Supporting economic reform in Vanuatu: the Governance for Growth program

Date: Thursday 9 November 2017  Time: 12.30 – 2.00pm

Presented by: Development Policy Centre
OVERVIEW

1. History – the Comprehensive Reform Program
2. Australia’s institutional strengthening programs
3. Governance for Growth
4. Phase 2 evaluation
5. Overseas Development Institute review – ‘working politically’
SOME HISTORY

- Vanuatu mid 1990s: stagnant economy; fiscal crisis, political instability, social unrest
- Comprehensive Reform Program (ADB) developed in 1997, approved in 1998
- Broad ranging, major reforms
  - Tax reform: Abolishment of export taxes and turnover tax, introduction of VAT
  - Major public sector reforms
  - Long-term institutional strengthening programs
AUSTRALIA’S INSTITUTIONAL STRENGTHENING PROJECTS

- Australian funded MFEM Institutional Strengthening Project and Public Service Reform Project (PSRP)
  - 1998-2006; $22.4m and $15.2m respectively
  - One quarter of Australia’s aid to Vanuatu over that period

- Reviewed in 2006, findings informed what ultimately became the Governance for Growth design
  - MFEM ISP: more sustainable results, integration and capacity building
  - But skewed Australia’s economic growth agenda towards financial management and civil service reform
GOVERNANCE FOR GROWTH

• Built on the lessons from Australia’s ISP’s under the CRP, and importantly on the relationships built with key officials and politicians
  • Long term commitment (10 years initially)
  • Flexible – respond to shifting priorities
  • Practical – technically sound, politically feasible
  • Partnership – establish trust and build relationships
  • Broader focus on economic growth, PFM for service delivery
  • Direct oversight and management
GOVERNANCE FOR GROWTH

• Started in 2007
• Co-located (based at the Prime Ministers Office)
• Strategic design, flexible implementation
  • High level goals specified, but not activities
• Built in budget flexibility
• Senior management committee chaired by Vanuatu government
• Range of delivery approaches – funding through government, direct contracting, multilateral partners
Part of the evaluation of Phase 2 of GFG

Situates GFG in the ‘thinking and working politically’ landscape

- Brokering relationships
- Identifying problems
- Supporting local leadership
- Iterating solutions
- Flexibility
- Long-term commitment

ODI REVIEW

Findings

✓ Powerful example of importance of brokering relationships
✓ Promotes local leadership
✓ Flexible and long-term funding commitments
x Relationships not as strong as early days
x Focus on administration has increased, weakening strategic oversight and focus and reducing time to maintain/build new relationships
x Perceptions of reduced autonomy, changing institutional landscape for aid delivery
CHALLENGES

- Sustaining effort, seeing reforms through
- Complacency – GFG ‘part of the furniture’
- Balancing structure with flexibility
- Transactional vs transformational
- Broadening relationships, identifying future ‘reform champions’
- Continue to build ownership of the delivery model
- Maintaining direct oversight/management while reducing administrative burden
- Quality of GFG team
Gregoire Nimblik
has just been granted the degree of
Doctor of Philosophy

Royal Melbourne Institute of Technology

The 14th day of December 2017
GfG: Economic growth, public finance & service delivery work

Bob Warner
Development Policy Centre
Crawford School of Public Policy
GFG’s objectives

- GfG’s purpose over the last ten years has been
  - To generate economic growth and improve service delivery through good governance
- And it has been expected to deliver results in two areas:
  - Making Vanuatu’s policy framework more supportive of durable, equitable and broad-based growth
  - Improving the quality of Vanuatu’s public expenditure and its management
- So the big question is:
  - Has GfG’s work in the two areas been likely to help to deliver growth and improved service delivery?
- And the short answer is yes (especially compared to previous attempts at policy and institutional reform in Vanuatu, and to comparable governance programs in other parts of the Pacific) – but with some caveats

GFG’s approach to growth

- GFG’s work on growth is predicated on view that regulatory reform, better sectoral policies and improved governance are pre-requisites for growth.

- Very much driven by local reform priorities, but consistent with much of the analytical work undertaken by international agencies and researchers, which focuses on:
  1. ‘Reality check’ constraints – geography, size, vulnerability to natural disasters
  2. Culture, custom and constitutional determinants of governance and politics
  3. Issues amenable to action by government – policies and programs: infrastructure, physical and electronic connectivity, regulation of natural monopolies, investment in human capital, access to land, financial services, legal and judicial underpinnings of market transactions, and governance and management of SOEs

- GFG addressed issues in category 3, working within the framework of opportunities and constraints determined by categories 1 and 2.
What worked well, and what didn’t …

Productive engagements

• Telecommunications, energy, aviation, ports, access to finance, trade policy, transport infrastructure
  – Important impacts on business input costs and barriers to economic interactions with the rest of the world and within the country

• Spill overs from work on PFM –
  – better tax and customs administration, improved flow of public funds into rural areas and outlying islands,

Less productive engagements

• State-owned enterprise reform
  – Limited progress on commodity marketing and aviation service enterprises

• Private sector coalition building
And what questions remain?

• Inclusivity
  – Focus on economy wide issues: limited direct engagement on gender and locational dimensions of inequality

• Sustainability
  – Long term flow of benefits from successful engagements predicated on continued functioning of specialised institutions in a country with severe capacity constraints.

• Necessary but not necessarily sufficient conditions for growth?
  – Does GfG need to be complemented by other activities to help realise or develop Vanuatu’s growth potential?
GfG’s approach to public finance & service delivery

• Aligned with priorities of bureaucratic leadership and sometimes political leaders
• Long term approach to capacity constraints
• Emphasised what was technically and politically feasible
• Key focal areas:
  – Central agencies
  – Aggregate/specific controls of government finances
  – Improve quality of expenditure planning
  – Administration of internal and customs taxes
Public finance & service delivery - what worked?

- MFEM capacity increased – LT international TA free!
- Financial controls and revenue collection created fiscal space
- Mechanisms for direct school funding
- Financial services bureaux
Public finance – work outstanding

Areas limited by capacity or political feasibility:

- Payroll budgeting and structure
- Flows of funds and delegation to service delivery units outside Port Vila
- Public investment management
- Transparency, accountability of SOEs
- Management of procurement through external debt
- Financial accountability (internal/external audit)
Public finance – work outstanding

Areas limited by GfG resourcing/focus:

• Working with line agencies and their assistance programs get coherent cross-government engagement on PFM reform.
Where did GfG spend its money?

- Public Finance Management
- Telecommunications
- Energy
- Ports
- Support to Prime Minister's Office
- Other infrastructure, transport
- Finance
- Public Sector Capacity Support
- Statistics
- Trade policy
- Tourism
- Airports
- Aviation
- Other
- SOEs

$million

- 2
- 10
- 16
Per capita GDP since 1980?