiencies will facilitate reductions in price, important for the highly price sensitive tourist market.
- Demonstrate the commitment to sector reform and the business friendly policy approach in Vanuatu to the international investment community.

To achieve these benefits, GFG will provide funding to enable GoV to engage IFC to achieve the following outcome:

- Undertake a successful sale process for up to half of the government's shares in the Air Vanuatu (expected to be by 46%).

IFC has considerable international experience in this area including the recent successful sale of Polynesian Airlines in Samoa. IFC has provided a detailed workplan which covers: sellers due-diligence, tender preparation, marketing, conducting the tender and final negotiations. Negotiations to finalize a contract between GoV and IFC are underway.

This activity has already been funded.

4.3.6. Vanuatu Commodities Marketing Board

Although copra no longer occupies the dominant position it once held in Vanuatu's economy, it remains a crucial source of cash for men and women in rural communities who otherwise have few economic options. The GoV has a strong commitment to rural growth and sees the importance of ensuring it has the right policy settings in place for the copra and coconut-based products generally. In April 2007, the Prime Minister, Honourable Vanuaroroa Ham Lini requested a review of the operations of the VCMB, which has regulatory responsibility, and advice on the government's policy options for the copra industry as a whole. The Prime Minister asked that this support be provided GFG. Discussions on the form of this assistance are ongoing but areas are expected to focus on the following outcomes:

1. The development of strategic policy options for the development of Vanuatu's coconut-based industries.
2. Assessment of the performance and identification of the most appropriate role of the VCMB.

A total of \$150,000 has been allocated for this work in 2008. Any subsequent follow-up work or assistance with structural reform of VCMB would be funded from unallocated funds in the GFG budget.

4.3.7. GFG Research Fund

To underpin policies that will contribute to economic and social development, Vanuatu's policy makers need better access to up-to-date and good quality information and statistics. There is also a critical need to share such information with the general public, as a means of engaging the broader population in dialogue surrounding current issues affecting growth and service delivery and to inform a more active public debate. To help meet these needs GFG will establish a Research Fund as a means to support local organisations (both government and non-government) in undertaking research projects that contribute to a better understanding of how to generate economic growth and improve service delivery through good governance, especially focusing in rural areas.

Through the Research Fund GFG will aim to achieve the following outcome:

1. High quality analysis and/or research into economic growth, governance and service delivery is available in Vanuatu.

The fund will focus on: support for high quality, independently peer-reviewed research that responds to locally-led research questions; utilising local research capacity; building partnerships with international researchers; taking into account gender issues; and broad dissemination of research findings.

A summary of the operations of the Research Fund is outlined in Annex 4. The budget is \$0.8m over 2008-11.

4.3.8. Gender and Economic Growth Research

The GFG program aims to promote economic growth and improve service delivery to the majority of the rural population. An important underlying principle for this economic growth and services delivery is equality of access to the opportunities by all segments of the population, including women. It is well established that the employment of women has done more to encourage global growth than increases in capital investment and productively improvements¹⁸. In many countries, and South East Asia in particular, products made or grown by women dominate the region's exports. GoV has adopted promoting gender equality and empowering women as a social policy objective under the PAA. A focus on gender issues will also help the government achieve its economic objectives, through a better understanding of the drivers of economic output.

Women in Vanuatu play a key role in the informal economy, although this role (and also that of men) is poorly quantified: data on both women and men in the cash and non-cash economies is limited and often outdated, with the result that the government and donors lack the information on which to make sound policy and investment decisions to encourage greater economic productivity. Gender issues do not figure in the thinking and debate around on economic growth in Vanuatu, within both government and the private sector. Capturing basic data around economic participation would provide a good starting point for further discussion and awareness, leading to a stronger constituency for action.

Progress towards gender equality depends on strategic and well-targeted interventions. Because such targeting requires a strong foundation of knowledge and understanding, GFG will support a program of gender research throughout its implementation. The first study will be a Survey of Economic Participation and Production, which aims to achieve the following outcome:

1. A statistically valid snapshot of the participation and production of men and women in the formal and non-formal economies is produced and disseminated.

Appetite for debate about gender equality is uncertain in the GoV ministries most concerned with growth. Therefore this Study will provide a basis for follow-up discussions on opportunities for GFG to support a wider program of gender-focused analysis and assistance, and for better informing GoV, AusAID and other donor activities across the economic growth agenda. The study provides is an opportunity to foster greater

¹⁸ *Gender equality in Australia's aid program – why and how*, AusAID, March 2007

appreciation of, the appetite for debate around, the gender dimensions of economic growth within GoV ministries with a mandate for promoting economic growth.

The Study will be undertaken in close collaboration with DESP, the Department of Women's Affairs and the National Statistics Office, and further details are provided in Annex 5. The budget for the Study, together with possible follow-up research, is \$200,000 in 2007-08.

4.3.9. Support for Vanuatu National Statistics Office

AusAID has an ongoing program of support for the Vanuatu National Statistics Office (NSO) which is being implemented through an institutional twinning relationship with the Australian Bureau of Statistics. This support is already funded to the tune of \$500,000. Grant funding has also recently been provided for the Agriculture Census and the Household Income and Expenditure Survey, which are due to be completed in early 2008. The next major statistical collection schedule for NSO is the 2009 Population Census. It is possible that assistance will be sought for the preparation and implementation of the Census, but no discussions have yet been had on this matter.

In order to allow for a possible expansion of support to NSO, and to provide scope to respond to any requests for assistance with the 2009 Census, GFG has allocated \$1.58 million over 2008-2011.

4.3.10. Community Perceptions Survey

Working with the DSPC, GFG will commission an annual Community Perceptions Survey to monitor changes (if any) in the community's access to information about, and perceptions of, their government. Through supporting this Survey GFG will aim to achieve the following outcome:

1. GoV is provided with feedback on the perceptions of men and women in the community about their access to services and information about government, in a way that allows this to be tracked over time.

The intention is that such feedback should help to motivate and inform GoV's response to community development concerns and priorities. The Survey will also feed into GFG performance evaluation on the effectiveness of its communication efforts. The Survey will focus on perceptions about: government services, budget and expenditure; access to information about government services and expenditure; and Vanuatu's development progress.

The Survey will be conducted in November each year and will be undertaken by a locally contracted organisation, but with international expertise feeding in as required to ensure a robust methodology. It will survey a representative sample of men and women, using structured interviews. It may be consolidated with a survey of community awareness of the formal legal system, which is currently being considered by the Legal Sector Support Program; it will also be developed in consultation with AusAID's Demand for Better Governance program.

The indicative budget for this Survey is \$140,000 over 2008-11 (\$35,000 per year).

4.3.11. Further Work

This design maps out a number of activities which are expected to form the core of GFG's policy reform agenda in the coming years. There will be an ongoing and iterative dialogue with GoV about possible other areas for GFG to support, based on a range of criteria including: potential impact in the Program's result areas; political demand and commitment to implement reform; absorptive capacity; and capability of GFG to provide assistance. Early work will include a feasibility study into options for investment in community infrastructure and maintenance (to be developed in coordination with broader assistance in the productive sectors currently being designed by AusAID and the EC).

4.4. Result 2: The quality of Vanuatu's public expenditure is improved

Vanuatu rates highly in any regional comparison of the quality of public expenditure management. The budget process is orderly and well-managed. Budget execution is centrally controlled by MFEM through the Department of Finance, with generally good knowledge of where resources are used. The budget has been in surplus for several years. These strong central and macro controls have helped to deliver positive economic performance over an extended period: an impressive achievement.

But questions are increasingly being asked as to whether allocated resources are actually being used effectively to deliver services and investment to the community, particularly in rural areas. There is a growing sense that this is not the case: that action is needed to enhance both the quality and execution of the budget.

Working from the basis of the PAA and government's expressed policy objectives, GFG will help GoV to improve the quality of the budget such that it better reflects national priorities for service delivery and investment. GFG will help GoV to use the budget process as a tool for policy implementation rather than just a process of resource allocation. It will help GoV to review the allocation of resources between and within ministries within its overall budget ceiling. It will also strengthen the basis for performance assessment to provide a better sense of whether funding is being well-used by line ministries to deliver services and investment to the community. Support will be provided around the virement process to ensure allocated resources are increasingly used by line ministries for their budgeted purpose and not diverted to other end-uses.

GFG will help GoV explore more innovative options for service delivery – such as supplementing the traditional role of line ministries with increased use of other actors as service delivery providers (e.g. churches, NGOs).

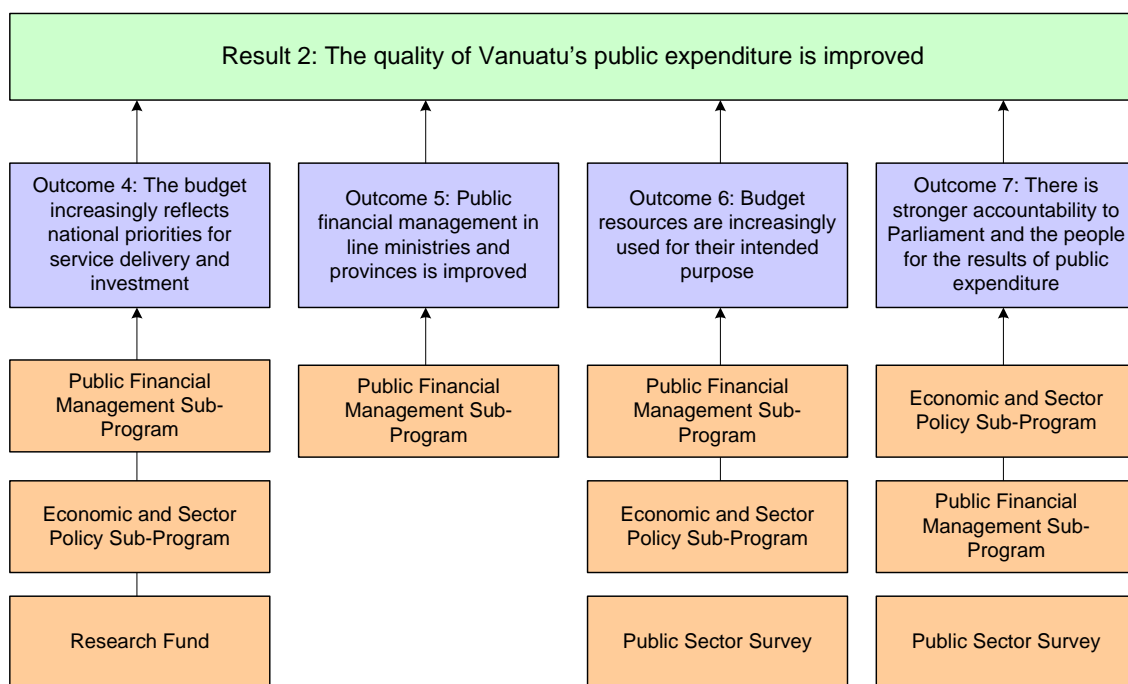
GoV can have confidence in the PFM systems and practices within the DoF. However, this confidence diminishes as resources move from the centre towards the coal face of service delivery: within line ministries and particularly out in the provinces. Continued PFM weakness in these areas compromises GoV's ability to translate allocated funding into delivery of services. GFG will undertake a substantial program of PFM capacity building. The program will help GoV identify overarching and systemic issues which cut across the delivery of government services (beginning in the critical big-spending GoV sectors where AusAID also has substantial programs – health, education): where it makes sense for GoV to take a broad rather than sector-by-sector view. GFG will assess risks and opportunities to identify PFM bottlenecks to service delivery or critical points of influence. This will include an initiative to establish credible financial controllers at the provincial level to

improve accountability and provide a basis for greater delegation of PFM responsibility, thereby improving the flow of resources from Port Vila to where they are needed.

Through this program of support GFG will be looking to build capacity and provide incentives to encourage leadership within GoV as the key ingredient to making existing systems work more effectively and tackling well-known governance constraints. It will also explore the scope to introduce GoV counterparts to concepts such as gender-based budgeting and gender budget analysis, and gender analysis of policy and project proposals.

Key counterparts for GFG will be the Department of Economic and Sector Planning (DESP) and Department of Finance (DoF) within MFEM, as well as the DSPC in the Prime Minister’s Office and the Ministry of Foreign Affairs (which has responsibility for aid coordination). GFG will draw on a range of analytical work on PFM¹⁹, and a strong partnership which has emerged within some of Vanuatu’s key donor partners (particularly the EU and New Zealand). The program will sustain the commitment of earlier AusAID programs (i.e. the MFEM ISP) to support PFM systems and processes, but take this support into new areas which contribute directly to supporting services delivery and growth.

A set of activities will be undertaken in order to progress towards Result 2, some of which comprise sub-programs of inter-related activities. Further work will be identified and implemented over the four year design period as new issues arise, new reform opportunities emerge, and as political leadership shifts.



¹⁹ Bazeley & Mullen, *Economic Opportunities Fact-Finding Mission*, July 2006; Pretorius & Certain, *PEFA Final Report*, July 2006; Cox et al, *The Unfinished State: Drivers of Change in Vanuatu*, April 2007; Nik Soni & Mark Harradine. *Improving government budget management through GFG and opportunities for direct investment*. Draft report. April 2007.

4.4.1. Economic and Sector Policy Sub-Program

GoV has recognised the weakness of its policy coordination, planning and budget processes in terms of quality, policy content and performance assessment.

The Department of Economic and Sector Planning (DESP) has the mandate to provide advice to the Minister of Finance and Economic Management and the Government on economic, financial and sectoral policy matters. DESP lacks the capacity to effectively undertake its functions. While DESP remains weak, GoV's capacity to drive improvements in service delivery and growth through well-considered economic and sector policy advice will continue to be compromised.

GFG will provide support across GoV's critical policy development and coordination functions. The Economic and Sector Policy Sub-Program will aim to achieve the following outcomes:

1. Strengthened coordination, planning and economic analysis functions of GoV.
2. The budget increasingly reflects national priorities for service delivery and investment.
3. There is stronger accountability to Parliament and the people for the results of public expenditure.

To achieve these outcomes the program will provide a long term Strategy and Sector Policy Adviser who will work with DESP to develop evidence-based policy processes and a more robust monitoring framework around the budget and the PAA. GFG will also engage a long-term Economics Adviser to help set-up quantitative tools for economic forecasting and to train DESP staff in the use of these systems and in the preparation of macroeconomic frameworks. The program will help DESP undertake a review of GoV functions and responsibilities as relates to policy coordination, planning and economic analysis and the implications of this for DESP in terms of structure and HR practices more broadly. This assistance will be coordinated with that provided around policy coordination to the PMO and DSPC.

The Sub-program will be implemented in partnership with NZAID and PFTAC, both of which have been involved in related areas.

Full details of the Economic and Sector Policy Sub-Program are outlined in Annex 6. The budget is \$3m over 2008-11.

4.4.2. Public Financial Management Sub-Program

Sound public financial management (PFM) supports aggregate control, prioritisation, accountability and efficiency in the management of public resources and the delivery of services, which are critical to the achievement of public policy objectives, including achievement of the Millennium Development Goals (World Bank, 2004). While many inputs contribute to public policy outcomes – including a range of non-financial inputs – PFM occupies a strategic and central supporting position. Every activity of government requires financing. For GFG, which is looking to tackle cross-cutting issues affecting growth and service delivery in Vanuatu, PFM is a high priority. In the Vanuatu Government context, PFM is centred on the annual cycle of recurrent and development budget formulation, execution and monitoring.

GFG's Public Financial Management Sub-Program will aim to achieve the following outcomes:

1. The budget increasingly reflects national priorities for service delivery and investment.
2. Budget resources are increasingly used for their intended purpose.
3. Public financial management in line ministries (health, education) and provinces is improved.

To achieve these outcomes GFG will support a substantial program of PFM capacity building. A PFM Coordinator will be appointed within the GFG Office to lead and coordinate this work. The Coordinator will help GoV to find and overcome PFM bottlenecks to the effective delivery of services, developing a work program based around a structured assessment of risks and opportunities. This program will include an initiative focused on provincial PFM capacity building, expected to include the establishment of provincial financial controllers as a means to establish greater accountability and oversight and facilitate deconcentration of decision-making authority. The PFM Sub-Program will be closely coordinated with the Economic and Sector Sub-Program and support to DSPC, both of which have a focus on strengthening elements of the budget process.

GFG will also finance the recruitment of a Revenue Adviser within the DF to support revenue administration and policy.

GFG's PFM program will continue AusAID's long and productive association with MFEM – helping to ensure past gains are not lost, while taking support into new areas. It will also be the centrepiece of GFG's implementation of AusAID's anti-corruption policy: *Tackling corruption for growth and development*, by reducing the opportunities for corruption (through improved budget, financial management and accountability processes), and building constituencies for reform (through greater public access to information about the government budget and its expenditure).

The Sub-program will be implemented in partnership with NZAID and the EU, both of which are substantively involved in PFM. It will also provide a cross-cutting resource for the broader AusAID program, particularly in health and education, to help ensure coherency in the way PFM issues are addressed.

Full details of the Public Financial Management Sub-Program are outlined in Annex 7. The budget is \$6.25m over 2008-11.

4.4.3. Public Sector Survey

GFG will collaborate with the PSC and DSPC to conduct a survey of men and women in the public services to monitor their perceptions of the effectiveness of the public service in delivering services to the men and women of Vanuatu, and their views on how to improve that effectiveness. By supporting this Survey GFG will aim to achieve the following outcome:

- GoV is provided with feedback on the perceptions of men and women in the public service about the effectiveness of government services, in a way that allows this to be tracked over time.

The Survey will also provide a means to evaluate the effectiveness of GFG activities in this area, and will be designed so as to provide value for other relevant AusAID programs, such as the Demand for Better Governance activities or the Legal Sector Strengthening Project.

The Survey will be undertaken annually by a locally contracted consultant or organisation who will work with GFG and PSC/DSPC, drawing on appropriate international expertise as needed to ensure a statistically robust methodology. It will be anonymous to encourage honest feedback, using either written or internet-based technology (recognising the limitations of internet access for public servants in the provinces).

The indicative budget for this Survey is \$100,000 over 2008-11 (\$25,000 per year).

4.4.4. Further Work

As noted in 4.3.11, this design maps out a number of activities which are expected to form the core of GFG's policy reform agenda in the coming years. There will be an ongoing and iterative dialogue with GoV about possible other areas for GFG to support, based on a range of criteria including: potential impact in the Program's result areas; political demand and commitment to implement reform; absorptive capacity; and capability of GFG to provide assistance. Additional activities addressing this Result area will be identified and implemented over the four year design period. Ideas being given early consideration include providing assistance to the Office of the Auditor-General – a key accountability agency in Vanuatu. However dialogue is at an early stage and would also be subject to consideration of other donor activities; there is some interest in support for the AG from both NZAID and the EU.

4.5. Location, Duration, Budget

GFG is being implemented throughout Vanuatu from a base in the capital, Port Vila. It commenced with a first year of program activities in mid-2006.

The subsequent ten years of activities will be implemented over the period 2007 to 2017, with an independent review at the conclusion of the four year workplan that is the focus of this design (ie in 2011).

The proposed budget for GFG is \$34.676 million over the period to 2011. Detailed Cost Estimates are at Annex 1. Some key features of this budget are:

- \$6.106 million in Incentives Funding to support telecommunications sector reforms
- Provision of unallocated funding throughout the program to allow for responses to emerging reform opportunities or assistance needs. This unallocated funding totals \$3.75 million over four years

4.6. Communications Strategy

Improving access to information is a critical element to the success of economic and social development of Vanuatu. When communities are informed about current events and activities, there are opportunities for debate and dialogue around the issues which affect lives and livelihoods. Access to information is also a necessity for building constituencies for anti-corruption reform. The potential for men and women to engage in the workings of government also increases with access to information. Even quite basic information – e.g. shipping and airline timetables, commodity prices, industry developments – can make a big difference to how effectively people can pursue economic opportunities.

In rural areas in Vanuatu such information is in very short supply. Indeed by most estimates the majority of the population has no access to public radio, regular newspapers and mobile telecommunications. This provides a tremendous barrier to economic growth in rural areas, and exacerbates the economic divide between urban and rural ni-Vanuatu. Indeed it is one key reason why many rural ni-Vanuatu men and women may feel limited connection to the idea of Vanuatu as a state which is concerned for their interests.

Access to information requires functional and affordable systems of communication reaching beyond urban areas to reach the nearly eighty percent of the population which lives outside of Port Vila and Luganville.

GFG will support a program of communications and outreach which aims to achieve the following objectives:

1. To increase dissemination of information, and encourage public debate amongst women and men, about economic growth and the role of different actors in facilitating development.
2. To support the provision of basic economic information which enables communities to maximise their productive potential.

Radio Vanuatu as an Outreach Tool

In the past, Radio Vanuatu was an essential tool of information dissemination to the rural communities in Vanuatu; indeed, it was utilised as a nation-building tool prior to Vanuatu's independence. However, for nearly ten years, the shortwave capacity of Radio Vanuatu has diminished, to the extent that currently the majority of the rural population does not have access to the radio. AusAID is currently involved in *Voes Blong Vanuatu*, a joint program with other donors and the Vanuatu Broadcasting and Television Corporation (VBTC), to "support the development of an accessible, responsive and professional Radio Vanuatu." It is expected that there will be shortwave service available to the outer islands by the end of 2007. Upon the reintroduction of shortwave service, GFG will utilise this important communication tool to reach out to Vanuatu's rural communities. GFG will create a radio program to encourage debate about issues of economic growth and good governance. The program will take a variety of forms, including interviews, talk back sessions, informational shows, or reporting on current events having to do with good governance, economic growth and service delivery.

GFG will also assist interested parties in acquiring air time for potential programs that relate to the areas of governance, service delivery, and economic growth. This may be through a project funded by Radio Australia, which is sponsoring air time for radio programs. Other examples of GFG programs could include subsidising the shipping news, sponsoring airtime for public servants to talk about their particular areas of focus (DESP, Finance, etc), or daily coprah/cacao/kava market prices. GFG staff will assist interested parties in the creation of the programs before they are aired.

Newspaper Access

The Daily Post is Vanuatu's only daily newspaper, and it is readily available in the urban centres of Port Vila and Luganville. The Independent has similar distribution but is published on a weekly basis. However, in Vanuatu's rural areas there is no organised system which provides access to the newspapers. GFG will conduct a feasibility study to determine the most effective method of disseminating newspapers throughout the islands, and then attempt to work with one or more of the providers to create a workable system of

newspaper dissemination. This might include assistance to contract a local agent (whether the National Bank of Vanuatu, the airport, or the post office) to sell the newspapers.

Telecommunications Access

GFG will address Vanuatu's telecommunications issues through its Telecommunications Sub-Program. Throughout the world, research has shown that increased access to telecommunications opens many doors, by increasing potential for economic activity and furthering social development.

Additional Methods of Dissemination

GFG will look at other methods of sparking debate and disseminating information throughout Vanuatu. Some ideas include an informational DVD that focuses on current issues and general information about the government, to be jointly created by GoV and GFG. This could be disseminated via churches, schools, NGOs, or governmental provincial offices. Another idea is an educational program/competition that focuses on schools, perhaps relating to the launching of shortwave improvements slated by VBTC. This may include an essay and poster contest, or a program similar to those supported by the World Bank's Global Development Marketplace.

Budget

The indicative budget for this strategy is \$100,000 total over 2008-11 (\$25,000 per year).

4.7. Gender

GFG has developed this design on the basis of dialogue with men and women in Vanuatu – in the public sector, in the private sector, and in communities around the country. The design team spoke to women as well as men – separately, at times – during its provincial consultations. This reminded the team that the priorities of women and men are not always the same; the impact of policy reform and investment is not always the same for women and men; and opportunities for earning incomes are not always the same. GFG seeks to acknowledge and reflect those differences in its sub-programs and activities, and in its dialogue with GoV. For example, in supporting the expansion of access to basic infrastructure, GFG has powerful potential to improve the lives of rural women and men. But it is essential that infrastructure is designed with a gender perspective. Therefore any infrastructure investment funded by GFG will be founded on a gender analysis, not just an economic analysis.

GFG will seek to learn from the experiences of AusAID and other donors, which have found that attention to gender equality enhances development effectiveness and that advancements in gender equality enhance sustainable growth. However there is some resistance in Vanuatu to discussion of formal gender equality, especially when couched in Western terminology, on the grounds that it might undermine traditional roles and practices. Nevertheless, it is widely agreed in Vanuatu that women play important roles in their communities, despite their virtual absence from formal leadership roles²⁰.

The approach taken by GFG is one of first gathering information and developing understanding about the relative roles of men and women in the economy – both formal and informal. The Gender and Growth research outlined in Section 4.6.3 is the starting point for this approach, and the results will be used to further pursue a dialogue with GoV and others about the opportunities to address gender equality. In this way GFG reflects

²⁰ Cox et al, *Drivers of Change in Vanuatu*

good practice in advancing gender equality: comprehensive analysis followed by selective action. GFG will use appropriate language and practical terms in talking about men and women and economic growth. It will support this dialogue with demonstrations of the value of understanding the differential experiences of men and women in response to policy, infrastructure and economic initiatives.

GFG sub-programs, projects and other activities will incorporate a gender perspective in their design and implementation. This process will be led by the GFG Program Manager, who is the GFG gender focal point. The extent to which program activities and sub-program successfully achieve this will be subject to performance assessment on at least an annual basis, through the GFG PAF.

4.8. Anti-corruption

The GFG program will contribute to AusAID's anti-corruption efforts in Vanuatu, in line with *Tackling Corruption for Growth and Development – A Policy for Australian development assistance on anti-corruption*, complementing other work through the Legal Sector Strengthening Project and the Vanuatu Police Force Capacity Building Project. The program will reduce the opportunities for corruption by strengthening financial management and accountability, improving budget processes and enhancing the access of Vanuatu's people to information about the its government. If called on by GoV it will undertake reforms to key institutions for governance and accountability, either at a national or a sector level (e.g. planned reforms to the VCMB).

4.9. Sustainability

The GFG design incorporates a number of features to maximise the sustainability of the Outcomes and Results it achieves.

Most importantly, **GFG is led by the Government of Vanuatu**. GFG is a partnership program between Government of Vanuatu (GoV) and Government of Australia, through AusAID. GFG ensures there is strong leadership around the initiatives proposed – both from political, agency and official level. GFG is jointly managed through management arrangements that are built around existing GoV structures, led by the Central Agency Group (CAG). The CAG determines policy directions, resources and has the overseeing role in the implementation of priorities. The GFG team is co-located within GoV offices, further emphasising the nature of the program and the strong ownership by GoV.

GFG is a **ten year program** to support GoV-led reform initiatives. This timeframe will allow for reforms to be carried through to full implementation, rather than being left half-completed.

The activities implemented by the GFG program are **broad-based economic reforms** affecting the majority of the population in Vanuatu. Many of these reforms will be structural, and will have lasting effects on the Vanuatu economy – the provision of basic infrastructure and introduction of competition in some markets is a good example.

GFG makes **sensible use of TA**, using selected inputs to support, advise and build long-term capacity within the GoV. TA which goes outside these boundaries will only be considered in exceptional circumstances for a crucial function or role which GoV cannot otherwise perform.

4.10. Capacity Building

The GFG program has a strong capacity building focus, addressing both individual and institutional capacity issues. To further articulate this focus and the intended approaches, the GFG Unit will prepare a Capacity Building Strategy as part of its first Annual Report and Workplan. The Strategy will include a number of elements, including:

- Explicit and deliberate attention to capacity building in the development of activity and adviser TOR, in order to give the appropriate emphasis to capacity building outcomes in each activity (recognising that the extent of capacity building, and the approach, will vary for each activity).
- Inclusion of capacity building performance indicators in activity and sub-program designs
- Provision of capacity building advice and support to advisers and implementing partners – by the Program Director, via the AusAID Vanuatu Technical Assistance Panel, and through formal training (a tailored capacity building course, *Making a Difference*, will be run in Port Vila in March 2008 and all GFG advisers will be required to attend, ideally with their counterparts).

The implementation of GFG's commitment to increasingly work through GoV systems is also an important element of the program's approach to capacity building.

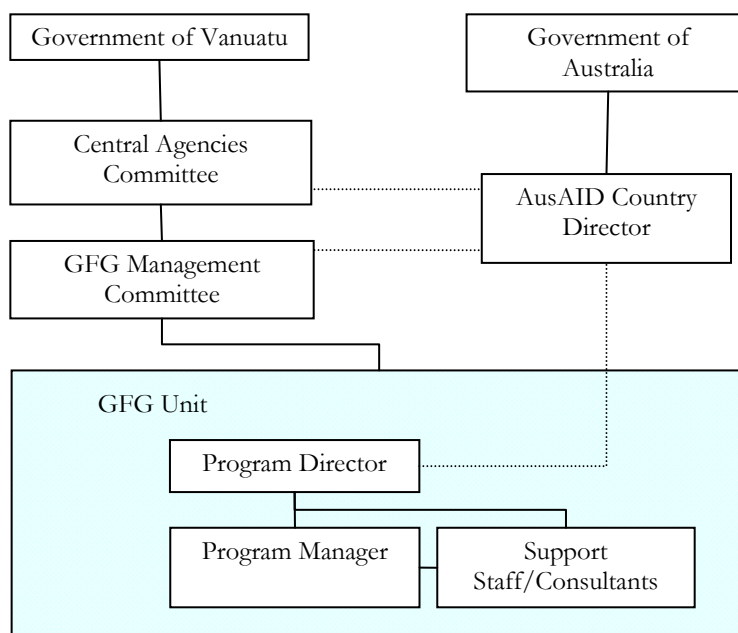
5. Program Management

Two key factors influence the design of the program management arrangements. First, after having interacted mainly with managing contractors and consultants during the MFEM ISP and PSRP, GoV asked that GFG provide for substantive policy engagement directly with the Government of Australia, through AusAID. AusAID needs the capacity and flexibility to be able to respond to reform initiatives that a contract with a managing agent can often constrain. Secondly, the nature of the policy and structural reforms to be supported by GFG demands strong GoV ownership of, and involvement in the delivery of the program.

Accordingly, GFG is established as a partnership between GoV and AusAID. The Program Director is a Senior AusAID officer. The Program Director reports to a joint Management Committee which makes decisions about program priorities, resource allocation and activity implementation, providing a forum for discussion of policy and program issues. The Committee ensures that both AusAID and key actors within GoV are involved in decision-making. It comprises senior representatives of GoV central agencies – the Directors of Finance, Foreign Affairs, Economic and Sector Planning and Strategic Policy Coordination – and the GFG Program Director (the AusAID Country Director and other senior GoV officials may attend as observers or to contribute on specific issues as required). The Committee operates through both frequent informal contact and periodic formal meetings.

Beyond the Management Committee, GFG decision-making will be mainstreamed within the GoV’s existing systems and procedures. Matters which require higher-level endorsement within GoV will be considered by the Central Agencies Committee, with the AusAID Country Director attending to represent AusAID when required. Specific GFG-sponsored reforms may in turn be referred to other bodies in accordance with GoV’s normal approval procedures: for example the Development Officials Committee and the Council of Ministers.

5.1. GFG Management Structure



For day-to-day management the GFG Program Director reports to the AusAID Country Director (the Counsellor), who is also directly involved in high-level policy and programmatic discussions with GoV (e.g. where issues have broader implications for the aid program) and is ultimately responsible for Australia's aid program to Vanuatu. The Counsellor holds Australian Government delegations under the *Financial Management Act* and therefore provides the requisite FMA approvals (up to his delegation) for GFG procurement, contracting and expenditure.

The GFG Unit also includes a senior ni-Vanuatu Program Manager, a Program Officer and an Administration Officer. The program engages other sources of advice as needed (a Program and Operations Adviser has played a key role in the design and set-up). Terms of Reference for the Program Director, Program Manager, GFG Management Committee and the GoV Central Agencies Group oversight of GFG are provided in Annex 8.

The GFG Unit is housed in GoV office space provided by the Public Service Commission and adjacent to the Prime Minister's Office and the Department of Strategic Policy Coordination. Co-location of the GFG Unit in GoV office space (instead of location within the High Commission) is both symbolically and substantively important to the partnership, promoting frequent informal contact and the development of relationships between the GFG Unit and GoV counterparts.

5.2. Procurement

Procurement has thus far been managed by the GFG Unit using local AusAID procurement processes, GoV systems or a combination of the two, according to the nature of the specific activity. The original program concept anticipated the transfer of full responsibility for TA recruitment and management to GoV. This will remain a long-term goal. However, at present there is limited capacity or interest in GoV partners to take on the recruitment and contracting role; most selection processes continue to be undertaken by AusAID. Where possible, GFG will provide support to strengthen GoV procurement systems and processes to help build capacity to take on this responsibility. This capacity will also be enhanced through the active involvement of GoV partners in GFG procurement exercises: in all cases, GFG will maximise GoV involvement in and leadership of procurement, while continuing to provide the administrative support necessary for a timely and consistent process.

The GFG Unit will continue to conduct some procurement in-house, especially those which are particularly sensitive or urgent. The Unit has agreed with AusAID Port Vila that it will also draw on the resources of the AusAID Office in Vanuatu, which has received Agency approval to recruit a Senior Program Officer (Procurement) to support program-wide procurement and contracting. Given the likely high demand for this officer's support, GFG will carefully monitor the procurement workload for the program and will seek to forward plan procurement as much as possible. The program will report on this matter in the first Annual Report and Workplan.

5.3. Risk Management

The main risks facing GFG are:

- Changes in government over the ten years of GFG, both at the political and administrative levels, may create policy instability, undermine GoV's capacity to implement reforms and reduce government support for GFG. The need to develop new relationships, engage with different reform agendas, work with inexperienced

political leadership, could reverse improvements in policy process and reduce the impact of GFG. The program will address this by building broad support for, and awareness of, the GFG program and its intended results; and by ensuring that a robust Performance Assessment Framework provides a sound basis for communicating the program's successes and maintaining program focus. GFG will also continue to work as much as possible within existing GoV structures and processes, thereby mainstreaming its operations.

- Elections in 2008 may bring political change. There is also a risk that in the lead up to elections as politicians position themselves, governance processes and structures come under additional stress. This may be a testing time for some GFG reforms. However, the commencement of a new government in late 2008 offers the prospect of renewed dialogue about priorities for growth and development.
- Over the ten year implementation timeframe there are likely to be periods when external factors act against Vanuatu's economic growth. Most likely of these factors are international economic volatility and downturn, and natural disasters. Either could reduce growth and the capacity of GoV to better deliver services. An erosion of support for GFG is possible. The program will direct support to reforms which build the foundations for future prosperity so that regardless of external factors the fundamentals are being strengthened. It will maintain realistic objectives and use the Performance Framework to monitor the impact of the program and demonstrate where results are being achieved, regardless of what external factors may bring.
- By its very nature, economic and policy reform such as that supported by GFG is high risk. Risks are political, commercial and technical. In identifying reform opportunities the program will look for evidence of: a reform champion or champions; a core base of support within government; and the technical and financial feasibility of the reform. Decision-making about what to support will be mainstreamed within GoV processes. Importantly, GFG will support the reform *process*, as well as the end result, so that even if a reform ultimately does not succeed, there has been capacity development as well as an investment in building a constituency for reform, both of which would support reform efforts at a later stage.
- There are risks associated with the flexible and responsive nature of GFG. There is a risk that the program could become unfocused or unstrategic, or be captured by vested interests. The program will therefore ensure that decisions about what GFG supports are clearly documented, transparent, and based on an assessment of the likely impact on growth, governance or service delivery. Importantly, decisions about activities will be made through consensus in the GFG Management Committee, and will have articulated objectives. The Performance Assessment Framework will provide the basis for providing information necessary to recalibrate program activities where necessary to maintain focus, for assessing whether activities are achieving their objectives, and for learning lessons about effective responses. Support will be phased in light of the often-uncertain environment for reform, and will start with analytical work to inform decisions about larger investments.
- Lack of donor coordination and cooperation could lead to duplication, undermining of reforms, and overburdening GoV with donor requirements. To address this, the program will aim to involve other donors in GFG, moving towards shared implementation and monitoring mechanisms.

- Absorptive capacity – for assistance of all kinds but especially for significant reforms – is limited. GFG will be careful not to swamp GoV with incentives for reform that override its capacity to lead that reform. Assistance will be identified and planned in close partnership with counterparts in GoV and will respond to initiatives for reform rather than imposing them. Assistance will be phased to match GoV capacity, complemented by modest and targeted capacity *supplementation* provided in some cases.
- Economic growth, or individual activities supported by GFG, might not improve (and in fact might harm) women’s status, incomes, or quality of life. Therefore program will ensure that the gender impact of activities is considered and addressed during both preparation and implementation. The program will aim to build GoV interest in, and capacity for, analysis of gender issues affecting economic growth.

The Program Director will manage GFG’s response to the identified risks.

6. Performance Assessment Framework

GFG is structured around the Results Framework which provides the Goal, Purpose, intended Results and Outcomes, for the ten year implementation period of the program. The aim is to achieve the two Results by 2017. The Outcomes are four year targets which the program aims to achieve by the end of 2011.

This Performance Assessment Framework (PAF) provides the basis for the program to monitor its progress towards those Outcomes and Results (and Purpose and Goal), and for AusAID and the GoV to assess the performance of the program throughout implementation. The PAF will assess the performance of:

- Program implementation – is the program operating as planned?
- Program outcomes and results – is the program having the desired effect (and how will we know success when we see it)?
- Program efficiency – is the program at reasonable cost for the effects?

It will provide management information for the GFG Unit and the Management Committee to ensure the program is heading in the right direction; provide a basis for the GFG Unit and GoV partners to assess the performance of each GFG activity; generate performance data for reporting on GFG performance to GoV and AusAID; and links the layers of GFG to Vanuatu's national priorities (the PAA) and to AusAID's priorities (via the AusAID Performance Assessment Framework and its Annual Program Performance Updates).

The GFG program is a rolling design within the parameters of the agreed set of Results and Outcomes. The specific activities that will be undertaken to achieve those results and outcomes, and the inputs and modalities, will be identified and agreed between AusAID and GoV annually. Provision will be made each year for unallocated funds which will be used by the program to respond to emerging reform opportunities. The program is long-term and aims to support and encourage growth-enhancing governance reforms; it includes an element that is reactive and opportunistic in backing reform initiatives where they emerge from within GoV. The quality of the policy dialogue and the relationship between the program and GoV is a core element. It is not possible to chart a detailed set of straightforward activities for the coming four years.

In a reform-focussed program such as GFG it is not possible to achieve a high degree of certainty about GFG's contribution to reform, economic growth and improved service delivery. Therefore this PAF is designed to provide insight in to progress and provide information to reassure GoV and AusAID that the program is actually having an impact. It includes both ongoing performance measurement (monitoring) and periodic evaluation.

The Results Framework provides the higher order elements of the design; specific activities will have their own intended outcomes against which they will be monitored. Each year the GFG Program will prepare an Annual Report and Workplan which will specify the activities to be undertaken in the coming year and articulate the rationale for those activities.

While the program is young and operating in only two or three areas, monitoring can be informal and intuitive. Performance reporting can be done based on that day-to-day knowledge of the program. However as the program matures, expands and becomes more

complex, a more systematic approach to monitoring performance and managing performance information is necessary. Ideally this will not create unnecessary bureaucratic processes. It will utilise existing AusAID and GoV reporting systems and tools as much as possible. This approach is in keeping with the AusAID management of the program but also lays the foundation for an eventual transition of management to GoV. The current IT set-up of GFG makes it especially important that systematic records are kept of progress, as real-time shared access to computer files is not possible.

Features of the PAF

- Mix of quantitative and qualitative performance indicators
- The use of existing performance assessment tools as much as possible
- The selective use of program-specific assessment tools with the intention of producing performance information of value for GoV as well as GFG
- Linking of the PAF to GoV's own annual planning and reporting cycle
- The inclusion of participatory tools for performance assessment
- Links to other AusAID programs in data collection and analysis

6.1. Levels of Analysis

The PAF consists of four levels of analysis:

Country level outcomes are those which are beyond the scope of GFG to achieve, but to which the program will contribute. These are monitored by GoV through its own activities and those of international bodies such as the IMF. The PAF provides the basis and the tools to assess the extent of GFG's contribution to those outcomes.

Program level outcomes are the main focus of the PAF. Progress towards these outcomes, as shown by improvements in the indicators, will be the most important indication of program performance. Individual activities will succeed or fail – in a reform-focussed program such as GFG there will always be failures – but as long as the program is performing against the program level indicators then it is performing well. For that reason there is not an indicator that simply aggregates performance information from all GFG activities, such as “75% of GFG activities are achieving their objectives”. This is too crude a measure for GFG which requires a more nuanced approach. As such, the PAF includes both quantitative and qualitative indicators and a mix of monitoring tools to assess performance.

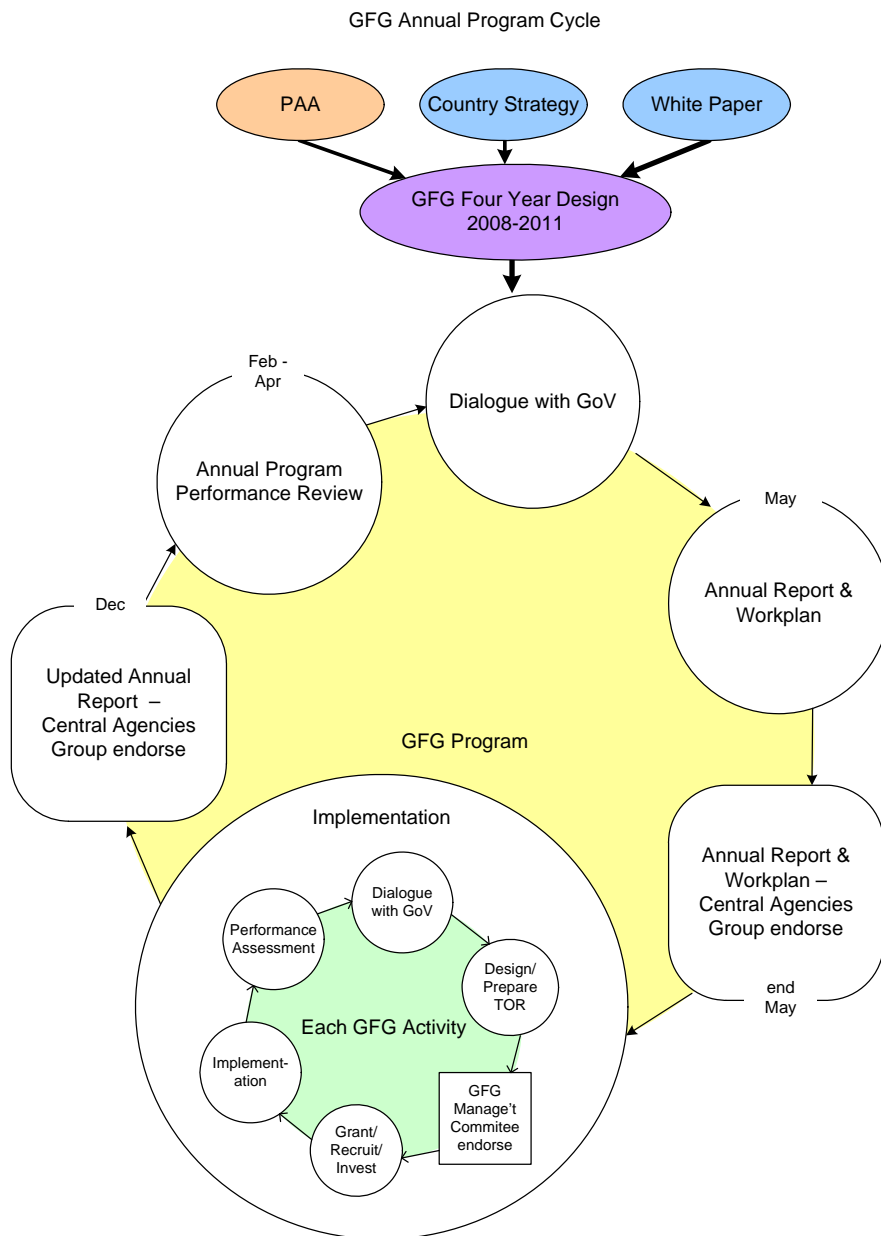
Activity level outcomes will be specified for each activity, or package of activities (sub-programs). Indicators at activity level are not specified in the GFG PAF as they will be separately detailed, but the achievement of those outcomes will lead to the program level outcomes provided in the PAF. A core requirement of every agreed GFG activity is that it clearly articulates how achievement of activity outcomes will contribute to the achievement of program outcomes. Activity-level indicators are not included in the PAF, but mechanisms for activity-level performance assessment, and the schedule for reporting, is specified. In some cases the activity-level indicators will be the same as those at program level.

Inputs will be monitored throughout program implementation to provide managers and decision makers with information about absolute and relative resource use, as measures of efficiency as well as effectiveness. Inputs will also be monitored in light of the requirements of AusAID's own Performance Assessment Framework (eg proportion of spending on

international TA) as well as the requirements of GoV (eg for calendar year expenditure data). Inputs include: international technical assistance, local technical assistance, expenditure on grants, expenditure on investments (including infrastructure), program-provided advice and dialogue, and training. The Performance Assessment Framework Matrix is provided at Annex 9.

6.2. Annual Program Cycle

The diagram below outlines the annual cycle of program activity. On the basis of the four year Design, the program will work closely with its GoV partners to develop an Annual Workplan. The Workplan will be completed by early June each year, and approved by the Central Agencies Group. This timing is designed to give GoV the certainty it requires regarding GFG financial commitments at the appropriate time in the GoV budget cycle. It is also designed to support the increasing use of GoV systems in managing and implementing GFG. The Annual Workplan will be updated in December each year to ensure planned activities remain closely aligned with GoV priorities for the coming year.



6.3. Inputs

Implementation of the PAF is led by the Program Director, who will be supported by a Program Performance Specialist. The Specialist will be responsible for:

- Facilitating the annual Performance Review Workshops;
- Supporting and advising the Program Director in the implementation of the PAF;
- Assisting the GFG Unit to prepare the Annual Report and Workplan;
- Overseeing the design and implementation of the Public Sector Survey and the Community Perceptions Survey;
- Appraisal of new GFG activities/ grants/ investments (in parallel with technical appraisers where necessary), in line with AusAID's Quality at Entry standards;
- Providing advice and capacity building to the GFG Unit and the GFG Management Committee in performance assessment for GFG.

Terms of Reference for the Specialist are provided in Annex 8.

6.4. Tools and Data Sources

The program will use a set of monitoring and reporting tools that is a mix of existing GoV, AusAID and third party mechanisms, with the addition of several specific tools to be implemented by GFG:

Report/Tool	Owner	Timing
Vanuatu Annual Development Report	GoV (led by DESP)	March annually
Public Expenditure and Financial Accountability (PEFA) assessment	GoV/ Donors	Biennial, dependent on donor funding. Next assessment 2008.
IMF Article IV Consultations Report	GoV	Biennial, next consultations 2008
National Accounts	GoV	Annually
GFG Adviser regular reports	GoV partners and GFG	Ongoing (and at least six-monthly)
Other GFG Implementer reports	GoV implementing partners and GFG	Various schedules according to each activity
Minutes of Central Agencies Group meetings	GoV	At least biannually
Minutes of Management Committee Meetings	GoV and GFG	Two-monthly or as required
Quality at Entry assessments of new activities	GFG	Ongoing
Annual Quality in Implementation reports for individual activities	GFG	Mar/Apr/May annually
Records of annual facilitated Performance Review Meetings	GFG	April/May annually

Report/Tool	Owner	Timing
AidWorks (AusAID activity database)	GFG	Ongoing
World Bank Indicators – Government Effectiveness and Regulatory Quality		Annually
World Bank/ ADB Country Performance Assessments		Annually
Cost of Doing Business Survey		Annually

6.4.1. Quality at Entry

Every activity of every type will have clearly articulated and agreed objective(s) and at least one outcome. This will be the basis for the performance assessment of each activity. The format in which objectives and outcomes are expressed and documented will vary by activity – GFG will not impose a program-specific format for activity designs, avoiding the creation of parallel or duplicate systems and minimising the administrative burden for GoV partners. However whatever the format, each new activity will be appraised by the Program Performance Specialist and/or by external technical appraisers, guided by AusAID's Quality at Entry tool. This intent of this appraisal is to ensure that every activity has:

- Clearly stated objectives that contribute to GFG's Outcomes and Results (and by extension to Vanuatu's PAA);
- Adequate details on how progress and results will be monitored;
- An assessment of prospects for sustainability;
- Implementation plan that includes risk management and quality control; and
- Evidence that the activity is underpinned by sound analysis.

The reporting tool or tools for each activity will be defined during the development of that activity. In many cases reporting will be according to GoV or third party requirements and GFG will not impose separate reporting. However it will require that, whatever the reporting format, at a minimum there must be a clear assessment of progress towards, or achievement of, outcomes and objectives. This assessment will be made by the implementer *and* the GoV partner(s)/counterpart(s) and can be either written or verbal as appropriate.

6.4.2. Quality at Implementation

Annually in April GFG will assess implementation performance for all major activities, using AusAID's Quality in Implementation tool. For the purposes of the PAF, 'major' activities are generally those worth more than \$250,000 or continuing for at least a year, however the program will include smaller activities where they have significant importance for the achievement of GFG's Results or Outcomes. In February each year the GFG Management Committee will agree the list of activities to be the subject of QAI assessment.

The assessment made in these QAI reports will be considered at the Performance Review Meetings.

6.4.3. Performance Review Meetings

All major GFG activities will be the subject of annual Performance Review Meetings, facilitated by the Program Performance Specialist using a contributions analysis-based approach. These Meetings are the core of the PAF and are crucial to bringing together all the evidence on changes in the areas of GFG activity, with information regarding GoV activities and those of other donors, to reach conclusions regarding performance. A Program Performance Review Meeting will also bring together the findings of all the activity-level Meetings.

A package of information will be presented to the Meeting as a basis for discussion including: relevant results from the Community Perceptions Survey and Public Sector Survey, relevant quantitative data from GoV or other sources; third party performance assessments and information from QAI reports.

The meetings will bring together GFG, GoV partners and implementers (TA or other) to explore:

1. What were the changes you expected to see in the last year as a result of GFG's assistance?
2. Did those changes occur?
3. What evidence do you have to confirm the changes?
4. What else might have influenced that change?
5. Would those changes have taken place *without* GFG assistance?
6. Were there any additional changes as a result of GFG assistance?
7. If the changes did not occur, why was that?
8. Did anything else change (for better or for worse) as a result of GFG assistance?
9. What else may have influenced those changes?

Importantly, the Performance Review Meetings – at both Program and activity level – will also have a crucial forward-looking element. In this way the Meetings will be a forum to reflect conclusions about performance directly in planning future work. The key question to be asked in all Meetings is therefore:

10. What should GFG assistance focus on in future to achieve the desired changes?

The Program Performance Specialist will also facilitate the annual **Program-level Performance Review Meeting**. This meeting will bring together the members of the Central Agencies Group (which includes the GFG Management Committee), plus representation from AusAID, to reflect on the program's performance against the PAF and to debate the contribution the program has made to Vanuatu's economic growth and any improvements in GoV service delivery. The Program Performance Review Meeting will also review the performance indicators specified in the Performance Indicators Matrix (Section 6.9, below), updating or amending them where necessary.

This meeting will be a crucial point of reflection for those responsible for both the management and the supervision of GFG and will consider the outcomes of the individual activity-level Performance Review Meetings. It will be a key element in the preparation of the Annual Report and Workplan, considering the environment for achieving GFG outcomes and results, the work of other donors and the expressed priorities of GoV.

6.4.4. Annual Public Sector Survey

As detailed in Section 4.4.3 above, each year in February, GFG will work with PSC/DSPC to conduct a survey of public servants. The objective of the survey is: to monitor public servants’ perceptions of the effectiveness of the public service in delivering services to the people of Vanuatu, and their views on how to improve that effectiveness. The Survey will be a core performance assessment tool for GFG as well as a tool for use by GoV in understanding and monitoring changes in public service perceptions.

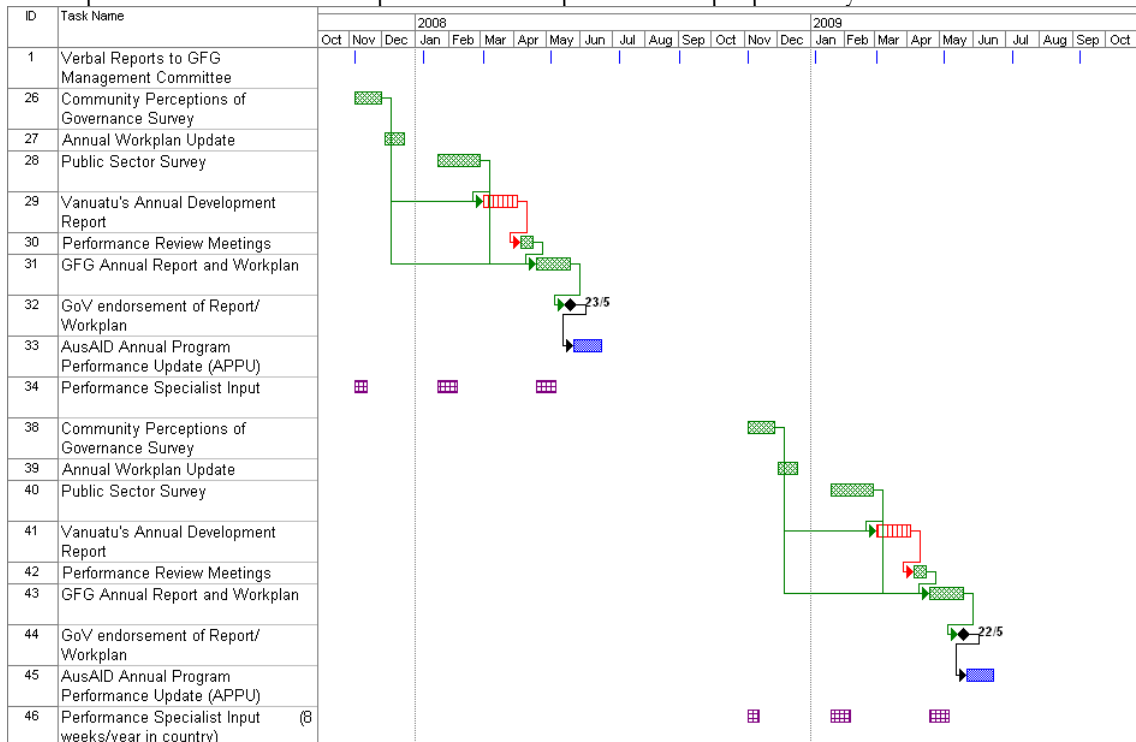
6.4.5. Community Perceptions of Governance Survey

As described in Section 4.3.7, GFG will support an annual Community Perceptions of Governance Survey. The Survey will be conducted in November each year and will be a core performance assessment tool for GFG as well as a tool for use by GoV and the broader Vanuatu community to better understand the perceptions of men and women in the community about government and public services.

6.5. GFG Reporting

The formal reporting framework for GFG comprises regular verbal reporting to the GFG Management Committee and the Central Agencies Group (recorded in minutes of these meetings), plus the Annual Report and Workplan. This is the ultimate product of the PAF and (as noted above) will be prepared in line with key dates for both AusAID and GoV. The timetable for GFG performance assessment and reporting is outlined in the workplan provided below.

A template for the Annual Report and Workplan will be prepared by the GFG Unit.



6.5.1. Annual Report and Workplan

The Annual Report and Workplan will be completed in **May** each year. It will have two distinct, but related elements:

- The *Annual Report* will provide a performance assessment of the previous year's implementation of GFG. It will bring together the qualitative and quantitative performance data collected through the PAF and present an assessment of program performance over the previous year.
- The *Workplan* will be informed by the performance assessment findings. Choices about the areas of GFG focus, and the specific reforms to be supported, will be based on an understanding of the broad environment for growth in Vanuatu, including an analysis of GoV priorities for the coming year, and a detailed assessment of the work of other donors. It will provide an implementation plan for the following year, including a budget detailing expenditure across the program.

So, for example, the 2009 Annual Report and Workplan will be prepared in May 2009 and will include a Performance Report for 2008, and a forward workplan and budget for 2010.

Preparation of the Annual Report and Workplan will be led by the Program Director, assisted by the Program Performance Specialist.

6.5.2. Updated Annual Workplan

In **December** of each year the Program Director will prepare an updated Annual Workplan for the coming year. This will update the Workplan prepared in the previous May – it will revise both program plans and cost estimates on the basis of developments since May. Cost estimates will be prepared in a format suitable for Australian budget planning which is required in February/March of the coming year. Following the example above this would see the 2010 Workplan updated in December 2009. The Updated Annual Workplan will be submitted to the Central Agencies Group and will be the basis for a Program update to that Group, complementing the Annual Report and Workplan submission in May.

6.6. Roles and Responsibilities

The key stakeholders in GFG have specific roles and responsibilities with respect to this PAF:

The **Central Agencies Group** provides the strategic oversight of the program, approving the Annual Report and Workplan and periodically assessing the performance of GFG at the program level. Central agencies group members will participate in the annual Program Performance Review Meeting.

In collaboration with GoV, **AusAID** supervises the implementation of GFG. Its primary focus is the Program level outcomes and it will participate in the annual Program Performance Review Meeting. AusAID will also commission the independent Mid-Term Review of GFG during Year Four (see below).

The **GFG Management Committee** monitors progress and performance at both program and activity level, and guides month-by-month decisions about what the program supports (addressing quality at entry). The Committee will participate in the annual Program Performance Review Meeting as well as Performance Review Meetings for selected individual activities or sub-programs.

The **GFG Unit** is responsible for managing this PAF, with primary responsibility vested in the Program Director. GFG monitors at all levels and prepares program-level reports to

the Management Committee and Central Agencies Group. It receives implementation reports from implementers (TA, GoV or third parties) and arranges annual Performance Review Meetings.

GoV partners/counterparts are responsible for monitoring the implementation of individual activities and for participating in activity Performance Review Meetings.

Implementers (TA or third party organisations) monitor and report on the implementation of individual activities or sub-programs and participate in activity Performance Review Meetings.

6.7. Links across the AusAID Program

Because GFG is a program integrated with other elements of the AusAID program in Vanuatu, its performance information will also integrate with other elements of the AusAID program. Much of the data assembled through the PAF, together with primary data collected through the Public Sector Survey, the Community Perceptions Survey and the Performance Review Meetings will have value for other elements of the AusAID program.

In order to maximise the benefits of primary data collection across the aid program, both Surveys will be designed in consultation with other AusAID programs. Wherever possible the Surveys will collect data for those programs as well. For example, the Community Perceptions Survey may – depending on decisions made in other programs about monitoring activities – capture information relevant for the Legal Sector Strengthening Project and the activities in Demand for Better Governance program. The Public Sector Survey will provide information useful for AusAID activities in the health and education sectors. Discussions in the Performance Review Meetings may identify performance information relating to other ongoing AusAID activities.

6.8. Mid-Term Review

As stated earlier, this design provides the detailed implementation plan for the coming four years of GFG, which is a ten-year program. As such, a comprehensive, independent, Mid-Term Review will be conducted in 2011. The MTR will review progress towards the ten-year Result areas, performance against the intended Outcomes and against AusAID's indicators of performance, aid effectiveness and aid quality – as reflected in this PAF and the Performance Indicators matrix in Section 6.9. The MTR will draw on a range of analysis – where necessary, specially commissioned by GFG – in order to understand the environment for broad-based growth in Vanuatu, and will make recommendations regarding the areas of focus and high priority activities for the subsequent period of GFG implementation.

The MTR will be the basis for the GFG team – both AusAID and GoV – to then prepare a new Four Year Design.

6.9. Performance Indicators

Item	Indicators (What will success look like?)	Measurement/ Reporting Tool	Questions for Performance Review Meetings ²¹
Goal: An educated, healthy and wealthy Vanuatu	Majority of vision-level indicators are improving	PAA Annual Development Report (ADR)	
Purpose: To generate economic growth and improve service delivery through good governance	<ul style="list-style-type: none"> • Growth in GDP and GDP per capita²² • Performance in health and education sectors improves as reported in ADR 	National Accounts ²³ Statistical reports by GoV (eg Household Income and Expenditure Survey) PAA Annual Development Report	To what extent did GFG assistance contribute to Vanuatu's economic growth? What else influenced that growth? If delivery of health and education services has improved for men and women, boys and girls, what led to that improvement? Did GFG contribute to any improvement?

²¹ NOTE: In all cases the performance review meetings will also ask **“would the changes have taken place without GFG assistance and/or incentives?”**

²² Ideally this indicator would be disaggregated for men's and women's incomes, but this is not presently possible. As soon as it is, this PI will be sex disaggregated.

²³ National accounts as currently prepared do not provide gender disaggregated data

Item	Indicators (What will success look like?)	Measurement/ Reporting Tool	Questions for Performance Review Meetings ²¹
<p>Result 1: Vanuatu’s policy framework is more supportive of broad-based growth</p>	<ul style="list-style-type: none"> • A range of assessments conclude that the policy framework is more supportive of broad-based growth for men, women and children (Annex 13 identifies the reforms GoV has committed to implement (in the PAA), and this will form the basis for assessing progress towards an improved policy framework) • Relevant GFG sub-programs and activities are achieving their intended outcomes 	<p>Program Performance Review Meeting</p> <p>IMF Article IV Reports</p> <p>Cost of Doing Business Report</p> <p>WB/ ADB Country Performance Assessments</p> <p>Private sector reports</p> <p>Other third party reports</p> <p>GFG Sub-program/ activity reports</p> <p>Activity-level Performance Review Meetings</p>	<p>Have the policy settings in Vanuatu changed to be more supportive of broad-based growth? What changed?</p> <p>Is any change likely to be sustainable?</p> <p>To what extent did GFG contribute to any change?</p> <p>What evidence exists of the impact of those changes (positive and negative)?</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">OUTCOMES</p>	<p>1 Government implements policy decisions to remove constraints to broad-based growth</p>	<ul style="list-style-type: none"> • GFG-supported reforms are being implemented, including: <ul style="list-style-type: none"> a. Introduction of competition in telecommunications b. Expanded access to electricity (40% by 2011) c. Effective regulation of power and telecommunications by URA d. Reform of commodities marketing arrangements 	<p>Council of Ministers records of decisions plus evidence of implementation (evidence will vary by reform)</p> <p>GFG Performance Review Meetings</p> <p>GFG sub-program and investments project reports</p> <p>What reforms were made last year that improved the climate for growth?</p> <p>Did GFG assist with those reforms? How?</p> <p>What else influenced those reforms?</p>

Item		Indicators (What will success look like?)	Measurement/ Reporting Tool	Questions for Performance Review Meetings²¹
	2 There is greater dissemination of information, and public debate, about economic growth and the role of government	<ul style="list-style-type: none"> • Men and women have increasing access to information about economic growth and the role of government • By end 2008 Radio Vanuatu broadcasts at least 1 hour/week program on economic growth • Increasing number of press articles and letters discussing economic growth and the role of government 	<p>Annual Community Perceptions Survey</p> <p>Radio Vanuatu program records</p> <p>Ongoing GFG Press monitoring</p>	
	3 Policy decisions are increasingly informed by sound research, evidence and analysis	<ul style="list-style-type: none"> • Increasing % of policy papers to DCO and COM show evidence of analysis or research • GoV has established and maintains a mechanism to monitor implementation of COM decisions • Public servants (who are involved in policy) report that analysis is increasingly part of policy processes 	<p>Annual DSPC monitoring and assessment of submissions to DCO and COM</p> <p>DSPC records</p> <p>Annual Public Sector Survey</p> <p>GFG Performance Review Meetings</p>	<p>Is the decision-making process (in the Ministries where GFG is engaged) more evidence-based or informed by analysis?</p> <p>If so, what contribution did GFG make to that greater use of evidence or analysis?</p> <p>Is gender analysis undertaken in policy processes?</p>

Item	Indicators (What will success look like?)	Measurement/ Reporting Tool	Questions for Performance Review Meetings ²¹	
Result 2: The quality of Vanuatu’s public expenditure is improved	<ul style="list-style-type: none"> A range of assessments conclude that the quality of public expenditure is improved 	Performance Review Meetings PEFA WB/ ADB Country Performance Assessments WBI <i>Government Effectiveness</i> and <i>Regulatory Quality</i> Indicators Sector-specific and other third party reports	Does the budget better align with the expressed national priorities of GoV, including the PAA?	
OUTCOMES	4 The budget increasingly reflects national priorities for service delivery and investment	<ul style="list-style-type: none"> Increasing % of budget allocations align with PAA More public servants report budget is linked to priorities in their sector 	Desk study by GFG PFM Adviser Public Sector Survey GFG Performance Review Meetings	Does the budget more accurately reflect the expressed priorities of GoV? What contribution did GFG make to any improvement in the link between the budget and Vanuatu’s priorities?
	5 Public financial management in line ministries (Health, Education) and provinces is improved	<ul style="list-style-type: none"> Audits are conducted Audits show decreasing number of inconsistencies in Ministries of Health and Education, and the provinces Transparency of intergovernmental fiscal relations (PEFA indicator PI-8) improves to score ‘A’ A greater proportion of public servants report timely access to funds 	GoV or other Audit reports PEFA Public sector survey	

Item		Indicators (What will success look like?)	Measurement/ Reporting Tool	Questions for Performance Review Meetings ²¹	
OUT	6	Budget resources are increasingly used for their intended purpose	<ul style="list-style-type: none"> Budget out-turn shows increasing compliance of expenditure with original allocations (PEFA indicator PI-2 – maintained at ‘A’ score) There are fewer virements DESP imposes greater scrutiny of virements A greater % of public servants report their budget allocation was fulfilled by year end 	PEFA GoV reporting from FMIS (analysis by GFG PFM Adviser) Public sector survey	Is there less diversion of resources away from budget allocations? Why? Did GFG contribute to any change?
	7	There is stronger accountability to the people and to Parliament for the results of public expenditure	<ul style="list-style-type: none"> Annual Development Report tabled annually by March ADR is published and distributed nationally ADR information is disseminated publicly, including via radio and newspapers Annual budget results are published and distributed to public servants 	Parliamentary records GFG observation GFG press monitoring Radio Vanuatu program records Public sector survey	

Item		Indicators (What will success look like?)	Measurement/ Reporting Tool	Questions for Performance Review Meetings ²¹
	Program Management Performance	<ul style="list-style-type: none"> • GoV partners report a sustained level of satisfaction with the performance of the GFG Unit • GoV is satisfied with the proportion of the program budget applied to GFG management • AusAID is satisfied with the level of resources applied to GFG management (value for money/ efficiency) 	Program Performance Review Meeting	<p>Does GFG implement the program in a timely and efficient manner?</p> <p>Is the program suitably responsive to GoV reform initiatives?</p>
	Inputs	<ul style="list-style-type: none"> • Number of joint donor missions or joint implementation • Proportion of program budget is spent on international TA • Increasing use of Vanuatu's national systems 	<p>Aidworks and other GFG data</p> <p>Implementer Reports</p>	

Annex 1: Cost Estimates

Cost Estimates in AUD by Vanuatu Financial Year (calendar year)

Item	Estimated Cost AUD ('000)				4 Year Total
	2008	2009	2010	2011	
POWER SECTOR PROJECT					
URA Energy Sector Work Program					
Benchmarking Study	75				75
Tariff Study	75				75
Luganville Tendering Adviser		75	75		150
Unallocated TA			75	75	150
Subtotal	150	75	150	75	450
Sarakata Special Reserve Fund					
Sarakata Fund TA	100	100			200
Subtotal	100	100	0	0	200
Energy Unit Capacity Building					
REMP Support	150	100	100	100	450
Energy Unit Management TA/ Power Project Coordinator	275	275	275	275	1,100
Training and capacity building	50	50	50	50	200
Subtotal	475	425	425	425	1,750
Rural Electrification Program					
Analytical work	100	100	100	100	400
REF Design TA	150	50	50	50	300
REF Investments	1,000	1,500	1,250	1,500	5,250
Subtotal	1,250	1,650	1,400	1,650	5,950
Other unallocated support	50	100	200	200	550
Sub-Program Total	2,025	2,350	2,175	2,350	8,900
TELECOMMUNICATIONS SUB-PROGRAM					
Negotiations to open the market					
Negotiator	200	0	0	0	200
Subtotal	200	0	0	0	200
Regulatory capacity building					
Contributions to URA Trust Fund	1,106	2,000			3,106
Subtotal	1,106	2,000	0	0	3,106
Rural access to telecommunications					
Contributions to Rural Access Fund	0	3,000			3,000
Subtotal	0	3,000	0	0	3,000
Other unallocated support	50	50	50	50	200
Sub-Program Total	1,356	5,050	50	50	6,506
PUBLIC FINANCIAL MANAGEMENT SUB-PROGRAM					
PFM Capacity Building					
PFM Coordinator	275	275	275	275	1,100
Capacity Building Activities	100	100	100	100	400
Subtotal	375	375	375	375	1,500
Provincial PFM Support					
Design support	100				100
Pilot project infrastructure and systems	500	500			1,000

Technical Support	150	150	150	150	600
Rollout to two more provinces			1,000		1,000
Training and capacity building	50	50	50	50	200
Subtotal	800	700	1,200	200	2,900
Revenue					
Revenue Adviser	275	275			550
Training and capacity building	50	50			100
Subtotal	325	325	0	0	650
Other unallocated support	300	300	300	300	1,200
Sub-Program Total	1,800	1,700	1,875	875	6,250
ECONOMIC AND SECTOR PLANNING SUB-PROGRAM					
Strategy and Sector Policy Adviser	250	250	300	300	1,100
Economics Adviser	275	275	300	300	1,150
Short-term TA	75	75			150
Training and capacity building	100	100	100	100	400
Other unallocated support	50	50	50	50	200
Sub-Program Total	750	750	750	750	3,000
OTHER ACTIVITIES					
Research Fund	200	200	200	200	800
Gender and Growth Study, plus follow up	200				200
Partial Sale of Air Vanuatu (already funded)	0				0
VCMB Study	150				150
Public Sector Survey	25	25	25	25	100
Community Perceptions Survey	35	35	35	35	140
Communication Strategy	25	25	25	25	100
Support for National Statistics Office	570	570	220	220	1,580
Program Design (second Four Year Design)				150	150
Unallocated (flexible) funds	500	750	1,000	1,500	3,750
Subtotal	1,705	1,605	1,505	2,155	6,970
PROGRAM MANAGEMENT					
Program Management Sub-Total	735	745	775	795	3,050
Total by Calendar (GoV Financial) Year	8,371	12,200	7,130	6,975	34,676

Cost Estimates in VUV by Vanuatu Financial Year

Item	Estimated Cost VUV ('000)				4 Year Total
	2008	2009	2010	2011	
POWER SECTOR PROJECT					
URA Energy Sector Work Program					
Benchmarking Study	5,925	0	0	0	5,925
Tariff Study	5,925	0	0	0	5,925
Luganville Tendering Adviser	0	5,925	5,925	0	11,850
Unallocated TA	0	0	5,925	5,925	11,850
Subtotal	11,850	5,925	11,850	5,925	35,550
Sarakata Special Reserve Fund					
Sarakata Fund TA	7,900	7,900	0	0	15,800
Subtotal	7,900	7,900	0	0	15,800
Energy Unit Capacity Building					
REMP Support	11,850	7,900	7,900	7,900	35,550
Energy Unit Management TA	21,725	21,725	21,725	21,725	86,900
Training and capacity building	3,950	3,950	3,950	3,950	15,800
Subtotal	37,525	33,575	33,575	33,575	138,250
Rural Electrification Program					
Analytical work	7,900	7,900	7,900	7,900	31,600
REF Design TA	11,850	3,950	3,950	3,950	23,700
REF Investments	79,000	118,500	98,750	118,500	414,750
Subtotal	98,750	130,350	110,600	130,350	470,050
Other unallocated support	3,950	7,900	15,800	15,800	43,450
Sub-Program Total	159,975	185,650	171,825	185,650	703,100
TELECOMMUNICATIONS SUB-PROGRAM					
Negotiations to open the market					
Negotiator (already funded)	15,800	0	0	0	15,800
Subtotal	15,800	0	0	0	15,800
Regulatory capacity building					
Contributions to URA Trust Fund	87,374	158,000	0	0	245,374
Subtotal	87,374	158,000	0	0	245,374
Rural access to telecommunications					
Contributions to Rural Access Fund	0	237,000	0	0	237,000
Subtotal	0	237,000	0	0	237,000
Other unallocated support	3,950	3,950	3,950	3,950	15,800
Sub-Program Total	107,124	398,950	3,950	3,950	513,974
PUBLIC FINANCIAL MANAGEMENT SUB-PROGRAM					
PFM Capacity Building					
PFM Coordinator	21,725	21,725	21,725	21,725	86,900
Capacity Building Activities	7,900	7,900	7,900	7,900	31,600
Subtotal	29,625	29,625	29,625	29,625	118,500
Provincial PFM Support					
Design support	7,900	0	0	0	7,900
Pilot project infrastructure and systems	39,500	39,500	0	0	79,000
Technical Support	11,850	11,850	11,850	11,850	47,400
Rollout to two more provinces	0	0	79,000	0	79,000

Training and capacity building	3,950	3,950	3,950	3,950	15,800
Subtotal	63,200	55,300	94,800	15,800	229,100
Revenue					
Revenue Adviser	21,725	21,725	0	0	43,450
Training and capacity building	3,950	3,950	0	0	7,900
Subtotal	25,675	25,675	0	0	51,350
Other unallocated support	23,700	23,700	23,700	23,700	94,800
Sub-Program Total	142,200	134,300	148,125	69,125	493,750
ECONOMIC AND SECTOR PLANNING SUB-PROGRAM					
Strategy and Sector Policy Adviser	19,750	19,750	23,700	23,700	86,900
Economics Adviser	21,725	21,725	23,700	23,700	90,850
Short-term TA	5,925	5,925	0	0	11,850
Training and capacity building	7,900	7,900	7,900	7,900	31,600
Other unallocated support	3,950	3,950	3,950	3,950	15,800
Sub-Program Total	59,250	59,250	59,250	59,250	237,000
OTHER ACTIVITIES					
Research Fund	15,800	15,800	15,800	15,800	63,200
Gender and Growth Study, plus follow up	15,800	0	0	0	15,800
Partial Sale of Air Vanuatu (already funded)	0	0	0	0	0
VCMB Study	11,850	0	0	0	11,850
Public Sector Survey	1,975	1,975	1,975	1,975	7,900
Community Perceptions Survey	2,765	2,765	2,765	2,765	11,060
Communication Strategy	1,975	1,975	1,975	1,975	7,900
Support for National Statistics Office	45,030	45,030	17,380	17,380	124,820
Program Design (second Four Year Design)	0	0	0	11,850	11,850
Unallocated (flexible) funds	39,500	59,250	79,000	118,500	296,250
Subtotal	134,695	126,795	118,895	170,245	550,630
PROGRAM MANAGEMENT					
Program Management Sub-Total	58,065	58,855	61,225	62,805	240,950
Total by Calendar (GoV Financial) Year	661,309	963,800	563,270	551,025	2,739,404

Cost Estimates in AUD by Australian Financial Year

Item	Estimated Cost AUD ('000) - by FY					Program Total
	2007-08	2008-09	2009-10	2010-11	2011-12	
POWER SECTOR PROJECT						
URA Energy Sector Work Program						
Benchmarking Study	75.0	0.0	0.0	0.0	0.0	75
Tariff Study	37.5	37.5	0.0	0.0	0.0	75
Luganville Tendering Adviser	0.0	37.5	75.0	37.5	0.0	150
Unallocated TA	0.0	0.0	37.5	75.0	37.5	150
Subtotal	112.5	75.0	112.5	112.5	37.5	450
Sarakata Special Reserve Fund						
Sarakata Fund TA	100.0	50.0	50.0	0.0	0.0	200
Subtotal	100.0	50.0	50.0	0.0	0.0	200
Energy Unit Capacity Building						
REMP Support	75.0	125.0	100.0	100.0	50.0	450
Energy Unit Management TA/ Power Project Coordinator	137.5	275.0	275.0	275.0	137.5	1,100
Training and capacity building	25.0	50.0	50.0	50.0	25.0	200
Subtotal	237.5	450.0	425.0	425.0	212.5	1,750
Rural Electrification Program						
Analytical work	100.0	100.0	100.0	100.0	0.0	400
REF Design TA	75.0	100.0	50.0	50.0	25.0	300
REF Investments	500.0	1,250.0	1,375.0	1,375.0	750.0	5,250
Subtotal	675.0	1,450.0	1,525.0	1,525.0	775.0	5,950
Other unallocated support	25.0	75.0	150.0	200.0	100.0	550
Sub-Program Total	1,150.0	2,100.0	2,262.5	2,262.5	1,125.0	8,900
TELECOMMUNICATIONS SUB-PROGRAM						
Negotiations to open the market						
Negotiator	200.0	0.0	0.0	0.0	0.0	200
Subtotal	100.0	100.0	0.0	0.0	0.0	200
Regulatory capacity building					0.0	
Contributions to URA Trust Fund	1,106.0	2,000.0		0.0	0.0	3,106
Subtotal	1,106.0	2,000.0	0.0	0.0	0.0	3,106
Contributions to Rural Access Fund	0.0	3,000.0	0.0	0.0	0.0	3,000
Subtotal	0.0	3,000.0	0.0	0.0	0.0	3,000
Other unallocated support	25.0	50.0	50.0	50.0	25.0	200
Sub-Program Total	1,231.0	5,150.0	50.0	50.0	25.0	6,506
PUBLIC FINANCIAL MANAGEMENT SUB-PROGRAM						
PFM Capacity Building						
PFM Coordinator	137.5	275.0	275.0	275.0	137.5	1,100
Capacity Building Activities	50.0	100.0	100.0	100.0	50.0	400
Subtotal	187.5	375.0	375.0	375.0	187.5	1,500
Provincial PFM Support						
Design support	100.0	0.0	0.0	0.0	0.0	100
Pilot project infrastructure and systems	250.0	500.0	250.0	0.0	0.0	1,000
Technical Support	75.0	150.0	150.0	150.0	75.0	600
Rollout to two more provinces	0.0	0.0	500.0	500.0	0.0	1,000

Training and capacity building	25.0	50.0	50.0	50.0	25.0	200
Subtotal	450.0	700.0	950.0	700.0	100.0	2,900
Revenue						
Revenue Adviser	137.5	275.0	137.5	0.0	0.0	550
Training and capacity building	25.0	50.0	25.0	0.0	0.0	100
Subtotal	162.5	325.0	162.5	0.0	0.0	650
Other unallocated support	150.0	300.0	300.0	300.0	150.0	1,050
Sub-Program Total	950.0	1,700.0	1,787.5	1,375.0	437.5	6,250
ECONOMIC AND SECTOR PLANNING SUB-PROGRAM						
Strategy and Sector Policy Adviser	125.0	250.0	275.0	300.0	150.0	1,100
Economics Adviser	137.5	275.0	287.5	300.0	150.0	1,150
Short-term TA	37.5	75.0	37.5	0.0	0.0	150
Training and capacity building	50.0	100.0	100.0	100.0	50.0	400
Other unallocated support	25.0	50.0	50.0	50.0	25.0	200
Sub-Program Total	375.0	750.0	750.0	750.0	375.0	3,000
OTHER ACTIVITIES						
Research Fund	100.0	200.0	200.0	200.0	100.0	800
Gender and Growth Study, plus follow up	0.0	200.0	0.0	0.0	0.0	200
Partial Sale of Air Vanuatu (already funded)	0.0	0.0	0.0	0.0	0.0	0
VCMB Study	150.0	0.0	0.0	0.0	0.0	150
Public Sector Survey	25.0	25.0	25.0	25.0	0.0	100
Community Perceptions Survey	35.0	35.0	35.0	35.0	0.0	140
Communication Strategy	25.0	25.0	25.0	25.0	0.0	100
Support for National Statistics Office	570.0	570.0	220.0	220.0	0.0	1,580
Program Design (second Four Year Design)					150.0	150
Unallocated (flexible) funds	250.0	625.0	875.0	1,250.0	750.0	3,750
Subtotal	1,155.0	1,680.0	1,380.0	1,755.0	1,000.0	6,970
PROGRAM MANAGEMENT						
Program Management Sub-Total	432.5	740.0	760.0	785.0	332.5	3,050
Total by GoA Financial Year	5,293.5	12,120.0	6,990.0	6,977.5	3,295.0	34,676

Total FY budget	5,293.5	12,120.0	6,990.0	6,977.5	3,295.0
Incentives Fund (Telecommunications)	1,106.0	5,000.0	0.0	0.0	0.0
Remaining (bilateral) - FY	4,187.5	7,120.0	6,990.0	6,977.5	3,295.0

Annex 2: Power Sector Project

Policy Context

The PAA commits GoV to:

- Ensure the provision of commercial, quality, efficient, and competitively priced infrastructure, utilities and services, either through public enterprises or through private sector partnerships and competition;
- Encourage the development of competitive private sector involvement in the provision of utilities and services;
- Minimise subsidy requirements for public utilities;
- Ensure economic infrastructure and support services are available to other sectors to enable all stakeholders to achieve their own sector objectives.

Key Issues

Private power provision has a long history in Vanuatu (with arrangements dating back to at least 1941). The Government has contracted with a private company, UNELCO (a subsidiary of the SUEZ group) for provision of electricity services in Port Vila, Luganville, East Malekula and Tanna. Outside the areas supplied by UNELCO there are a variety of arrangements for electricity provision, all on a small scale independent of UNELCO.

There is widespread popular dissatisfaction with the high cost of power in Vanuatu. GoV is under pressure to respond to this concern although it acknowledges that the long history of reliable power supplies is vastly superior to the experience of consumers in Papua New Guinea, the Solomon Islands and other neighbouring countries.

Improving regulatory capacity. The current capability of the government to properly administer its power concession contracts with UNELCO is limited. As a result, it fails to take full advantage of the range of contract powers available. GoV has decided to establish a semi-autonomous Utilities Regulation Authority (URA) to manage the monopoly agreements with UNELCO (and TVL-telecommunications) to ensure that it effectively manages its contracts with the aim of expanding services and reducing costs. A program of capacity-building will be provided by the World Bank to give the new institution the support it will require to grow and become effective. Start-up funding for this has already been provided by GFG (via a World Bank Trust Fund) and initial activities have commenced.

Energy sector policy and planning. The Energy Unit within the Ministry of Land, Energy, Environment, Geology, Mines and Water Resources plays the key policy-making, planning and technical role in the energy sector (with the URA to be responsible for regulation). GoV's plans to scale up efforts on rural electrification have major implications and potential demands on the work of the Unit, which would benefit from a program of capacity building and support.

Rural electrification. The government is deeply concerned about access to power as a key enabler for the economic and social development of the rural population in Vanuatu. The Sarakata Special Reserve Fund is intended to provide a vehicle for financing rural electrification. Savings for the scheme are generated through power produced by the Sarakata Hydro Scheme on Santo, originally funded by Japan (Vanuatu has a uniform tariff set on the basis of diesel generation – the hydro scheme generates cheaper power with the savings then applied to the Fund). The Scheme has significant potential to generate

financing for rural connections, estimated at around 50 million Vatu per year (expected to increase to 100 million in a few years when an additional generator is installed at Sarakata). However, a recent review undertaken with support from GFG has identified several areas in which the Fund's management needs to be strengthened in order to realize its potential (including providing access to NGOs and other groups). The government is also interested in examining other options for accelerating the pace of rural electrification without solely relying on the resources provided through the Sarakata Special Reserve Fund. GFG and other donors are interested to contribute to the government's rural electrification program if an appropriate financing vehicle can be developed.

A major part of the rural electrification program will be expansion of renewable energy options so that Vanuatu relies less on expensive diesel generation. UNELCO has already adopted targets for increased use of renewable energy sources, including hydro, wind and coconut oil. The development of technologies appropriate for smaller-scale operations which are outside the scope of UNELCO's interests (confined to the main population centres) will be needed to achieve the government's rural electrification aims. The number of non government groups active in this area is growing and partnerships with such groups will be essential in developing this work.

Luganville power concession. The power supply concession in Luganville commenced on 23 January 1990 and is due to expire on 31 December, 2010. The Government needs to notify UNELCO of its intended course of action by 31 December 2007, and then start preparations for implementing its preferred approach. A study funded by GFG has provided advice on this issue to the Ministry of Lands, Energy, Environment, Geology, Mines and Water Resources.

Outcomes and Performance Indicators

The outcomes and indicators for GFG's Power Sector Project are as follows:

Outcomes	Performance Indicators
Access to safe and reliable power for men and women is expanded across Vanuatu	40% of the population has access to safe and reliable power by 2011 (80% by 2015)
Electricity is provided at prices which are reflective of efficient costs including an adequate return on investment	<p>Average price paid by urban consumers reflect efficient costs as determined by the URA:</p> <ul style="list-style-type: none"> • taking into account savings from increased use of renewable energy sources • excluding any connection subsidies provided to the urban poor. <p>Increased affordability for rural consumers as determined by comparison to current energy options and expenditures</p>
Establishment of the legal framework and institutional capacity for effective regulation of the energy sector	URA established and operating effectively

Project Description

GFG will work with GoV to achieve these objectives through activities across four focal areas. The work will be coordinated by a full-time Project Coordinator who will also provide management technical assistance to the Energy Unit (see below).

URA Energy Sector Work Program

The URA will be established by the second half of 2007 and will take up key regulatory functions in the energy sector.

Objectives:

- To establish the technical foundations for effective regulation by the URA of energy concessions and rural electrification.
- To ensure that electricity prices to consumers fairly reflect the costs of provision as determined by the independent regulator.

Initial support for the core functions of the URA has already been provided by GFG through a grant via the World Bank (URA Trust Fund), and will include:

- Establishment of technical and financial reporting requirements to provide for improved supervision of UNELCO concession contracts and a basis for future price resets.
- Benchmarking the costs and technical performance of UNELCO against comparable service providers.

GFG will fund additional support to the URA for specific tasks in the energy sector, including:

- Advice on pricing policies for rural electrification schemes and assistance in developing the regulatory regime for GoV's rural electrification program.
- Conduct of a tariff study to review current and future tariff levels and recommend a negotiating strategy for tariff adjustments, in the event that GoV decides to open negotiations with UNELCO.
- Support for the tendering of the Luganville Concession, including preparation of tender specifications and managing the tender process.

This support will take the form of either an additional contribution to the existing World Bank URA Trust Fund or procurement by GFG of TA for the URA and GoV.

Sarakata Special Reserve Fund

A recent review of the operation of the Fund identified a range of areas where improvements could be made to increase its effectiveness as a vehicle for promoting rural electrification.

Objective:

- To ensure that the Sarakata Special Reserve Fund is operating effectively to meet its objectives.

GFG will provide assistance to MFEM for the following activities:

- Technical support as needed to facilitate the full transfer of financial administration to MFEM with all appropriation through warrant control (under Fund 4).

- Appointment of external auditors by international tender and conduct of an audit for 2004-06 expenditures (it is proposed that the audit be funded from Sarakata savings).
- Review of actual expenditures for operation and maintenance at Sarakata with a view to re-opening discussion on the appropriate level of funding to UNELCO for these items.
- Technical advice to look at options for merger of the Fund savings into a new general rural electrification fund which will be supplemented by grant aid from various donors and which will be open to applications from all potential service providers, including NGOs.

GFG assistance will take the form of technical assistance provided to MFEM and the Ministry of Lands.

Energy Unit Capacity Building Project

The Energy Unit in the Ministry of Lands, Energy, Environment, Geology, Mines and Water Resources has a key role to play in managing policy and technical aspects of GoV's rural electrification program but needs additional support to undertake its functions.

Objective:

- To assist the Energy Unit in providing effective policy and technical leadership in the sector.

GFG will provide support to:

- Assist the Unit in taking over responsibility for the Rural Electrification Master Plan from UNELCO, including updating the plan as appropriate.
- Advise the Unit on the management of renewable resource studies.
- Assist the Unit to fully define its responsibilities, review its organization and staffing, define a recruitment strategy and capacity building program.
- Advise the unit on managing and coordinating activities underway in the sector, including donor coordination.

GFG assistance will take the form of a package of technical assistance (expected to be one part-time adviser and one full-time adviser) and capacity building support to the Energy Unit. It is expected that the technical assistance will comprise a part-time adviser to assist with the Rural Electrification Masterplan and a full-time adviser to support Energy Unit management and to be the Project Coordinator for the whole Power Project.

Rural Electrification Program

GFG will invest resources to complement those available for rural electrification from other sources, including the Sarakata Fund. Through this commitment the program expects to invest directly in the expansion of access to reliable and safe power, particularly in rural areas.

Objectives:

- To set up a multi-donor Rural Electrification Fund as a vehicle to enable investments in rural electrification.
- To identify and develop economically viable and practical technical solutions for the supply of rural electricity for use in Vanuatu.

- To increase new connections are increased so that 40% of the population has access to safe and reliable power by 2011 (80% by 2015). Connection and operating subsidies will be provided where required to facilitate access to electricity for rural communities and the urban poor.

GFG will:

- Conduct willingness to pay and economic opportunities analysis to allow an assessment of the potential demand for alternative energy sources.
- Work with the World Bank and other organisations (including local NGOs) on an assessment of alternative sources of energy including wind and biomass, expected to be funded by the World Bank using the Asia Technical Alternative Energy (ASTAE) Trust Fund.
- Support the piloting of renewable energy technology and related institutional arrangements to assess their feasibility for eventual broader support through the REF, and to demonstrate to GoV the possibilities associated with using alternative service providers to achieve greater rural electrification. The selection of pilot projects will be made via a transparent process and might support partnerships with non-government groups such as VANREPA (Vanuatu Renewable Energy and Power Association).
- Assist GoV to set-up a Renewable Electrification Fund (REF) to receive contributions from various donors to provide capital subsidies for rural electrification. GFG will procure advisers to help GoV design the Fund, including its relationship to other financing mechanisms, approach to subsidies and tariffs, criteria for determining the eligibility of projects and financial and institutional arrangements.
- Make annual financial contributions to the REF to extend the availability of power throughout Vanuatu.

GFG support will take the form of funding for technical assistance and direct financial contributions to the REF for financing rural power connections.

Partnerships

A variety of donor programs are operating in the energy sector. Coordination across these efforts will be essential to maximize impact and avoid duplication.

At the local level UNELCO Suez already has a commitment to expand its use of renewable energy and will be an important partner in the program. Non-government groups are taking an increasingly active role – particularly VANREPA. GFG will be developing partnerships with local NGOs to pilot appropriate technologies and institutional solutions.

This GFG project has been developed and will be undertaken in partnership with the World Bank, which is providing capacity building support for the establishment and initial operation of the URA. The Bank will look for an opportunity to involve the Global Program on Outputs Based Aid (GPOBA) and for opportunities to bring in other sources of financing, such as its ASTAE Trust Fund.

The European Union is also active in the energy sector, partly financing the Port Olry Pilot project which is setting up a mini grid to serve about 300 households with power generated locally from coconut oil (CNO). The Government of Japan originally financed the Sarakata Hydro Scheme and is now planning the installation of another turbine to increase the Scheme's generation capacity. The Global Environment Facility (GEF) Sustainable

Energy Financing Project will commence operation in Vanuatu, providing a package of incentives to encourage local financial institutions to participate in purchasing renewable energy sources. This program will be executed by the International Finance Corporation (IFC) in Vanuatu.

GFG has also consulted with the Embassy of the People's Republic of China in developing this Sub-program. There may be potential for China to provide a package of equipment as part of an overall rural electrification program (most rural electrification equipment can be economically sourced from China).

Budget

The expected budget for the Energy Sector Project is \$8.9m over 2008-11 (breakdown provided in Annex 1).

Annex 3: Telecommunications Sector Sub-Program

Policy Context

The PAA commits GoV to:

- Ensure the provision of commercial, quality, efficient, and competitively priced infrastructure, utilities and services, either through public enterprises or through private sector partnerships and competition;
- Encourage the development of competitive private sector involvement in the provision of utilities and services;
- Minimise subsidy requirements for public utilities;
- Ensure economic infrastructure and support services are available to other sectors to enable all stakeholders to achieve their own sector objectives.

The Ministry for Infrastructure and Public Utilities (MIPU) is responsible for telecommunications sector policy, and currently also for regulation. GoV is in the process of finalizing a new telecommunications sector policy which is aimed at making available to the population and business the widest possible range of efficient, reliable and affordable telecommunications and information services competitively provided in a fairly regulated market. This is to be achieved through continued private participation and investment in the sector, encouraging the competitive provision of services and ensuring credible, fair and transparent regulation, with appropriate social policies addressed at the most vulnerable groups.

The World Bank is currently assisting the GoV in the policy reform process, which will also include the finalization of a new Telecommunications Sector Law.

Key Issues

The GoV intends to introduce competition into the sector as a means of driving improved services. However, its ability to do so is affected by a Franchise Agreement for the provision of telecommunications services with Telecom Vanuatu Limited (TVL). TVL, as the only licensed operator in Vanuatu, claims exclusive rights over the provision of fixed and mobile phones and internet services. TVL is owned in equal parts by France Telecom, Cable & Wireless and the GoV and these relations are governed by a Shareholders Agreement (Shareholders Agreement). TVL's monopoly is due to expire in 2012.

Opening up the market to competition. GoV is in the process of renegotiating the Franchise Agreement with Cable & Wireless and France Telecom to allow for liberalization of the sector. These negotiations are being facilitated by the World Bank, and are scheduled to be held during June/July 2007. The outcome will have a major bearing on the shape of the sector in the future:

- Successful negotiations will open the path to competition and new entrants are expected to move rapidly to set-up operations. TVL's shareholders have indicated that they will seek some form of compensation as part of reaching such a settlement, although the nature and amount remains uncertain.
- If negotiations are unsuccessful, GoV will need to fall back on more robust regulation as a means to drive improvements in service by TVL, using the full powers available to GoV under the Franchise Agreement. Some other countries have successfully brought constitutional challenges to telecommunication monopolies, although such strategies can be high risk.

Rural access. Evidence from other countries clearly shows that the introduction of competition will allow the market to drive much greater penetration of services. However, given the difficult topography and low population density, some areas in Vanuatu will remain uneconomic to serve, even with competition. The World Bank has proposed the establishment of a Rural Access Fund to be supported by a levy on all operators and by donor contributions. The Fund would operate competitively, offering an output-based subsidy for the lowest-cost provision of services to remote areas. The Fund is currently being designed with assistance from the World Bank.

Capacity building for telecoms policy and regulation. The introduction of competition has major implications for sector policy and regulation. While MIPU will retain sector policy responsibilities, the GoV is establishing a multi-sector regulator which will take on responsibility for telecommunications regulation – the Utilities Regulatory Authority (URA). Both institutions will face major new challenges in adapting to a newly de-regulated environment. The World Bank has proposed a major package of capacity-building and technical assistance to help these institutions manage the introduction of competition.

Outcomes and Performance Indicators

The objectives and indicators for this Sub-program are as follows:

Outcome	Performance Indicators
The availability of telecommunication services is expanded throughout Vanuatu.	75% of the population has access to mobile phone coverage by 2011 20% of the population has access to broadband internet by 2011
The costs of telecommunications services are reduced throughout Vanuatu.	Average cost of a mobile phone call has reduced by 25% in real terms by 2011 Average price for broadband internet has reduced by 50% in real terms by 2011
The legal framework and institutional capacity for effective regulation of the telecommunications sector is established.	URA established and operating effectively. Telecoms Policy adopted and legislation updated.

Sub-Program Description

GFG will work with GoV to achieve these objectives through activities across two focal areas. Work on the first focal area is already underway with the aim of supporting GoV to reach an agreement which opens the market. While it has been broadly mapped out, the specific details of the second focal area will be finalized once a deal to allow competition has been reached, allowing GoV and AusAID maximum flexibility to contribute to a successful outcome by being able to respond to issues which may arise in the negotiations.

Negotiations to Open the Market

GoV needs to find a way to introduce competition into telecommunications. GFG will assist GoV's efforts to reach a settlement with Cable and Wireless and France Telecom to open the market to competition. The WB has agreed to mediate the discussions.

Objectives:

- To negotiate a settlement which provides for the introduction of competition in the telecommunications sector.

GFG will fund:

- The provision of technical and legal support to the GoV for its negotiations with Cable & Wireless and France Telecom to achieve sector liberalisation.
- The Government has selected MGF Webb to represent it in negotiations (ToR attached). GFG is funding the costs of this support.

Incentive-based Program for Regulatory and Policy Support and Rural Access

AusAID has agreed to provide a package of support under the Incentives Program to strengthen MIPU's policy and technical capacity, develop regulatory capacity, and design and implement a rural telecommunications program. The specific modality for this assistance is yet to be agreed but the option under consideration is for GFG to finance a proposed World Bank program of assistance spanning these areas.

Objectives:

- To facilitate the transfer of legal, regulatory, and technical expertise to support the establishment of fully-functional oversight institutions for telecommunications and information and communications technology (ICT) in Vanuatu
- To assist the government in implementing a sustainable, self-financing program for telecoms/ICT access in rural and remote areas and outer islands.

Assuming a deal to open the market is reached, support will be provided for a program which includes the following elements:

- Support to MIPU in the first instance, and staff of other departments as appropriate, to:
 - Update telecommunications policy in line with developments in the industry and international best practices
 - Recommend to Government policy options in the area of legislation, fiscal incentives, etc
 - Monitor the implementation of Government policy in the industry
 - Establish policies for promoting Universal Service and Universal Access to communications in Vanuatu
 - Lead Government's work on international agreements related to telecommunications.
- Support to the URA in the field of telecommunications, to:
 - Implement telecom sector reform and Government's telecom policy
 - Regulate the sector as required
 - Issue licences and other authorizations, monitor compliance with licences and regulations
 - Regulate technical aspects of interconnection
 - Resolve disputes between operators, and between operators and customers as required
 - Allocate, assign and supervise the use of radio spectrum and frequencies
 - Allocate, assign and supervise the use of numbering
 - Promote user and investor confidence
 - Protect consumer interests.
- Seed capital for the establishment of a Rural Access Fund.

Performance Triggers

GFG funding is dependent on the GoV meeting clear performance triggers:

Assistance	Year 1 Performance Measure	Year 2 Performance Measure
URA Capacity Building Support	A Utilities Regulatory Authority is established (including the passage of the URA Act, provision of an appropriation by Parliament and appointment of key personnel).	
Output-based Subsidies for Rural Access to Telecommunications	Completion of negotiations with Cable and Wireless and France Telecom to reach a binding agreement which opens the sector to competition (World Bank to be independent facilitator of negotiations).	Establishment of a Rural Access Fund as a mechanism for competitive allocation of output-based subsidies in non economic areas (being designed by the World Bank).
	Adoption of a new Telecommunications Policy by the Council of Ministers (COM) and passage of a revised Telecommunications Bill.	
	Appropriate licensing regime for new entrants (consistent with best-practice license proposed by the World Bank)	

It is understood that a key trigger – reaching a deal with Cable and Wireless and France Telecom – is not wholly within the GoV’s control (it depends also on the cooperation of the other parties involved). If an agreement cannot be reached, GFG will reconsider its options, probably falling back on a more modest program of assistance which supports the URA for telecommunications regulation and MIPU for sector policy and technical leadership. The specific details will be discussed with GoV as events unfold.

Partnerships

GFG’s approach in this sector is to work in partnership with the World Bank which has relevant technical expertise and considerable experience in helping countries to introduce telecommunications reforms.

GFG is also coordinating closely with the AusAID Legal Sector Support program which is providing legal capacity-building and advice to GoV on issues in the telecommunications sector.

Budget

Assuming the performance triggers are all met, the expected budget for the Telecommunications Sector Sub-program is \$6.506m over 2008-11, of which \$6.106 will be provided from the AusAID Incentives Program (\$1.106m in 2007-08, \$5.0m in 2008/09).

Annex 4: Research Fund

To underpin policies that will contribute to economic and social development, Vanuatu's policy makers need better access to up-to-date and good quality information and statistics. There is also a critical need to share such information with the general public, as a means of engaging the broader population in dialogue surrounding current issues affecting growth and service delivery and supporting a more informed and active public debate. To help meet these needs GFG will establish a Research Fund as a means to support local organisations (both government *and* non-government) in undertaking research projects that contribute to a better understanding of how to generate economic growth and improve service delivery through good governance, especially focusing in rural areas.

The emphasis will be on supporting research that responds to locally-identified research questions from a range of sources both inside and beyond formal government.

Outcomes and Performance Indicators

The outcomes and performance indicators for the Research Fund are as follows:

Outcome	Performance Indicators
High quality analysis and/or research into economic growth, governance and service delivery is available in Vanuatu.	Research Fund products are peer reviewed and judged of high quality
Research Fund products are disseminated widely in Vanuatu, in a range of formats	Copies of reports, media releases, radio discussions

Principles

The Research Fund is based on four principles:

Support high quality research: The Research Fund will support high quality research projects that focus on issues that relate to Vanuatu's economic growth and service delivery, especially in areas outside of Port Vila. To that end, the Research Fund will provide for independent peer review of both the research proposals and of the final products. These reviews will be undertaken by international experts in the specific field, to be identified by the GFG team in consultation with AusAID advisers and/or other relevant sources of expertise.

Utilise local capacity: Vanuatu has a small pool of talented and capable people who possess the skills and the knowledge to organise, carry out, and analyse complex research projects, producing results that are credible and useful. Local researchers can utilise their networks within Vanuatu, allowing them to access information that may not be readily available to outside researchers. By utilising research talent within Vanuatu, capacity is built, and there is a greater sense of local ownership, leading to a greater chance that results of research will be acted upon. The involvement of local researchers will be one criteria for accessing financing through the Fund.

Encourage international partnerships: Most of the development issues facing Vanuatu have also been experienced in some form or another by other developing countries. While Vanuatu needs to find customized solutions, it can only benefit from exposure to international experience. The Research Fund will encourage partnerships between local and international researchers. Through these partnerships the Fund will aim to ensure

Vanuatu takes advantage of international knowledge, build capacity, and improve the quality of research outcomes. .

Disseminate research findings: To be of maximum utility it is important that the results of completed research is disseminated among the general public, instead of remaining solely within the realm of policy makers and government officials. Such dissemination is a means to encourage informed discussion and debate among the public. The results of GFG-financed research will be communicated widely in a format that is appropriate and accessible to the general population.

Management and Operation

The Research Fund will be managed by the GFG Unit, led by the Program Officer under the Program Director's supervision.

Research activities can be comprised of a combination of targeted research and analysis, consultations and/or briefings that together explore issues related to broad-based economic growth and service delivery in Vanuatu.

Proposals will be accepted on a rolling basis and GFG will be proactive in promoting the opportunity for research funding to a range of people and organisations. The GFG unit will initially screen the proposals and those considered suitable will be forwarded for peer review. One or two specialists in a field which relates to the project will be chosen to review these proposals.

Proposals will be reviewed against these criteria:

- Overall quality of proposal
- Relevance of research to developing a better understanding of how to generate economic growth and improve service delivery through good governance, especially focusing on rural areas
- Responds to locally-identified research questions
- Rigor of methodology and likelihood of credible results
- Feasibility of research within planned timeline and budget
- Role of local expertise
- Role of international expertise
- Inclusion of a communications plan and the production of research-related material that will be distributed to a range of audiences, including the general population
- Appropriateness project budget

If a proposal has good potential and is judged to be relevant to current issues, but is lacking in some aspects of organisation or clarity, the reviewers will return the proposal with a list of suggestions for proposal revision. GFG will assist with proposal revision where necessary so the proposal can be re-submitted.

On the basis of initial screening and the advice of technical reviewer(s), the GFG Program Director will make recommendations to the GFG Management Committee decisions regarding proposal submissions for approval or rejection.

If an accepted project proposal includes contracting a researcher from outside of Vanuatu, GFG may at its discretion choose to organise and manage the contract if it considers this warranted in the circumstances.

Communication of Research

Upon completion of the research project, the researcher(s) will produce the results of the research in a format that is accessible to the general public. This could be in a variety of formats, such as a written summary in Bislama/French/English, a radio show, or an interview published in the newspaper. As noted above, the communications plan will be considered in the proposal review process. However the GFG Unit may also develop additional dissemination plans for research products where necessary.

Budget

The budget for the Research Fund is \$800,000 over 2008-2011.

Annex 5: Gender and Economic Growth Research – Survey of Economic Participation and Production

Background

The GFG program aims to promote economic growth and improve service delivery to the majority of the rural population. An important underlying principle for this economic growth and services delivery is equality of access to the opportunities by all segments of the population, including women. It is well established that the employment of women has done more to encourage global growth than increases in capital investment and productively improvements²⁴. In many countries, and South East Asia in particular, products made or grown by women dominate the region's exports. There is little data on economic participation in Vanuatu, especially disaggregated by gender and especially with respect to the informal sector, widely acknowledged to be a significant element of the nation's economy.

Policy Context

GoV has adopted promoting gender equality and empowering women as a social policy objective under the PAA. The policy objective of the Government of Vanuatu on gender is to 'promote gender equality and empower women'. Priorities outlined in the PAA are:

1. Improve the gender balance in primary, secondary and tertiary education
2. Increase the number of women in wage employment in the non-agriculture sector
3. Increase the number of women in decision-making roles in government.

In order to identify initiatives to enhance gender equality and to generate greater broad-based economic growth through the increased economic participation of women, Vanuatu needs to better understand the relative contributions of men and women to economic development. Progress towards gender equality depends on strategic and well-targeted interventions. Because such targeting requires a strong foundation of knowledge and understanding, GFG will support a program of gender research throughout its implementation.

Key Issues

Gender issues do not figure in the thinking and debate around on economic growth, either in the government or the private sector. Economic data in Vanuatu is often not disaggregated by gender, and gender analysis is rarely – if ever – undertaken on policy proposals or legislative reforms. Therefore capturing basic data around economic participation would provide a good starting point for further discussion and awareness, leading to a stronger constituency for action.

In particular, there are few robust data regarding the informal economy in Vanuatu. Women in Vanuatu play a key role in the informal economy, although this role (and also that of men) is poorly quantified: data on both women and men in the cash and non-cash economies is limited and often outdated, with the result that the government and donors lack the information on which to make sound policy and investment decisions to encourage greater production and productivity. However it is known that in the subsistence agriculture economy, women play a critical role in the production and selling of

²⁴ *Gender equality in Australia's aid program – why and how*, AusAID, March 2007

produce. Women also produce handicrafts for sale; while men undertake much building and maintenance work on domestic and community infrastructure.

Two major statistical collections are currently underway: the Household and Income Expenditure Survey (HIES) and Agriculture Census. With reporting due in late 2007 and in 2008, these are anticipated to produce some data about the informal sector and provide part of the picture regarding men's and women's contributions to that sector. However, further work will be needed to begin to build a deeper understanding of gender issues affecting economic growth, to inform GoV's policies aimed at achieving economic prosperity and development. A focus on gender issues will also help the government achieve its economic objectives, through a better understanding of the drivers of economic output.

Outcomes and Performance Indicators

The outcome and indicators for this research is:

Outcome	Performance Indicators
A statistically valid snapshot of the participation and production of men and women in the formal and informal sectors is produced and disseminated.	Survey is completed and peer reviewed as of good quality Survey is disseminated widely.

Research Description

The Study will complement existing GoV and other data (such as employment data from VNPF, the current Agriculture Census and HIES) by deepening the statistical information available to policy makers and the public. It will develop a benchmark report that will be used to measure progress and contribution of women to economic development in Vanuatu over the years in which the GFG program is implemented.

Using the data available from the surveys and other sources, undertake a study of men's and women's participation the formal and informal economies, their production and income levels, access to resources (including credit) and their hours of 'productive' labour. The survey will be undertaken in close collaboration with Department of Women's Affairs and National Statistics Office through the following activities:

4. Assess the gender disaggregated data available from the Agriculture Census, HIES, VNPF and other sources to establish a baseline of data *currently* available regarding the economic participation and production of men and women in the formal and informal sectors;
5. Design a sample survey to collect *additional* data in order to provide a statistically valid snapshot overall;
6. Conduct the Survey in cooperation with VNSO, DWA and MFEM;
7. Produce a Survey Report suitable for distribution within and outside GoV, together with a Summary of the survey suitable for wide public distribution;

An important element of the Study will be the dissemination of the findings in a range of formats so as to reach a wide audience. The survey element of the study will be considered a pilot. GFG will encourage GoV to consider the results of the survey in the preparation for the 2009 Census in order to maximise the gender data collected through that major ten-yearly data collection. Subsequent to the Census, GFG will consider conducting further

sample surveys to provide a time series of data on women's incomes and economic participation.

GFG will contract specialist consultants (local and international) to undertake this study. The research will involve extensive consultations and travel to provinces, including the two towns. The Department of Women's Affairs and National Statistics Office will be the main partner organisations in which the research group will closely work with; DESP will also be closely involved.

Partnerships

The study will be undertaken in partnership with the Department of Women's Affairs, the National Statistics Office, and the Ministry of Finance and Economic Management.

Budget

The budget for the initial Gender and Economic Growth Research is \$200,000 in 2008.

Annex 6: Economic and Sector Policy Sub-Program

Policy Context

The Priorities and Action Agenda (PAA) 2006-2015 is the Government of Vanuatu's (GOV) statement of national vision and priorities for development over the next ten years. The goal of the PAA is "an educated, healthy and wealthy Vanuatu". Supporting implementation of the PAA, its goal and objectives is the ultimate aim of the GFG Program.

Key Issues

Shift to a more strategic and policy-based budget. GoV is moving from annual planning and budgeting systems that are largely non-strategic, to a medium-term system that is focussed on using the budget to implement its policy priorities. This will include the development of a Medium Term Expenditure Framework (MTEF). DESP has the lead role in implementing and managing the new planning and budgeting systems and will require support and assistance to make sure the new systems work.

A stronger focus on monitoring performance. Without a basis for performance assessment there is limited accountability around what government achieves with the resources it has at its disposal. Performance assessment is critical at two linked levels. Firstly the budget itself requires a stronger basis for performance assessment than is provided through the existing budget narratives. This would enable the Ministerial Budget Committee and COM to make informed decisions about the performance of line ministries and about resource allocation. Secondly, at an aggregate level the PAA also provides an opportunity for accountability around the achievement of Vanuatu's development objectives – it is expected that an Annual Development Report will be provided detailing progress against the aims of the PAA. In both these areas DESP has the lead role.

Lack of capacity within DESP. DESP has a clear mission to develop, in consultation with key stakeholders, appropriate economic, social and sectoral policies and plans that will enhance the private sector led growth of the economy and reduce poverty in line with the MDGs. This role involves undertaking policy analyses and advising government on economic and social development issues in Vanuatu. Its capacity to do so is, however, extremely limited. Staff time is mainly taken up with administrative tasks such as processing project documentation and, for significant periods of time, involvement in budget preparation.

There is also some lack of clarity around the core roles of DESP in policy formulation, budget preparation and monitoring, and elements of donor coordination (especially in relation to the Department of Strategic Policy and Coordination, the Aid Management Unit and the Department of Finance).

The staffing establishment of DESP provides for a Director, an Economics Division of three economists, a Sector Policy Division of five sector analysts plus a database officer and sector policy manager, and four support staff (11 staff in all). Several key positions have been unfilled for long periods, including the Director.

Outcomes and Performance Indicators

The outcomes and indicators for this Sub-program are as follows:

Outcome	Performance Indicators
Strengthened coordination, planning and economic analysis functions of GoV.	DESP functions effectively (how tell?)
The budget increasingly reflects national priorities for service delivery and investment.	Increasing % of budget submissions align with the PAA Improved budget narratives and performance indicators.
There is stronger accountability to Parliament and the people for the results of public expenditure.	ADR produced, tabled, published and disseminated. Annual budget results are published and distributed. Public access to fiscal information (PEFA Indicator PI-10) improves

GFG will work with GoV to achieve these objectives through activities across the following focal areas.

Strengthening Sector Policy and Analysis

The implementation and monitoring of the PAA is a core role of DESP, which will oversee line ministries in their planning and implementation of the strategic priorities identified in the PAA. The MTSF and MTEF are important tools for the successful implementation and monitoring of the PAA. As noted above, DESP has limited capacity to undertake effective monitoring of PAA implementation. Importantly, however, it also lacks capacity to ensure that the results of monitoring are reflected in policy and program decisions. Therefore, there is a need for capacity building in policy analysis and formulation and in sector analysis. Long-term assistance is required and it is anticipated that will initially commence with provision of a Strategic and Sector Policy Adviser with the aim that a robust evidence-based policy process be developed in order to ensure quality policy advice are provided for GoV in its decisions.

Objective:

- To assist DESP to develop robust evidence-based policy processes which ensure quality advice are provided for GoV in its decisions
- To assist DESP to establish a robust monitoring framework around the PAA and budget process

GFG will fund the appointment of a Strategic and Sector Policy Adviser for two years.

The Adviser will undertake the following activities:

- Build the capacity of Sector Analysts to appraise program proposals and to undertake sector analyses
- Support GoV to institutionalise medium-term development planning processes (MTSF and MTEF)
- Assist DESP to undertake assessments of budget submissions for 2008 for compliance with the objectives of the PAA, and to ensure activities proposed under Ministry Business Plans for 2008 contribute to achievement of PAA objectives
- Support DESP in undertaking its budget related roles and discussions with line ministries on their annual budgeting
- Develop the skills of sector analysts in policy development and research
- Assist the Sector Policy Division to streamline project and program processes to free up staff time for policy, analysis and research.

- Work with DESP and the rest of GoV to develop a performance monitoring framework for the PAA and the budget
- Assist DESP to develop a format for the Annual Development Report and prepare a timetable for its preparation
- Build the capacity of DESP staff to monitor the PAA and prepare the first Annual Development Report in 2008
- Build the capacity of DESP staff to assist line ministry staff with the monitoring and evaluation of sector development programs
- Identify future requirements for support of monitoring and evaluation, support that can be provided by the long-term advisers in DESP, by the GFG Unit, or under other donor programs.

Strengthening Economic Analysis and Forecasting

DESP has an important role in providing GoV with economic advice that facilitates sound macroeconomic, fiscal and financial management, and that promotes long-term development of Vanuatu's economy. However, its capacity to perform this role is constrained by ongoing difficulties in recruiting and retaining qualified economists because of competition with the private sector and other entities such as the Reserve Bank. DESP has recruited new staff to the Economic Section and has requested that complementary, support be provided to the current and new staff on appropriate techniques for forecasting and economic analysis.

Objectives:

- To set-up quantitative tools for macroeconomic and fiscal forecasting and train staff in DESP and the Department of Finance in the use of these tools.
- To support DESP in the preparation of the macroeconomic framework for the budget and the MTEF.

GFG will fund the appointment of an Economics Adviser for two years. The Adviser will:

- Assist DESP to undertake assessments of budget submissions for 2008 for compliance with the objectives of the PAA, and to ensure activities proposed under Ministry Business Plans for 2008 contribute to the achievement of PAA objectives
- Build the capacity of DESP economists in economic analysis, forecasting and reporting
- Strengthen the capacity of DESP economists to implement the MTEF
- Assist DESP with the preparation of key economic documents and policy advice to the Minister of Finance as relevant.

Functional review of policy coordination, planning and economic analysis

In the preparation of this design a problem analysis workshop was held with DESP. The issues highlighted a range of institutional weakness including:

- Limited funds for travel to project sites or for engagement with provinces and communities and lack of resources to undertake research that could feed into policy formulation and implementation
- Limited skills in policy formulation and analysis and capacity to provide support to sector ministries and provinces
- Lack of skills in managing and monitoring performance of GoV against the national policies

- Little or no capacity to build the capacity of provinces and line ministries in planning, budget preparation and monitoring
- High staff turnover as a result of poor incentives and competition with other employers and an absence of succession and retention planning
- Ongoing vacancies and slow recruitment to fill positions; particular difficulty in attracting and recruiting economists.

Objective:

- To assist DESP to define clearly its roles, responsibilities, organisational structure and the linkages with related institutions
- To help DESP develop and implement any organisational changes resulting from the review

GFG will fund a functional Review of GoV policy coordination, planning and economic analysis functions. The Review will consider current roles of DESP against roles of Department of Strategic Policy and Coordination and the Aid Management Unit of the Department of Foreign Affairs. The review will:

- Examine the policy, planning and economic analysis functions of DESP.
- Provide advice regarding effective functions, staffing and structure which could guide GoV in its decision for the amalgamation proposal
- Support the Director to implement any agreed changes to the functions, staffing and structure of DESP
- Work with the Director to develop and implement a personal and institutional capacity building plan
- Assist the Director to explore strategies to attract and retain staff to DESP, and to otherwise address staffing shortages. These might include: staff secondments from other organisations, regional recruitment, incentive schemes or contracting out some functions.

Potential GFG follow-up to the review will be decided in the light of its findings and on the decisions taken by government.

GFG's support will take the form of support by a Strategic Sector and Policy Adviser with additional technical support as required. The assistance will be undertaken once there is a permanently appointed Director DESP.

Strengthening linkages with Provincial Planning

There has been limited interaction between the central planning and provincial planning mechanisms. This has caused disconnections between development activities in the provinces and the national priorities identified by the Government. DESP usually conducts an annual week-long workshop in each provincial centre to discuss the Government Investment Program (GIP).

DESP staff has identified lack of funding as a constraint to effective collaboration with planners in the six provinces of Vanuatu. This situation may be somewhat improved in 2007 with a budget for provincial GIP workshops of Vt1 million, as well as a budget of Vt2 million for provincial project monitoring. However, there remains limited scope for enhanced provincial links both due to financial constraints and competing demands on DESP staff time.

GoV is currently considering its decentralisation policies but is not yet ready to provide clear direction on any changed role of DESP in supporting the provinces. There are plans under consideration in the Department of Finance to deconcentrate some financial management functions to the provinces; the Department of Provincial Affairs is also considering some reforms to provincial structures. This Sub-Program will work closely with these and other related activities to ensure careful coordination, cooperation and coherence.

There has been some discussion of revising the GIP workshop program to more broadly cover government planning as well as project processes, although no action has been taken as yet. There is also discussion within the Department of Finance (also in the Ministry of Finance and Economic Management) about how to strengthen linkages with provinces and there may be opportunities for the two departments to cooperate and develop a combined program addressing policy, planning and budgeting. Other ideas being considered in DESP include workshops with provincial officials (especially planners) and elected representatives to explore additional mechanisms to strengthen the engagement between national and provincial officials in planning, the possibility of staff exchanges between Port Vila and the provinces, temporary attachment of provincial planners to DESP, and training programs delivered by DESP to provincial planners and councils to enhance the linkages.

The Strategy and Sector Policy Adviser will, therefore, assist DESP to further develop its plans and capacity to strengthen links with the provinces. If funding is required to implement those plans GFG would consider providing support, for example by providing matching funds grants. Such funding would be the subject of a detailed proposal and separate approval.

Partnerships

GFG will coordinate its work with assistance being provided by NZAID to the Department of Provincial Affairs around decentralisation issues and the institutional roles and responsibilities at the provincial level.

PFTAC is also providing support to DESP around macroeconomic issues and will be an important partner for GFG's activities. GFG will also explore the opportunities to involve other agencies with relevant expertise, including expertise from within other Australian government agencies (e.g. Treasury).

Budget

The expected budget for the Economic and Sector Policy Sub-Program is \$3m over 2008-11.

Achievement of the objectives and outcomes of this sub-program will contribute to the achievement of Outcomes 4 and 7 shown in the Results Framework.

Strategy and Sector Policy Adviser Terms of Reference

Background

The recently published *Priorities and Action Agenda 2006 – 2015* (PAA) is GoV's national strategic plan in which development priorities are grouped into seven chapters that cover economic management, governance, productive sector development, and service delivery. DESP has an important role in overseeing the implementation of the PAA and ensuring the GoV is budgeting against the priorities articulated in the PAA document.

The Sector Policy Division of DESP has been mandated to oversee the implementation of the PAA. The implementation of priorities in the PAA is the role of line ministries, with DESP responsible for providing ongoing advice to those line ministries in the implementation of the PAA. It also has the role of compiling the Annual Development Report on Vanuatu's performance in the context of the strategic priorities listed in the PAA.

However, the Sector Policy Division of DESP does not have the resources to meet its responsibilities, including the skills required to support effective implementation of the PAA. It has been agreed that support will be provided to the Sector Analysts in DESP through a long-term technical adviser for a period of two years.

This input is part of a package of support being provided to strengthen government policy and planning in Vanuatu.

Expected Outcomes

The expected outcomes of this input are:

- Improved capacity of DESP in policy analysis and development
- A more coherent and strategic budget and development program that is closely aligned with the strategic priorities of the PAA, and more strongly based on robust evidence and analysis
- More effective interaction and cooperation between central and provincial planning officials

In undertaking the role, there are a number of variables that may influence the outcomes of the Functional Review. These include:

- A recommendation by the Independent Review Team of the Comprehensive Reform Program (CRP)²⁵ to amalgamate DESP, the Aid Management Unit in the Department of Foreign Affairs, and the Department of Strategic Policy and Coordination (formerly the Department of Strategic Management) in the Ministry of the Prime Minister (MPM). This recommendation is in line with a previous Council of Ministers decision, which now only requires execution. Note that no action has been taken to implement as yet.
- Discussion in both MFEM and MPM about initiatives to expand research and policy capacity in GoV

²⁵ *Review of Comprehensive Reform Programme of Vanuatu*, October 2006

- The transfer of DSPC from the Ministry of CRP portfolio into Prime Minister's portfolio.

Activities

- Support DESP to implement the PAA
- Assist DESP to institutionalise the Medium Term Strategic Framework
- Develop and deliver training programs for the DESP Sector Analysts in areas including sectoral analysis, policy development, and program/project appraisal
- In consultation with the Sector Analysts, develop a program of sector research and reviews that support GoV policy formulation and decision-making
- Work with DESP staff and the Director (taking account of the work undertaken by the Organisational Development Adviser) to develop a capacity building and succession plan for the Sector Policy Unit that supports the professional development of the staff and the retention of qualified staff
- Support DESP Sector Analysts in effective monitoring of the implementation of the PAA
- Support DESP to maintain the Government Investment Program (GIP) database
- Assist DESP to develop and implement a program to strengthen cooperation with provincial planning officials.

Counterparts

DESP Sector Analysts, Director of DESP

Reporting Relationships

The Strategy and Sector Policy Adviser will report to the Director of DESP.

The Adviser will work closely with the other advisers engaged as part of the *Economic and Sector Planning Sub-Program*.

Reports

- Brief Monthly Reports
- Six-monthly Progress Reports and Workplan (workplans to be developed with the Director, DESP and staff of DESP)
- A final report at the completion of the input

The format and timing of all reports will be confirmed on commencement. Some reporting will be prepared jointly with the other advisers engaged as part of the *Economic and Sector Planning Sub-Program*.

All reports will be provided to the Director, DESP and the GFG Program Manager.

Competencies

The input requires a candidate with the following skills:

- Substantial experience at a senior level within government on provision of policy advice, sector planning and research
- Experience with monitoring and reporting on government policy outcomes
- Postgraduate qualification in economics or related discipline

- High level communication, writing and inter-personal skills, including cross-cultural awareness and skills
- Demonstrated capacity building skills and experience in developing and delivering training
- Experience working in a developing country, preferably in a small island country

Duration and Timing

Duration of this assignment will be two years, commencing in March 2007.

Economics Adviser Terms of Reference

Background

The Economics Division of DESP has a responsibility to provide GoV with economic advice that facilitates sound macroeconomic, fiscal and financial management, and that promotes long-term development of Vanuatu's economy. The Division is responsible for developing the macroeconomic framework that guides budget formulation.

The Division is currently staffed by an Acting Principal Economist and an Acting Assistant Economist, both recently appointed on temporary contracts. The Economist position is vacant while the incumbent is on overseas scholarship studies. The ongoing uncertainty regarding permanent appointments of qualified staff is a serious issue that warrants immediate attention and support for the functions of the Division.

Currently, short-term assistance is provided by PFTAC to support the Division in the development of a methodology and quantitative framework for preparing coherent medium term macroeconomic and fiscal forecasts. The long-term input is required to build on that support and provide ongoing skills building within the Division.

This input is part of a package of support being provided to strengthen government policy and planning in Vanuatu.

Expected Outcomes

The expected outcomes of this input are:

- Better understanding and use of macroeconomic data in GoV, supporting improved evidence-based policy and macroeconomic policy development
- Enhanced capacity of the staff in the DESP Economics Unit so they can effectively perform their roles

Activities

- Develop and implement a staff capacity development plan to strengthen the ability of GoV economists to carry out their responsibilities
- Build capacity of the economists in undertaking research that assists the policy decisions of GoV
- Assist GoV to implement the MTEF, including the integration or alignment of the MTEF into the new software packages being implemented by the Department of Finance FMIS section
- Work with the economists and Acting Director of DESP to develop a succession plan for the unit that could address loss of qualified staff (taking account of the work undertaken by the Organisational Development Adviser) work with DESP to explore innovative opportunities for filling the positions. These might include secondments from other organisations, regional recruiting, incentive programs or contracting out some functions (taking account of the work undertaken by the Organisational Development Adviser)

Counterparts

Economists in the Economic Division, Director of DESP

Reporting Relationships

The Macroeconomic adviser will report to the Director, DESP and the GFG Program Manager.

The Adviser will work closely with the other advisers engaged as part of the *Economic and Sector Planning Sub-Program*.

Reports

- Brief Monthly Reports
- Six-monthly Progress Reports and Workplan (workplans to be developed with the Director, DESP and staff of DESP)
- A final report at the completion of the input

The format and timing of all reports will be confirmed on commencement and some reporting will be prepared jointly with the other Advisers included in this package of assistance.

All reports will be provided to the Director, DESP and the GFG Program Manager.

Competencies

This role requires a candidate with the following characteristics:

- Qualified at postgraduate level in economics
- Substantial professional experience as a public sector macroeconomist, including in policy analysis, macroeconomic forecasting and economic advice to government
- Experience at senior level within government
- High level communication, writing and inter-personal skills, including cross-cultural awareness and skills
- Demonstrated capacity building skills and experience in developing and delivering training
- Experience working in a developing country, preferably in a small island country
- Experience with Medium Term Expenditure Frameworks would be an advantage

Duration and Timing

The inputs will be two years' duration, commencing in March 2007.

Annex 7: Public Financial Management Sub-program

Policy Context

The PAA commits GoV to maintaining policy stability and responsible recurrent and overall budget outcomes. It flags the importance of sustainable fiscal balances while re-prioritising expenditures, reducing debt and minimising subsidies to public enterprises. A primary objective is managing public finances to ensure resources are increasingly applied to improve service delivery and to reorient government expenditure and donor resources to more productive areas of expenditure. These measures are driven by the need to improve basic services, particularly in rural areas where the majority of Vanuatu's poor are found.

Key Issues

In May 2007, building on the PEFA work completed in 2006, GFG sponsored an assessment of opportunities for GFG to strengthen PFM in Vanuatu.²⁶ The assessment looked systematically at PFM across the service delivery chain from budget formulation, execution and monitoring, based on wide consultation with stakeholders. The aim was to identify key risk areas impacting on the ability to deliver services and practical opportunities for GFG to make improvements. Several key issues emerged from this work.

Vanuatu has a strong PFM system to build on. Vanuatu's PFM system has important strengths as recognised in the PEFA assessment (Vanuatu scored 'A' or 'B' on 11 out of 31 performance indicators). In particular, the credibility of the budget is strong – the budget process is orderly and well-managed; budget execution is centrally controlled by the Department of Finance with generally good knowledge of where resources are used. However, PEFA highlighted areas of weakness which impact on the delivery of services and implementation of policy: extent of unreported government operations; oversight of aggregate fiscal risk from other public sector entities; multi-year perspective in fiscal planning, expenditure policy and budgeting; effectiveness in collection of tax payments; competition, value for money and control in procurements; effectiveness of internal audit; scope, nature and follow-up of external audit; and legislative scrutiny of external audit reports.

It should be noted that the PFM systems in Vanuatu depend on a relatively small pool of skilled and committed individuals, and are thus vulnerable to changes in personnel.

Financial management capacity diminishes away from the centre. Although a key factor in achieving macro stability, Vanuatu's strong aggregate FM controls cannot by themselves ensure funds in Vila are translated into good quality services for the community. Outside MFEM, financial management capacity diminishes within line ministries in Port Vila, and becomes very weak out in the provinces. The general absence of financial management capacity in the provinces limits the government's ability to ensure the effective, efficient and ethical utilisation of public funds. GoV is not able to reliably control whether funds allocated for a specific purpose in Vila are actually used for that purpose in the provinces. Local procurement has been highlighted as an area of dysfunction – the imprest account system means that provincially-based officials often have to wait months to receive funds for basic operating costs (since there is no-one with sufficient FM delegation on hand all documentation needs to return to Vila for processing). There is wide support for the concept of improving financial control in line ministries and

²⁶Harradine, M & Soni, N. *Improving government budget management through GFG and opportunities for direct investment*. Report for GFG dated May 2007.

particularly outside of Port Vila, potentially through the provision of some form of shared finance bureau services based at the provincial level.

The move to greater use of government systems. Sector ministries such as health and education, and the donors which are supporting them (AusAID, EU, NZ, France) have expressed a desire to make greater use of government systems in the delivery of aid programs. From a development perspective this shift makes good sense as a means to build capacity and ownership and strengthen systems of service delivery rather than relying on parallel donor projects. The shift to use of partner systems will bring a sharper focus on the PFM capacity as it impacts on service delivery and the effectiveness of government systems in using resources to bring desired outcomes. Both GoV and donors are looking for assurance and accountability around the use and impact of funds. The PEFA report, GFG assessment and work being undertaken at a sector level identify areas where further attention is needed. To ensure overall coherence of the approach it will be important that this work is well-coordinated both across line ministries and between line ministries and the central agencies. Donors and a program such as GFG can play a role in supporting coordination but the key leadership role must rest with the government.

Outcomes and Performance Indicators

The objectives and indicators for GFG's PFM Sub-program are as follows:

Outcomes	Performance Indicators
The budget increasingly reflects national priorities for service delivery and investment.	Increasing % of budget submissions align with the PAA Improved budget narratives and performance indicators.
Budget resources are increasingly used for their intended purpose.	Budget out-turn shows increasing compliance of expenditure with original allocations. A greater % of public servants report their budget allocations were provided.
Public financial management in line Ministries (Health, Education) and provinces is improved.	Regular audits show decreasing number of inconsistencies in Ministries of Health and Education Transparency of intergovernmental fiscal relations (PEFA indicator PI-8) improves

The PFM Sub-Program will be closely coordinated with the Economic and Sector Sub-Program, both of which have a focus on strengthening the budget process.

Sub-Program Description

This sub-program is the centrepiece of GFG's implementation of AusAID's anti-corruption policy: *Tackling corruption for growth and development*, by reducing the opportunities for corruption (through improved budget, financial management and accountability processes), and building constituencies for reform (through greater public access to information about the government budget and its expenditure). GFG will work with GoV to achieve the sub-program objectives through activities across the following focal areas.

Program of PFM Capacity Building

GFG will take a structured approach to assisting the Government of Vanuatu (GoV) to better use its own resources. The aim is to support GoV to more effectively deliver

services, and to encourage broad-based growth. GFG will look for overarching and systemic PFM issues which cut across government. GFG will help GoV to assess risks and opportunities to strengthen the quality of public expenditure, based on analysis of the annual Budget cycle (incorporating recurrent and development Budget formulation, execution and monitoring) and service delivery chain to identify bottlenecks or critical points of influence. This will result in greater work in line ministries, with a focus on their operations in the provinces, where the greatest concerns and opportunities for improvement are known to lie. Support may also be given to line ministries to improve the quality of recurrent and development Budget submissions and proposals. But it will also maintain support to MFEM to ensure that past gains are not lost, and that areas of known weakness are addressed. GFG will also be looking to build capacity for, and provide incentives to encourage, leadership within GoV as a key ingredient to making existing systems work more effectively and tackling well-known governance constraints.

Objective:

- To improve public financial management at critical points in the Budget cycle and the service delivery chain, leading to improved delivery of services and/or economic growth.

PFM Coordinator

Developing and implementing this program of work will require dedicated and specialised expertise within GFG. GFG will fund the appointment of a PFM Coordinator within the GFG Office to lead, develop and supervise the implementation of the GFG activities in PFM, working in close partnership with counterparts in the GoV, with other AusAID personnel working in related programs (e.g. health, education) and with other donors. ToR are attached at Annex 2. The Coordinator will:

- Promote and support GoV leadership in improving PFM as a means of enhancing the quality of public expenditure.
- Assist GoV and its donor partners in developing and implementing a strategic approach to strengthening PFM, building on the assessment undertaken in April 2007, the PEFA analysis, and other relevant reports and studies.
- Develop and supervise the implementation of GFG's work program on PFM, including coordination across related work under the Economic and Sector Policy Sub-Program.
- Provide advice and support to the major sectoral service delivery programs (particularly health and education) on PFM issues.
- Coordinate the PFM inputs across the various components of AusAID's Vanuatu program, including the provision of mentoring and support to other advisers.
- Work with GoV and other donors to promote coordination and harmonisation of approaches, including through engagement with the PFM programs funded by other donors.
- Provide advice on the operation of GoV systems and how these might be strengthened to enable increased direct investments in Vanuatu's budget.
- Assist GoV with periodic monitoring on the state of PFM.

Provincial PFM Capacity Building

GFG will help GoV to design and implement a long-term and staged program which builds PFM capacity at the provincial level, potentially through the establishment of some

form of shared PFM 'bureau services'. The program will aim to commence with a pilot project beginning in 2008.

Objectives:

- To strengthen capacity for PFM in the provinces, providing greater accountability around the end use of public funds.
- To support the delegation of some PFM responsibilities from Port Vila, enabling more efficient application of resources to the delivery of key services.

GFG will fund:

- The design of a pilot project to establish a PFM capacity building project in at least two provinces.
- The implementation of this project, including supporting infrastructure, training and associated technical advice and support. Consideration will be given to how GoV may be assisted to resource the position(s) needed to provide bureau services.
- A review of the lessons learned through the pilot project and based on this the preparation of a proposed next phase of assistance for consideration by government.
- Implementation of the next phase as agreed with GoV.

The form of this assistance is to be agreed with GoV based on further design work. Subject to the outcome of discussions it is envisaged that support could take the form of technical advice supplemented by direct investment through the budget of GoV.

The development of this program will be coordinated across the Department of Finance, relevant sector Ministries (e.g. health and education) and with the activities of other donors.

Revenue Support

Revenue administration is a critical point in government finances: invoicing, collection, receipting and debt management and revenue monitoring have a key role in ensuring that government fees and charges are delivered to general revenue and available for use to deliver services. There is a need to support revenue administration within MFEM to develop basic accounting and financial management skills needed to bring in (or otherwise manage, including writing off) the nearly 2 billion vatu in outstanding collections. Exemptions from fees and charges are also a key issue. Revenue policy also needs strengthening to improve the stability and consistency of the system and to ensure fees and charges are fair and reasonable, support policy and create the right incentives for economic activity.

Objectives:

- To improve systems for managing government revenue.
- To improve the quality of government financial statements especially in regard to revenue and debt accounts.

GFG will fund the engagement of a **Revenue Accounting Adviser** to train, mentor and support selected counterparts who will have key responsibilities for carrying forward the core work in the area of revenue collection and management. TOR are at Annex 2. The adviser will:

- Report to the Director of Finance and work directly with staff in the Revenue Section of the Department of Finance in improving the day-to-day management of government revenue.
- Liaise with staff in line ministries with revenue functions on their management of government revenues with a view to advising staff in the Revenue Section on appropriate follow-up action to take with these agencies on issues that arise, including any systems-related improvements.
- Produce a needs assessment of capacity needs within the Revenue Section of the Department of Finance
- Develop and deliver capacity building programs; identify and train key counterparts; assist in the production and/or revision and institutionalisation of key staff and systems documents and training materials.

Other Initiatives

In addition to the areas flagged above, the PFM Coordinator will develop a work program identifying specific priorities to be tackled, timing and any additional resource requirements. This work program will be for approval by the Program Director and GoV through the GFG Management Committee. Potential areas in which GFG might play a role include:

- Working to build greater political ownership of the budget as a strategic process for implementation of the government's policy vision
- Working with DESP and DoF to support more robust scrutiny of the virement process as a means of providing greater control over ad-hoc reallocation of funds outside the approved budget
- Strengthening audit processes (although EU is developing a program of support around internal audit)
- Strengthening procurement processes
- Legal support on matters affecting MFEM and DoF
- Continued support around PFM-related IT systems
- Support to line agency finance officers, including through the Accounting Officers Liaison Group as a means to encourage inter-agency debate and support around higher level financial management issues
- Training and on the job support for finance officers, including investing in young talent as potential future PFM leaders in government
- Support to the PSC around performance evaluation around financial management responsibilities.

Partnerships

A variety of donor programs are operating in areas relating to public financial management and service delivery. Coordination across these efforts will be essential to maximize impact and avoid duplication. There is strong and positive dialogue and cooperation amongst the donors partners in these areas, providing an excellent opportunity to facilitate partnerships. These partners have been consulted closely in developing the PFM Subprogram of GFG.

AusAID has major programs in health and education which are increasingly looking to address PFM issues. GFG will play a role in helping AusAID to ensure a coordinated approach across this work and also to contribute to the dialogue with central agencies such as MFEM.

NZAID is a key donor in education and flagging its intention to substantially increase assistance, working in a proposed SWAp together with AusAID and the EU. The EU lead support to the PEFA analysis and has an active program of follow-up based in part around a linkage to future budget support. Both NZAID and the EU are key partners in the development of PFM activities by GFG and will continue to be fully engaged and consulted on activities as they develop.

There is considerable other work under development or consideration associated with strengthening systems and performance in the provinces. With reference to the deconcentration element of this sub-program, the PFM Coordinator will work closely with the Economic and Sector Policy Sub-Program (which will work to strengthen planning links with the provinces), and the NZAID-supported initiatives to reform provincial structures (which are led from the Department of Provincial Affairs).

Budget

The expected budget for the PFM Sub-program is \$6.25m over 2008-11.

Public Financial Management Coordinator Terms of Reference

Background

Sound public financial management (PFM) supports aggregate control, prioritisation, accountability and efficiency in the management of public resources and the delivery of services, which are critical to the achievement of public policy objectives, including achievement of the Millennium Development Goals (World Bank, 2004).

While many inputs also contribute to public policy outcomes – including a range of non-financial inputs, PFM occupies a strategic and central supporting position: every activity of government requires financing. For GFG, which is looking to tackle cross-cutting issues affecting growth and service delivery in Vanuatu, PFM is a clear and high priority.

Key Issues

The budget process (resource allocation) in Vanuatu is orderly and well-managed. Budget execution (resource use) is centrally controlled by the Department of Finance with generally good knowledge of where resources are used. But the quality of the budget and the effectiveness of its execution need to be improved to ensure resources are used to deliver services or investments in line with expressed national priorities.

GFG will take a structured approach to assisting the Government of Vanuatu (GoV) to better use its own resources. The aim is to support GoV to more effectively deliver services, and to encourage broad-based growth. GFG will look for overarching and systemic PFM issues which cut across government. It will focus specifically on priorities in the key service delivery sector of health and education. GFG will help GoV to assess risks and opportunities to strengthen the quality of public expenditure, based on analysis of the budget cycle and service delivery chain to identify bottlenecks or critical points of influence. This will result in greater work in line ministries and the provinces, where the greatest concerns and opportunities for improvement are known to lie. GFG will also be looking to build capacity for, and provide incentives to encourage, leadership within GoV as a key ingredient to making existing systems work more effectively and tackling well-known governance constraints.

Developing and implementing this program of work will require dedicated and specialised expertise within GFG. The PFM Coordinator will lead, develop and supervise the implementation of the GFG activities in PFM, working in close partnership with counterparts in the GoV, with other AusAID personnel working in related programs (e.g. health, education) and with other donors. The expected outcomes of this activity are:

- Enhanced capacity for effective public financial management within GoV, particularly within line ministries and at the provincial level.
- Improved public financial management at critical points in the service delivery chain, leading to improved delivery of services and/or economic growth.

The Coordinator will be based in Port Vila, Vanuatu and will be appointed for a term of two years (with the likelihood of extension of this term by one year).

Activities

The PFM Coordinator will lead, develop and supervise the implementation of the GFG activities in PFM. The principal activities of the PFM Coordinator will be to:

1. Promote and support GoV leadership in improving PFM as a means of enhancing the quality of public expenditure.
2. Assist GoV and its donor partners in developing and implementing a strategic approach to strengthening PFM, building on the assessment undertaken in April 2007, the PEFA analysis, and other relevant reports and studies.
3. Develop and supervise the implementation of GFG's work program on PFM.
4. Provide advice and support to the major sectoral service delivery programs (particularly health and education) on PFM issues.
5. Coordinate the PFM inputs across the various components of AusAID's Vanuatu program, including the provision of mentoring and support to other advisers.
6. Work with GoV and other donors to promote coordination and harmonisation of approaches, including through engagement with the PFM programs funded by other donors.
7. Provide advice on the operation of GoV systems and how these might be strengthened to enable increased direct investments in Vanuatu's budget.
8. Assist GoV with periodic monitoring on the state of PFM.

Counterparts

The main counterparts of the PFM Coordinator will be the leadership team within the Ministry of Finance and Economic Management, members of the GFG Management Committee, and key staff within the Ministries of Health and Education.

The Coordinator will need to work closely with AusAID staff and other contractors working on programs which have important elements related to PFM, and with the programs of other donors.

Reporting Relationships

The Coordinator reports to the Program Director, GFG.

The Coordinator will be a member of AusAID's Vanuatu Technical Assistance Advisory Panel, to be established to advise the Vanuatu program in key areas that influence technical assistance (e.g. PFM, performance reporting, capacity development, cross-cultural leadership). The Adviser will also be part of AusAID's economics and PFM advisor network. The Coordinator will be required to help AusAID supervise the work of other consultants and contractors working on PFM.

Reports

The Coordinator will be responsible for developing and implementing a long-term and strategic program of assistance. Within this the Coordinator will be required to develop GFG's annual workplan on PFM (as input to the overall GFG workplan), and will provide reporting against this every six months as part of GFG's reporting to GoV and to AusAID.

Competencies

- A deep understanding of public financial management issues affecting service delivery.
- Proven understanding of, and experience with the operation of budgetary management systems in small island states.

- Strong track record in capacity building and in supporting counterparts in the leadership of change and the implementation of improvements to PFM systems and practices.
- Excellent communication skills, particularly in a cross-cultural context relevant to the Pacific.
- Relevant tertiary qualifications and work experience in the Pacific or another relevant developing country context.

Revenue Adviser Terms of Reference

The primary role of this support will be to ensure a high level of skills transfer to the key counterparts in the area of revenue collection and management. The adviser will train, mentor and support selected counterparts who will have key responsibilities for carrying forward the core work of the agency.

The key counterparts are the Revenue Manager, the Revenue Development Officer and the Cashier in the Revenue Section. It is also intended that training will be provided to other revenue collection staff in line Departments.

The adviser will report to the Director of Finance and work directly with staff in the Revenue Section of the Department of Finance in improving the day-to-day management of government revenue.

The adviser will liaise with staff in line ministries with revenue functions on their management of government revenues with a view to advising staff in the Revenue Section on appropriate follow-up action to take with these agencies on issues that arise, including any systems-related improvements.

The adviser is expected to work closely with other advisers in the ministry in regard to these responsibilities.

Outcomes

The expected outcomes of this Adviser's work are:

1. Improved systems for managing government revenue.
2. Improved quality of government financial statements especially in regard to revenue and debt accounts.
3. Improved capacity for effective policy and service delivery among the counterparts and wider government staff.

Activities

- Develop a thorough familiarisation with all relevant Vanuatu Government policies, systems, procedures, and issues.
- Development of a comprehensive workplan and capacity building plan, including logframe, timeframe, critical steps, analysis of risks, draft learning agreements for counterparts, and an overall budget for activities if required.
- Assist the Revenue Section to undertake the following tasks:
 - monitor revenue performance across key agencies and to prepare monthly performance reports to improve accountability of collecting agencies
 - forecast non-tax revenue using simple and appropriate techniques
 - provide advisory and consulting services to other revenue collecting agencies
 - deal with outstanding debts and cost recovery in coordination with other agencies
- Develop and update staff and systems guidelines, manuals and other relevant documents in the above areas, including making them more user friendly
- Develop relevant training materials linked to the above documents and capacity building activities. This should include a training of trainers.

- Assist the Revenue Manager and the Chief Accountant in the production of the relevant parts of the Government Annual Financial Statements.

Outputs

1. A needs assessment of capacity needs within the Revenue Section of the Department of Finance.
2. Workplan and Capacity Building Plan
3. Successful delivery of appropriate capacity building programs.
4. Identification and training of key counterparts within the listed VanGov agencies.
5. As necessary and appropriate, the production and/or revision and institutionalisation of key staff and systems documents.
6. Production, use and institutionalisation of relevant training materials.

Annex 8: Terms of Reference – GFG Management

Central Agencies Group (Oversight of GFG) Terms of Reference

Background

The Governance for Growth Program is managed by a Management Committee comprised of Vanuatu and Australia officials. This Committee is overseen by the Government of Vanuatu's Central Agencies Group, which provides strategic direction to the Program, in line with Vanuatu's national priorities.

Role of the Group for GFG

The role of the Central Agencies Group is to:

- Provide strategic oversight and direction of GFG through consideration of the Annual Report and Workplan
- Monitor progress of GFG against the Four Year Design and its annual Workplans
- Identify key governance issues requiring research effort and initiate policy or research work to investigate those issues via the GFG Research Fund

Membership

The Central Agencies Group is made up of these members:

- Director-General, Ministry of the Prime Minister - CHAIR
- Director-General, Ministry of Finance and Economic Management
- Director-General, Ministry of Foreign Affairs and Trade
- Directors – Foreign Affairs, Finance, Economic and Sector Planning, and Strategic Policy Coordination
- Secretary, Public Service Commission

Meetings of the Group

The Group will consider GFG progress and performance twice a year. Meetings will be called by the Director-General of the Ministry of the Prime Minister who will circulate an agenda and any papers in advance of the meeting.

The Group's decisions and any actions agreed, will be recorded by the Director, DSM, in Minutes of the meeting. Secretariat support for the Central Agencies Group is provided by the Director, DSPC.

Governance for Growth Program Management Committee Terms of Reference

Background

The Governance for Growth (GFG) Program is a long-term partnership between the Government of Australia and the Government of Vanuatu, intended to address governance constraints to growth, to support more evidence-based policy-making in Vanuatu, and to strengthen the links between policy and budget processes. The GFG Program is managed by a GFG Unit which is staffed by AusAID and located in Government of Vanuatu offices. Management of GFG is overseen by both governments, represented by key officials on a GFG Management Committee.

Role of the Committee

The GFG Management Committee will:

- Consider proposed new GFG activities or grants
- Provide approval (or not) of those proposed new GFG activities or grants
- Discuss any issues in GFG implementation and agree appropriate action in response
- If necessary, make recommendations about necessary major changes to GFG for the consideration of the Central Agencies Group
- Receive monthly reports from the GFG Unit on progress and issues associated with GFG implementation
- Through the monthly reports, as well as other engagement with GFG, monitor GFG performance

Committee Membership

The Committee shall be made up of these members:

- Director, DSPC (Chair)
- Director, DESP
- Director, Department of Finance
- Director, Department of Foreign Affairs
- GFG Program Manager

Meetings

The Committee will meet monthly to discuss the GFG Monthly Report and to consider any new GFG activities or grants proposed for support. Meetings will be called by the Chair and secretariat support will be provided by the GFG Deputy Program Manager. The business, decisions and actions arising from the meetings will be documented by the Deputy Program Manager in official Minutes.

GFG Program Director Terms of Reference

A Program Director will lead the Australian contributions to GFG. The Director will recommend strategic directions for the program for consideration by the Government of Vanuatu and AusAID. The Director will liaise with senior GoV policy-makers and officials to identify opportunities for governance reform and facilitate access to high quality assistance through the Australian aid program. Evidence of political commitment to back reform implementation will be a primary concern. Working to the direction of the GFG Management Committee, the Director will be responsible for coordinating the development and implementation of GFG's overall work program. Where appropriate the Director may take a hands-on role in supporting GoV counterpart agencies and with other agencies as determined by the needs of the program, to provide advice and other support. The Director will be expected to play a role as governance adviser to the broader AusAID program in Vanuatu, including by liaising on governance and growth issues with other AusAID programs (particularly productive sectors work). The Director will also be expected to lead on policy dialogue and to report regularly to the Counsellor on key governance issues.

Responsibilities

The Program Director will have the following responsibilities:

- provide leadership on program directions, interpreting program responses to GOV priorities, coordinating with and facilitating referrals to other donor programs, and international lessons on strengthening governance;
- oversee a program office, based in Port Vila, comprising contracted technical experts and local staff with expertise in contract management, performance management and administration;
- provide advice, conduct and commission research on governance and/ or growth issues of relevance to GFG's objectives;
- at the behest of GoV, provide policy and technical advice to GOV on key governance or economic growth issues ;
- prepare advice on governance and growth issues to the Counsellor, AusAID as requested;
- liaise with the AusAID advisory cadre in Canberra to strengthen the knowledge of AusAID and the rest of the Australian government on progress with growth-related governance reforms in Vanuatu and to keep abreast of developments in Australia's other programs;
- ensure that appropriate opportunities for regional solutions to major governance challenges are considered;
- take responsibility for the implementation of the GFG Performance Assessment Framework;
- prepare the GFG Capacity Building Plan and oversee the capacity building approaches of all GFG advisers and other activities;
- take responsibility for GFG's risk management strategy;
- lead preparation of reporting back to AusAID and GOV, in line with the GFG Performance Assessment Framework;
- work with other Australian-funded programs in Vanuatu to identify common governance issues that might be most sensibly addressed through GFG.

- work with other Australian-funded programs in Vanuatu (and regional programs) to identify activities to strengthen political leadership and governance.
- build relationships with managers and technical advisers working with other donor programs and participate, where feasible, on field missions and research activities. (Note in particular the importance of engaging with the EU and the multilateral development banks.)

Requirements

The successful candidate must be able to demonstrate:

- sound management experience;
- excellent knowledge of regional governance issues, ideally developed through working with one of the major bilateral or international agencies;
- a sound understanding of the basic economics of growth in small island states, and the links between economic growth and governance;
- a demonstrated understanding of capacity building approaches;
- an excellent personal network of technical experts, ideally developed through a close working relationship in previous professional positions;
- excellent interpersonal skills that will enable the post-holder to work constructively with GOV staff and with other donors. This must include very good drafting skills. The incumbent will be expected to become proficient in Bislama within twelve months;
- experience of commissioning and managing the work of technical consultants;
- effective personnel management skills including the capacity and commitment to develop the skills of GFG staff to take increasingly senior responsibility for program tasks;
- sound knowledge of monitoring and evaluation techniques.

GFG Program Manager Terms of Reference

The Program Manager will assist with the coordination and management of GFG's first four year work program. The Program Manager will take responsibility for day-to-day management of the program office, including areas such as activity finances and procurement. The Manager will lead the implementation of specific reforms and will play a key role in maintaining the relationship between GoV counterparts and GFG.

The Program Manager will be employed on a two year contract by AusAID and will report to the Program Director, GFG, Port Vila.

Responsibilities

The Program Manager will have the following responsibilities:

- Assist with the implementation of GFG's prioritised four-year work program;
- perform an activity development and management role for elements of the program;
- facilitate communication, networking and the development of strong working relationships between GFG and GoV counterparts;
- take the lead in day-to-day oversight of GFG finances and procurement issues;
- lead elements of the relationship between GFG and GOV, in particular with regard to the work of DESP. This will require the manager to meet on a regular basis with senior managers from GOV, and review their needs and their views on the effectiveness of GFG-supported activities;
- lead GFG's gender responses and be the gender focal point for the program;
- maintain strong links with other donors working on governance-related programs, and, if feasible, help to establish a more efficient means of coordinating donor activities;
- maintain strong links with other AusAID programs, and identify those governance-related areas in other AusAID programs in which GFG can assist and/or should take the lead;
- build the capacity of other GFG staff (especially the Program Officer) in activity design and management, contracting and contract management, and reporting;

Requirements

The successful candidate must be able to demonstrate:

- excellent knowledge of GOV agencies with an interest in developing and implementing the PAA;
- sound managerial skills;
- good knowledge of history of donor support to the governance sector in Vanuatu;
- respect from senior managers within GOV;
- strong understanding of basic concepts of good governance, and an appreciation of the application of this knowledge in the unique circumstances of Vanuatu;
- an understanding of gender issues in development and, ideally, gender issues in Vanuatu;
- excellent interpersonal skills, including an ability to speak fluent Bislama;
- good drafting skills in English;
- a sound knowledge of the GOV budget preparation and monitoring process.

Program Performance Specialist

Implementation of the GFG Performance Assessment Framework will be led by the Program Director, supported and advised by a Program Performance Specialist.

The Program Performance Specialist will report to the Program Director and will provide up to 12 weeks of input each year, including 8-10 weeks of in-country input.

Responsibilities

The Program Performance Specialist is responsible for:

- Facilitating the annual Performance Review Workshops;
- Supporting and advising the Program Director in the implementation of the PAF;
- Assisting the GFG Unit to prepare the Annual Report and Workplan;
- Overseeing the design and implementation of the Public Sector Survey and the Community Perceptions Survey;
- Appraisal of new GFG activities/ grants/ investments (in parallel with technical appraisers where necessary), in line with AusAID's Quality at Entry standards;
- Providing advice and capacity building to the GFG Unit and the GFG Management Committee in performance assessment for GFG.

Requirements

The Specialist will have:

- Demonstrated experience implementing Performance Assessment Frameworks or Monitoring and Evaluation Frameworks
- Facilitation skills, including in settings where more than one language is used and with groups of people with a mix of cultural backgrounds
- Knowledge of AusAID's new program quality tools and AusAID's Performance Assessment Framework
- Excellent verbal communication skills in English, with a knowledge of Bislama a bonus
- Excellent written skills, especially the capacity to prepare succinct reports in plain English
- Work experience in Melanesia is an advantage.

Annex 9: Public Expenditure & Financial Accountability 2006

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
A. PFM OUT-TURNS: Credibility of the Budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A				A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				A
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	A			A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	B				B
PI-6	Comprehensiveness of information included in budget documentation	M1	A				A
PI-7	Extent of unreported government operation	M1	C	D			D+
PI-8	Transparency of inter-governmental fiscal relations	M2	A	B			B
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	D	D		D
PI-10	Public access to key fiscal information	M1	C				C
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	B	A	B		B+
PI-12	Multi-year perspective in fiscal planning expenditure policy and budgeting	M2	C	D	D	C	D+
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	C	B		C+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	B		B
PI-15	Effectiveness in collection of tax payments	M1	D	A	D		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	B	C	A		C+
PI-17	Recording and management of cash balances, debt and guarantees	M2	D	B	C		C+
PI-18	Effectiveness of payroll controls	M1	A	B	A	C	C+
PI-19	Competition, value for money and controls in procurement	M2	D	C	D		D+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	B	C	C		C+
PI-21	Effectiveness of internal audit	M1	C	C	D		D+
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	B			B
PI-23	Availability of information on resources received by service delivery units	M1	C				C
PI-24	Quality and timeliness of in-year budget reports	M1	A	A	B		B+
PI-25	Quality and timeliness of annual financial statements	M1	A	B	A		B+
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	D	D	D		D
PI-27	Legislative scrutiny of the annual budget law	M1	C	C	C		C+
PI-28	Legislative scrutiny of external audit reports	M1	D	D	D		D
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	D	D			D
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			D
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D

Annex 10: Other Donor Activity

DONOR	PROGRAM	ACTIVITIES	LINKAGES WITH GFG PROGRAM
NZAID			
	Building demand for and improving governance, accountability and community safety	Activities include strengthening local governance and improving service delivery in rural areas	Strengthening local governance and improving service delivery at the provincial level is complimentary to GFG's aim of addressing obstacles to service delivery in rural areas. GFG will aim to work with existing GoV institutions in the provinces to establish a mechanism in which service delivery can be undertaken
	Increasing economic growth and strengthening livelihoods, particularly in rural areas	Activities include : <ul style="list-style-type: none"> • Assist with the development of a National Agriculture Policy • Review agricultural extension service • undertaking small-scale infrastructure requirements needed to complement MCA • Examining shipping in Vanuatu 	Increasing economic growth in rural areas fits well with GFG's intention to supporting broad-based growth by addressing impediments to rural development. NZAID is devoting substantial attention and resources to the agriculture sector – a key driver of broad-based growth. GFG will complement this focus (and any bilateral assistance AusAID directs to agriculture) by addressing governance constraints to growth in agriculture.
Millennium Challenge Corporation			
	MCA Vanuatu Program	Reconstruction of Roads, wharves, warehouse and airstrips	GFG's Result 3 focuses on investment that supports growth. The MCA program will develop a series of infrastructure works and GFG's intention is to complement these works by not only addressing the barriers to broad-based growth but undertaking minor infrastructure investments in areas that could complement the MCA program.

European Union			
	Support to Economic Reform Program 2007-2010 (SERP II), 10 th EDF, A Envelope	Improving services, public expenditure and providing a conducive environment for economic growth are mandated in these assistance to Vanuatu. Modalities of assistance vary from project support to budget support.	EU's program of assistance is complementary to GFG's area of focus. Using EU as an experience and lessons learned, GFG is also considering providing support through Government systems, including strengthening financial management processes to support budgetary support from other donors.
World Bank Group			
	Establishment of the Utilities Regulatory Authority (URA)	Assisting GoV with legislation and establishment of a Utilities Regulatory Authority for Vanuatu to manage better utility services in Vanuatu.	GFG provided AUD\$1.5 million towards the establishment of the URA.
	Partial sale of Air Vanuatu shares	IFC assisting GoV with partial selling of shares for Air Vanuatu	GFG provided US\$450,000 to GoV to meet costs associated with part selling of shares in Air Vanuatu.
FIAS			
	Diagnostic analysis of investment climate in Vanuatu	The analysis involves the mapping out of the problems faced by foreign investors in starting up and operating a business in Vanuatu. The second part of this analysis is the development of a program assistance towards improving the investment climate covering legal, institutional, policy and administrative arrangements	This activity complements GFG's effort in addressing impediments to rural investment. GFG's intention to address issues of policy inconsistencies, lack of basic infrastructure, power and telecommunications will contribute greatly in providing a better investment climate in Vanuatu

ADB			
	Secured transaction reforms – (TA TA4457-VAN)	This activity involves legal and regulatory reform, creation of an archive, capacity building and public awareness, to permit farmers, consumers and businesses to use moveable property as collateral.	This TA will complement other regulatory reform supported by GFG or other donors, to improve the environment for private sector-led, broad-based, economic growth.
	Rural Microfinance Outreach – (TA4238-VAN)	The program involves provision of financial assistance to National Bank of Vanuatu to provide microfinance loans to rural population in Vanuatu.	GFG's activities in supporting broad-based growth fits nicely with this micro-financing scheme in that small economic activities will utilise the business environment opportunity that GFG will be providing
	Development of a Medium Term Strategic Framework (MTSF) – (TA4256-VAN)	The activity involved the provision of technical assistance to DESP to assist with the development of MTSF and MTEF. This assistance was completed in 2006.	The efforts in building capacity in DESP through the GFG program complements activities undertaken through this program. Staff capacity will be build to implement the frameworks development
Volunteer Service Overseas			
	Participation and Governance 2004-2009	A component of this program is supporting and advocating for decentralisation of government processes and decision making functions to increase opportunities for effective participation and the delivery of effective services that meet community needs.	This program focuses on community advocacy for decentralisation of govt processes and decision making in order to explore opportunities for community participation in service delivery. GFG program aims to assist GoV improve service delivery to rural areas and a focus will be de-concentration of public funds to facilitate service delivery

China			
			<p>Details are not known about China’s plans in Vanuatu however it is expected that some infrastructure work – possibly in telecommunications and possibly on a large scale – may be supported.</p>
Japan			
	Phase III of Sarakata Hydropower	Improvement of civil works for the Sarakata Hydro and installation of additional 600kw unit to the existing scheme.	<p>The expansion of the Sarakata hydro plan complements planned activities for GFG program, in particularly, extension of rural electrification. GFG provided advice to GoV in the future of Luganville concession and better management of the Sarakata Hydro fund with the aim that efficient management of the funds could assist further with rural electrification. GFG also will provide complement funding to increase the rural access to power.</p>

Annex 11: Persons and Organisations Consulted

Port Vila

Hon Sato Kilman	Deputy Prime Minister
Hon Edward Natapei	Former Minister of Infrastructure and Public Utilities
Pakoa Kaltonga	Former 1 st PA, Ministry of Infrastructure and Public Utilities
Johnson Binaru	Acting Director General, Ministry of Infrastructure and Public Utilities
Jotham Napat	Director, Meteo Department
Russell Nari	Director General, Ministry of Lands and Natural Resource
Leo Moli	Principal Energy Officer, Energy Unit
Simeon Athy	Director General, Ministry of Finance & Economic Management
Benjamin Shing	Director, Department of Finance
Frederick Hosea	Acting Director, Department of Economic and Sector Planning
Jean Sese	Director General, Ministry of Prime Minister
Mark Bebe	Secretary, Public Service Commission
Gregoire Nimbtkik	Director, Department of Strategic and Policy Coordination
Kalfau Kaloris	Director, Department of Foreign Affairs
Nicolas Berlanga-Martinez	EU Representative
Mary Olver	Former NZAID Manager
Jacqui Dean	NZAID
John Colwick	NZAID
Robert Tranter	Counsellor, AusAID
Juliette Brassington	First Secretary, AusAID
Odo Tevi	Governor Reserve Bank of Vanuatu

Malampa Province

Edna Paolo	Malampa Tourism Office
Felicity Hillis	AVI-Tourism
Caryn Lavernia	Cocoa Growers Association/ Department of Agriculture and Rural Development
Grenneth Taranovo	Malampa Provincial Health
Jimmy Johnson	Public Works
Soichiro Ioe	Fisheries Dept

Jimmy Willie	REDI, Malampa
Robert Boe	Lakatoro Police
Palen Ata	Secretary General Malampa
Kalnpe Joel	Provincial Ag Officer
The community of Wala Island/	Wala Island Tourism Project
Rose Bay Bungalows	
Amelvet Primary School	
Metenesel (cocoa plantation)	
PRV (coconut plantation)	

Tafea Province

Willie Iau	Agriculture
Henry Joe Johnson	Police
Morris Cliff	Rural Water Supply
Allan Dan	Youth Dept/Training
Esau Naket	Acting Manager, TAFEA Provincial Health Service
Jones Iokasu	Acting Secretary General
Emily Niras	Tafea Tourism Development Office
Charlie Nalau	Tafea Taxi Association
Malachai David	World Vision
Jack Nafeali	Cooperatives Dept
Samuel George	USP Tafea Centre
Selwyn Tagabu	TAFEA Provincial Council
Rolenas Tavue	Landholders Conservation Initiative Project
Green Hill Community, North Tanna	
North Tanna Area TAG (Technical Advisory Group)	
Green Hill Primary School	
Yasur Volcano Tourism Site	
Tanna Coffee	

Penama Province

Vusi Helen	Education
Lloyd Toa	3 rd Adviser Ministry of Trade, Longana,
Philemon Tari	Tari Bags
Annette Tabi	Women's
Estelle T	Business Women
David Toa	Manager, Ambae/Maewo Cooperatives Association
Michael Garae	Principal, Ambaebulu, East Ambae
Sam Naio	Prov Agriculture Officer

Selwyn Mera	Chairman, Ambae/Maewo Cooperatives Association
Melody Wai	Health Dept, Lolowai,
Reuben Bani	Customs and Inland Revenue, Saratamata
Timothy Quai	Provincial Govt
Roger Boe	Provincial Govt
Godfrey	Provincial Govt
Fr. Philip Natu	Rep.- Religious Community
Sese Charlot	Manager, Private Business
Sawan Alosio	Manager, Public Works
Edward Tavue	Agriculture Officer
John Mark Rovo	Police Officer
Augustine Garae	Secretary General, Penama Province
Steven Sau	Penama Province
Keith Mala	Lungei Tagaro Area Council
Jonathan Bani	Rural Water Supply
Bruce Toa	Area Administrator, Lungei Tagaro
Longei Tagaro Farmers' Association	
Lolowai Hospital	
Torgil Rural Training Centre	
Ambaebulu Secondary School	
Lolopuepue Catholic Mission	

Sanma Province

Joel Path	Sanma Province Secretary General
Ben Asmus	Dept of Cooperatives
Albert Bue	Dept of Lands, Survey and Records
Juliet Sumbe	Sanma Province
Reuben Lini	Customs and Inland Revenue
Simon Naupa	Forestry Dept, Santo
Sylvette Rite	Labour Dept
Dora David	Executive Officer, Education Office
Scott Kaltavara	Quarantine Dept
Fanafo Health Dispensary	
Sarakata Hydropower	
Vanuatu Coconut Products Ltd (VCPL)	
Vanuatu Copra and Cacao Exporters Ltd (VCCE)	
Belmol Cattle Project	
Tata School	

Torba Province

John Robert	Torba Provincial Council
Augustine G	Councillor
Evelyne Hopkins	Court Clerk
Dudley Butakol	Acting Principal, Arep
Dudley Woksen	Community Representative
Charles K Smith	Provincial Tourism Development Officer
Christopher Mackenzie	Assistant Secretary General
Netty Elton	Provincial Health Office
Judah Silas	Police Department
Reynolds Surmat	Provincial Education Officer
Bobby Marie Gabrielle	Arep Primary School
Salatheil Nava	Rural Water Supply Officer
Hon Benjah Paul	Councillor Torba Province
Brian Matamlele	Public Works, Torba
Fr John Coleridge Sovan	Church of Melanesia
Anna Lenis	President Women's Association
Alvine Wotlolan	Sola Meteo
Elizabeth Bramsfield	VSO-VANGO
Reginald Garilaka	Tourism (NTDO)

Annex 12: Summary of Provincial Consultations

The overall goal of Governance for Growth (GFG) is aligned with the National Vision as laid out in Vanuatu's Priorities and Action Agenda: "an educated, healthy and wealthy Vanuatu." The GFG team, comprised of members from GFG and GoV, recently visited provincial headquarters in TORBA, TAFEA, SANMA, PENAMA and MALAMPA Provinces, to meet with provincial officials and community representatives. They also travelled to communities outside of the provincial centres to meet with people who live outside of central service areas.



Provincial workshop, Tanna

The purpose of the consultations was to talk with people, at both the governmental and the community level, to hear what they had to say about challenges they face in relation to service delivery and economic growth.

Visits consisted of a number of informal meetings and *storian*, and a workshop in each Provincial centre. The team talked to a number of communities, businesses, health services providers, schools, and

community organisations as a component of the consultation process. Provincial officials and (in some provinces) community representatives took part in organised workshops that addressed the following issues:

- What are some of the issues/roadblocks that you face in your job?
- What issues/roadblocks do ordinary people face in earning income or accessing services?
- What are some possible solutions to these problems?

During the discussions, people identified many factors that inhibit economic growth throughout the provinces. The most prominent issues were:

Radio Vanuatu: Radio Vanuatu is inaccessible by virtually everyone outside of Vanuatu's urban centres. People feel cut off from the rest of the country in what was described in one consultation as "information dropout."

Because they are unable to hear radio programs, shipping schedules, dead messages, and all of the other services that the national radio should provide, people experience a disconnect with activities that are happening in rest of the country.

Transportation: In general, the movement of people and goods is a tremendous challenge in rural areas. People cited high airline prices, irregular and unreliable shipping



Airstrip, Longana, Ambae



Wharf, Wala Island

services, poor road maintenance, and a lack of feeder roads that link to main road systems.

Telecommunications: There are many communities that do not have access to telecommunication, and those who do have telephones report very unreliable service. It is difficult to complete business transactions, organise transport of goods, and communicate with family members in other areas of the country because of

poor telecommunications. In addition, mobile service is extremely limited, serving only a limited percentage of the population outside of Luganville and Port Vila.

System Roadblocks: The desire for government decentralisation, with more authority and power devolved to the provincial level, was a common theme throughout the consultations. Allocated funds from the central government that should be reaching the provincial centres, in order to adequately carry out provincial services, simply aren't getting there. Many provincial representatives voiced frustrations with the process of acquiring the funds that they need, and some sectors were clearly unable to successfully carry out their responsibilities because of lack of support.

Market access: People can successfully produce goods (copra, cocoa, garden crops, etc), but it is extremely difficult for them to find a market for their products. In addition, shipping/transport of goods to urban centres is unreliable.

This was also linked to problems with the VCMB and its inadequate services.



Wholesale copra and cocoa buyer, Malekula



Sarakata Dam (hydropower), Santo

Power: Access to power is centralised in the provinces (except in Torba, where the generator is not operational no power is centrally generated at all), and it is very expensive. People who live outside of provincial centres do not have access to power unless they have a generator or a solar system. This is a major impediment to businesses that depend upon an affordable, reliable source of power.

Credit access: People do not have access to loans/funding schemes to start businesses on the island. Therefore, unless people are able to find a source of private funding, it is

difficult to achieve economic growth in rural areas.

Water Supply: Access to water varies from community to community. Some systems are in need of repair and maintenance, and the challenges associated with hauling water increase the workload of many people, especially women.

Other challenges that were discussed included:

- Bottlenecks in the flow of information
- High fuel prices
- Need for skills training
- Inadequate dispersal of human resources for service provision (doctors, dentists, etc.)

Most of these issues are not new. Some people voiced frustration and a sense that their concerns are long-standing ones that have been raised repeatedly. Many people have come to a consensus that the fundamental, overarching issue is a systemic one, and that all of these challenges and impediments to growth are components of a root issue. The core is essentially the **disconnect** between Port Vila and the rest of the population in Vanuatu's rural areas.

Both informal *storian* and organised provincial workshops provided the GFG team with valuable information that they can now reflect in the design of the program's four-year work plan. The team sincerely appreciates the openness and generosity of the communities and representatives with whom they consulted, and the willingness to contribute valuable time to assist with its consultations. The team looks forward to continued *storian* and dialogue in the future.



Storian (consultations), North Tanna

Annex 13: Vanuatu Priorities and Action Agenda 2006 – 2015

In 2006 the Government of Vanuatu prepared an updated Priorities and Action Agenda (PAA), with the objective of linking policy and planning with the resources controlled by GoV. The PAA (2006 – 2015) emphasises expanding the productive sectors, especially agriculture and tourism; cutting costs in transport and utilities; and improving access to basic services such as health and education.

The PAA expresses a vision for Vanuatu: **“An educated, healthy and wealthy Vanuatu”**, and clarifies this to mean:

“By 2015 Vanuatu will have achieved a significant increase in real per capita incomes, along with steady growth in levels of employment. Within the region, Vanuatu will be among the leading countries in achieving the Millennium Development Goals in education, health, environmental management, and other key social indicators. Public sector reforms will have raised standards of governance, levels of productivity in the civil service, and will have resulted in higher standards of services and managerial accountability. Through continuing structural reform, Vanuatu will have established an effective enabling environment to sustain the significant private sector growth which it aims to achieve in output and employment.”

A listing of the policy objectives to which GoV commits in the PAA is below. These policy objectives are further elaborated in a series of priorities and strategies for each objective; (too detailed for inclusion in this annex).

Private Sector Development and Employment Creation:

- Lowering obstacles to growth of private enterprise including:
- Lowering costs of doing business;
- Improving access to rural financial services – saving and credit;
- Facilitating long-term secure access to land;
- Providing better support services to business;
- Ensuring a conducive environment for increased commodity exports.

Macroeconomic Stability and Equitable Growth

- Maintain sustainable fiscal balances while reprioritising expenditures, reducing debt and minimising the subsidies paid to public enterprises;
- Keep inflation at low and stable levels;
- maintain a sustainable external position including a stable currency;
- strengthen supervision and oversight of the financial sector including offshore financial services;
- Promote equitable and sustainable economic growth through the implementation of PA policies to improve basic services, infrastructure and the environment for private sector development.

Good Governance and Public Sector Reform

- Providing policy stability;
- Providing stable institutions;
- Developing a productive public sector.

Primary Production:

- Sustainable raise incomes from agriculture, fishing and forestry resources for domestic and export markets;
- Improve and strengthen regulatory and sustainable management arrangements for the sector;
- Involve all stakeholders in the development of sector strategies and their implementation.

Environmental and Disaster Management

- Promote sound and sustainable environmental management practices;
- Ensure sustainable management and conservation of Vanuatu's biodiversity;
- Integrate hazard and risk management concerns into policies in order to reduce environmental risk;
- Promote traditional and cultural disaster management know-how and self-help within the community.

Basic Services and Social Development

- Improve the health status of the people;
- Improve access to services;
- Improve the quality of services delivered;
- Make more effective use of resources;

Gender

- Promote gender equality and empower women

Education and Human Resource Development

- Improve access to education and ensure gender balance;
- Raise the quality and relevance of education;
- Improve planning, fiscal and financial management in the sector;
- Develop and implement a national HRD plan.

Infrastructure and Utilities

- Ensure the provision of competitively priced, quality infrastructure, utilities and services, either through public enterprises or through private sector partnerships and competition;
- Encourage the development of competitive private sector involvement in utilities and services;
- Minimise subsidies for public utilities;
- Ensure economic infrastructure and support services are available to other sectors.