



# Evaluating DFAT's Governance for Growth Program in Vanuatu

By Bob Warner

Work has recently started on the third phase of DFAT's Governance for Growth (GfG) Program in Vanuatu. The Program will run for at least 15 years, suggesting that both DFAT and the Government of Vanuatu have chosen to stick with what they see as being a good thing.

Why would they judge the Program this way? Two recent reviews of GfG, which looked at the [what](#) and [how](#) of the Program, explain why it has been considered to be successful and worth continuing.

The development of GfG drew on lessons learned from earlier, less than

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successful, ADB-led attempts to support broad ranging reforms in a time of economic stagnation, fiscal crisis, political instability and social unrest. GfG was designed to act as a broker of activities supporting *locally driven* reforms, working in partnership with key stakeholders in Government and other interested parties on problem analysis and policy development. But unlike other facilities that are managed by contractors, GfG has been managed directly by DFAT staff co-located in the Office of the Prime Minister.

## What

Over the last 10 years, GfG has supported the government as it has pursued policy and institutional initiatives aimed at generating broad based and equitable economic growth and at improving delivery of public services.

**GfG's work on growth** has drawn on extensive analytical work on factors determining Vanuatu's growth potential, such as the inherent disadvantages created by geography and size, the political economy of reform, and the way that custom and culture interact with formal legal and institutional structures to shape governance. Taking account of these factors, GfG has focused on issues within the scope of conventional social and economic policy such as infrastructure and utility services, and the enabling environment for private sector development.

- GfG provided significant support to telecommunications and energy reform, which had big impacts on costs of doing business, expanding business opportunities and increased household access to means of social interaction. Besides supporting key policy reforms and shifting the way that telecoms and energy firms do business in Vanuatu, GfG made significant investments in establishing independent regulatory structures and institutions.
- GfG also did important work in improving port management and efficiency, supported financial innovations made possible by the expansion, and reduced costs of mobile communications and internet services.

- GfG's work on tax and customs administration also helped improve the operating environment for business and reduced costs of and hurdles to international trade.
- And GfG's ongoing work on trade policy is addressing trade facilitation and trade related investment issues.

**GfG's work on service delivery** has focused on strengthening the building blocks of the public finance management system, while supporting de-concentration of expenditure management.

- Important initiatives aimed at strengthening budgetary control included the introduction of an integrated national budget, and strengthening the integrated financial management information system. The introduction of financial services bureaus throughout the country led to much faster and cost-effective processing of payments in the provinces, and local commitment of purchase orders.
- GfG's support for an initiative to pay capitation grants directly into school bank accounts (and for the setting up of these accounts) made it possible for the Government to make primary education free of fees.
- In addition to work on the expenditure side, GfG has helped achieve substantial improvements in tax administration, with its investment in VAT compliance leading to a 48 per cent increase in revenues between 2011 and 2014. GfG supported the work of the Revenue Review Committee, which considered a range of new measures, including income and corporate taxation. It is also helping Vanuatu meet international tax and financial reporting obligations.

**There were some dry wells and failures to launch.** Alongside the successes, GfG has also worked in areas where it has had limited traction on change - SOE reform is one clear example, particularly in the aviation services sector - and improving the mix, allocation and appropriateness of public investment. Although it has done important work on the enabling environment for the private sector, it

has not been able to facilitate much of an improvement in the basis for public-private sector consultation, a critical ingredient for a growth-focused program. In recent years, its interactions beyond the central agencies have diminished, in particular its role in coordinating the PFM effort of other areas of the aid program.

## **How**

GfG was ‘thinking and working politically’ before the term entered the development practitioners’ lexicon.

- GfG is built around relationships with government, mainly with senior and mid-level bureaucrats, and draws on the strong overall relationship between Australia and Vanuatu. Co-location and management by DFAT staff have accentuated the equal partnership elements of the program. The quality of the locally engaged staff, and their entrée to key decision makers have been important determinants of the Program’s effectiveness.
- GfG responds to locally identified priorities, and relies mainly on counterparts to determine how to proceed on reform. By supporting local leadership and working at arms-length from DFAT, the program has been able to support highly political reforms that would have been difficult to work on under a more conventional stand-alone project. Use of national systems through direct grant agreements also allows the government to lead implementation.
- GfG operates iteratively, developing solutions incrementally and avoiding the risks of ‘big-bang’ changes that can put the overall impetus for reform at risk. Flexible funding enables the program to experiment and to respond when windows of opportunity for reform emerge.
- GfG’s long term commitment to providing support means that it can engage with institutional as well as policy reforms. It has also meant that the program can ride out periods when the political appetite or opportunity for reforms are constrained, concentrating on analytical or

other kinds of work that leave the Program in a place to act when circumstances change.

## Looking forward

All programs get a bit sclerotic with age, and GfG is no exception. The impetus to refresh relationships, and to continue to explore new opportunities, can get constrained. A downside of not employing a managing contractor while using local systems is that the GfG team has to spend a lot of time assisting with activity management at the expense of expanding relationships. Because of its positioning and flexibility, the program has from time to time been tasked with management of more transactional elements of the Australian aid program, which along with helping with the Cyclone Pam recovery effort, has diverted effort and resources away from the core mandate of GfG. Budget cuts have impacted on the ability of the program to support more forward-looking research and analytical work.

This said, GfG is a 'jewel in the crown' for Australian support to economic reform and service delivery in the Pacific, and its continuation into a third phase makes very good sense.

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