



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



Australian Government

Department of Foreign Affairs and Trade

GOVERNANCE FOR GROWTH – SUPPORTING ECONOMIC REFORM IN VANUATU

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Presented Thursday November 9, 2017



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

OVERSEAS DEVELOPMENT INSTITUTE REVIEW

- 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
- <https://www.odi.org/publications/10864-governance-growth-vanuatu-review-decade-thinking-and-working-politically>

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

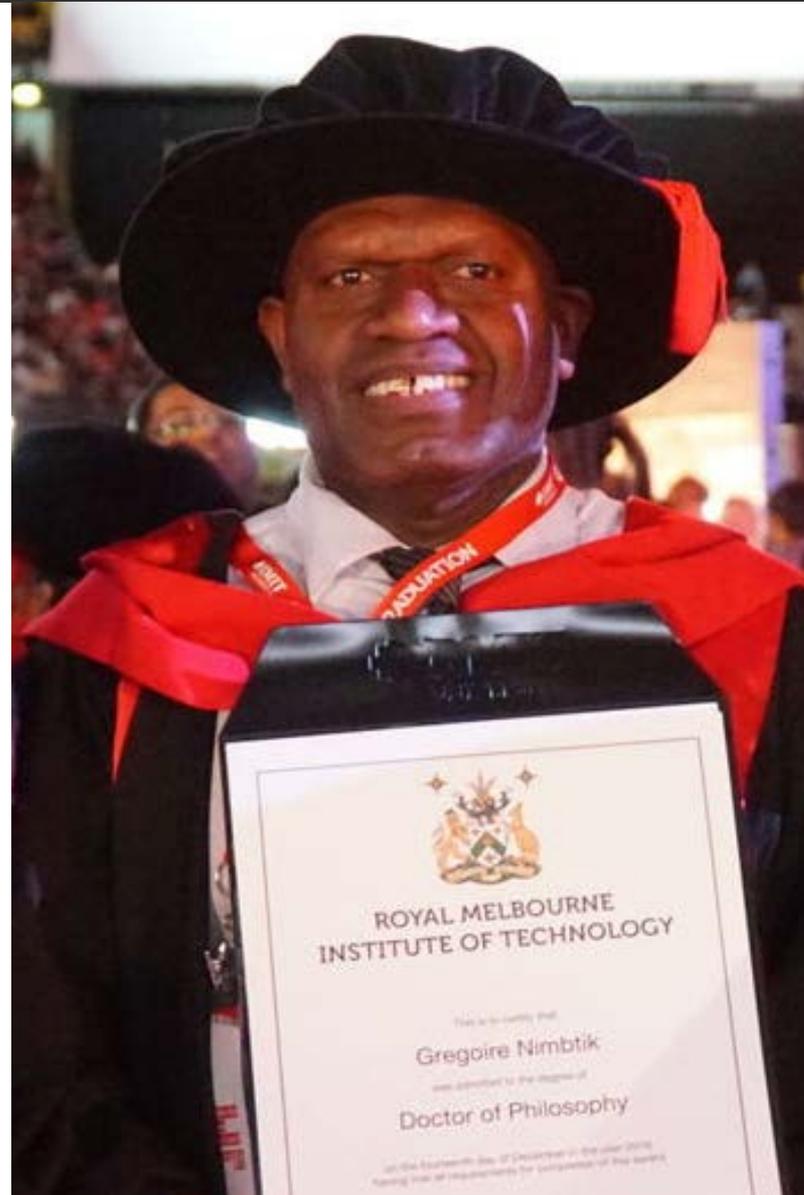
CHALLENGES

- 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



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GfG: Economic growth, public finance & service delivery work

Bob Warner

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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
- <http://dfat.gov.au/about-us/publications/Documents/governance-for-growth-final-evaluation.pdf>

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:

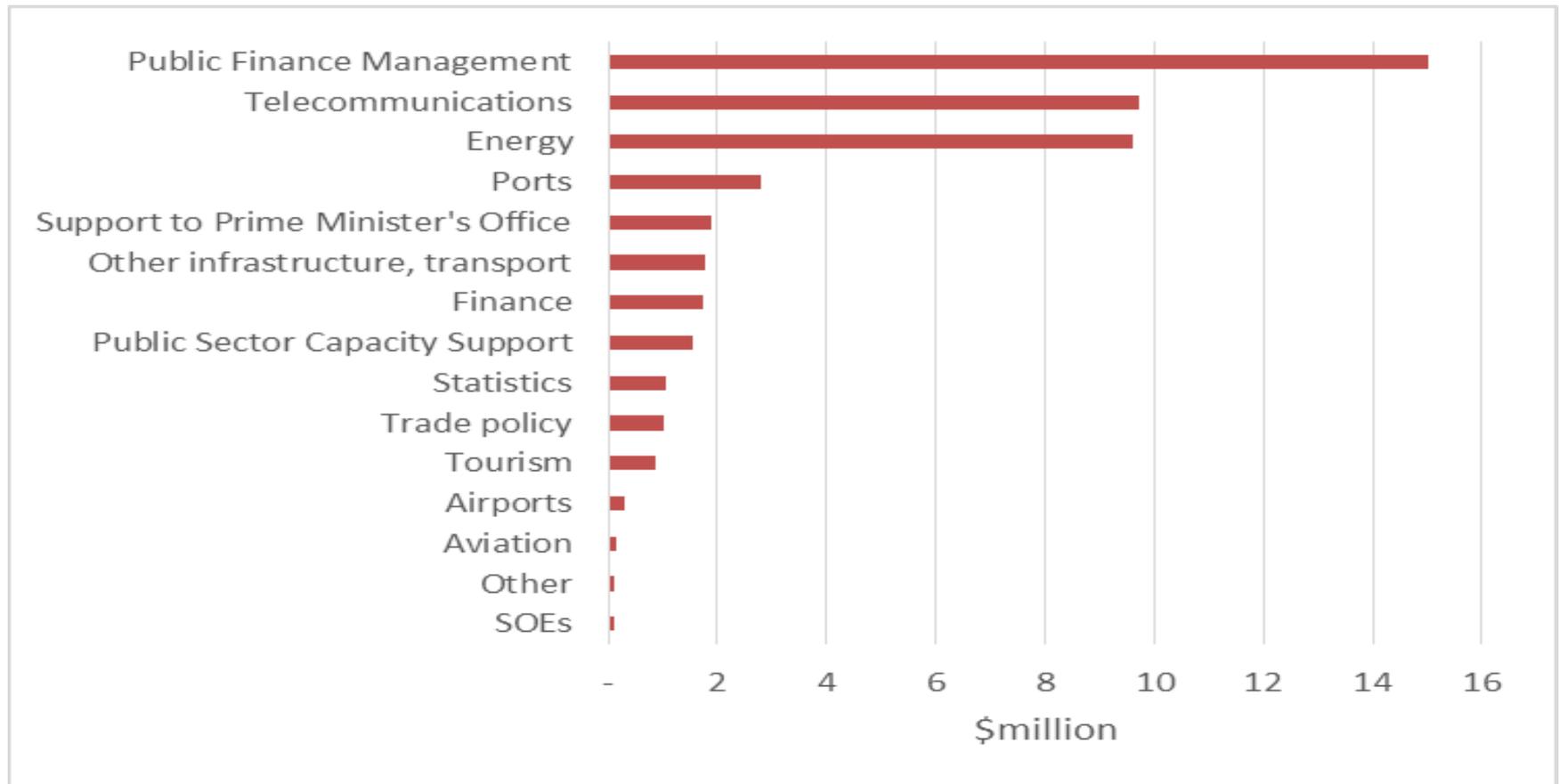
- Payroll budgeting and structure
- Flows of funds and delegation to service delivery units outside Port Vila
- Public investment management
- Transparency, accountability of SOEs
- Management of procurement through external debt
- Financial accountability (internal/external audit)

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?



Per capita GDP since 1980?

